AMBAC FINANCIAL GROUP INC (ABKFQ)

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 03/16/2011
Filed Period 12/31/2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-10777

Ambac Financial Group, Inc.

(DEBTOR-IN-POSSESSION as of November 8, 2010)

(Exact name of Registrant as specified in its charter)

Delaware	**13-3621676**
(State of incorporation)	**(I.R.S.employer identification no.)**
One State Street Plaza New York, New York	**10004**
(Address of principal executive offices)	**(Zip code)**

(212) 668-0340

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 per share	**None[a]**
5.875% Debentures, Due March 24, 2103	**None[a]**
5.95% Debentures, Due February 28, 2103	**None[a]**
9.50% Equity Units, Due February 15, 2021	**None[a]**

Securities registered pursuant to Section 12(g) of the Act: None

(a) On December 17, 2010, the New York Stock Exchange filed Forms 25 to delist and deregister the Company's securities, which deregistration under Section 12(b) shall be effective on March 17, 2011.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

The aggregate market value of voting stock held by non-affiliates of the Registrant as of the close of business on June 30, 2010 was $192,435,130.04 (based upon the closing price of the Registrant's shares on the New York Stock Exchange on that date, which was $0.67)**.** For purposes of this information, the outstanding shares of Common Stock which were owned by all directors and executive officers of the Registrant were deemed to be shares of Common Stock held by affiliates.

As of March 1, 2011, 302,428,811 shares of Common Stock, par value $0.01 per share, (net of 5,587,953 treasury shares) were outstanding.

Documents Incorporated By Reference

Information required by Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K will be either incorporated by reference from Ambac Financial Group, Inc.'s Proxy Statement or included in an amendment to this Annual Report on Form 10-K.

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CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In this Annual Report, we have included statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "estimate," "project," "plan," "believe," "anticipate," "intend," "planned," "potential" and similar expressions, or future or conditional verbs such as "will," "should," "would," "could," and "may", or the negative of those expressions or verbs, identify forward-looking statements. We caution readers that these statements are not guarantees of future performance. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, which, may by their nature be inherently uncertain and some of which may be outside our control. These statements may relate to plans and objectives with respect to the future, among other things which may change. We are alerting you to the possibility that our actual results may differ, possibly materially, from the expected objectives or anticipated results that may be suggested, expressed or implied by these forward-looking statements. Important factors that could cause our results to differ, possibly materially, from those indicated in the forward-looking statements include, among others, those discussed under "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K.

Any or all of management's forward-looking statements here or in other publications may turn out to be incorrect and are based on Ambac Financial Group, Inc. ("Ambac" or the "Company") management's current belief or opinions. Ambac's actual results may vary materially, and there are no guarantees about the performance of Ambac's securities. Among events, risks, uncertainties or factors that could cause actual results to differ materially are: (1) a plan of reorganization under Chapter 11 will not be confirmed; (2) if Ambac is not successful in filing a plan of reorganization under Chapter 11, it is likely it would have to liquidate pursuant to Chapter 7; (3) the impact of the bankruptcy proceeding on the holders of Ambac securities; (4) the unlikely ability of Ambac Assurance Corporation ("Ambac Assurance") to pay dividends to Ambac in the near term; (5) litigation between Ambac and Ambac Assurance regarding the allocation of net operating losses ("NOLs") and other claims could reduce the overall value of the Company; (6) adverse events arising from the Segregated Account Rehabilitation Proceedings, including the injunctions issued by the Wisconsin rehabilitation court to enjoin certain adverse actions related to the Segregated Account being successfully challenged as not enforceable; (7) litigation arising from the Segregated Account Rehabilitation Proceedings; (8) decisions made by the rehabilitator for the benefit of policyholders may result in material adverse consequences for Ambac's securityholders; (9) potential of a full rehabilitation proceeding against Ambac Assurance, with resulting adverse impacts; (10) inadequacy of reserves established for losses and loss expenses, including our inability to realize the remediation recoveries included in our reserves; (11) market risks impacting assets in our investment portfolio or the value of our assets posted as collateral in respect of investment agreements and interest rate swap and currency swap transactions; (12) risks relating to determination of amount of impairments taken on investments; (13) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (14) market spreads and pricing on insured collateralized loan obligations ("CLOs") and other derivative products insured or issued by Ambac; (15) Ambac's financial position and the Segregated Account Rehabilitation Proceedings may prompt departures of key employees and may impact our ability to attract qualified executives and employees; (16) the risk of litigation and regulatory inquiries or investigations, and the risk of adverse outcomes in connection therewith, which could have a material adverse effect on our business, operations, financial position, profitability or cash flows; (17) credit risk throughout our business, including credit risk related to residential mortgage-backed securities, CLOs, public finance obligations and large single exposures to reinsurers; (18) the risk that reinsurers may dispute amounts owed us under our reinsurance agreements; (19) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (20) the risk that our risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss as a result of unforeseen risks; (21) factors that may influence the amount of installment premiums paid to Ambac, including the imposition of the payment moratorium with respect to claims payments as a result of Segregated Account Rehabilitation Proceedings; (22) changes in prevailing interest rates; (23) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting, required under the relevant derivative accounting guidance, to the

portion of our credit enhancement business which is executed in credit derivative form; (24) changes in accounting principles or practices that may impact Ambac's reported financial results; (25) legislative and regulatory developments; (26) operational risks, including with respect to internal processes, risk models, systems and employees; (27) changes in tax laws, tax disputes and other tax-related risks; (28) other factors described in the Risk Factors section in Part I, Item 1A of Ambac's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and also disclosed from time to time by Ambac in its subsequent reports on Form 10-Q and Form 8-K, which are available on the Ambac website at www.ambac.com and at the SEC's website, www.sec.gov; and (29) other risks and uncertainties that have not been identified at this time.

Part I

Item 1. Business.

INTRODUCTION

Ambac Financial Group, Inc., headquartered in New York City, is a holding company incorporated in the state of Delaware. Ambac was incorporated on April 29, 1991. On November 8, 2010, Ambac filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code ("Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York ("Bankruptcy Court"). Ambac will continue to operate in the ordinary course of business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. Ambac Assurance is Ambac's principal operating subsidiary. Ambac Assurance is a financial guarantee insurer whose financial strength was formerly rated triple-A by each of the major rating agencies and which provided financial guarantees and financial services to clients in both the public and private sectors around the world.

The deterioration of Ambac Assurance's financial condition resulting from losses in its insured portfolio and the resulting downgrades of Ambac Assurance's financial strength ratings have prevented it from being able to write new business. An inability to write new business will negatively impact Ambac's future operations and financial results. Ambac Assurance's ability to pay dividends, and as a result Ambac's liquidity, has been significantly restricted by the deterioration of Ambac Assurance's financial condition, by the rehabilitation of the Segregated Account (as hereinafter defined and described in more detail below) and by the terms of the Settlement Agreement (as hereinafter defined). Refer to "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion of Ambac's bankruptcy, the creation and rehabilitation of the Segregated Account and the Settlement Agreement with the counterparties of CDO of ABS transactions.

Ambac's principal business strategy is to reorganize its capital structure and financial obligations through the bankruptcy process and to increase the residual value of its financial guarantee business by mitigating losses on poorly performing transactions (via the pursuit of recoveries in respect of paid claims, commutations of policies and repurchases of surplus notes issued in respect of claims) and maximizing the return on its investment portfolio. Ambac does not currently anticipate generating any new business. The execution of such strategy with respect to Segregated Account Policies will be subject to the authority of the rehabilitator of the Segregated Account to control the management of the Segregated Account. In exercising such authority, the rehabilitator will act for the benefit of policyholders, and will not take into account the interests of Ambac. Similarly, by operation of the contracts executed in connection with the establishment, and subsequent rehabilitation, of the Segregated Account, the rehabilitator retains rights to oversee and approve certain actions taken in respect of Ambac Assurance. This oversight by the rehabilitator could impair Ambac's ability to execute the foregoing strategy.

BUSINESS SEGMENTS

Ambac has two reportable business segments: Financial Guarantee and Financial Services. Each of these businesses is conducted by Ambac Assurance and/or its subsidiaries and is therefore subject to control of, or oversight by the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"). Ambac is no longer originating or competing for new business and is currently managing the runoff of these portfolios.

Ambac provided financial guarantee insurance for public and structured finance obligations solely through the insurance operations of Ambac Assurance and its wholly owned subsidiary, Ambac Assurance UK, Ltd ("Ambac UK"). Ambac also has another wholly-owned subsidiary, Everspan, it had intended to reactivate for purposes of writing financial guarantee business; however, this effort was postponed indefinitely due to our inability to raise third party capital. While Ambac Assurance historically had AAA financial strength ratings, its

ratings have been downgraded multiple times, beginning in 2008. Ambac Assurance currently has a Caa2 financial strength from Moody's and has requested and received a withdrawal of its ratings from S&P. As described above, our activities in these sectors has been limited to loss mitigation and the recovery of residual value in Ambac Assurance as a result of the deterioration of Ambac Assurance's financial condition. As such, the following descriptions of the Financial Guarantee and Financial Services segments relate to the existing portfolios in those segments.

Through its financial services subsidiaries, Ambac provided financial and investment products, including investment agreements, funding conduits, interest rate, currency and total return swaps, principally to the clients of its financial guarantee business. Ambac Assurance insured all of the obligations of its financial services subsidiaries. As of December 31, 2009, all total return swaps were terminated and settled. The interest rate swap and investment agreement businesses are in active runoff, which is being effectuated by means of transaction terminations, settlements, restructurings and hedges, assignments and scheduled amortization of contracts.

Financial information concerning our business segments for each of 2010, 2009 and 2008 is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the Notes thereto, included elsewhere in this Form 10-K. Our Internet address is www.ambac.com. We make available free of charge, on or through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission. Our Investor Relations Department can be contacted at Ambac Financial Group, Inc., One State Street Plaza, New York, New York 10004, Attn: Investor Relations, telephone: 212-208-3222.

Financial Guarantee Segment

The financial guarantee segment includes financial guarantee insurance and other credit enhancement products, such as credit derivatives. Generally, financial guarantee insurance provides an unconditional and irrevocable guarantee which protects the holder of a debt obligation against non-payment when due. Pursuant to such guarantees, Ambac Assurance and its subsidiaries make payments if the obligor responsible for making payments fails to do so when scheduled. In some cases, the insured obligations permitted counterparties to assert mark-to-market termination claims; however, the assertion of any such mark-to-market claims has been enjoined by the rehabilitation court. See "2010 Overview" in Note 1 to the Consolidated Financial Statements located in Part II, Item 8 for further information.

In addition to the guarantees described above, Ambac Assurance has underwritten transactions which expose the company to risks which may not be limited to credit risk, such as market risk, natural disaster risk, mortality or other property and casualty type risk characteristics.

Ambac Assurance derives financial guarantee revenues from: (i) premiums earned from insurance contracts; (ii) net investment income; (iii) revenue from credit derivative transactions; (iv) net realized gains and losses from sales of investment securities; and (v) amendment and consent fees. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in Part II, Item 7 and Note 18 of Notes to Consolidated Financial Statements located in Part II, Item 8 for further information. Prior to the discontinuance of the issuance of new financial guarantees, premiums for financial guarantees were received either upfront (typical of public finance obligations) or on an installment basis from the cash flows generated by the underlying assets (typical of structured finance obligations). Despite writing no material new business, Ambac continues to collect premiums on its existing portfolio of guarantees that pay premiums on an installment basis.

Risk Management

The Risk Management group is primarily responsible for the development, implementation and oversight of loss mitigation strategies, surveillance and remediation of the financial guarantee portfolio (including through the pursuit of recoveries in respect of paid claims, commutations of policies and repurchases of surplus notes issued in respect of claims). These activities are integral to Ambac's principal business strategy going forward to increase the residual value of its financial guarantee business by mitigating losses on poorly performing transactions and maximizing the return on its investment portfolio. As a consequence of the Segregated Account Rehabilitation Proceedings, the rehabilitator retains operational control and decision-making authority with respect to all matters related to the Segregated Account, including surveillance, remediation and loss mitigation. The rehabilitator operates the Segregated Account through a management services contract executed between Ambac Assurance and the Segregated Account pursuant to which the Risk Management group provides all surveillance, remediation and loss mitigation services to the Segregated Account.

Furthermore, by virtue of the contracts executed between Ambac Assurance and the Segregated Account, the rehabilitator retains the discretion to oversee and approve certain actions taken by Ambac Assurance in respect of assets and liabilities which remain in Ambac Assurance. As such, the following discussion of Ambac's risk management practices is qualified by reference to the rehabilitator's exercise of its discretion to alter or eliminate any of these risk management practices.

Starting in 2008, Ambac's risk management function has evolved significantly in order to adapt to the economic crisis and its impact on the insured portfolio (the insured portfolio in this discussion refers to both Segregated Account policies and Ambac Assurance policies). The economic crisis required us to heighten our surveillance efforts on all exposures, focusing on the identification of credits and asset types across the portfolio that were likely to experience increased stress or potential for losses. Staffing in all surveillance areas has been enhanced commensurate with this intensified emphasis on the oversight of vulnerable credits. Ambac has reorganized its risk management function, with the primary focus on reducing firm-wide risk and made structural and process-related changes resulting in an organizational structure designed around major areas of focus: (1) Portfolio Risk Management and Analysis ("PRMG"); and (2) Credit Risk Management ("CRM"). The senior managers within the risk management groups report directly to the Chief Executive Officer ("CEO") and regularly inform and update the Audit Committees of the Boards of Directors of Ambac and Ambac Assurance with respect to risk-related topics in the insured portfolio.

Portfolio Risk Management and Analysis

In portfolio risk management, the focus is on surveillance, remediation, loss mitigation and risk reduction. Risk Management personnel perform periodic surveillance reviews of exposures according to a schedule based on the risk profile of the guaranteed obligations or as necessitated by specific credit events or other macro-economic variables. The monitoring activities are designed to detect deterioration in credit quality or changes in the economic, regulatory or political environment which could adversely impact the portfolio. Active surveillance enables PRMG to track single credit migration and industry credit trends. In some cases, PRMG will engage internal or external workout experts or attorneys and other consultants with appropriate expertise in the targeted loss mitigation to assist management in examining the underlying contracts or collateral, providing industry specific advice and/or executing strategies.

Analysts review, on a regular and ad hoc basis, credits in the book of business. Risk-adjusted surveillance strategies have been developed for each bond type with review periods and scope of review based upon each bond type's inherent risk profile. The risk profile is assessed regularly in response to our own experience and judgments or external factors such as the current market crisis. The focus of the surveillance review is to assess performance, identify credit trends and recommend appropriate credit classifications, ratings and changes to a transaction or bond type's review period. If a problem is detected, the group focuses on loss mitigation by recommending appropriate action and working with the issuer, trustee, bond counsel, servicer and other interested parties in an attempt to remediate the problem and minimize Ambac Assurance's exposure to potential

loss. Those credits that are either in default or have developed problems that eventually may lead to a default, claim or loss are tracked closely by the appropriate surveillance team and discussed at regularly scheduled meetings with CRM (see discussion following on "Credit Risk Management").

In structured transactions, including structured public finance transactions, Ambac often is the control party as a result of insuring the transaction's senior class or tranche. The control party may direct specified parties, usually the trustee, to take or not take certain actions following contractual defaults or trigger events. Control rights and the scope of direction and remedies vary considerably among our insured transactions. Because Ambac Assurance is party to and/or has certain rights in documents supporting transactions in the insured portfolio, Ambac Assurance frequently receives requests for amendments, waivers and consents ("AWCs"). As discussed below under "Credit Risk Management", members of Ambac Assurance's Risk Management personnel review, analyze and process all requests for AWCs. As a part of the Segregated Account Rehabilitation Proceedings, the rehabilitation court enjoined parties to preserve Ambac's pre-rehabilitation control rights that could otherwise have lapsed or been compromised.

Surveillance for collateral dependent transactions, including, but not limited to, residential mortgage-backed securities ("RMBS"), asset-backed securities ("ABS"), and student loan transactions, focuses on review of the underlying asset cash flows and, if applicable, the performance of servicers or collateral managers. Ambac Assurance generally receives periodic reporting of transaction performance from issuers or trustees. Analysts review these reports to monitor performance and, if necessary, seek legal or accounting advice to assure that reporting and application of cash flows comply with transaction requirements.

Proactive credit remediation can help to reduce exposure and/or reduce risk in the insured portfolio by securing rights and remedies, both of which help to mitigate losses in the event of default. The emphasis on reducing risk is centered on reducing enterprise-wide exposure on a prioritized basis.

Cross-functional teams have been established within PRMG to promote the active mitigation and/or targeted remediation of the insured portfolio. Examples of such teams include teams of professionals focused on 1) RMBS servicing surveillance and transfer, 2) the review and enforcement of contractual representations and warranties in RMBS policies and 3) the analysis, restructuring and commutation of Segregated Account policies. The establishment and purview of cross-functional teams is targeted to address our highest risk exposures. Members of such teams work with both internal and external experts in the pursuit of risk reduction on all fronts.

The RMBS servicing surveillance team focuses on servicer oversight and remediation, with an immediate focus on active remediation of servicing in the mortgage-backed sector. Analysts monitor the performance of transaction servicers through a combination of (i) regular servicer reviews; (ii) compliance certificates received from servicer management; (iii) independent rating agency information; and (iv) a review of servicer financial information. Servicer reviews typically include a review of the collection, default management and quality control processes. In addition, Ambac Assurance may require a back-up servicer or require "term-to-term" servicing which provides for limited, renewable servicing terms in order to provide greater flexibility regarding the servicing arrangements of a particular transaction.

In some transactions Ambac Assurance has the right to direct a transfer of servicing to an alternative servicer, subject to certain conditions. The decision to exercise this right is made based on various factors, including an assessment of the performance of the existing servicer as outlined above, and an assessment of whether a transfer of servicing may improve the performance of the collateral. Ambac Assurance assesses potential transferee servicers through on-site servicer reviews and reviews of servicer financial information. Accordingly, Ambac Assurance has developed relationships with preferred servicers in the residential mortgage backed-sector. Preferred servicers are selected via a formalized servicer review process that determines, among other key factors, the servicer's ability and willingness to actively manage intense and proven loss mitigation activities on RMBS. On selected distressed or high risk RMBS, Ambac Assurance may decide to exercise its rights to direct the transfer of servicing to a preferred servicer. The transfer of servicing is done with the

objectives of (i) minimizing deal losses and distress levels by deploying targeted and enhanced loss mitigation programs; (ii) increasing visibility to Ambac Assurance of all servicing activities that impact overall deal performance; and (iii) better aligning the servicer's financial interest to the performance of the underlying deal through the utilization of performance based incentives. Ambac Assurance believes that the improved loss mitigation activities, alignment of interests and close monitoring of the preferred servicers constitute credible means of minimizing risks and losses related to selected Ambac Assurance insured RMBS.

A team of professionals has also been established to focus on recoveries from sponsors where Ambac Assurance believes that a material breach of representations and warranties has occurred with respect to certain RMBS policies. The team monitors monthly performance of the RMBS insured portfolio and uses criteria to determine which transactions to pursue with regard to such recoveries. The team engages experienced consultants to perform the re-underwriting of loan files and consult with internal and external legal counsel with regard to loan putbacks as well as settlement and litigation strategies (see Management's Discussion and Analysis of Financial Condition and Results of Operations – *Representation and Warranty Breaches by RMBS Transaction Sponsors* for further discussion on this topic).

The cross-functional restructuring team focuses on the analysis and prioritization of policies in the Segregated Account to target and execute risk reduction and commutation strategies. Analysis provided by this team may include assistance and guidance in model development and modeling, market, credit and data analysis and document review.

Credit Risk Management

CRM manages the decision process for all material matters that affect credit exposures within the insured portfolio. The scope of credit matters under the purview of CRM includes amendments, waivers and consents, remediation plans, credit review scheduling, adverse credit classification and below investment grade rating designations, adversely classified credit reviews, sector reviews, and overall portfolio review scheduling. The decision process may involve a review of structural, legal, political and credit issues and also includes determining the proper level of approval, which varies based on the nature and materiality of the matter.

Adversely Classified Credit Review

Credits that are either in default or have developed problems that eventually may lead to a default, claim or loss are tracked closely by the appropriate surveillance team and discussed at meetings with CRM. Adversely classified credit meetings include members of CRM and appropriate senior management, surveillance and legal analysts, as necessary. A summary of the adversely classified credits and trends is also provided to Ambac's and Ambac Assurance's Boards of Directors on a quarterly basis. As part of the review, relevant information, along with the plan for corrective actions and a reassessment of the credit's rating and credit classification is considered. Internal and/or external counsel generally reviews the documents underlying any problem credit and, if applicable, an analysis is prepared outlining Ambac Assurance's rights and potential remedies, the duties of all parties involved and recommendations for corrective actions. Ambac Assurance also meets with relevant parties to the transaction as necessary. The review schedule for adversely classified credits is tailored to the remediation plan to track and prompt timely action and proper internal and external resourcing.

Amendment, Waiver and Consent Review / Approval

The decision to approve or reject AWCs on an issue is based upon certain credit factors, such as the issuer's ability to repay the bonds and the bond's security features and structure. Members of Ambac Assurance's Risk Management group review, analyze and process all requests for AWCs. All AWCs are initially screened for materiality in the surveillance groups. Material AWCs are within the purview of CRM, as discussed above. Non-material AWCs require the approval of at least a surveillance analyst and a portfolio risk manager. For material AWCs, CRM has established minimum requirements that may be modified to require more or varied signatures depending upon the matter's complexity, size or other characteristics.

Ambac Assurance assigns internal ratings to individual exposures as part of the AWC process and at surveillance reviews. These internal ratings, which represent Ambac Assurance's independent judgments, are based upon underlying credit parameters consistent with the exposure type.

Financial Guarantees in Force

The following table provides a breakdown of guaranteed net par outstanding by market sector at December 31, 2010 and December 31, 2009. Guaranteed net par outstanding includes the exposures of policies that insure VIEs consolidated in accordance with ASU 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprise Involved with Variable Interest Entities*:

($ in billions)	**December 31, 2010**	**December 31, 2009**
Public Finance	$ 199.4	$ 223.2
Structured Finance	73.8	114.7
International Finance	45.7	52.5
Total net par outstanding	$ 318.9	$ 390.4

Included in the above net par exposures at December 31, 2010 are $18,766 of exposures underwritten under credit derivative execution, primarily CDO exposures. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of CDO exposures. Please also refer to "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K for a description of the Settlement Agreement with respect to CDO of ABS and certain other CDO-related obligations.

Financial guarantee products were sold in three principal markets: the U.S. public finance market, the U.S. structured finance and asset-backed market and the international finance market.

U. S. Public Finance Insured Portfolio

Ambac's portfolio of U.S. Public Finance exposures is $199 billion, representing 63% of Ambac's net par outstanding as of December 31, 2010. U.S. Public Finance consists of U.S. municipal issuances, including general obligations, lease and tax-backed obligations, health care, housing, public utilities, transportation and higher education, as well as certain infrastructure privatization transactions, such as toll road and bridge financings, public transportation financings, stadium financings, military housing and student housing. Public finance obligations are generally supported by either the taxing authority of the issuer or the issuer's or underlying obligor's ability to collect fees or assessments for certain projects or public services. See Note 15 to the Consolidated Financial Statements, located in Part II, Item 8 of this Form 10-K for exposures by bond type as of December 31, 2010.

The table below shows our ten largest Public Finance exposures, by repayment source, as a percentage of total Financial Guarantee net par outstanding at December 31, 2010:

($ in millions)	Ambac Ratings[1]	Net Par Outstanding	% of Total Net Par Outstanding
California State—GO	A	$ 3,094	1.0%
New Jersey Transportation Trust Fund Authority—Transportation System	A+	2,062	0.6%
Washington State—GO	AA	1,873	0.6%
NYS Thruway Authority, Highway & Bridge Revenue	AA-	1,694	0.5%
Bay Area Toll Authority, CA Toll Bridge Revenue	AA-	1,670	0.5%
MTA, NY, Transportation Revenue (Farebox)	A	1,447	0.5%
New Jersey Turnpike Authority Revenue	A	1,266	0.4%
Massachusetts School Building Authority, MA, Sales Tax Revenue—GO	AA	1,248	0.4%
Massachusetts Commonwealth—GO	AA	1,228	0.4%
Los Angeles Unified School District, CA—GO	AA-	1,126	0.4%
Total		$ 16,708	5.3%

(1) Internal Ambac credit ratings are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance. In cases where Ambac has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at any time and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has guaranteed the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees.

U.S. Structured Finance and Asset-Backed Insured Portfolio

Ambac's portfolio of U.S. Structured Finance exposures is $74 billion, representing 23% of Ambac's net par outstanding as of December 31, 2010. Insured exposures include securitizations of mortgage loans, home equity loans, auto loans, student loans, leases, operating assets, CDOs and other asset-backed financings, in each case where the majority of the underlying collateral risks is situated in the United States. Additionally, Ambac's Structured Finance insured portfolio encompasses both secured and unsecured debt issued by investor-owned utilities. Included within the operating asset sector are securitizations of aircraft, rental cars, shipping container and rail car fleets, franchise fees, pharmaceutical royalties, and intellectual property. See Note 15 to the Consolidated Financial Statements, located in Part II, Item 8 in this Form 10-K for exposures by bond type as of December 31, 2010.

Structured finance exposures generally entail three forms of risks: (i) asset risk, which relates to the amount and quality of the underlying assets; (ii) structural risk, which relates to the extent to which the transaction's legal structure and credit support provide protection from loss; and (iii) servicer risk, which is the risk that poor performance at the servicer or manager level contributes to a decline in cash flow available to the transaction. Ambac Assurance seeks to mitigate and manage these risks through its Risk Management practices.

Structured securities are usually designed to help protect the investors and, therefore, the guarantor from the bankruptcy or insolvency of the entity that originated the underlying assets as well as from the bankruptcy or insolvency of the servicer of those assets. The servicer of the assets is typically responsible for collecting cash payments on the underlying assets and forwarding such payments, net of servicing fees, to a trustee for the benefit of the issuer. One potential issue is whether the sale of the assets by the originator to the issuer would be upheld in the event of the bankruptcy or insolvency of the originator and whether the servicer of the assets may be permitted or stayed from remitting to investors cash collections held by it or received by it after the servicer or

the originator becomes subject to bankruptcy or insolvency proceedings. Another potential issue is whether the originator sold ineligible assets to the securitization transaction that subsequently deteriorated, and, if so, whether the originator has the willingness or financial wherewithal to meet its contractual obligations to repurchase those assets out of the transaction. Structural features of a transaction, such as control rights that are typically held by the senior note holders, or guarantor in insured transactions, will impact the extent to which underlying asset performance affects the performance of the securities.

The following table presents the top five servicers by net par outstanding, for global structured finance exposures:

Servicer	Bond Type	Net Par Outstanding
($ in millions)		
Countrywide Home Loans.	Mortgage-backed	$ 8,624
PHEAA	Student Loans	$ 4,169
GMAC Mortgage, LLC	Mortgage-backed	$ 3,679
Wells Fargo Bank.	Mortgage-backed	$ 3,149
Specialized Loan Servicing, LLC	Mortgage-backed	$ 2,628

Structured Finance includes the credit enhancement of CDOs and CLOs. These transactions involve the securitization of a portfolio of corporate bonds, corporate loan obligations and/or asset-backed securities. In June 2010, all CDO of ABS transactions, which included substantial exposure to residential mortgages, were settled. Please refer to "U. S. Residential Mortgage-Backed Securities Exposures" below for further discussion. Please also refer to "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K for a description of the Settlement Agreement with respect to CDO of ABS and certain other CDO-related obligations.

The table below shows our ten largest Structured Finance transactions, as a percentage of total financial guarantee net par outstanding at December 31, 2010:

	Ambac Rating[(1)]	Net Par Outstanding	% of Total Net Par Outstanding
($ in millions)			
Private Commercial Asset-Backed Transaction	BBB+	$ 2,159	0.7%
CDO of ABS < 25% MBS	A+	2,031	0.6%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2	BIG	1,663	0.5%
Iowa Student Loan Liquidity Corporation Revenue Bonds	BIG	1,497	0.5%
Vermont Student Assistance Corporation Revenue Bonds	BIG	1,377	0.4%
Private Commercial Asset-Backed Transaction	AA	1,266	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BIG	1,105	0.3%
The National College Student Loan Trust 2007-4	BIG	1,052	0.3%
The National College Student Loan Trust 2007-3	BIG	1,031	0.3%
Ballantyne Re Plc	BIG	900	0.3%
Total		$ 14,081	4.3%

(1) Internal Ambac credit ratings are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance. In cases where Ambac has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at any time and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has guaranteed the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees. "BIG" denotes credits deemed below investment grade (e.g. below BBB-).

International Finance Insured Portfolio

Ambac's portfolio of International Finance insured exposures is $46 billion, representing 14% of Ambac's net par outstanding as of December 31, 2010. Ambac's existing International Finance insured exposures include a wide array of obligations in the international markets, including infrastructure financings, asset-securitizations, CDOs, utility obligations, and whole business securitizations (e.g. securitizations of substantially all of the operating assets of a corporation). In emerging markets, Ambac had focused on future cash flow transactions from top tier issuers (structured transactions secured by U.S. Dollar and Euro cash flows generated from exports or payment remittances) and, to a more limited extent, on domestic securitizations. See Note 15 to the Consolidated Financial Statements, located in Part II, Item 8 in this Form 10-K for exposures by bond type as of December 31, 2010.

When underwriting transactions in the international markets, Ambac considered the specific risks related to the particular country and region that could impact the credit of the issuer. These risks include the legal and political environment, capital market dynamics, foreign exchange issues, and the degree of governmental support. Ambac continues to address these risks through its ongoing credit risk management.

Ambac UK, which is regulated in the United Kingdom, had been Ambac Assurance's primary vehicle for directly issuing financial guarantee policies in the United Kingdom and the European Union with $27 billion of par outstanding at December 31, 2010. Geographically, Ambac UK's exposures are principally in the United Kingdom, continental Europe, Australia and Japan. In 2009, Ambac UK's license to issue new business was curtailed by the United Kingdom Financial Services Authority, Ambac UK's regulator (the "FSA"). Following the AUK Commutation Agreement as discussed in the "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K, there is no portfolio risk transfer from Ambac UK to Ambac Assurance, nor does Ambac Assurance have any capital support obligation of Ambac UK. The portfolio of insured exposures underwritten by Ambac UK is now financially supported entirely by Ambac UK on a standalone basis.

The table below shows our largest International Finance transactions as a percentage of total financial guarantee net par outstanding at December 31, 2010:

($ in millions)	Ambac Rating[(1)]	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation	A+	$ 2,084	0.7%
Telereal Securitisation plc	A+	1,761	0.6%
Romulus Finance s.r.l	BIG	1,505	0.5%
Punch Taverns Finance plc-UK Pub Securitisation	BBB+	1,303	0.4%
Channel Link Enterprises	BBB-	1,154	0.4%
Aspire Defense Finance plc	BBB-	1,141	0.4%
Regione Campania	A-	1,084	0.3%
Powercor Australia	A-	1,045	0.3%
Ostregion Investmentgesellschaft NR 1 SA	BBB-	994	0.3%
Dampier to Bunbury Natural Gas Pipeline	BBB	916	0.3%
Total		$ 12,987	4.2%

(1) Internal Ambac credit ratings are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance. In cases where Ambac has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at any time and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has guaranteed the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees. "BIG" denotes credits deemed below investment grade (e.g. below BBB-)

Additional Insured Portfolio Statistics:

Ambac Assurance underwrote and priced financial guarantees based on the assumption that the guarantees would remain in force until the expected maturity of the underlying bonds. Ambac Assurance estimates that the average life of its guarantees on par in force at December 31, 2010 is approximately 13 years. The 13 year average life is determined by applying a weighted average calculation, using the remaining years to expected maturity of each guaranteed bond, and weighting them on the basis of the remaining net par guaranteed. No assumptions are made for future refundings of guaranteed issues.

U.S. Residential Mortgage-backed securities exposure

RMBS portfolio exposures included in financial guarantee insurance portfolio

Ambac has exposure to the U.S. mortgage market through direct financial guarantees of RMBS. Ambac insures tranches issued in RMBS, including transactions that contain risks to first and second-liens. The following tables provide current gross par outstanding by vintage and type, and underlying credit rating of Ambac's affected U.S. RMBS book of business:

	Total Gross Par Outstanding At December 31, 2010 ($ in millions)		
Year of Issue	**Second Lien**	**Sub-prime**	**Mid-prime[1]**
1998-2001	$ 123.7	$ 714.5	$ 7.5
2002	58.7	653.1	76.1
2003	39.7	1,002.9	564.9
2004	1,399.4	517.2	873.8
2005	1,413.9	1,182.0	2,863.3
2006	3,586.1	862.9	2,276.4
2007	4,049.8	559.8	3,359.9
Total	$ 10,671.3	$ 5,492.4	$ 10,021.9
% of Total MBS Portfolio	35.7%	18.4%	33.6%

	Gross claim liability, before Subrogation Recoveries At December 31, 2010 ($ in millions)		
Year of Issue	**Second Lien**	**Sub-prime**	**Mid-prime[1]**
1998-2001	$ 3.0	$ 6.7	$ —
2002	0.1	9.4	—
2003	2.5	—	—
2004	326.2	1.9	0.7
2005	406.2	85.3	556.2
2006	1,634.0	220.2	697.6
2007	675.0	119.6	697.8
Total	$ 3,047.0	$ 443.1	$ 1,952.3

Year of Issue	Gross Subrogation Recoveries At December 31, 2010 ($ in millions) Second Lien	Sub-prime	Mid-prime[1]
1998-2001	$ —	$ —	$ —
2002	—	—	—
2003	—	—	—
2004	(90.7)	—	—
2005	(180.3)	—	(23.2)
2006	(710.6)	—	(140.1)
2007	(926.5)	(221.0)	(124.6)
Total	$ (1,908.1)	$ (221.0)	$ (287.9)

Internal Ambac Credit Rating[2]	Percent of Related RMBS Transactions' Gross Par At December 31, 2010 Second Lien	Sub-prime	Mid-prime[1]
AAA	0%	5%	2%
AA	<0.1%	4%	5%
A	2%	9%	6%
BBB[3]	2%	2%	1%
Below investment grade[3]	96%	80%	86%

(1) Mid-prime includes Alt-A transactions and affordability product transactions, which includes interest only or option adjustable rate features.

(2) Ambac ratings set forth above reflect the internal Ambac ratings as of December 31, 2010, and may be changed at any time based on our internal credit review. Ambac undertakes no obligation to update such ratings. This does not constitute investment advice. Ambac or one of its affiliates has guaranteed the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees.

(3) Ambac's BBB internal rating reflects bonds which are of medium grade credit quality with adequate capacity to pay interest and repay principal. Certain protective elements and margins may weaken under adverse economic condition and changing circumstances. These bonds are more likely than higher rated bonds to exhibit unreliable protection levels over all cycles. Ambac's below investment grade internal ratings reflect bonds which are of speculative grade credit quality with the adequacy of future margin levels for payment of interest and repayment of principal potentially adversely affected by major ongoing uncertainties or exposure to adverse conditions. Ambac's below investment grade category includes transactions on which we are currently paying claims.

RMBS exposure in collateralized debt obligations

Ambac's outstanding CDO exposures are comprised of the following asset type and credit ratings as of December 31, 2010 and December 31, 2009:

Business Mix by Net Par ($ in billions)	December 31, 2010 Net Par	Percentage	December 31, 2009 Net Par	Percentage
High yield corporate (CLO)	$ 14.7	80%	$ 21.2	48%
CDO of ABS > 25% MBS[2]	—	—	16.7	38
CDO of ABS < 25% MBS	0.5	3	2.6	6
Market value CDOs	1.5	8	1.6	4
Other	1.5	9	2.0	4
Total	$ 18.2	100%	$ 44.1	100%

Ambac Ratings by Net Par[1]	December 31, 2010 Net Par	December 31, 2010 Percentage	December 31, 2009 Net Par	December 31, 2009 Percentage
($ in billions)				
AAA	$ 2.1	12%	$ 4.2	9%
AA	9.9	54	17.0	39
A.	5.7	31	3.8	9
BBB	0.2	1	1.8	4
Below investment grade[2]	0.3	2	17.3	39
Total	$ 18.2	100%	$ 44.1	100%

(1) Internal Ambac credit ratings are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac. Ambac ratings set forth above reflect the internal Ambac ratings as of December 31, 2010, and may be changed at any time based on our internal credit review. This does not constitute investment advice. Ambac or one of its affiliates has guaranteed the obligations included above and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees

(2) As a result of the Settlement Agreement with certain Counterparties Ambac commuted all of the remaining CDO of ABS exposures that were BIG. Refer to Note 1 to the Consolidated Financial Statements for further discussion of the Settlement Agreement.

Auction Rate Securities and Variable Rate Demand Obligations:

Fixed income securities issued in the US bond market include fixed and variable rate bonds. Included within the variable rate bond category are Auction Rate Securities ("ARS") and Variable Rate Demand Obligations ("VRDO"). The following table sets forth Ambac Assurance's financial guarantee net par exposure outstanding, by bond type, relating to such variable rate securities at December 31, 2010 and December 31, 2009:

Total ARS and VRDO Net Par

($ in millions)	December 31, 2010 Total	December 31, 2009 Total
Lease and Tax-backed	$ 2,246	$ 2,539
General Obligation	978	1,237
Utility	534	1,130
Transportation	2,179	2,327
Healthcare	1,603	2,385
Student Loans	7,331	10,167
Investor-owned utilities	3,906	4,921
Other	1,796	1,928
Total	$ 20,573	$ 26,634

ARS are sold through a Dutch auction, which is a competitive bidding process used to determine rates on each auction date. Bids are submitted to the auction agent. The winning bid rate is the rate at which the auction "clears", meaning the lowest possible interest rate that results in the cumulative total of securities demanded at such rate ("buyers") equaling the amount auctioned ("sellers"). VRDO are long-term bonds that bear a floating interest rate and that provide investors the option to tender or put securities back to the issuer at any time with appropriate notice. Additionally, there are certain mandatory events that require all bondholders to tender their VRDO to the issuer. Upon tender, bondholders are paid a purchase price, equal to the par amount of the tendered VRDO plus accrued interest, typically paid from the proceeds of a remarketing of the tendered VRDO by a remarketing agent. The interest rate resets daily or weekly, depending upon the security. The reset rate is based on comparable securities with similar maturities and credit ratings, as well as on supply and demand.

VRDO are typically supported by a liquidity facility in the form of a standby bond purchase agreement ("Standby Bond Purchase Agreement"), usually provided by a commercial bank ("Liquidity Provider"). If the remarketing agent is unable to remarket all tendered VRDO, the Liquidity Provider is required to purchase such VRDO at the purchase price, subject to limited conditions precedent, thus providing liquidity to investors. While held by the Liquidity Provider, the VRDO bear interest at a rate determined under the Standby Bond Purchase Agreement, often based on the Prime Rate or LIBOR plus a spread (the "Bank Rate"). During such time, the remarketing agent remains obligated to continue to try to remarket the VRDO held by the Liquidity Provider. Many Standby Bond Purchase Agreements provide that, after the Liquidity Provider has held the VRDO for a specified time period, the issuer or other obligor is required to cause such VRDO to be redeemed prior to maturity, either: in periodic installments over a predetermined number of years, typically from three to five (the "Term-Out"); or with available funds as defined in the transaction documents; or in a single lump sum at the end of three to five years. Other Standby Bond Purchase Agreements do not contain a Term-Out. For VRDO insured by Ambac Assurance, Ambac Assurance has typically endorsed its insurance policy to cover interest at the Bank Rate. For VRDOs insured by Ambac Assurance that contain a Term-Out, Ambac has often endorsed its insurance policy to cover the required redemptions in accordance with the Term-Out schedule (though not any acceleration of the VRDO maturity ahead of the Term-Out schedule).

For student loan VRDO transactions, Ambac Assurance is required to purchase any outstanding VRDO from the Liquidity Providers at the end of the Term-Out period for the par amount of the bonds. All student loan VRDO transactions insured by Ambac Assurance have been purchased by the Liquidity Providers and, as such, Ambac Assurance has obligations to purchase, at par, outstanding VRDOs at par coming due in 2013, 2015 and 2018 in the amounts of $493.0 million, $68.3 million, and $175.1 million, respectively. Ambac Assurance's purchase obligation in 2013, 2015 and 2018 will depend on many factors, including the successful execution of loss mitigation strategies, changes in interest rates, performance of the underlying collateral, the deterioration of the asset base and/or any amortization of the VRDO.

Issuers have been working toward reducing their debt service costs for ARS and VRDO transactions; the most prevalent ways are (i) converting the bonds to fixed rate (to maturity or for a shorter period of time); (ii) refunding the obligations and issuing bonds or other debt structures; (iii) purchasing direct-pay letters of credit from other financial institutions; or (iv) amending their liquidity facilities to address investor liquidity concerns.

For Ambac Assurance insured ARS and VRDO transactions that have been unable to refinance, the higher debt service costs have resulted in decreased debt service ratios and/or the erosion of first loss and/or other credit enhancements that are subordinate to Ambac Assurance's risk position (such as excess spread). Through December 31, 2010, Ambac Assurance paid gross claims in the amount of $61 million on these transactions. This included approximately $13 million for certain student loan ARS transactions that were restructured in 2010, which resulted in the elimination of certain ARS policies. Ambac has established gross loss reserves of approximately $688 million for ARS and VRDO transactions, which is net of expected recoveries. Ambac continues to actively review the credit implications of this additional issuer stress and its impact to our internal credit ratings and loss reserves as necessary.

Issue Size

Ambac Assurance's financial guarantee exposure in the U.S. public finance market reflects the historical emphasis on issues guaranteed with an original par amount of less than $50 million. U.S. Structured Finance and International Finance transactions generally involved larger transaction sizes. The following table sets forth the distribution of Ambac Assurance's guaranteed portfolio as of December 31, 2010 with respect to the original size of each guaranteed issue:

			Par Amount as of December 31, 2010	
Original Par Amount	Number of Issues	% of Total Number of Issues	Amount Outstanding	% of Total
Less than $10 million	6,714	54%	$ 24,540	8%
$10-less than 50 million	3,809	30	59,783	19
$50-250 million	1,521	12	102,196	32
Greater than $250 million	533	4	132,335	41
Total	12,577	100%	$ 318,854	100%

Geographic Area

The following table sets forth the geographic distribution of Ambac Assurance's insured exposure as of December 31, 2010:

Geographic Area	Net Par Amount Outstanding	% of Total Net Par Amount Outstanding
($ in millions)		
Domestic:		
California	$ 39,210	12.3%
New York	20,944	6.6
Florida	15,910	5.0
Texas	14,776	4.6
New Jersey	10,415	3.3
Illinois	9,351	2.9
Massachusetts	6,576	2.1
Pennsylvania	6,036	1.9
Colorado	5,786	1.8
Washington	5,710	1.8
Mortgage and asset-backed	37,493	11.8
Other states	100,941	31.6
Total Domestic	273,148	85.7
International:		
United Kingdom	22,215	7.0
Australia	6,292	2.0
Italy	3,674	1.1
Austria	999	0.3
Turkey	848	0.3
Internationally diversified	7,793	2.4
Other international	3,885	1.2
Total International	45,706	14.3
Grand Total	$ 318,854	100%

Mortgage and asset-backed obligations includes guarantees with multiple locations of risk within the United States and is primarily comprised of residential mortgage and asset-backed securitizations. Internationally diversified is primarily made up of CDOs which include significant components of U.S. exposure.

Exposure Currency:

The table below shows the distribution by currency of Ambac Assurance's guaranteed portfolio as of December 31, 2010:

Currency	Net Par Amount Outstanding in Base Currency	Net Par Amount Outstanding in U.S. Dollars
($ in millions)		
U.S. Dollars	279,016	$ 279,016
British Pounds	13,782	21,497
Euros	8,278	11,068
Australian Dollars	5,752	5,877
Other	3,763	1,396
Total		$ 318,854

Ratings Distribution

The following tables provide a rating distribution of guaranteed total net par outstanding based upon internal Ambac Assurance credit ratings at December 31, 2010 and December 31, 2009 and a distribution by bond type of Ambac Assurance's below investment grade exposures at December 31, 2010 and December 31, 2009. Below investment grade is defined as those exposures with a credit rating below BBB-:

Percentage of Guaranteed Portfolio[(1)]

	December 31, 2010	December 31, 2009
AAA	1%	2%
AA	23	24
A	43	41
BBB	19	18
BIG	14	15
Total	100%	100%

(1) Internal Ambac credit ratings are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance. In cases where Ambac has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at any time and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has guaranteed the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees.

Summary of Below Investment Grade Exposure

Bond Type	December 31, 2010	December 31, 2009
($ in millions)		
Public Finance:		
Transportation	$ 1,175	$ 1,113
Health care	259	307
General obligation	234	280
Tax-backed	531	317
Other	1,345	939
Total Public Finance	3,544	2,956
Structured Finance:		
CDO of ABS > 25% RMBS	—	16,718
Mortgage-backed and home equity – first lien	12,836	13,477
Mortgage-backed and home equity – second lien	10,121	12,050
Auto Rentals	1,270	2,849
Student loans	11,044	3,910
Enhanced equipment trust certificates	430	473
Mortgage-backed and home equity – other	369	584
Other CDOs	100	523
Other	1,662	2,106
Total Structured Finance	37,832	52,690
International Finance:		
Airports	1,505	1,498
Other	922	1,210
Total International Finance	2,427	2,708
Total	$ 43,803	$ 58,354

The decrease in CDO of ABS greater than 25% RMBS resulted from execution of the Settlement Agreement in June 2010. Refer to "2010 Overview" in Note 1 to the Consolidated Financial Statements located in Part II, Item 8 for a description of the Settlement Agreement with respect to CDO of ABS and certain other CDO-related obligations. The decrease in mortgage-backed and home equity (first and second-liens) below investment grade exposures is primarily the result of principal pay-downs. The increase in student loan below investment grade exposures was due to deterioration in private student loan collateral performance and the failed debt structures for the ARS & VRDO exposures which exposes these transactions to interest rate risk. The decrease on other structured finance obligations is primarily related to the commutation of a film-securitization transaction. The increase in Public Finance is primarily related to deterioration of certain military housing and tax backed transactions.

Commitments to Issue Future Guarantees

In connection with its financial guarantee business, Ambac has outstanding commitments to provide guarantees (consisting of both insurance and credit derivatives) of $5.9 billion at December 31, 2010. These commitments relate to potential future debt issuances or increases in funding levels for existing insurance or credit derivative transactions. Commitments generally have fixed termination dates and are contingent on the satisfaction of all conditions set forth in the contract. These commitments may expire unused or be reduced or cancelled at the counterparty's request. Additionally, approximately 80% of the total commitment amount represents commitments that contain one or more of the following provisions: (i) the commitment may be terminated at Ambac's election upon a material adverse change, (ii) in order for the funding levels to be

increased, certain eligibility requirements must be met, or, (iii) for commitments to provide protection, the commitment may not be exercised upon an event of default or after the reinvestment period. Moreover, as a consequence of the Segregated Account Rehabilitation Proceedings and the terms of the Settlement Agreement, it is unclear whether such new policies could be issued. Accordingly, the $5.9 billion of commitments outstanding at December 31, 2010 do not necessarily reflect actual future obligations. Additionally, due to Ambac Assurance's current financial position, most commitments are unlikely to be exercised.

Ceded Reinsurance

Ambac Assurance has reinsurance in place pursuant to treaty and facultative reinsurance agreements. For exposures reinsured, Ambac Assurance withholds a ceding commission to defray its underwriting and operating expenses. The following table shows the distribution, by bond type, Ambac Assurance's ceded guaranteed portfolio at December 31, 2010:

Bond Type	Ceded Par Amount Outstanding	% of Gross Par Ceded
($ in millions)		
Public Finance:		
Lease and tax-backed revenue.	$ 6,001	8%
General obligation	4,704	9
Utility revenue	2,791	10
Transportation revenue	2,817	12
Higher education	1,628	10
Housing revenue	1,127	10
Health care revenue	854	8
Other	154	4
Total Public Finance	20,076	9
Structured Finance:		
Mortgage-backed and home equity	337	1
Other CDOs	18	—
Student loan	1,818	14
Investor-owned utilities	903	8
Asset-backed and conduits	1,005	9
Other	351	11
Total Structured Finance	4,432	6
Total Domestic	24,508	8
International Finance:		
Investor-owned and public utilities	1,082	9
Asset-backed and conduits	321	3
Sovereign/sub-sovereign	31	—
Other CDOs	64	1
Transportation	252	4
Mortgage-backed and home equity	15	1
Other	—	—
Total International Finance	1,765	4
Grand Total	$ 26,273	8%

As a primary financial guarantor, Ambac Assurance is required to honor its obligations to its policyholders whether or not its reinsurers perform their obligations under the various reinsurance agreements. To minimize its exposure to significant losses from reinsurer insolvencies, Ambac Assurance is entitled to receive collateral from its reinsurance counterparties in certain reinsurance contracts and has certain cancellation rights that can be

exercised by Ambac Assurance in the event of rating agency downgrades of a reinsurer. At the inception of each reinsurance contract, Ambac Assurance required collateral from certain reinsurers primarily to (i) receive statutory credit for the reinsurance to foreign reinsurers, (ii) provide liquidity to Ambac Assurance in the event of claims on the reinsured exposures, and (iii) enhance rating agency credit for the reinsurance. When a reinsurer is downgraded by one or more rating agencies, less capital credit is given to Ambac Assurance under rating agency models. Ambac Assurance held letters of credit and collateral amounting to approximately $312.9 million from its reinsurers at December 31, 2010. Refer to Item 7A – Risk Management for further discussion on insured par ceded, credit ratings of our reinsurance counterparties and unsecured reinsurance balances.

Assumed Reinsurance:

The majority of Ambac Assurance's assumed reinsurance contracts were cancelled in 2009. At December 31, 2010, the remaining assumed par outstanding was $439.5 million. On March 24, 2010, all assumed reinsurance agreements with third parties were allocated to the Segregated Account, which will not allow for further cancellations without the approval of the Rehabilitator.

Rating Agencies

Ambac Assurance's financial strength ratings have been downgraded several times since 2008; it now has a Caa2 financial strength rating with a developing outlook from Moody's. Moody's rating refers to Ambac Assurance general account obligations and excludes obligations allocated to the segregated account.

In 2010 Ambac Assurance requested that S&P withdraw its ratings. Ambac Assurance's request was predicated by a review of the value of such rating relative to the cost. Ambac continues to evaluate the relative merits of maintaining a Moody's rating and may decide to similarly request a withdrawal of such rating.

Insurance Regulatory Matters

Ambac Assurance and Everspan are domiciled in the State of Wisconsin and, as such, are subject to the insurance laws and regulations of the State of Wisconsin (the "Wisconsin Insurance Laws") and are regulated by the OCI. In addition, Ambac Assurance and Everspan are subject to the insurance laws and regulations of the other jurisdictions in which they are licensed. Ambac Assurance is licensed in all other 49 states, the District of Columbia, the Commonwealth of Puerto Rico, the territory of Guam and the U.S. Virgin Islands and Everspan is licensed in all states other than Virginia, the District of Columbia and the Commonwealth of Puerto Rico. Under Wisconsin insurance law, the Segregated Account is a separate insurer for purposes of the Segregated Account Rehabilitation Proceedings. As such, the Segregated Account is not separately licensed or regulated, but it is under the control of, and is overseen by, the Rehabilitator.

Insurance laws and regulations applicable to financial guarantee insurers vary by jurisdiction. The laws and regulations generally require financial guarantors to maintain minimum standards of business conduct and solvency; to meet certain financial tests; and to file policy forms, premium rate schedules and certain reports with regulatory authorities, including information concerning capital structure, ownership and financial condition. Regulated insurance companies are also required to file quarterly and annual statutory financial statements with the National Association of Insurance Commissioners ("NAIC"), and in each jurisdiction in which they are licensed. The level of supervisory authority that may be exercised by non-domiciliary insurance regulators varies by jurisdiction. Generally, however, non-domiciliary regulators are authorized to revoke insurance licenses and to impose license restrictions in the event that laws or regulations are breached by a regulated insurance company or in the event that continued or unrestricted licensure of the regulated insurance company constitutes a "hazardous condition" in the opinion of the regulator. Ambac Assurance's authority to write new business in Alabama, Louisiana, North Dakota, Tennessee and Ohio has been suspended.

Wisconsin Insurance Laws require regulated insurance companies to maintain minimum standards of business conduct, minimum surplus to policyholders and solvency. As the principal, or domiciliary, regulator of Ambac Assurance and Everspan, OCI has primary regulatory authority, including with respect to the initiation and administration of rehabilitation or liquidation proceedings with respect to Ambac Assurance and Everspan. Additionally, the accounts and operations of Ambac Assurance and Everspan are subject to a comprehensive examination by the OCI every three to five years. As described in "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K, the rehabilitator of the Segregated Account has imposed certain constraints upon Ambac Assurance through the covenants made for the benefit of the Segregated Account and has assumed the authority to control the management of the Segregated Account.

During the course of 2009, Ambac UK's license to do new business was curtailed by the FSA, and the insurance license was limited to undertaking only run-off related activity. As such, Ambac UK is authorized to run-off its credit, suretyship and financial guarantee insurance portfolio in the United Kingdom, and to do the same through a branch in Milan, Italy, and a number of other European Union ("EU") countries. EU legislation has allowed Ambac UK to conduct business in EU states other than the United Kingdom through a "passporting" arrangement, which eliminates the necessity of additional licensing or authorization in those other EU jurisdictions.

Ambac UK remains subject to regulation by the FSA in the conduct of its business. The FSA is the single statutory regulator responsible for regulating the financial services industry in the United Kingdom, with the purpose of maintaining confidence in the U.K. financial system, providing public understanding of the system, securing the proper degree of protection for consumers and helping to reduce financial crime. In addition, the regulatory regime in the United Kingdom must comply with certain EU legislation binding on all EU member states. Notwithstanding the aforementioned, the regulatory structure of the United Kingdom is currently undergoing restructuring, whereby regulatory responsibility will be divided between The Bank of England and a reconstituted FSA. The precise impact on Ambac UK is as yet unclear however no material impact is anticipated with respect to Ambac UK being closely supervised as a run-off entity.

The FSA has exercised significant oversight of Ambac UK since 2008, when Ambac Financial Group, and Ambac Assurance (Ambac UK's only reinsurer and principal financial support provider prior to the AUK Commutation Agreement) began experiencing financial stress. As more fully discussed in "2010 Overview" in Note 1 to the Consolidated Financial Statements located in Part II, Item 8 in this Form 10-K, Ambac Assurance entered into the AUK Commutation Agreement with Ambac UK and the Special Deputy Commissioner of OCI, on September 28, 2010, pursuant to which the AUK Reinsurance Agreement was commuted and the Net Worth Maintenance Agreement between Ambac UK and Ambac Assurance was terminated in exchange for, among other things, certain mutual releases, including, without limitation, any right of Ambac Assurance or the Segregated Account to reinsurance premiums from Ambac UK. Ambac Assurance paid a nominal termination amount of one U.S. dollar to Ambac UK in connection with the commutation.

The FSA requires that non-life insurance companies such as Ambac UK maintain a margin of solvency at all times in respect of the liabilities of the insurance company, the calculation of which depends on the type and amount of insurance business a company writes. In addition, the FSA had established a capital monitoring level for Ambac UK related to its insured portfolio. Breach of the monitoring level required that Ambac UK inform the FSA and enter into discussions as to the reasons for the breach, and ultimately with a view to a remedy that could include additional capital being required. The monitoring level is normally an interim arrangement, while the FSA reflects on alternative methodologies for a permanent basis for calculating regulatory capital in respect of Ambac UK and other financial guarantors regulated by the FSA. In addition, an insurer is required to perform and submit to the FSA a solvency margin calculation return in respect of its ultimate parent. All of these solvency requirements may be amended in order to implement the European Union's proposed "Solvency II" directive on risk-based capital, but that is not expected to be implemented until 2012 at the earliest. The impact of such proposals on Ambac UK remains unclear.

Notwithstanding the foregoing, following the Ambac UK Commutation Agreement, Ambac UK is deficient in terms of compliance with applicable regulatory capital requirements. The FSA is aware of the same, and dialogue between Ambac UK management and the FSA remains ongoing with respect to options for addressing the shortcoming, although such options remain few.

Under Wisconsin law applicable to insurance holding companies, any acquisition of control of Ambac, and any other direct or indirect control of Ambac Assurance and Everspan, requires the prior approval of the OCI. "Control" is defined as the direct or indirect power to direct or cause the direction of the management and policies of a person. Any purchaser of 10% or more of the outstanding voting stock of a corporation is presumed to have acquired control of that corporation and its subsidiaries unless the OCI, upon application, determines otherwise. For purposes of this test, Ambac believes that a holder of common stock having the right to cast 10% of the votes which may be cast by the holders of all shares of common stock of Ambac would be deemed to have control of Ambac Assurance and Everspan within the meaning of the Wisconsin Insurance Laws. The United Kingdom has similar requirements applicable in respect of Ambac, as the ultimate holding company of Ambac UK.

At various times, investors have sought and obtained OCI's approval to acquire greater than 10% of Ambac's outstanding stock. As a condition to obtaining approval without undergoing a comprehensive "change of control" review process, those investors disclaimed any present intention to exercise control over Ambac, Ambac Assurance or Everspan or to control or attempt to control the management or operations of Ambac, Ambac Assurance or Everspan.

Dividend Restrictions, Including Contractual Restrictions

Pursuant to the Wisconsin Insurance Laws, Ambac Assurance and Everspan may declare dividends, subject to restrictions in their respective articles of incorporation, provided that, after giving effect to the distribution, such dividends would not violate certain statutory equity, solvency, income and asset tests. Shareholder distributions by Ambac Assurance and Everspan (other than stock dividends) must be reported to the OCI. Additionally, no quarterly dividend may exceed the dividend paid in the corresponding quarter of the preceding year by more than 15% without notifying the OCI 30 days in advance of payment. Extraordinary dividends must be reported prior to payment and are subject to disapproval by the OCI. An extraordinary dividend is defined as a dividend or distribution, the fair market value of which, together with all dividends from the preceding 12 months, exceeds the lesser of: (a) 10% of policyholders' surplus as of the preceding December 31 or (b) the greater of: (i) statutory net income for the calendar year preceding the date of the dividend or distribution, minus realized capital gains for that calendar year; or (ii) the aggregate of statutory net income for the three calendar years preceding the date of the dividend or distribution, minus realized capital gains for those calendar years and minus dividends paid or credited and distributions made within the first two of the preceding three calendar years. Additionally, in connection with the termination of reinsurance contracts, OCI requires adjustments to the dividend calculations for any surplus or net income gains recognized. Due to losses experienced by Ambac Assurance in 2009 and 2010, Ambac Assurance was unable to pay common dividends to Ambac in 2009 and 2010 and will be unable to pay common dividends in 2011, without the prior consent of the OCI.

During 2008, Ambac Assurance paid to Ambac cash dividends on its common stock totaling $218.5 million, respectively. See Note 17 to the Consolidated Financial Statements located in Part II, Item 8 for further information on dividends. During 2010 and 2009, Ambac Assurance paid cash dividends on its preferred shares of $0.8 million and $12.5 million, respectively.

Ambac Assurance's ability to pay dividends is further restricted by certain covenants made for the benefit of the Segregated Account and by the Settlement Agreement. See "2010 Overview" in Note 1 to the Consolidated Financial Statements located in Part II, Item 8 for further information.

UK law prohibits Ambac UK from declaring a dividend to its shareholders unless it has "profits available for distribution." The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the UK insurance regulatory laws impose no statutory restrictions on a general insurer's ability to declare a dividend, the FSA's capital requirements may in practice act as a restriction on the payment of dividends. Further, the FSA has amended Ambac UK's license such that the FSA must specifically approve ("non-objection") to any transfer of value and/or assets from Ambac UK to Ambac Assurance or any other Ambac group company, other than in respect of certain disclosed contracts between the two parties (such as in respect of a management services agreement between Ambac Assurance and Ambac UK). Ambac UK is not expected to pay any dividends to Ambac Assurance for the foreseeable future.

Pursuant to the Settlement Agreement, as discussed in the "2010 Overview" in Note 1 to the Consolidated Financial Statements located in Part II, Item 8, Ambac Assurance may not make any Restricted Payment (which includes dividends from Ambac Assurance to Ambac) in excess of $5 million in the aggregate, other than Restricted Payments from Ambac Assurance to Ambac in an amount (i) up to $52 million per annum solely to pay interest on indebtedness of Ambac outstanding as of March 15, 2010, or any indebtedness issued as a result of a restructuring or refinancing thereof and (ii) up to $7.5 million per annum solely to pay operating expenses of Ambac. Concurrent with making any such Restricted Payment, a pro rata amount of the Surplus Notes issued by Ambac Assurance to the bank group would also need to be redeemed at par.

Under the terms of Ambac Assurance's Auction Market Preferred Shares ("AMPS"), dividends may not be paid on the common stock of Ambac Assurance unless all accrued and unpaid dividends on the AMPS for the then current dividend period have been paid, provided, that dividends on the common stock may be made at all times for the purpose of, and only in such amounts as are necessary for, enabling Ambac (i) to service its indebtedness for borrowed money as such payments become due or (ii) to pay its operating expenses. If dividends are paid on the common stock as provided in the prior sentence, dividends on the AMPS become cumulative until the date that all accumulated and unpaid dividends have been paid on the AMPS.

New York Financial Guarantee Insurance Law and Financial Guarantee Insurance Regulation in Other States

New York's comprehensive financial guarantee insurance law defines the scope of permitted financial guarantee insurance and governs the conduct of business of all financial guarantors licensed to do business in New York, including Ambac Assurance. The New York financial guarantee insurance law also establishes single risk and aggregate limits with respect to insured obligations insured by financial guarantee insurers. Such single risk limits are specific to the type of insured obligation (for example, municipal or asset-backed). Under the aggregate limits, policyholders' surplus and contingency reserves must at least equal a percentage of aggregate net liability that is equal to the sum of various percentages of aggregate net liability for various categories of specified obligations. Wisconsin laws and regulations applicable to financial guarantors, as well as the laws of several other states, are less comprehensive than New York law and relate primarily to single and aggregate risk limits.

As a result of decreased statutory capital resulting from the significant losses experienced by Ambac Assurance, Ambac Assurance is not in compliance with the single and aggregate risk limits. Through run-off of the portfolio, Ambac Assurance will seek to reduce its exposure to no more than the permitted amounts, but may not be able to due so. Everspan is in compliance with all of such limits.

Financial Services Segment

Ambac's Financial Services segment historically provided financial and investment products, including investment agreements, derivative products (interest rate, currency and total return swaps) and funding conduits, principally to clients of the financial guarantee business. In 2008, Ambac discontinued writing new investment agreements and derivative products. Its existing investment agreement and derivative product portfolios are in

active runoff, which in addition to natural attrition, may include transaction terminations, settlements, restructuring and hedging, and transfers. As of December 31, 2009 all total return swaps were terminated and settled.

The principal factors that may affect results as the Financial Services portfolios runoff include: (1) availability of counterparties for hedging transactions; (2) investment returns; (3) the transaction value of future contract terminations, settlements or transfers which may differ from carrying value of the those assets; (4) changes in the value of securities posted as collateral; (5) the ability to obtain additional liquidity support from Ambac Assurance if needed; (6) changes in the fair value of the derivatives portfolio resulting from interest rate index fluctuations and (7) the restrictions imposed upon Ambac Assurance by the contracts executed with the Segregated Account, the restrictions imposed upon Ambac Assurance by the Settlement Agreement, and, to the extent that Segregated Account Policies are implicated, the authority of the rehabilitator of the Segregated Account to control the management of the Segregated Account.

Investment Agreements

Ambac provided investment agreements, including repurchase agreements, primarily to issuers of asset-backed and structured finance debt and, to a lesser extent, to municipal issuers through its wholly-owned subsidiary, Ambac Capital Funding. Investment agreements used in structured financings provide a guaranteed investment return customized to meet expected and potential cash flow requirements. Investment agreements are used by bond issuers to invest bond proceeds until such proceeds can be used for their intended purpose, such as financing construction. The investment agreement provides for the guaranteed return of principal invested, as well as the payment of interest thereon at a guaranteed rate.

Liquidity risk exists in the portfolio due to contract provisions which require collateral posting or allow early termination of contracts. During 2010, reductions to the balance of outstanding investment agreements resulting from required or negotiated early terminations totaled $0.3 billion. As of December 31, 2010, 98% of investment agreement principal and accrued interest outstanding was collateralized. Funding for early terminations was supported in part through loans between Ambac Capital Funding and Ambac Assurance. At December 31, 2010, Ambac Capital Funding was indebted to Ambac Assurance in the amount of $553 million in cash loans.

See "Liquidity and Capital Resources" of the Management Discussion and Analysis of Financial Condition and Results of Operations" located in Part II, Item 7 and Note 8 to the Consolidated Financial Statements located in Part II, Item 8 for further information on investment agreements.

Derivative Products

The primary activities in the derivative products business were intermediation of interest rate and currency swap transactions (through Ambac Financial Services ("AFS")) and taking total return swap positions on certain fixed income obligations (through Ambac Capital Services). Certain municipal interest rate swaps are not hedged for the basis difference between issue specific and general tax-exempt index rates. The derivative portfolio also includes an unhedged Sterling-denominated exposure to consumer price inflation in the United Kingdom. In addition, the derivative products business also uses exchange traded U.S. Treasury futures contracts to hedge interest rate exposures. Therefore, changes in the relationship between taxable and tax-exempt index and municipal issue specific rates, as well as between taxable index and Treasury interest rates may result in gains or losses on interest rate swaps. Additionally, beginning in 2009, the derivative products portfolio retained positive mark-to-market sensitivity to interest rate increases to mitigate floating rate obligations in the Financial Guarantee segment, including in the credit derivative portfolio.

Interest rate and currency swaps used for hedging purposes are generally subject to master agreements. These agreements generally require a counterparty in a net mark-to-market liability position to post increasing amounts of collateral if that counterparty's credit rating declines and/or the net mark-to-market liability

increases. Some contracts also contain additional termination provisions linked to downgrades of Ambac Assurance, as guarantor of the swaps. As a result of ratings downgrades to Ambac Assurance in 2008 and 2009, AFS lost its collateral posting thresholds and experienced termination events across all its professional counterparties. Such termination events have resulted in losses to AFS due to the higher cost of replacing hedge positions, and may result in additional losses in future periods. Beginning in 2008, AFS borrowed from Ambac Assurance, to help support the incremental collateral posting requirements and termination payments resulting from the Ambac Assurance downgrades. At December 31, 2010, AFS was indebted to Ambac Assurance in the amounts of $385 million in cash loans and $175 million in borrowed securities.

AFS manages a variety of risks inherent in its businesses, including credit, market, liquidity, operational and legal. These risks are identified, measured, and monitored through a variety of control mechanisms, which are in place at different levels throughout the organization. See "Quantitative and Qualitative Disclosures About Market Risk" located in Part II, Item 7A for further information.

Funding Conduits

Ambac previously transferred financial assets to two special purpose entities. The business purpose of these entities was to provide certain financial guarantee clients with funding for their debt obligations. The activities of the special purpose entities are contractually limited to purchasing assets from a subsidiary of Ambac, issuing medium-term notes ("MTNs") to fund such purchases, executing derivative hedges and related administrative services. As of December 31, 2010, Ambac Assurance had financial guarantee insurance policies issued for all assets and MTNs owned and outstanding by the special purpose entities. Ambac does not consolidate these special purpose entities under the relevant accounting guidance for consolidation of variable interest entities. See Notes 2 and 10 to the Consolidated Financial Statements located in Part II, Item 8 for further information.

INVESTMENTS AND INVESTMENT POLICY

As of December 31, 2010, the consolidated investments of Ambac had an aggregate fair value of approximately $6.9 billion and an aggregate amortized cost of approximately $6.5 billion. The majority of these investments are primarily managed internally by officers of Ambac, who are experienced investment managers. A portion of the portfolio is managed by external investment managers. All investments are made in accordance with the general objectives and guidelines for investments approved by Ambac's Board of Directors. These guidelines encompass credit quality, risk concentration and duration, and are periodically reviewed and revised as appropriate.

As of December 31, 2010, the Financial Guarantee investment portfolio had an aggregate fair value of approximately $5.7 billion and an aggregate amortized cost of approximately $5.4 billion. Ambac Assurance's investment objectives are to achieve the highest book-yield on a diversified portfolio of fixed income investments while employing active asset/liability management practices to satisfy all operating and strategic liquidity needs. Ambac Assurance is subject to internal investment guidelines and is subject to limits on types and quality of investments imposed by the insurance laws and regulations of the States of Wisconsin and New York. In compliance with these laws, Ambac Assurance's Board of Directors approves any changes or exceptions to the Investment Policy.

As described in "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K, Ambac Assurance's investment policies are subject to certain covenants made for the benefit of the Segregated Account and for the benefit of the Counterparties to the Settlement Agreement. Further, Ambac Assurance's investment policies are subject to oversight by the rehabilitator pursuant to contracts entered into between Ambac Assurance and the Segregated Account and, therefore, such policies may change. Any such changes could adversely impact the performance of the investment portfolio.

Beginning in 2008, Ambac Assurance purchased Ambac Assurance insured securities in the open market given their relative risk/reward characteristics and to mitigate the effect of potential future claim payments on operating results. Ambac Assurance financial guarantee policies related to these securities have been allocated to the Segregated Account as described in "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K. As a result of the claims moratorium on such policies, payments on these investments were adversely impacted.

As of December 31, 2010, the Financial Services investment portfolio had an aggregate fair value of approximately $1.1 billion and an aggregate amortized cost of approximately $1.1 billion. The investment objectives are to invest primarily in high-grade securities that produce sufficient cash flow to satisfy all investment agreement liabilities and intercompany obligations. The investment portfolio is subject to internal investment guidelines. Such guidelines set forth minimum credit rating requirements and credit risk concentration limits.

The following tables provide certain information concerning the investments of Ambac:

	Summary of Investments as of December 31,					
	2010		2009		2008	
Investment Category	Carrying Value	Weighted Average Yield[1]	Carrying Value	Weighted Average Yield[1]	Carrying Value	Weighted Average Yield[1]
($ in thousands)						
Long-term investments:						
Taxable bonds	$ 4,385,550	6.09%	$ 4,874,636	6.69%	$ 4,826,768	4.53%
Tax-exempt bonds	1,758,864	4.13%	2,865,300	4.70%	3,997,761	4.60%
Total long-term investments	6,144,414	5.51%	7,739,936	5.98%	8,824,529	4.56%
Short-term investments[2]	708,797	0.16%	962,007	0.10%	1,454,229	1.10%
Other	100	—	1,278	—	14,059	—
Total	$ 6,853,311	4.93%	$ 8,703,221	5.34%	$ 10,292,817	4.16%

(1) Yields are stated on a pre-tax basis, based on average amortized cost.
(2) Includes taxable and tax-exempt investments.

	Investments by Security Type as of December 31,					
	2010		2009		2008	
Investment Category	Carrying Value	Weighted Average Yield[1]	Carrying Value	Weighted Average Yield[1]	Carrying Value	Weighted Average Yield[1]
($ in thousands)						
Municipal obligations[2]	$ 2,204,106	4.55%	$ 3,205,480	4.89%	$ 4,260,543	4.71%
Corporate securities	917,908	4.31%	841,218	4.12%	381,564	4.67%
Foreign obligations	118,455	3.80%	167,651	4.12%	150,369	4.59%
U.S. government obligations	272,275	1.89%	356,466	2.56%	313,520	2.56%
U.S. agency obligations	88,294	4.35%	90,929	4.45%	591,241	4.96%
Residential mortgage-backed securities.	1,506,809	10.83%	1,765,665	12.94%	1,986,174	4.76%
Asset-backed securities	1,036,567	3.40%	1,312,527	2.75%	1,141,118	3.85%
Total long-term investments	6,144,414	5.51%	7,739,936	5.98%	8,824,529	4.56%
Short-term investments[2]	708,797	0.16%	962,007	0.10%	1,454,229	1.10%
Other	100	—	1,278	—	14,059	—
Total	$ 6,853,311	4.93%	$ 8,703,221	5.34%	$ 10,292,817	4.16%

(1) Yields are stated on a pre-tax basis, based on average amortized cost.
(2) Includes taxable and tax-exempt investments.

Ambac has RMBS exposure in the Ambac Assurance and Financial Services investment portfolios. Please refer to the tables in Part II, Item 7 "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Liquidity and Capital Resources—Balance Sheet" section below for a discussion of (i) the fair value of mortgage and asset-backed securities by classification, (ii) the fair value of residential mortgage-backed securities by vintage and type, and (iii) the ratings distribution of the fixed income investment portfolio by segment.

EMPLOYEES

As of December 31, 2010, Ambac and its subsidiaries had 243 employees. Ambac considers its employee relations to be satisfactory.

CORPORATE GOVERNANCE

The Sarbanes-Oxley Act of 2002 requires chief executive officers and chief financial officers to make certain certifications with respect to this report and to Ambac's disclosure controls and procedures and internal control over financial reporting.

Ambac's Disclosure Committee has the responsibility for ensuring that there is an adequate and effective process for establishing, maintaining and evaluating disclosure controls and procedures for Ambac in connection with its external disclosures. Ambac has a Code of Business Conduct which promotes management's control philosophy and expresses the values which govern employee behavior and help maintain Ambac's commitment to the highest standards of conduct. This code can be found on Ambac's website at www.ambac.com on the "Investor Relations" page followed by "Corporate Governance." Ambac will disclose on its website any amendment to, or waiver from, a provision of its Code of Business Conduct that applies to its CEO, Chief Financial Officer ("CFO") or Chief Accounting Officer ("CAO"). Ambac's corporate governance guidelines and the charters for the audit committee, governance committee and compensation committee are also available on our website under the "Corporate Governance" page.

Item 1A. Risk Factors

References in the risk factors to "Ambac" are to Ambac Financial Group, Inc. References to "we," "our," "us" and "Company") are to Ambac, Ambac Assurance Corporation, Everspan Financial Guarantee Corp., and Ambac Credit Products LLC as the context requires.

A long period of operations under Chapter 11 protection may harm our business.

As with any judicial proceeding, there are risks of unavoidable delay with a Chapter 11 proceeding and there are risks of objections from certain stakeholders, including objections from the holders of unsecured notes that vote to reject a plan of reorganization. Any material delay in the confirmation of a plan, or the threat of rejection of the plan by the Bankruptcy Court, would not only add substantial expense and uncertainty to the process, but also would adversely affect our operations during this period.

So long as the Chapter 11 proceeding continues, our senior management will be required to spend a significant amount of time and effort working on the reorganization, distracting focus from our business operations. A prolonged period of operating under Chapter 11 protection may also make it more difficult to attract and retain management and other key personnel necessary to effect a successful reorganization. See "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for additional information.

Furthermore, so long as the Chapter 11 proceedings continue, we will be required to incur substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 proceedings. A

prolonged continuation of the Chapter 11 proceedings may also require us to seek financing. If we require financing during the Chapter 11 proceedings and we are unable to obtain the financing on favorable terms or at all, our chances of successfully reorganizing our businesses may be seriously jeopardized, and as a result, our assets and securities could become further devalued or worthless.

Under the Bankruptcy Code, all debtors must obtain Bankruptcy Court approval to, among other things:

- sell assets or engage in other actions outside the ordinary course of business;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- obtain financing.

In addition, if a trustee is appointed to operate us while in Chapter 11 bankruptcy, the trustee would assume control of our assets.

While management believes that Ambac will have sufficient liquidity to satisfy its needs until it emerges from the bankruptcy proceeding, no guarantee can be given that it will be able to pay all expenses. If its liquidity runs out prior to emergence from bankruptcy, a liquidation of Ambac pursuant to Chapter 7 of the Bankruptcy Code will occur. In the event of a Chapter 7 liquidation, the Company is likely to be unable to utilize a substantial portion of its NOLs. However, the Company's NOLs could be used to offset income of Ambac Assurance realized prior to a completion of a liquidation.

There is significant uncertainty as to how Ambac's securityholders will be treated under any plan of reorganization.

To date, Ambac has been unable to agree to terms with the Creditors Committee in order to restructure its outstanding debt through a prepackaged bankruptcy proceeding. However, Ambac has agreed to a non-binding term sheet that continues to serve as a basis for negotiations with the Creditors Committee and that may allow Ambac to emerge from bankruptcy in a timely manner. Because a plan of reorganization (a "Reorganization Plan") has not yet been agreed to, there is significant uncertainty as to how holders of Ambac's securities will be treated under the Reorganization Plan. It is likely, however, that Ambac's debtholders and creditors will receive all equity in the company.

If Ambac's exclusivity period lapses, any party in interest would be able to file a plan of reorganization for Ambac.

Upon commencing the Bankruptcy Filing, Ambac had the exclusive right for 120 days after the Petition Date to file a plan of reorganization and, if we do so, 60 additional days to obtain necessary acceptances of the plan. Ambac filed and received Bankruptcy Court approval to extend its exclusive rights to file a plan of reorganization and obtain necessary acceptances of the plan by 120 days to and including July 6, 2011 and September 6, 2011, respectively. Further extensions are subject to approval by the Bankruptcy Court. If Ambac's exclusivity period lapses, any party in interest would be able to file a plan of reorganization for Ambac. In that context, we cannot predict whether Ambac's security holders will be treated better or worse and whether the consolidated value of the Company will be maximized.

A Reorganization Plan will not be confirmed by the Bankruptcy Court unless it concludes that the Reorganization Plan satisfies all requirements of Section 1129 of the Bankruptcy Code, including but not limited to the requirements that the Reorganization Plan is feasible, "does not discriminate unfairly" and is "fair and equitable" with respect to certain classes in the Chapter 11 Filing.

In order to confirm a plan of reorganization, a debtor must satisfy all of the requirements set forth in Section 1129(a) of the Bankruptcy Code, including but not limited to the requirement that the plan of reorganization is feasible. Such feasibility requirement obligates a debtor to show that confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor in interest to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

In addition, in the event any impaired class of claims or equity interests does not accept a plan of reorganization, a bankruptcy court may nevertheless confirm such plan at the proponent's request under Section 1129(b) of the Bankruptcy Code if at least one impaired class has accepted the plan (with such acceptance being determined without including the vote of any "insider" in such class), and, as to each impaired class that has not accepted the plan, the bankruptcy court determines that the plan "does not discriminate unfairly" and is "fair and equitable" with respect to the dissenting impaired classes. Because certain classes in the Bankruptcy Filing will likely be deemed to reject any Reorganization Plan, these additional requirements of Section 1129(b) must be satisfied with respect to such classes in the Bankruptcy Filing. If these classes assert that the Reorganization Plan does not meet the aforementioned requirements of Sections 1129(a) and (b) of the Bankruptcy Code, there is no assurance that the Bankruptcy Court will confirm the Reorganization Plan.

If the bankruptcy court does not approve the Reorganization Plan for any reason, or does not approve the plan in a timely manner, there is increased risk that a liquidation of Ambac pursuant to Chapter 7 of the Bankruptcy Code will occur.

Disputes, including litigation, between Ambac and Ambac Assurance regarding the allocation of certain tax attributes, including NOLs, could reduce the overall value of the Company.

If the negotiations among Ambac, Ambac Assurance, OCI and the Creditors' Committee do not produce an agreement among the parties with respect to the allocation of potential sources of value (principally, NOLs and other claims with respect to certain payments made by Ambac to Ambac Assurance pursuant to the tax sharing agreement) and expenses, Ambac's creditors could take actions which would adversely affect Ambac Assurance and/or the Segregated Account. For example, the creditors could seek to impose a constructive trust with respect to cash payments received by Ambac Assurance and/or seek to re-organize Ambac's ownership interest in Ambac Assurance in order to achieve a de-consolidation of Ambac and Ambac Assurance for tax purposes, with the result that Ambac would become entitled to the use of all NOLs in existence on the date of such de-consolidation. Such disputes and/or litigation between Ambac and Ambac Assurance could prolong the Chapter 11 proceeding, with resultant increases in the expenses of the Chapter 11 proceeding, and could ultimately impair Ambac's ability to successfully reorganize. Additionally, such disputes and/or litigation could prompt OCI to initiate rehabilitation proceedings with respect to Ambac Assurance, either preemptively, or in response to any such action; initiation of a rehabilitation proceeding with respect to Ambac Assurance could decrease the residual value, if any, of Ambac Assurance.

Pursuit of litigation by the parties in interest could disrupt the confirmation of a Reorganization Plan and could have material adverse effects on our businesses and financial condition.

There can be no assurance that any of the parties in interest will not pursue litigation strategies to enforce any claims against us. For example, on January 13, 2011, the IRS filed a motion in the United States District Court for the Southern District of New York ("USDC SDNY") to withdraw the adversary proceeding from the Bankruptcy Court to the USDC SDNY. Litigation is by its nature uncertain and there can be no assurance of the ultimate resolution of any such claims. Any litigation may be expensive, lengthy, and disruptive to our normal business operations and the Reorganization Plan confirmation process, and a resolution of any such strategies that is unfavorable to us could have a material adverse affect on the Reorganization Plan confirmation process or their respective businesses, results of operations, financial condition, liquidity or cash flow.

Historical financial information may not be comparable.

Following confirmation of a Reorganization Plan and the transactions contemplated thereby, our financial condition and results of operations from and after the effective date of the Reorganization Plan may not be comparable to the financial condition or results of operations reflected in our historical financial statements.

The occurrence of certain events could result in the initiation of rehabilitation proceedings against Ambac Assurance, with resulting adverse consequences to holders of Ambac securities.

The IRS and certain policyholders whose policies were allocated to the Segregated Account have challenged the establishment of the Segregated Account. If such challenges are successful, OCI may determine that it is in the best interests of policyholders to initiate rehabilitation proceedings with respect to Ambac Assurance. Similarly, if negotiations among Ambac, the Creditors Committee, OCI and the rehabilitator of the Segregated Account do not produce an agreement among the parties, Ambac (or its creditors) could take actions which would adversely affect Ambac Assurance and/or the Segregated Account. As such, OCI may determine that it is in the best interests of policyholders to initiate rehabilitation proceedings with respect to Ambac Assurance, either preemptively or in response to any such action. Finally, the incurrence of large losses in respect of policies in the general account of Ambac Assurance and other unknown contingencies (including disputes between Ambac and Ambac Assurance and/or the Segregated Account) might occur which would prompt OCI to initiate rehabilitation proceedings with respect to Ambac Assurance.

If, as a result of the occurrence of any such event(s), the OCI decides to initiate rehabilitation proceedings with respect to Ambac Assurance, adverse consequences may result, including, without limitation, the assertion of damages by counterparties (including mark-to-market claims with respect to insured transactions executed in ISDA format) and the acceleration of losses based on early termination triggers and the loss of control rights in insured transactions, thereby reducing the residual value of Ambac Assurance. Additionally, the rehabilitator would assume control of all of Ambac Assurance's assets and management of Ambac Assurance. In exercising control, the rehabilitator will act for the benefit of policyholders, and will not take into account the interests of securityholders of Ambac; such actions may result in material adverse consequences for Ambac's securityholders. In addition, the initiation of delinquency proceedings against Ambac Assurance would further decrease the likelihood that OCI will permit Ambac Assurance to make future dividend payments to Ambac.

As a result of the Segregated Account Rehabilitation Proceedings, various adverse events in the insured portfolio may be triggered. If injunctions issued by the rehabilitation court enjoining such adverse effects are ineffective, substantial adverse events may occur.

The rehabilitation court 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 (including mark-to-market claims with respect to insured transactions executed in ISDA format) based on early termination triggers and the loss of control rights in insured transactions. If the challenges to the injunction that have been filed are successful, losses in the Segregated Account would likely increase substantially.

Our inability to realize the remediation recoveries included in our loss reserves could adversely impact our liquidity and financial condition and lead to delinquency proceedings.

As of December 31, 2010, we have estimated subrogation recoveries of $2,391.3 million (net of reinsurance), which is included in our loss reserves. These recoveries are based principally on contractual claims arising from RMBS transactions which we have insured, and represent our estimate of the amount we will ultimately recover. However, our ability to recover these amounts is subject to significant uncertainty, including risks inherent in litigation, collectability of such amounts from counterparties and/or their respective parents and affiliates, timing of receipt of any such recoveries, regulatory intervention which could impede our ability to take the actions required to realize such recoveries and uncertainty inherent in the assumptions used in estimating such recoveries. The amount of these subrogation recoveries is significant and if we were unable to recover any amounts our stockholders' deficit as of December 31, 2010 would increase from $1,354.2 million to $3,745.5 million.

Actions of the rehabilitator could adversely affect Ambac, including impacting our ability to realize our remediation recoveries.

As a consequence of the Segregated Account Rehabilitation Proceedings, the rehabilitator retains operational control and decision-making authority with respect to all matters related to the Segregated Account, including surveillance, remediation, loss mitigation and efforts to recover losses in the Segregated Account, including recovery efforts in respect of breaches of representations and warranties by sponsors of Ambac-insured RMBS. Similarly, by virtue of the contracts executed between Ambac Assurance and the Segregated Account in connection with the establishment, and subsequent rehabilitation, of the Segregated Account, the rehabilitator retains the discretion to oversee and approve certain actions taken by Ambac Assurance in respect of assets and liabilities which remain in Ambac Assurance. As a result, any efforts to remediate losses, and any actions taken by Ambac Assurance, are subject to the approval of the rehabilitator**.** In exercising such authority, the rehabilitator will act for the benefit of policyholders, and will not take into account the interests of securityholders of Ambac. Decisions made by the rehabilitator for the benefit of policyholders may result in material adverse consequences for Ambac's securityholders. In addition, we are not able to predict the impact such oversight will have on the remediation of losses, and, in particular, on our efforts to recover losses attributable to breaches of representations and warranties by sponsors of Ambac-insured RMBS and our ability to commute outstanding policies and repurchase surplus notes**,** nor whether the rehabilitator will pursue such remediation as vigorously as we have done in the past. In addition, as a result of the Segregated Account Rehabilitation Proceedings, certain key personnel have chosen to leave Ambac, and additional people may decide to leave. The loss of such personnel could adversely impact Ambac's remediation efforts.

Loss reserves may not be adequate to cover potential losses; changes in loss reserves may result in further volatility of net income and earnings.

Loss reserves established with respect to our non-derivative financial guarantee insurance business are based upon estimates and judgments by management, including estimates and judgments with respect to the probability of default, the severity of loss upon default and estimated remediation recoveries for, among other things, breaches by the issuer of representations and warranties. Loss reserves are established when management has observed credit deterioration, in most cases, when the underlying credit is considered below investment grade. Furthermore, the objective of establishing loss reserve estimates is not to reflect the worst possible outcome. As such, there can be no assurance that the actual losses in our financial guarantee insurance portfolio will not exceed our loss reserves. A further description of our accounting for loss and loss expenses can be found in Note 2 of the Notes to our Audited Consolidated Financial Statements included in Item 8 of this Form 10-K.

Additionally, inherent in our estimates of loss severities and remediation recoveries is the assumption that we will retain control rights in respect of our insured portfolio. However, we are subject to the loss of control rights in many insured transactions, in the event that we are the subject of delinquency proceedings and/or other regulatory actions which could result from our deteriorated financial position. In the event that we lose control rights, our ability to mitigate loss severities and realize remediation recoveries will be compromised, and actual ultimate losses in our insured portfolio could exceed our loss reserves. The rehabilitation court issued an injunction effective until further order of the court enjoining certain actions by holders of policies in the Segregated Account and other counterparties, including the loss of control rights. If this injunction were successfully challenged, Ambac Assurance could lose its control rights with respect to policies in the Segregated Account.

We also rely on internally and externally developed complex financial models to project performance of our insured obligations. Flaws in these financial models and/or faulty assumptions used by these financial models could lead to increased losses and loss reserving. In addition, for 2011, we expect to implement a new RMBS loss reserve model which could produce increased projected losses and loss reserves estimates for our RMBS portfolios. Uncertainty with respect to the ultimate performance of certain of our insured exposures may result in substantial changes in loss reserves and/or actual losses. Correspondingly, such changes to loss reserves would affect our reported earnings. If we do not have sufficient liquidity to meet the increase in actual losses, our insurance operating subsidiaries may become subject to delinquency proceedings.

Some of the state and local governments and finance authorities that issue public finance obligations we insure are experiencing unprecedented budget shortfalls that could result in increased credit losses or impairments on those obligations

We have historically experienced low levels of defaults in our U.S. public finance insured portfolio, including during the financial crisis that began in mid-2007. However, recently many state and local governments that issue some of the obligations we insure have reported unprecedented budget shortfalls that will require them to significantly raise taxes and/or cut spending in order to satisfy their obligations. While there has been some support provided by the U.S. federal government designed to provide aid to state and local governments, certain state and local governments remain under extreme financial stress. If the issuers of the obligations in our U.S. public finance portfolio are unable to raise taxes, cut spending, or receive federal assistance, we may experience losses or impairments on those obligations, which could adversely affect our business, financial condition and results of operations.

We are exposed to operational risks with respect to the distribution of surplus notes in connection with the payment of claim liabilities of the Segregated Account.

Under the Plan of Rehabilitation, the Segregated Account will partially satisfy its claim liabilities through the issuance of surplus notes. In certain circumstances, Ambac Assurance, as management services provider, may be handling the distribution of the surplus notes issued by the Segregated Account. In connection with this process, Ambac Assurance has operational risks that the surplus notes may not be issued, settled or accounted for properly.

Market risks could adversely impact our assets posted as collateral in respect of investment agreements and interest rate swap and currency swap transactions.

As a result of the downgrades of Ambac Assurance's financial strength rating, we are required to post collateral with respect to certain investment agreements, interest rate swap and currency swap transactions. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Ratings and Collateral" of this Form 10-K. We will be required to post additional collateral if the market value of the assets used to collateralize our obligations declines or if there are changes in the collateral posting obligations under these agreements and transactions.

These collateral-posting obligations could have a material adverse effect on our liquidity. At present, these collateral-posting requirements are being partially satisfied by Ambac Assurance and by loans from Ambac Assurance to the Financial Services businesses. As required by Wisconsin law, these transactions were approved by the OCI. To the extent that collateral-posting requirements increase as a result of changes in market conditions, as described above, it is likely that Ambac Assurance would need to provide increased lending capacity to the Financial Services businesses in order to satisfy these collateral-posting obligations. Any such increases to lending capacity would be subject to the prior consent of the OCI; there can be no assurance that we would obtain such consent. We believe that the OCI would consider several factors in determining whether to grant such consent, including its view of Ambac Assurance's financial condition at the time of such loan or contribution.

If the Financial Services businesses fail to post collateral as required, counterparties may be entitled to terminate the transactions. Upon such terminations, we could liquidate securities with unrealized mark-to-market losses which could have a material adverse effect on our liquidity. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Ratings and Collateral" of this Form 10-K. The termination of such transactions, if unpaid by our Financial Services businesses, would trigger Ambac Assurance's obligations to make payments under the financial guarantee insurance policies it previously issued. To the extent that the OCI determines that the payment by Ambac Assurance under such policies could place Ambac Assurance in a hazardous condition, the OCI could seize Ambac Assurance and place it into rehabilitation.

Risks which impact assets in our investment portfolio could adversely affect our business.

Our investment portfolio may be adversely affected by events and developments in the capital markets, including interest rate movements; credit rating downgrades and foreign exchange movements. Please refer to the table in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet" of this Form 10-K, representing the fair value, including the value of the financial guarantee, and weighted-average underlying rating, excluding the financial guarantee, of the insured securities at December 31, 2010.

During the course of 2010, management identified and periodically revised certain investment securities in the investment portfolio to potentially sell in connection with plans to reposition the investment portfolio and/or to meet potential liquidity needs. We recorded an impairment charge through income on the portion of those securities which were in an unrealized loss position. Additionally, management determined that certain investments had suffered credit impairments. Credit impaired securities included certain securities that are guaranteed by Ambac under policies that are subject to the Segregated Account Rehabilitation Plan. We recorded an impairment charge through income in the amount of the estimated credit impairment on such securities. The impairments in value in the remaining investment portfolio are not deemed other-than-temporary, as such the remaining unrealized losses have been recognized in other comprehensive income. Please see Note 3 "Investments" in the Notes to Consolidated Financial Statements for additional information.

To the extent we liquidate large blocks of investment assets in order to pay claims under financial guarantee insurance policies, to make payments under investment agreements and/or to collateralize our obligations under investment agreements and interest rate swaps, such investment assets could be sold at prices less than fair value as of December 31, 2010. Refer to Note 3 "Investments" in the Notes to Consolidated Financial Statements for more information regarding the fair value of investment assets.

Prior to the rating agency actions on Ambac Assurance, Ambac Assurance managed its investment portfolio in accordance with rating agency standards for a AAA-rated insurance company. As a result of the significant declines in Ambac Assurance's financial strength ratings, it is no longer necessary to comply with the strict investment portfolio guidelines for a AAA-rated company. Therefore, Ambac Assurance has decided to maintain a portion of its investment portfolio in lower-rated securities in order to increase the investment return on its portfolio. The investment in lower-rated securities and "alternative assets" could expose Ambac to increased losses on its investment portfolio in excess of those described above and/or decrease the liquidity of the insured portfolio. However, Ambac Assurance's investment policies are subject to certain covenants made for the benefit of the Segregated Account and the Settlement Agreement for the benefit of the Counterparties. Any such changes could adversely impact the performance of the investment portfolio.

The determination of the amount of impairments taken on our investments is highly subjective and could materially impact our results of operations or financial position.

The determination of the amount of impairments on our investments vary by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in impairments in operations as such evaluations are revised. There can be no assurance that our management has accurately assessed the level of impairments taken in our financial statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments. In addition, in 2011, we expect to implement a new RMBS cash flow analysis model, which could produce increased projected impairments with regard to our investment portfolio.

We are subject to credit and liquidity risk due to unscheduled and unanticipated withdrawals on Investment Agreements.

Ambac's Investment Agreement business has issued investment agreements to investors that may allow for early withdrawal (i.e. deviate from a defined or expected withdrawal schedule). The provisions that allow for early withdrawal vary by transaction but include events such as credit events, early call provisions, loss events, construction project development variance and changes in tax code. To the extent we experience an increase in unanticipated withdrawals, the Investment Agreement business may be required to liquidate certain asset holdings. This early liquidation of asset holdings may result in a realized loss.

We are subject to dispute risk in connection with our reinsurance agreements.

In addition to having credit exposure to our reinsurance counterparties, we are exposed to the risk that reinsurance counterparties may dispute their obligations to make payments required by applicable reinsurance agreements, including scheduled payments and payments due in connection with the termination of reinsurance agreements. Such disputes could result in our being unable to collect all amounts due from reinsurers and/or collecting such amounts after potentially lengthy dispute resolution processes.

Our inability to attract and retain qualified executives and employees or the loss of any of these personnel could negatively impact our business.

Our ability to mitigate losses in Ambac Assurance's insured portfolio and in the Segregated Account and to effectively implement a reorganization under Chapter 11 depend on the retention and recruitment of qualified executives and other professionals. We rely substantially upon the services of our current executive team. In addition to these officers, we require key staff with risk mitigation, structured finance, insurance, credit, investment, accounting and administrative skills. As a result of Ambac's filing for chapter 11 bankruptcy protection and the implementation of rehabilitation proceedings against the Segregated Account, there is an increased risk that executive officers and other key staff will leave the company and replacements may not be incented to join the company. The loss of the services of members of our senior management team, or our inability to hire and retain other talented personnel, could delay or prevent us from fully implementing our remediation strategies, which could further negatively impact our business.

We are subject to the risk of litigation and regulatory inquiries or investigations, and the outcome of proceedings we are or may become involved in could have a material adverse effect on our business, operations, financial position, profitability or cash flows.

Ambac, and certain of its present and former officers and directors, have been named in lawsuits that allege violations of the federal securities laws and/or state law. Ambac also has been named in lawsuits relating to transactions entered into by its financial guarantee subsidiary, Ambac Assurance, and its financial services businesses. In addition, Ambac has received various regulatory inquiries and requests for information. Please see Note 13 to the Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K for information on these various proceedings.

It is not possible to predict whether additional suits will be filed or whether additional inquiries or requests for information will be made, and it is also not possible to predict the outcome of litigation, inquiries or requests for information. It is possible that there could be unfavorable outcomes in these or other proceedings. Management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes or of the expenses that will be incurred in defending these lawsuits. Under some circumstances, adverse results in any such proceedings and/or the incurrence of significant litigation expenses could be material to our business, operations, financial position, profitability or cash flows.

We are subject to credit risk and other risks related to RMBS.

We have insured RMBS transactions (including transactions comprised of second lien mortgage products, home equity line of credit ("HELOCs") and closed end second mortgage loans, and Alt-A or mid-prime loans) and are thus exposed to credit risk associated with those asset classes. Performance of these transactions can be adversely affected by general economic conditions, including a recession, rising unemployment rates, declining house prices, increasing foreclosure rates and unavailability of consumer credit; mortgage product attributes, such as interest rate adjustments and balloon payment obligations; borrower and/or originator fraud; mortgage servicer underperformance and financial difficulty experienced by such servicers.

While further deterioration in the performance of consumer assets, including mortgage-related assets, credit cards, student loans and auto loans and leases, may occur, the extent and duration of any future deterioration of the credit markets is unknown, as is the impact, if any, on potential claim payments and ultimate losses of the securities within Ambac Assurance's portfolio. In addition, there can be no assurance that any of the governmental or private sector initiatives designed to address such credit deterioration in the markets will be successful, and there is no way to know the effect that any such initiatives could have on the credit performance over time of the actual securities that Ambac Assurance insures.

In addition, there can be no assurance that we would be successful, or that we would not be delayed, in enforcing the subordination provisions, credit enhancements or other contractual provisions of the RMBS that Ambac Assurance insures in the event of litigation or the bankruptcy of other transaction parties. Many of the subordination provisions, credit enhancements and other contractual provisions of the RMBS that Ambac Assurance insures are untested in the market and, therefore, it is uncertain how such subordination provisions, credit enhancements and other contractual provisions will be interpreted in the event of an action for enforcement.

We are subject to credit risk throughout our businesses, including large single risks, correlated risks and reinsurance counterparty credit risk.

We are exposed to the risk that issuers of debt which we have insured (or with respect to which we have written credit derivatives), issuers of debt which we hold in our investment portfolio, reinsurers and other contract counterparties (including derivative counterparties) may default in their financial obligations, whether as the result of insolvency, lack of liquidity, operational failure, fraud or other reasons. These credit risks could cause increased losses and loss reserves, estimates of credit impairments and mark-to-market losses with respect to credit derivatives in our financial guarantee business; and we could experience losses and decreases in the value of our investment portfolio and, therefore, our financial strength. Such credit risks may be in the form of large single risk exposures to particular issuers, reinsurers or counterparties; losses caused by catastrophic events (including terrorist acts and natural disasters); losses caused by increases in municipal defaults; or losses in respect of different, but correlated, credit exposures. For additional information on our reinsurers, see Item 7A, "Risk Management—Credit Risk" and "Quantitative and Qualitative Disclosures About Market Risk—Credit Risk" in this Form 10-K.

Our risk management policies and practices may not adequately identify significant risks.

As described in Part I, Item 1, "Business—Risk Management" of this Form 10-K, we have established risk management policies and practices which seek to mitigate our exposure to credit risk in our insured portfolio. Ongoing surveillance of credit risks in our insured portfolio is an important component of our risk management. These policies and practices in the past have not insulated us from risks that were unforeseen and which had unanticipated loss severity, and such policies and practices may not do so in the future. There can be no assurance that these policies and practices will be adequate to avoid future losses. If we are not able to identify significant risks prior to their occurrence, we may not be able to timely remediate such risks, thereby increasing the amount of losses to which we are exposed.

Revenues and cash flow would be adversely impacted due to a decline in realization of installment premiums and transaction-related recoveries.

Due to the installment nature of a significant percentage of its premium income, Ambac Assurance has an embedded future revenue stream. The amount of installment premiums actually realized by Ambac Assurance could be reduced in the future due to factors such as early termination of insurance contracts, accelerated prepayments of underlying obligations or insufficiency of cash flows (by the premium paying entity). Additionally, the imposition of a payment moratorium with respect to policies in the Segregated Account may result in the loss of installment premium income or future recoveries from such insured transactions. Such reductions would result in lower revenues.

Changes in prevailing interest rate levels could adversely impact our business results and prospects.

Increases in prevailing interest rate levels can adversely affect the value of our investment portfolio and, therefore, our financial strength. In the event that investments must be sold in order to pay claims or to meet Financial Services liquidity needs due to contract terminations or collateral posting requirements, such investments would likely be sold at discounted prices. Additionally, increasing interest rates would have an adverse impact on our insured portfolio. For example, increasing interest rates could result in higher claim payments in respect of defaulted obligations which bear interest at floating rates of interest. Higher interest rates can also lead to increased credit stress on consumer asset-backed transactions in our insured portfolio (as the securitized assets supporting a portion of these exposures are floating rate consumer obligations); slower prepayment speeds and resulting "extension risk" relative to such consumer asset-backed transactions in our insured portfolio and in our investment portfolio; decreased volume of capital markets activity and, correspondingly, decreased volume of insured transactions.

Decreasing interest rates could result in early terminations of financial guarantee insurance policies in respect of which we are paid on an installment basis and do not receive a termination premium, thus reducing premium earned in respect of these transactions. Decreases in prevailing interest rates may also limit growth of or reduce investment income and may adversely impact the result of our interest rate swap portfolio.

Our net income and earnings have become more volatile due to the application of fair value accounting, required under the relevant derivative accounting guidance, to the portion of our credit enhancement business which is executed in credit derivative form.

The derivative accounting guidance requires that credit derivative transactions be recorded at fair value. Since quoted market prices for the contracts that we execute are not available, we estimate fair value by using models. Changes in estimated fair values relative to our credit derivative book have caused decreases in the value of such credit derivative transactions; those changes in value are reported in our financial statements and have therefore affected our reported earnings. Similarly, further decreases or increases in estimated fair values in the future can affect our reported earnings. Changes in estimated fair values can be caused by general market conditions, uncertainty regarding the quality of high yield corporate loans, student loans or other underlying collateral, perception of credit risk generally and events affecting particular credit derivative transactions (e.g. impairment or improvement of specific reference entities or reference obligations) and perception of the credit risk posed by Ambac Assurance as insurer of the CDS.

We are subject to extensive regulation in the conduct of our financial guarantee insurance business; application of and/or amendments to, these insurance laws and regulations could have a material adverse impact on our business results, the Company and Ambac Assurance.

Our principal subsidiary, Ambac Assurance, is subject to the insurance laws and regulations of each jurisdiction in which it is licensed. Ambac UK, the subsidiary through which we write financial guarantee insurance in the United Kingdom and in the European Union, is regulated by the Financial Services Authority. Failure to comply with applicable insurance laws and regulations (*including, without limitation, minimum surplus*

requirements, aggregate risk limits and single risk limits) could expose us to fines, the loss of insurance licenses in certain jurisdictions, the imposition of orders by regulators with respect to the conduct of business by Ambac Assurance and/or the inability of Ambac Assurance to dividend monies to us, all of which could have an adverse impact on our business results and prospects.

Recently, there have been legislative and regulatory initiatives with respect to the regulation of financial guarantee insurance companies. Any changes to such laws and regulations could subject Ambac Assurance to increased reserving and capital requirements or more stringent regulation generally, which could materially adversely affect our financial condition, results of operations and future business. See Part I, Item 1 "Business—Insurance Regulatory Matters" in this Form 10-K for further information.

We are subject to a variety of operational risks which could have a material adverse impact on our business results.

We depend on internal processes, risk models, various systems and our employees in the conduct of our business. Any failure of such processes, models and systems and/or employee misconduct or fraud could have an adverse impact on our business results. We are also subject to external operational risks, including fraud, settlement risk and the failure of risk models or other analytical tools provided by third parties. Any such external fraud or failure could have an adverse impact on our business results.

There are limitations on the voting rights attached to our shares of common stock.

Our subsidiary, Ambac Assurance, is a Wisconsin corporation and is subject to the insurance and regulatory laws of the State of Wisconsin. Under Wisconsin insurance holding company laws, there is a presumption that a holder of 10% or more of Ambac's voting stock controls Ambac Assurance and any such acquisition of control requires the prior approval of the OCI of the State of Wisconsin. In addition, as a result of Ambac being the holding company of Ambac (UK), the prior consent of the UK's Financial Services Authority ("FSA") is required for any individual, group or institution who proposes to take a step that would result in becoming a controller, or increasing control, over Ambac (UK). Among other things, any shareholder must receive the prior consent of the FSA prior to holding 10 percent or more of Ambac's shares.

Section 4.5 of our amended and restated certificate of incorporation provides that no stockholder may cast votes with respect to 10% or more of our voting stock, regardless of the actual number of shares of voting stock beneficially held by the stockholder. In addition, any voting stock held by a stockholder in excess of 10% will not count in the calculation of or toward a quorum at any meeting of stockholders. In order to avoid these restrictions, a stockholder who acquires or owns 10% or more of our voting stock must have such acquisition or ownership previously approved by the OCI of the State of Wisconsin or file a disclaimer of "control" approved by such office.

The foregoing provisions of the Wisconsin insurance holding company laws, UK insurance laws and legal restrictions contained in our amended and restated certificate of incorporation will have the effect of rendering more difficult or discouraging unsolicited takeover bids from third parties or the removal of incumbent management.

Characterization of losses on our CDS portfolio as capital losses for U.S. federal tax purposes could result in a material assessment for federal income taxes.

Ambac Assurance's CDS portfolio experienced significant losses. The majority of these CDS contracts are on a "pay as you go" basis, and we believe that they are properly characterized as notional principal contracts for U.S. federal income tax purposes. Generally, losses on notional principal contracts are ordinary losses. However, the federal income tax treatment of credit default swaps is an unsettled area of the tax law. As such, it is possible that the Internal Revenue Service may decide that the "pay as you go" CDS contracts should be characterized as capital assets or that certain payments made with respect to the CDS contracts should be characterized as capital

losses. As of December 31, 2010, Ambac and Ambac Assurance had NOL amounting to approximately $7.0 billion for U.S. federal income tax purposes. Recently, the Internal Revenue Service opened an examination into certain issues related to Ambac's tax accounting methods with respect to such CDS contracts and Ambac's related characterization of such losses as ordinary losses. Although, as discussed above, Ambac believes these contracts are properly characterized as notional principal contracts, if the Internal Revenue Service today were to successfully assert, as a result of its examination, that these contracts should be characterized as capital assets or as generating capital losses, Ambac and Ambac Assurance would be subject to both a substantial reduction in its net operating loss carryforwards and would suffer a material assessment for federal income taxes. Such assessments and reductions in net operating loss carryforwards would have a material adverse impact on our financial condition. Such assessments related to the tentative refunds may be made by the Internal Revenue Service at any time and, without prior notice to Ambac, pursuant to Internal Revenue Code section 6213(b). The Internal Revenue Service may then file a lien that attaches to Ambac's property interests, including the property interests of any member of the consolidated tax group, and commence collection efforts. Ambac filed and served a complaint against the IRS for a declaratory judgment relating to the tax refunds. If these events occur, Ambac Assurance's Segregated Account rehabilitation plan may be materially impacted and Ambac's ability to effectively reorganize may be seriously jeopardized.

The Surplus Notes issued pursuant to the final terms of the Settlement Agreement may be characterized as equity of Ambac Assurance and as a result Ambac Assurance may no longer be a member of the U.S. federal income tax consolidated group of which the Company is the common parent.

It is possible the Surplus Notes may be characterized as equity of Ambac Assurance for U.S. federal income tax purposes. If the Surplus Notes are characterized as equity of Ambac Assurance and it is determined the Surplus Notes represented more than twenty (20) percent 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 the Company. As a result, Ambac Assurance may no longer be characterized as a member of the U.S. federal income tax consolidated group of which the Company 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 "AAC 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 AAC 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, reducing the cash available to pay third party obligations or dividends. 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 AAC Consolidated Tax Group.

Deductions with respect to interest accruing on the Surplus Notes may be eliminated or deferred until payment.

To the extent the Surplus Notes are characterized as equity for U.S. federal income tax purposes, accrued interest will not be deductible. In addition, even if the Surplus Notes are characterized as debt for U.S. federal income tax purposes, the deduction of interest accruing on the Surplus Notes may be deferred until paid or eliminated in part depending upon (i) the terms of any deferral and payment provisions provided in the Surplus Notes, (ii) whether the Surplus Notes have "significant original issue discount" and (iii) the yield to maturity of the Surplus Notes. To the extent deductions with respect to interest is eliminated or deferred, the U.S. federal income tax of Ambac Assurance, the members of the Ambac Consolidated Tax Group or the members of the Ambac Assurance Consolidated Tax Group, as the case maybe, could be materially increased reducing the amount of cash available to pay third party obligations or dividends.

The Ambac Assurance NOL (and certain other tax attributes or tax benefits of the Ambac Consolidated Tax Group) may be subject to limitation as a result of the bankruptcy reorganization.

Under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), if a "loss corporation" (generally, a corporation with NOLs and/or built-in losses) undergoes an "ownership change," the amount of such corporation's pre-ownership change NOLs that may be utilized to offset future taxable income generally is subject to an annual limitation (the "Annual Section 382 Limitation"). In general, the amount of the Annual Section 382 Limitation is equal to the product of (1) the fair market value of the stock of the corporation (or, in the case of a consolidated group, generally the stock of the common parent) immediately before the ownership change (with certain adjustments) and (2) the "long-term tax-exempt rate" in effect for the month in which the ownership change occurs (for example, 3.86 percent for an ownership change that occurs during November 2010). In general, an "ownership change" occurs if shareholders owning 5 percent or more of the corporation's stock increase their ownership by greater than 50 percentage points over a three-year testing period.

It is likely that Ambac would undergo an "ownership change" for purposes of section 382 of the Code as a result of implementation of a bankruptcy plan of reorganization. Ambac hopes to qualify under a special exception contained in section 382(l)(5) of the Code (the "L5 Exception") in order to avoid an ownership change as a result of the implementation of the bankruptcy plan of reorganization.

In connection with the Bankruptcy Filing, the Bankruptcy Court issued an order (the "Trading Order") restricting certain transfers of equity interests in and claims against Ambac. The purpose of the Trading Order is to increase the likelihood that Ambac may qualify for the L5 Exception and thereby preserve Ambac's NOLs. The Trading Order implements notice and hearing procedures for transfers by a person or entity that beneficially owns more than 13,500,000 shares of Ambac stock. Transfers of stock in violation of this Trading Order will be void ab initio. In addition, the Trading Order generally requires persons or entities that beneficially own claims against Ambac totaling more than $55,000,000 to agree to "sell down" a portion of its claims against Ambac prior to a bankruptcy reorganization, such that the claimholder would receive less than 5 percent of reorganized Ambac's stock in a bankruptcy plan of reorganization that may qualify for the L5 Exception. Any claimholder who does not comply with the Trading Order would only receive stock in reorganized Ambac equal to less than 5 percent of reorganized Ambac's outstanding stock.

If Ambac does not qualify for the L5 Exception, the bankruptcy plan of reorganization will adversely impact the preservation of, and likely substantially impair, the Ambac Assurance NOL, and some or all of Ambac's taxable income after the reorganization may be subject to tax.

The amended tax sharing agreement may reduce the cash available to the Company limiting the Company's ability to service its obligations to third parties.

Pursuant to the Settlement Agreement the existing tax sharing agreement among the members of the Company Consolidated Tax Group was terminated as to Ambac Assurance and its subsidiaries, including Everspan (the "AAC Subgroup"), and was replaced by an agreement that recognizes the consolidated NOL of the group as an asset of the AAC 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 income associated with restructurings of its bonds outstanding as of March 15, 2010. The amended tax sharing agreement may materially reduce the cash available to the Company limiting the Company's ability to service its obligations to third parties or pay dividends.

The U.S. federal income tax consequences resulting from the creation of the Segregated Account are uncertain and Ambac Assurance may realize gain or loss in connection with the creation of the Segregated Account.

The U.S. federal income tax consequences resulting from the creation of the Segregated Account are uncertain. For example, to the extent the Segregated Account were treated as a separate taxable entity, depending

upon the terms of the Segregated Account Rehabilitation Plan, gain or loss could be realized by Ambac or the new taxable entity (i.e., the Segregated Account) materially increasing the U.S. federal income tax liability of the relevant party and materially reduce cash available to be pay third party obligations or dividends.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties.

The executive office of Ambac is located at One State Street Plaza, New York, New York 10004, which consists of approximately 145,000 square feet of office space, under an agreement that expires in September 2019. This office houses operations for all reportable business segments.

On March 1, 2011, Ambac entered into an agreement with the landlord to terminate the lease agreement for the office space at One State Street Plaza ("Termination Agreement") and entered into a new lease with reduced space at a reduced rate. The effective date of the Termination Agreement and the new lease is subject to the following: (i) the approval of the Termination Agreement by the Rehabilitator, the Rehabilitator Court and the Board of Directors of Ambac and Ambac Assurance, the OCI and the Bankruptcy Court and (ii) the approval of the new lease by the OCI and Board of Directors of Ambac Assurance. The initial term of the new lease will end on December 31, 2015.

Ambac's financial guarantee business segment also maintains offices in the United Kingdom (London), which consist of approximately 3,500 square feet of office space, under an agreement that expires in October 2020, with an earlier term option at Ambac's discretion; and in Italy (Milan). Ambac ceased operations in its offices in California (Irvine), Connecticut (Greenwich) and Australia (Sydney) in 2010.

Ambac maintains a disaster recovery site in upstate New York as part of its Disaster Recovery Plan. This remote hot-site facility is complete with user work stations, phone system, data center, internet connectivity and a power generator, capable of serving the needs of the disaster recovery team to support all business segment operations. The plan, facility and systems are revised and upgraded where necessary, and user tested annually to confirm their readiness.

Item 3. Legal Proceedings.

Please refer to Note 13 "Commitments and Contingencies" of the Consolidated Financial Statements located in Part II, Item 8 in this Form 10-K for a discussion on Legal Proceedings against Ambac and its subsidiaries.

Item 4. Reserved.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

As of February 28, 2011, there were 86 stockholders of record of Ambac's Common Stock, which trades under the symbol "ABKFQ".

The table below sets forth the high and low sales prices per share of Ambac's Common Stock and the amount of cash dividends declared per common share.

	High	Low	Dividends
2010:			
Fourth Quarter	$ 1.15	$ 0.02	$ 0.00
Third Quarter	$ 1.05	$ 0.40	$ 0.00
Second Quarter	$ 3.39	$ 0.54	$ 0.00
First Quarter	$ 0.88	$ 0.51	$ 0.00
2009:			
Fourth Quarter	$ 1.56	$ .70	$ 0.00
Third Quarter	$ 1.88	$ .75	$ 0.00
Second Quarter	$ 1.75	$ .82	$ 0.00
First Quarter	$ 1.52	$ .35	$ 0.00

The Board of Directors of Ambac has authorized the establishment of a stock repurchase program that permits the repurchase of up to 24,000,000 shares of Ambac's Common Stock. Ambac does not expect to utilize its remaining repurchase capacity. Accordingly, Ambac has not repurchased shares of its Common Stock in the open market since 2007, including the period from January 1, 2011 through February 28, 2011. The following table summarizes Ambac's repurchase program during the fourth quarter of 2010 and shares available at December 31, 2010:

	Total Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan
October 2010	—	$ —	—	3,050,326
November 2010	—	$ —	—	3,050,326
December 2010	—	$ —	—	3,050,326
Fourth Quarter 2010	—	$ —	—	3,050,326

Information concerning payments and restrictions on the payment of dividends is set forth in Item 1 above under the caption "Insurance Regulatory Matters—Dividend Restrictions, Including Contractual Restrictions" and in Note 17 to the Consolidated Financial Statements located in Part II, Item 8 in this Form 10-K.

The graph below compares the five-year total return to stockholders (stock price appreciation plus reinvested dividends) for Ambac common stock with the comparable return of two indexes: the Standard & Poor's 500 Stock Index and the Investor's Business Daily Insurance-Property/Casualty/Title Index.

Cumulative total stockholder return assumes an initial investment of $100 on December 31, 2005. Total return includes reinvestment of dividends. Stock price performances shown in the graph are not necessarily indicative of future price performances.

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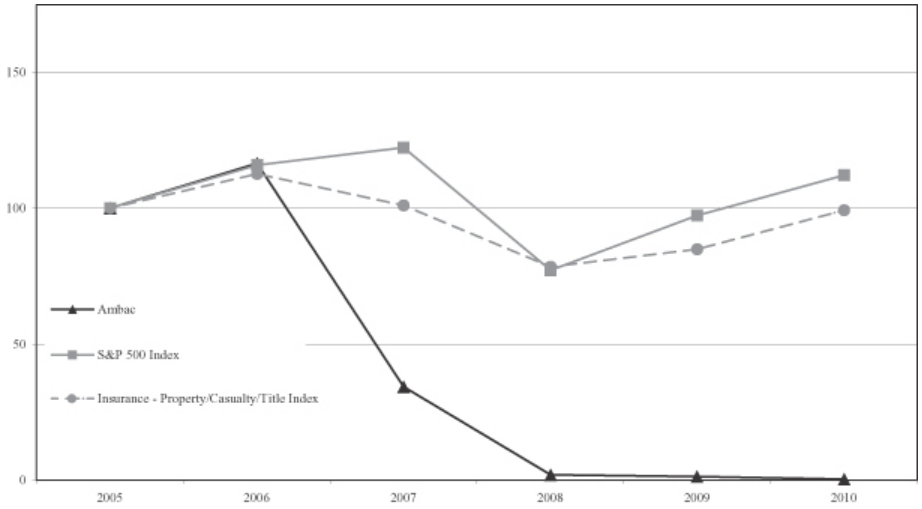
Comparison of Ambac Five-Year Cumulative Total Return to Various Indicies



	2005	2006	2007	2008	2009	2010
Ambac	$ 100	$ 116.5	$ 34.2	$ 1.8	$ 1.1	$ 0.2
S&P Standard Index	$ 100	$ 115.8	$ 122.2	$ 77.0	$ 97.3	$ 112.0
Insurance-Property/Casualty/Title Index	$ 100	$ 112.5	$ 100.9	$ 78.4	$ 84.9	$ 99.2

Item 6. Selected Financial Data.

The following financial information for the five years ended December 31, 2010, has been derived from Ambac's Consolidated Financial Statements. This information should be read in conjunction with the Consolidated Financial Statements and related notes located in Part II, Item 8.

	Years Ended December 31,				
($ in millions, except per share amounts)	2010	2009	2008	2007	2006
Statement of Operations Highlights:					
Gross premiums written	($ 476.1)	($ 548.8)	$ 536.9	$ 1,031.4	$ 996.7
Net premiums written	(365.7)	61.2	483.7	753.9	893.2
Net premiums earned	546.0	797.4	1,022.8	841.5	811.6
Financial guarantee net investment income	324.0	482.7	480.1	460.3	423.9
Financial guarantee total other-than-temporary impairments recognized in earnings	(56.7)	(1,570.7)	(70.9)	—	—
Financial guarantee net realized investment gains	76.4	131.7	79.9	9.9	7.1
Net change in fair value of credit derivatives	60.2	3,812.9	(4,031.1)	(5,928.0)	68.8
(Loss) income on variable interest entities	(616.7)	7.5	0.1	(7.8)	—
Interest income from investment and payment agreements	34.1	70.7	255.9	445.3	391.7
Financial services—other revenue	(106.6)	(207.2)	(134.2)	4.1	13.2
Financial services net other-than-temporary impairments recognized in earnings	(3.1)	(283.9)	(451.9)	(40.1)	—
Financial services net realized investment gains	72.9	184.5	215.6	11.0	59.3
Total revenue	434.1	3,900.4	(2,767.3)	(4,227.5)	1,832.1
Losses and loss expenses	719.4	2,815.3	2,227.6	256.1	20.0
Financial guarantee underwriting and operating expenses	198.4	175.7	215.8	139.3	133.7
Financial guarantee interest expense	62.2	—	—	—	—
Interest expense from investment and payment agreements	16.8	34.1	235.0	420.0	359.9
Financial services—other expenses	13.7	12.6	12.7	12.2	12.4
Corporate interest expense	102.3	119.6	114.2	85.7	75.3
Reorganization items	32.0	—	—	—	—
Pre-tax (loss) income from continuing operations	(735.0)	724.9	(5,618.3)	(5,154.7)	1,210.3
Net (loss) income attributable to Ambac Financial Group, Inc.	(735.2)	(14.6)	(5,609.2)	(3,248.2)	875.9
Net (loss) income per share:					
Basic	(2.56)	(0.05)	(22.31)	(31.56)	8.22
Diluted	(2.56)	(0.05)	(22.31)	(31.56)	8.15
Cash dividends declared per common share	0.00	0.00	0.10	0.780	0.660

(1) n.m. = not meaningful. Return on equity is not meaningful due to a net loss and negative equity.

($ in millions, except per share amounts)	Years Ended December 31, 2010	2009	2008	2007	2006
Balance Sheet Highlights:					
Total investments, at fair value[1]	$ 8,757.7	$ 9,229.2	$10,292.8	$18,395.7	$17,433.6
Deferred ceded premium	264.9	500.8	292.8	489.0	315.5
Loans[1]	15,761.8	2,716.4	798.8	867.7	625.4
Total assets[1]	29,047.1	18,886.4	17,259.7	23,713.8	20,267.8
Unearned premiums	4,007.9	5,687.1	2,382.2	3,123.9	3,037.5
Losses and loss expense reserve	5,288.7	4,771.7	2,275.9	484.3	220.1
Obligations under investment agreements, investment repurchase agreements and payment agreements	805.6	1,291.0	3,357.8	8,706.4	8,356.9
Liabilities subject to compromise	1,695.2	—	—	—	—
Long-term debt[1][2]	16,309.3	4,640.2	1,868.7	1,669.9	991.8
Total stockholders' (deficit) equity	(2,008.5)	(2,287.8)	(3,782.3)	2,279.9	6,189.6

(1) Includes assets and debt of variable interest entities consolidated under the provisions of relevant consolidation accounting guidance. See Note 10 of the Consolidated Financial Statements for amounts associated with variable interest entities as of December 31, 2010 and 2009.

(2) Debentures issued by Ambac are included in the line item "Liabilities subject to compromise" for 2010.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

Ambac Financial Group, Inc., headquartered in New York City, is a holding company whose affiliates provided financial guarantees and financial services to clients in both the public and private sectors around the world. On November 8, 2010 Ambac filed for a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code ("Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York ("Bankruptcy Court"). The Company will continue to operate in the ordinary course of business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. Ambac's activities are divided into two business segments: (i) Financial Guarantee and (ii) Financial Services.

Ambac provided financial guarantee insurance for public and structured finance obligations through Ambac Assurance and Ambac Assurance UK, Ltd ("Ambac UK"). While Ambac Assurance historically had AAA financial strength ratings, its ratings have been downgraded multiple times, beginning in 2008. As a result, Ambac Assurance currently has a Caa2 financial strength from Moody's. As a result of these downgrades and the events and circumstances described in the "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K, our business activities have been limited to loss mitigation and the recovery of residual value in Ambac Assurance.

Through its financial services subsidiaries, Ambac provided financial and investment products, including investment agreements, funding conduits, interest rate, currency and total return swaps, principally to the clients of its financial guarantee business. Ambac Assurance insured all of the obligations of its subsidiaries which wrote financial services business. As of December 31, 2009, all total return swaps had terminated and settled. The interest rate swap and investment agreement businesses are in active runoff, which may result in transaction terminations, settlements, restructurings, assignments and scheduled amortization of contracts. In the process of running off these businesses, we may execute hedging transactions to mitigate risks in the respective books of business to the extent that we are able to do so; however, the Segregated Account Rehabilitation Proceedings (as hereinafter defined) and the financial condition of Ambac Assurance will make execution of any such hedging transactions more difficult. To the extent we are unable to hedge such risks, adverse financial impacts may result. Beginning in 2009, the financial services interest rate derivative portfolio has also been used to hedge exposure to rising interest rates within the financial guarantee segment. As a result, declines in current or projected future interest rates could result in losses to the financial services segment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are considered critical because they place significant importance on management to make difficult, complex or subjective estimates regarding matters that are inherently uncertain. Financial results could be materially different if alternative methodologies were used or if management modified its assumptions or estimates. Management has identified the accounting for loss and loss expenses of non-derivative financial guarantees, the valuation of financial instruments, including the determination of whether an impairment is other-than-temporary and the valuation allowance on deferred tax assets, as critical accounting policies. This discussion should be read in conjunction with the Consolidated Financial Statements and notes thereon included elsewhere in this report. We have discussed with the Audit Committee management's assessment of such critical accounting policies, the reasons why they are considered critical, and how current and anticipated future events impact those determinations. The Company's critical accounting policies and estimates are as follows:

Financial Guarantee Insurance Losses and Loss Expenses:

The loss and loss expense reserves for financial guarantee insurance discussed herein relates only to Ambac's non-derivative insurance business for insurance policies issued to beneficiaries, including VIEs, for which we do not consolidate the VIE. Losses and loss expenses are based upon estimates of the ultimate aggregate losses inherent in the non-derivative financial guarantee portfolio as of the reporting date. The evaluation process for determining the level of reserves is subject to certain estimates and judgments.

ASC Topic 944, *Financial Services—Insurance* clarifies how existing guidance applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of claim liabilities (i.e., loss reserves). Ambac adopted the loss reserve provisions of ASC Topic 944 on January 1, 2009. ASC Topic 944 is required to be applied to inforce financial guarantee insurance contracts issued upon adoption as well as new financial guarantee contracts issued in the future.

Under ASC Topic 944, a loss reserve is recorded on the balance sheet for the excess of: (a) the present value of expected net cash outflows to be paid under an insurance contract, (i.e., the expected loss), over (b) the unearned premium reserve ("UPR") for that contract. To the extent (a) is less than (b), no loss reserve is recorded. Changes to the loss reserve estimate in subsequent periods are recorded as a loss and loss expense on the income statement. Expected losses are based upon estimates of the ultimate aggregate losses inherent in the non-derivative financial guarantee portfolio as of the reporting date. The evaluation process for determining expected losses is subject to certain estimates and judgments based on our assumptions regarding the probability of default and expected severity of performing credits as well as our active surveillance of the insured book of business and observation of deterioration in the obligor's credit standing.

Ambac's loss reserves are based on management's on-going review of the non-derivative financial guarantee credit portfolio. Active surveillance of the insured portfolio enables Ambac's surveillance group to track credit migration of insured obligations from period to period and update internal credit ratings for each transaction. Non-adversely classified credits are assigned a Class I or Survey List ("SL") risk classification, while adversely classified credits are assigned a risk classification of Class IA through Class V. The criteria for an exposure to be assigned an adversely classified credit 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 and loss mitigation efforts could cause an increase in delinquencies and potential defaults of the underlying obligations. 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 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.

The population of credits evaluated in Ambac's loss reserve process are (i) all adversely classified credits (Class IA through V) and (ii) non-adversely classified credits (Class I and SL) which have been downgraded since the transaction's inception. One of two approaches is then utilized to estimate expected losses to ultimately determine if a loss reserve should be established. The first approach is a statistical expected loss approach, which considers the likelihood of all possible outcomes. The "base case" 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 were established and approved by Ambac's senior management. For certain credit exposures, Ambac's additional monitoring and loss remediation efforts may provide information relevant to adjust this estimate of "base case" statistical expected losses. As such, the loss severities used in estimating the "base case" 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 assign multiple probability weighted severities to 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). Ambac's surveillance group will consider the likelihood of various possible outcomes and develop cash flow scenarios. This approach can include the utilization of internal or external models to project net claim payment estimates. We have utilized such tools for residential mortgage-backed exposures as well as certain other types of exposures. In general, these tools use historical performance of the collateral pools in order to then assume or derive future performance characteristics, such as default and voluntary prepayment rates, that in turn determine projected future net claim payments. In this approach a probability-weighted expected loss estimate is developed based on assigning probabilities to multiple net claim payment scenarios and applying an appropriate discount factor. A loss reserve is recorded for the excess, if any, of estimated expected losses (net cash outflows) using either of these two approaches, over UPR. For certain policies, estimated potential recoveries exceed estimated future claim payments because all or a portion of such recoveries relate to claims previously paid. The expected net cash inflows for these policies are recorded as a subrogation recoverable asset.

The discount factor applied to both of the above described approaches is based on a risk-free discount rate corresponding to the remaining expected weighted-average life of the exposure and the exposure currency. For example, U.S. dollar exposures are discounted using U.S. Treasury rates while exposures denominated in foreign currency are discounted using the appropriate risk-free rate for the respective currency. The discount factor is updated for the current risk-free rate each reporting period.

Ambac establishes loss expense reserves based on our estimate of expected net cash outflows for loss expenses, such as legal and consulting costs.

As the probability of default for an individual credit increases and/or the severity of loss given a default increases, our loss reserve for that insured obligation will also increase. Political, economic, credit or other unforeseen events could have an adverse impact on default probabilities and loss severities. Loss reserves for public finance or other non-collateral dependent transactions whose underlying financial obligations have already defaulted (that is a 100% probability of default) are only sensitive to severity assumptions. Loss reserves for collateral dependent transactions (such as mortgage-backed security transactions) for which only a portion of the underlying collateral has already defaulted will be sensitive to both severity assumptions as well as probability of default of the underlying collateral.

Loss reserve volatility will be a direct result of the credit performance of our insured portfolio, including the number, size, bond types and quality of credits included in our loss reserves. The number and severity of credits included in our loss reserves depend to a large extent on transaction specific attributes, but will generally increase during periods of economic stress and decline during periods of economic stability. Reinsurance recoveries do not have a significant effect on loss reserve volatility because Ambac has little exposure ceded to reinsurers and

has received collateral from such reinsurers. The current stressed credit environment has had an adverse impact on the financial strength of the reinsurers used by Ambac. Please refer to Item 7A "Quantitative and Qualitative Disclosures About Market Risk – Credit Risk" for further information and discussion.

Ambac has exposure to various bond types issued in the debt capital markets. Our experience has shown that, for the majority of bond types, we have not experienced significant claims and, therefore, the estimate of loss severity has remained constant. We have observed that, with respect to three bond types, it is reasonably possible that a material change in actual loss severities and defaults could occur over time. In the future, including as a result of the current credit market crisis, our experience may differ with respect to the types of guaranteed bonds affected or the magnitude of the effect. The three bond types are residential mortgage-backed securities ("RMBS"), collateralized debt obligations ("CDOs") and student loan securities. These three bond types represent 86% of our ever-to-date claim payments with RMBS comprising 84% of our ever-to-date claims payments.

The table below indicates the number of credits and gross par outstanding for loss reserves on credits which have defaulted and all other credits for which loss reserves have been established at December 31, 2010:

($ in millions)	Number of credits	Gross par outstanding	Gross Loss Reserves[2]
RMBS	147	$ 20,282	$ 3,066
Student Loans	98	10,825	865
All other credits	63	5,034	527
Loss adjustment expenses	—	—	95
Totals	308	$ 36,141	$ 4,553[1]

(1) Loss reserves of $4,553 are included in the balance sheet in the following line items: Loss and loss expense reserve—$5,288; Subrogation recoverable —$714; and Other assets—$21.

(2) Ceded Par Outstanding and ceded loss reserves are $1,880 and $129, respectively. Cede loss reserves are included in Reinsurance Recoverable on paid and unpaid losses.

RMBS:

Ambac insures RMBS transactions that contain first-lien mortgages. Ambac classifies its insured first-lien RMBS exposure principally into two broad credit risk classes: Alt-A (including mid-prime, interest only, and negative amortization) and sub-prime. Alt-A loans were typically made to borrowers who had stronger credit profiles, while sub-prime loans were typically made to borrowers with weaker credit profiles. Compared with Alt-A loans, sub-prime loans typically had 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 Alt-A category includes loans backed by borrowers who typically did not meet standard agency guidelines for documentation requirement, property type or loan-to-value ratio. These are typically higher-balance loans made to individuals 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.

Ambac has also insured RMBS transactions that contain predominantly second-lien mortgage loans such as closed-end seconds and home equity lines of credit. A second-lien mortgage loan is a type of loan in which the borrower uses the equity in their home as collateral and the second-lien loan is subordinate to the first-lien loan outstanding on the home. The borrower is obligated to make monthly payments on both their first and second-lien loans. If the borrower defaults on the payments due under these loans and the property is subsequently liquidated, the liquidation proceeds are first utilized to pay off the first-lien loan (as well as costs due the servicer) and any remaining funds are applied to pay off the second-lien loan. As a result of this subordinate position to the first-lien loan, second-lien loans carry a significantly higher severity in the event of a loss, typically at or above 100% in the current housing market.

RMBS transaction-specific behavior is analyzed on a risk-priority basis. We employ a screening tool to assess the sufficiency of credit enhancement remaining in a transaction, as well as other adverse credit data that may result in deterioration. Transactions which are experiencing escalating delinquencies and increasing loss severities and/or which are experiencing declining levels of subordination or overcollateralization relative to collateral losses are identified as underperforming. For underperforming transactions, historical collateral performance is examined and future collateral performance and cash flows are projected and evaluated. These underperforming transactions are then included in an adversely classified credit list and assigned a credit classification consistent with the degree of underperformance.

The table below distinguishes between credits for which we have not established a subrogation recovery and those for which we have, providing in both cases the number of credits, gross par outstanding, gross loss reserves before subrogation, subrogation, and gross reserves net of subrogation for all RMBS exposures for which Ambac established reserves at December 31, 2010:

($ in millions)	Number of credits	Gross par outstanding	Gross claim liability before subrogation recoveries	Subrogation recoveries	Gross claim liability after subrogation recoveries
Second-lien	33	$ 5,751	$ 842	NA	$ 842
Mid-prime	63	6,153	1,718	NA	1,718
Sub-prime	15	1,048	42	NA	42
Other	9	316	226	NA	226
Total Credits Without Subrogation	120	13,268	2,828	NA	2,828
Second-lien	19	4,319	2,127	($ 1,908)	219
Mid-prime	4	771	165	(221)	(56)
Sub-prime	4	1,924	363	(288)	75
Total Credits With Subrogation	27	7,014	2,655	(2,417)	238
Total	147	$ 20,282	$ 5,483	$ (2,417)	$ 3,066

Second-Lien:

In evaluating our portfolio of insured second-lien transactions we use a roll-rate methodology which observes trends in delinquencies, defaults, loss severities and prepayments and extrapolates ultimate performance from this data on an individual transaction basis (and their component pools where they exist). As more information (performance and other) accumulates for each underperforming transaction we are able to update assumptions in this model to reflect these changes. By employing the roll-rate methodology, we examined the historical rate at which delinquent loans in each transaction rolled into later delinquency categories (i.e. 30-59 days, 60-89 days, 90+ days). This historical rate is adjusted each period to reflect current performance. We determined a pool specific current-to-30-to-59 day delinquency curve and applied a statistical regression technique to historical roll rates. We carried forward the non-performing mortgages through the delinquency pipeline through the 60-89 and 90+ delinquency categories all the way through to charge-off. We use this data to project a default curve for the life of the transaction. Listed below are specific inputs we used for 2010 loss estimates:

Prepayment Rates:

Voluntary prepayments have declined far below expected levels, driven by negative House Price Appreciation ("HPA"), an impaired mortgage market, and borrowers' inability to prepay balances. In our opinion, these factors will not improve in the foreseeable future and thus we generally project recent trends into the future. This translates into projected prepayment rates in the 2% to 5% range.

Loss Severity:

We project loss severities to between 100% and 105% as we expect complete write-offs in this asset class exacerbated by carrying costs. We have noted, with regard to several second-lien transactions, that the current unwillingness of mortgage insurers to pay claims under their contracts on bonds insured by Ambac has caused increased claim payments.

First-Lien:

Ambac utilizes a third-party multi-scenario stochastic (Monte Carlo) cash flow model to estimate first-lien product loss reserves. The model projects multiple scenarios at the individual mortgage loan level using various inputs, including:

(i) Home price projections at the Core Based Statistical Area (CBSA) level. Home price projections were obtained from an independent third party;

(ii) An interest rate tool to generate term interest rate scenarios;

(iii) An unemployment module to project unemployment rates at the state level;

(iv) A discrete loan-level credit module to estimate the probability of monthly loan level credit performance through time across eight possible status states (current, 30 day delinquent, 60 day delinquent, 90 + day delinquent, foreclosure, REO, prepay, and default); and

(v) A severity module which pairs with the credit module and, on the basis of loan level information, generates a Loss Given Default severity time line.

The pool of mortgage loans backing each securitization are selected from a proprietary loan-level database and the loss and prepayment scenarios across all loans are used to generate aggregated future cash inflows. The cash flow model embeds all the priority of payments and cash-diversion structures documented in the contracts which define the liability payment obligations of the security being analyzed. We take the average of 300 claim cash-flow scenarios and discount it, as appropriate, to estimate the gross claim liability.

Government programs:

In May of 2009, the Federal Government initiated the Home Affordable Modification Plan (HAMP) which allows servicers to modify loans. After determining a borrower's eligibility, a servicer can take a series of steps to reduce the monthly mortgage payment. HAMP is applicable to the Ambac-wrapped transactions serviced by the servicers that have signed servicer participation agreements to modify loans under HAMP. Based on the current activity of the trial plan HAMP offers and the latest indications from government published sources at December 31, 2010, we assume in the first-lien model that 0.5% of HAMP-eligible loans will be modified monthly for 24 months for Ambac portfolios serviced by HAMP participating servicers. At December 31, 2009, Ambac's first-lien model assumed that 4% of HAMP-eligible loans will be modified monthly for 12 months (for a total of 48% of HAMP-eligible loans ultimately modified) for Ambac portfolios serviced by HAMP participating servicers.

Servicer Intervention:

The first-lien model also reflects the steps Ambac is taking to address shortcomings in servicing performance including transferring servicers where the legal right exists to do so. Ambac expects to initiate, with the cooperation of the Rehabilitator of the Segregated Account of Ambac Assurance, additional programs with servicers that will provide for loan modifications (principal forgiveness), improved liquidation timelines, short sales, and selected rate reductions. Ambac believes these are the principal factors that will result in reduced losses over time. We are projecting that only exposures that have already transferred servicing or entered into special servicing agreements will benefit from the effects of servicer intervention strategies.

Representation and Warranty Breaches by RMBS Transaction Sponsors:

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

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

Ambac's estimate of subrogation recoveries includes two components: (1) estimated dollar amounts of loans with material breaches of representations and warranties based on an extrapolation of the breach rate identified in a random sample of loans taken from the entire population of loans in a securitization ("random sample approach"); and (2) dollar amount of actual loans with identified material breaches of representations and warranties discovered from samples of impaired loans in a securitization ("adverse sample approach"). We do not include estimates of damages in our estimate of subrogation recoveries under either approach. The amount the sponsors believe to be their liability for these breaches is not known; however, certain large financial institutions who have served as sponsors for certain transactions that Ambac has insured have disclosed that reserves have been established related to claims by financial guarantors and others for breaches of representations and warranties.

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

Due to the nature of the sampling methodology used, the subrogation recovery estimate Ambac has recorded based on the above-described random sample approach includes all breached loans which Ambac believes the sponsor is contractually required to repurchase, including extrapolation to a loan pool which includes loans which have not defaulted, and, in fact, may not default in the future (i.e. performing loans). In theory, a loan that continues to perform in accordance with its terms through repayment should have little or no effect on Ambac's anticipated claim payments, regardless of whether or not the sponsor repurchases the loan. In other words, since there will be sufficient cash flows to service the notes in either situation (i.e. whether cash is received from a sponsor loan repurchase or whether cash is received from the underlying performing loan), there should be no claim payment under Ambac's insurance policy in respect of such loans. Nonetheless, Ambac may have recorded a subrogation recovery for certain performing loans because it believes the breaches of representations and warranties are so pervasive that a court would deem it impractical to have the sponsor re-underwrite every loan in a given transaction and repurchase only individual loans that have breached. Rather, Ambac believes there is precedent for the utilization of a statistical sampling and extrapolation methodology across a population to prove liability and damages where it would be impractical to make a determination on an individual loan basis (a recent court ruling in a similar suit unrelated to Ambac but in the same jurisdiction in which Ambac has filed its litigation to date, supports the view that a sampling methodology is permissible.) Ambac believes a court would likely award damages based on a reasonable methodology, such as our random sample approach, which damages would be either remitted directly to Ambac, placed in the securitization trust, or otherwise held under an arrangement for the benefit of the securitization trust; however, Ambac believes that under such an approach individual loans would not be repurchased from the trust. In either case, Ambac believes those damages would compensate Ambac for past and future claim payments. Consequently, since the sponsor is contractually obligated to repurchase those loans which breach representations and warranties regardless of whether they are current or defaulted, Ambac believes the appropriate measure in estimating subrogation recoveries is to apply the breach rate to both performing and defaulted loans.

The adverse sample approach to estimate subrogation recoveries was based on a sample taken from those loans in the pool that were impaired, meaning loans greater than 90 days past due, charged-off, in foreclosure, REO or bankruptcy. The estimated subrogation recovery under this approach represents 100% of the original principal balance of those specific loans identified as having not met the underwriting criteria or otherwise breaching representations and warranties (i.e. the adverse loans), multiplied by a discount factor using the same

assumptions used for the discount factor in the random sample approach. For transactions subject to the adverse sample approach, given Ambac's limitations in developing a statistically valid random sample and its belief that the subrogation estimate under this approach is inherently conservative (for reasons discussed below), Ambac did not attempt to develop probability-weighted alternative cash flow scenarios as it believes such results would not be meaningful. The three primary differences between this adverse sample approach and the random sample approach, discussed in the previous paragraphs, are as follows:

(i) There is no extrapolation to the CULPB and realized losses under the adverse sample approach. At December 31, 2010, the adverse sample approach continues to be used for 15 transactions that are with the same sponsor, who has limited our access to the underlying loan files and, therefore, a statistically valid random sample from the entire loan pool cannot be selected. This is in contrast to the transactions subject to the random sample approach where Ambac's access to individual loan files has not been limited and the Company, therefore, has been able to develop a statistically valid representative sample.

(ii) The adverse sample approach is based on the original principal balance rather than the principal balance at the time of default and liquidation or charge-off. Furthermore, it does not include other components of the sponsor's contractual repurchase obligation where the sponsor is also obligated to repay accrued interest, servicer advances and/or trustee expenses. The adverse sample approach relies on individual loan level data where all of the components of the sponsor's buyback obligation have not been specifically provided by the sponsor nor is easily estimable. For example, home equity lines of credit (HELOCs) are revolving loans whose principal balances may be higher or lower at the time of default and liquidation or charge-off than at the time of origination. However, given the limited information available to Ambac in estimating such principal balances at the time of liquidation or charge-off, the original principal balance was used in calculating subrogation recoveries. Another example is closed-end second lien RMBS where the interest due on a particular loan will be a function of the length of time of delinquency prior to liquidation or charge-off, and cannot be readily estimated. Incremental costs, including fees and servicer advances for such items as property taxes and maintenance, are likewise not readily estimated.

(iii) Unlike the random sample approach, for the adverse sample approach Ambac did not apply a realization factor to the estimated repurchase obligation for the adverse loans related to uncertainties surrounding settlement negotiation or litigation processes given that the adverse loans selected represent only approximately 40% of the value of the impaired population of loans, only approximately 5% of the value of the original loans in the pool, and the breach rate in the sample was pervasive. In other words, because the adverse loans selected represent only a fraction of the population of impaired loans and a very small proportion of the original loans in the pools, Ambac believes there is an ample population of additional impaired loans where breaches of representations and warranties exist that could potentially replace any adverse loans it already identified that might be successfully challenged in negotiations or litigation.

Ambac has updated its estimated subrogation recoveries from $2,046.8 million ($2,026.3 million, net of reinsurance) at December 31, 2009 to $2,417.1 million ($2,391.3 million, net of reinsurance) at December 31, 2010. The balance of subrogation recoveries and the related claim liabilities at December 31, 2010 and December 31, 2009 are as follows:

	December 31, 2010			
Method	**Count**	**Gross claim liability before subrogation recoveries**	**Subrogation recoveries[1]**	**Gross claim liability after subrogation recoveries**
($ in millions)				
Adverse samples	15[2]	$ 1,644.5	$ (719.4)	$ 925.1
Random samples	12[3]	1,010.7	(1,697.7)	(687.0)
Totals	27	$ 2,655.2	$ (2,417.1)	$ 238.1

	December 31, 2009			
Method	**Count**	**Gross claim liability before subrogation recoveries**	**Subrogation recoveries[1]**	**Gross claim liability after subrogation recoveries**
($ in millions)				
Adverse samples	10	$ 759.4	$ (460.6)	$ 298.8
Random samples	9	937.3	(1,586.2)	(648.9)
Totals	19	$ 1,696.7	$ (2,046.8)	$ (350.1)

(1) The amount of recorded subrogation recoveries related to each securitization is limited to ever-to-date paid losses plus the present value of projected future paid losses for each policy. To the extent significant losses have been paid but not yet recovered, the recorded amount of subrogation recoveries may exceed the projected future paid losses for a given policy. The net cash inflow for these policies is recorded as a "Subrogation recoverable" asset. For those transactions where the subrogation recovery is less than projected future paid losses, the net cash outflow for these policies is recorded as a "Loss and loss expense reserve" liability. Of the $2,417.1 million of subrogation recoveries recorded at December 31, 2010, $1,702.4 million was included in "Subrogation recoverable" and $714.7 million was included in "Loss and loss expense reserves."

(2) Of these 15 transactions, 10 contractually require the sponsor to repurchase loans at the unpaid principal balance and 5 contractually require the sponsor to repurchase loans at unpaid principal plus accrued interest. However, for reasons discussed above in the description of the adverse sample approach, our estimated subrogation recovery for these transactions may not include all the components of the sponsor's contractual repurchase obligation.

(3) Of these 12 transactions, 3 contractually require the sponsor to repurchase loans at unpaid principal plus accrued interest and 9 contractually require the sponsor to repurchase loans at unpaid principal plus accrued interest plus servicer advances/expense and/or trustee expenses. However, for reasons discussed above in the description of the random sample approach, our estimated subrogation recovery for these transactions may not include all the components of the sponsor's contractual repurchase obligation.

While the obligation by sponsors to repurchase loans with material breaches is clear, generally the sponsors have not yet honored those obligations. Ambac's approach to resolving these disputes has included negotiating with individual sponsors at the transaction level and in some cases at the individual loan level and has resulted in the repurchase of some loans. Ambac has utilized the results of the above described loan file examinations to make demands for loan repurchases from sponsors or their successors and, in certain instances, as a part of the basis for litigation filings. Ambac has initiated and will continue to initiate lawsuits seeking compliance with the

repurchase obligations in the securitization documents. Ambac estimates that it will take approximately three years from the initiation of litigation with the sponsor to ultimate resolution. Based on this estimate as a basis for projecting the future subrogation cash flows, Ambac assumes, on average, approximately three and a half years to collect recoveries, discounted at a risk-free rate of 2.39% and 1.88% at December 31, 2010 and 2009, respectively. Estimated recoveries will continue to be revised and supplemented as the scrutiny of the mortgage loan pools progresses.

We have performed the above-mentioned, detailed examinations on a variety of second-lien and first-lien transactions that have experienced exceptionally poor performance. However, the loan file examinations and related estimated recoveries we have reviewed and recorded to date have been limited to only those transactions whose sponsors (or their successors) are subsidiaries of large financial institutions, all of which carry an investment grade rating from at least one nationally recognized rating agency. A total of seven sponsors represent the 27 transactions which have been reviewed as of December 31, 2010. While our contractual recourse is generally to the sponsor/subsidiary, rather than to the financial institutional parent, each of these financial institutions has significant financial resources and an ongoing interest in mortgage finance, and we therefore believe that the financial institution/ parent would not seek to disclaim financial responsibility for these obligations if the sponsor/subsidiary is unable to honor its contractual obligations or pay a judgment that we may obtain in litigation. Additionally, in the case of successor institutions, we are not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. In fact, we have witnessed to date, certain successor financial institutions make significant payments to certain claimants to settle breaches of representations and warranties perpetrated by sponsors that have been acquired by such financial institutions. As a result, we did not make any significant adjustments to our estimated subrogation recoveries with respect to the credit risk of these sponsors or their successors. We believe that focusing our loan remediation efforts on large financial institutions first will provide the greatest economic benefit to Ambac. Ambac retains the right to review other RMBS transactions for representations and warranties breaches. Since a significant number of other second-lien and first-lien transactions are also experiencing poor performance, management is considering expanding the scope of this effort.

Below is the rollforward of RMBS subrogation for the period December 31, 2009 through December 31, 2010:

($ in millions)	Random sample	# of deals	Adverse Sample	# of deals
Rollforward:				
Discounted RMBS subrogation (gross of reinsurance) at 12/31/09	$ 1,586.2	9	$ 460.6	10
Changes recognized in 2010:				
Additional transactions reviewed	124.6	3	218.2	5
Additional adverse sample loans reviewed	—	n/a	60.7	n/a
Loans repurchased by the sponsor	(6.0)	n/a	(32.2)	n/a
Subtotal of changes recognized in current period	118.6	3	246.7	5
Changes from re-estimation of opening balance:				
Change in pre-recovery loss reserves	(7.1)	n/a	12.1	n/a
Discounted RMBS subrogation (gross of reinsurance) at 12/31/10	$ 1,697.7	12	$ 719.4	15

As a consequence of the Segregated Account Rehabilitation Proceedings, the rehabilitator retains operational control and decision-making authority with respect to all matters related to the Segregated Account, including surveillance, remediation and loss mitigation. As noted in "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K, all RMBS policies were allocated to the Segregated Account and as such, the foregoing discussion of Ambac's risk management practices is qualified by reference to the rehabilitator's exercise of its discretion to alter or eliminate the above risk management practices relating to representation and warranty breaches by RMBS transaction sponsors.

Our ability to recover the RMBS subrogation recoveries is subject to significant uncertainty, including risks inherent in litigation, collectability of such amounts from counterparties (and/or their respective parents and affiliates), timing of receipt of any such recoveries, regulatory intervention which could impede our ability to take actions required to realize such recoveries and uncertainty inherent in the assumptions used in estimating such recoveries. Our current estimate considers that we will receive subrogation recoveries of $900.2 million and $1,619.6 million in 2012 and 2013, respectively (gross of discounting, reinsurance and credit risk valuation in the amount of $97.6 million, $25.8 million and $5.1 million, respectively). The amount of these subrogation recoveries is significant and if we are unable to recover any amounts our future available liquidity to pay claims would be reduced and our stockholders' deficit as of December 31, 2010 would increase from $1,354.2 million to $3,745.5 million.

Reasonably Possible Additional Losses:

RMBS:

It is possible that our loss estimate assumptions for the RMBS insurance policies discussed above could be materially under-estimated as a result of continued deterioration in housing prices, poor servicing, the effects of a weakened economy marked by growing unemployment, and wage pressures and/or continued illiquidity of the mortgage market. Additionally, our actual subrogation recoveries could be lower than our current estimates if the sponsors of these transactions: (i) fail to honor their obligations to repurchase the mortgage loans, (ii) successfully dispute our breach findings, or (iii) no longer have the financial means to fully satisfy their obligations under the transaction documents or (iv) an election to accept a lower settlement.

We have attempted to identify the reasonably possible losses using more stressful assumptions in our existing methodologies and models. Different methodologies, assumptions and models could produce different base and reasonably possible outcomes and actual results may differ materially from all of these various modeled results. Using more stressful assumptions in our existing methodologies, the reasonably possible increase in loss reserves for second lien credits for which we have an estimate of expected loss at December 31, 2010 could be approximately $800 million. The reasonably possible scenario for second-lien mortgage collateral generally assumes that the voluntary constant prepayment rate decreases by 1 to 5 percent (depending on transaction performance), and the current-to-30 day roll assumption over a twelve month period increases by 0.25 percent to 1 percent (depending on transaction performance). In addition, the loss severities for second-lien products may be greater because of increased carrying costs and servicing advances that are not recovered and we frequently increased them in a range between 1 to 3 percent. Using more stressful assumptions in our existing methodologies, the reasonably possible increase in loss reserves for first-lien credits for which we have an estimate of expected loss at December 31, 2010 could be approximately $650 million. The reasonably possible scenario for first-lien mortgage credits assumes that aggravated losses occur as a result of deterioration of macroeconomic factors and a reduced impact from government programs and servicer intervention.

Student Loans:

It is possible that our loss estimate assumptions for student loan credits could be materially under-estimated as a result of various uncertainties including but not limited to, the interest rate environment, an increase in default rates and loss severities on the collateral due to economic factors, as well as a failure of issuers to refinance insured bonds which have a failed debt structure, such as auction rate securities and variable rate debt obligations. Refer to Auction Rate Securities and Variable Rate Demand Obligations in Part 1, Item 1 of this Form 10-K for further information on our exposures to such failed debt structures. Our student loan portfolio consists of credits collateralized by (i) federally guaranteed loans under the Federal Family Education Loan Program ("FFELP") and (ii) private student loans. Whereas FFELP loans are guaranteed for a minimum of 97% of defaulted principal and interest, private loans have no government guarantee and therefore are subject to credit risk as with other types of unsecured credit. Recent default data has shown a significant deterioration in the performance of private student loans underlying our transactions. Additionally, due to the failure of the auction rate and variable rate markets, the interest rates on these securities increased significantly to punitive levels

pursuant to the terms of the documents. Such increases have caused the collateralization ratio in these transactions to deteriorate on an accelerated basis due to negative excess spread and/or the use of principal receipts to pay current interest. Although some issuers have been successful in refinancing some of their failed debt obligations, refinancing alternatives are limited, and refinancing options for private loans are severely impaired. Effective July 1, 2010, lenders are unable to originate guaranteed loans, due to the termination of the FFELP program. The resulting reduction in new revenues may adversely affect a number of issuers, whose ability to continue as administrator of the relevant transaction trusts may become at risk. For student loan credits for which we have an estimate of expected loss at December 31, 2010, the reasonably possible increase in loss reserves from the December 31, 2010 balance could be approximately $2,417 million. The reasonably possible scenario considers the highest stress scenario that was utilized in the development of our probability weighted expected loss at December 31, 2010.

Ambac's management believes that the reserves for losses and loss expenses and unearned premium reserves are adequate to cover the ultimate net cost of claims, but reserves for losses and loss expenses are based on estimates and there can be no assurance that the ultimate liability for losses will not exceed such estimates.

Valuation of Financial Instruments:

Ambac's financial instruments that are reported on the Consolidated Balance Sheets at fair value and subject to valuation estimates include investments in fixed income securities, VIE assets and liabilities, and derivatives comprising credit default, interest rate and currency swap transactions. Surplus notes issued in connection with claim or commutation settlements are recorded at fair value at the date of issuance and subsequently reported at amortized cost within Long-term debt on the Consolidated Balance Sheet. Determination of fair value for newly issued surplus notes is a highly subjective process which relies upon the use of significant unobservable inputs and management judgment consistent with a Level 3 valuation.

The fair market values of financial instruments held are determined by using independent market quotes when available and valuation models when market quotes are not available. ASC Topic 820, *Fair Value Measurements and Disclosures* requires the categorization of these assets and liabilities according to a fair value valuation hierarchy. Approximately 82% of our assets and approximately 59% of our liabilities are carried at fair value and categorized in either Level 2 of the valuation hierarchy (meaning that their fair value was determined by reference to quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets and other observable inputs) or Level 3 (meaning that their fair value was determined by reference to significant inputs that are unobservable in the market and therefore require a greater degree of management judgment). The determination of fair value for financial instruments categorized in Level 2 or 3 involves significant judgment due to the complexity of factors contributing to the valuation. Third-party sources from which we obtain independent market quotes also use assumptions, judgments and estimates in determining financial instrument values and different third parties may use different methodologies or provide different prices for securities. In addition, the use of internal valuation models for certain highly structured instruments, such as credit default swaps, require assumptions about markets in which there has been a negligible amount of trading activity for over one year. As a result of these factors, the actual trade value of a financial instrument in the market, or exit value of a financial instrument position owned by Ambac, may be significantly different from its recorded fair value. Refer to Note 16 to the Consolidated Financial Statements in Item 8 of this Form 10-K for discussion related to the transfers in and/or out of Level 1, 2 and 3 fair value categories.

Investment in Fixed Income Securities:

Investments in fixed income securities are accounted for in accordance with ASC Topic 320, *Investments—Debt and Equity Securities*. ASC Topic 320 requires that all debt instruments and certain equity instruments be classified in Ambac's Consolidated Balance Sheets according to their purpose and, depending on that classification, be carried at either cost or fair market value. The fair values of fixed income investments held in the investment portfolios of Ambac and its operating subsidiaries are based primarily on quoted market prices

received from dealer quotes or alternative pricing sources with reasonable levels of price transparency. For those fixed income investments where quotes were not available, fair values are based on internal valuation models. Refer to Note 16 to the Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion of the valuation methods, inputs and assumptions for fixed income securities. Ambac performs various review and validation procedures to quoted and modeled prices for fixed income securities, including price variance analyses, missing and static price reviews, overall valuation analyses by senior traders and finance managers and reviews associated with our ongoing impairment analysis. Unusual prices identified through these procedures will be evaluated further against separate broker quotes (if available) or internally modeled prices, and the pricing source values will be challenged as necessary. Price challenges generally result in the use of the pricing source's quote as originally provided or as revised by the source following their internal diligence process. A price challenge may result in a determination by the pricing source that they cannot provide a reasonable value for a security, in which case Ambac would resort to using either other quotes or internal models. Valuation results, particularly those derived from valuation models and quotes on certain mortgage and asset-backed securities, could differ materially from amounts that would actually be realized in the market.

Ambac's investments in fixed income securities (excluding VIE investments) classified as "available-for-sale" are carried at fair value, with the after-tax difference from amortized cost reflected in stockholders' equity as a component of Accumulated Other Comprehensive Income ("AOCI"). One of the significant estimates related to available-for-sale securities is the evaluation of investments for other-than-temporary impairments. Effective April 1, 2009, Ambac adopted ASC Paragraph 320-10-65-1 of ASC Topic 320. ASC Paragraph 320-10-65-1 amends existing GAAP guidance for recognition of other-than-temporary impairments of debt securities. Beginning with the quarter ended June 30, 2009, if management assesses that it either (i) has the intent to sell its investment in a debt security or (ii) more likely than not will be required to sell the debt security before the anticipated recovery of its amortized cost basis less any current period credit loss, then an other-than-temporary impairment charge must be recognized in earnings, with the amortized cost of the security being written-down to fair value. If these conditions are not met, but it is determined that a credit loss exists, the impairment is separated into the amount related to the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income. To determine whether a credit loss has occurred, management considers certain factors, including the length of time and extent to which the fair value of the security has been less than its amortized cost and downgrades of the security's credit rating. If such factors indicate that a potential credit loss exists, then management will compare the present value of estimated cash flows from the security to the amortized cost basis to assess whether the entire amortized cost basis will be recovered. When it is determined that all or a portion of the amortized cost basis will not be recovered, a credit impairment charge is recorded in earnings in the amount of the difference between the present value of cash flows and the amortized cost at the balance sheet date, with the amortized cost basis of the impaired security written-down to the present value of cash flows. Ambac uses the single most likely cash flow scenario in the assessment and measurement of credit impairments. Estimated cash flows are discounted at the effective interest rate implicit in the security at the date of acquisition or upon last impairment. For floating rate securities, estimated cash flows are projected using the relevant index rate forward curve and the discount rate is adjusted for changes in that curve since the date of acquisition or last impairment. Prior to April 1, 2009, if a decline in the fair value of an available-for-sale security was judged to be other-than-temporary a charge was recorded in net realized losses equal to the full amount of the difference between the fair value and amortized cost basis of the security. For fixed income securities, the Company accretes the new cost basis to par or to the estimated future cash flows over the expected remaining life of the security by adjusting the security's yield.

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. There is also significant judgment in determining whether Ambac intends to sell securities or will continue to have the ability to hold temporarily impaired securities until recovery. Future events could occur that were not reasonably foreseen at the time management rendered its

judgment on the Company's intent to retain such securities until recovery. Examples of such events include, but are not limited to, the deterioration in the issuer's creditworthiness, a change in regulatory requirements or a major business combination or major disposition.

VIE Assets and Liabilities:

The assets and liabilities of VIEs consolidated under ASC Topic 810, *Consolidation* consist primarily of fixed income securities, loans receivable, derivative instruments and debt instruments and are generally carried at fair value with changes in fair value recognized in Financial Guarantee: (Loss) income on variable interest entity activities of the Consolidated Statements of Operations. These consolidated VIEs are securitization entities which have liabilities and/or assets guaranteed by Ambac. The fair values of VIE debt instruments are determined using the same methodologies used to value Ambac's fixed income securities in its investment portfolio as described above.

VIE derivative asset and liability fair values are determined using valuation models. When specific derivative contractual terms are available and may be valued primarily by reference to interest rates, exchange rates and yield curves that are observable and regularly quoted the derivatives are valued using vendor-developed models. Other derivatives within the VIEs that include significant unobservable valuation inputs are valued using internally developed models.

The fair value of VIE assets are obtained from market quotes when available. Typically the asset fair values are not readily available from market quotes and are estimated internally. The consolidated VIEs are securitization entities in which net cash flows from assets and derivatives (after adjusting for financial guarantor cash flows and other expenses) will be paid out to note holders or equity interests. Our valuation of VIE assets (fixed income securities or loans), therefore, are derived from the fair value of debt and derivatives, as described above, adjusted for the fair value of cash flows from Ambac's financial guarantee. The fair value of financial guarantee cash flows include: (i) estimated future premiums discounted at a rate consistent with that implicit in the fair value of the VIE's liabilities and (ii) internal estimates of future loss payments by Ambac discounted to consider Ambac's own credit risk.

Derivatives:

Ambac's operating subsidiaries' exposure to derivative instruments is created through interest rate and currency swaps, US Treasury futures contracts and credit default swaps. These contracts are accounted for at fair value under ASC Topic 815, *Derivatives and Hedging*. Valuation models are used for the derivatives portfolios, using market data from a variety of third-party data sources. Several of the more significant types of market data that influence fair value include interest rates (taxable and tax-exempt), credit spreads, default probabilities, recovery rates, comparable securities with observable pricing, and the credit rating of the referenced entities. The valuation of certain interest rate and currency swaps as well as all credit derivative contracts also require the use of data inputs and assumptions that are determined by management and are not readily observable in the market. Refer to Note 16 to the Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion of the models, model inputs and assumptions used to value derivative instruments. Due to the inherent uncertainties of the assumptions used in the valuation models to determine the fair value of derivative instruments, actual value realized in a market transaction may differ significantly from the estimates reflected in our financial statements.

The fair values of credit derivatives are sensitive to changes in credit ratings on the underlying reference obligations, particularly when such changes reach below investment grade levels. Ratings changes are reflected in Ambac's valuation model as changes to the "relative change ratio," which represents the ratio of the estimated cost of credit protection relative to the cash market spread on the reference obligation. Such adjustments to the relative change ratio have primarily impacted the fair value of CDO of ABS transactions containing over 25% MBS exposure which suffered significant credit downgrades. All remaining CDO of ABS transactions were

settled in 2010. See Note 1 to the Consolidated Financial Statements for more information on the commutation of all such transactions under the Settlement Agreement. Within the remaining CDS portfolio as of December 31, 2010, transactions comprising approximately 87% of par outstanding have experience some degree of credit rating downgrade since inception, including three structured finance transactions that are internally rated below investment grade. The relative change ratio on these transactions is 93.7% at December 31, 2010. The average rating for all other transactions that have been downgraded was AA- as of December 31, 2010 and, therefore, changes to the relative change ratio have not been significant.

Ambac's credit derivative valuation model, like any financial model, has certain strengths and weaknesses. We believe our model's primary strength is that it maximizes the use of market-driven inputs, and, most importantly, its use of market-based fair values of the underlying reference obligations and discount rate utilized. Ambac employs a three-level hierarchy for obtaining reference obligation fair values used in the model as follows: (i) broker quotes on the reference obligation, (ii) broker quotes on a subordinate obligation within the same capital structure as the reference obligation and (iii) proxy spreads from similarly structured deals or other market proxies. We believe using this type of approach is preferable to other models, which may emphasize modeled expected losses or which rely more heavily on the use of market indices that may not be reflective of the underlying reference obligation. Another strength is that our model is relatively easy to understand, which increases its transparency.

A potential weakness of our valuation model is our reliance on broker quotes obtained from dealers which originated the underlying transactions, who in certain cases may also be the counterparty to our CDS transaction. All of the transactions falling into this category are illiquid and it is usually difficult to obtain alternative quotes. Ambac employs various procedures to corroborate the reasonableness of quotes received; including comparing to other quotes received on similarly structured transactions, observed spreads on structured products with comparable underlying assets and, on a selective basis when possible, values derived through internal estimates of discounted future cash flows. Each quarter, the portfolio of CDS transactions is reviewed to ensure every reference obligation price has been updated. Period to period valuations are compared for each CDS and by underlying bond type. For each CDS, this analysis includes comparisons of key valuation inputs to the prior period and against other CDS within the bond type. No adjustments were made to the broker quotes we received when determining fair value of CDS contracts as of December 31, 2010. Another potential weakness of our valuation model is the lack of new CDS transactions executed by financial guarantors, which makes it difficult to validate the percentage of the reference obligation spread which would be captured as a CDS fee at the valuation date, (i.e. the relative change ratio, a key component of our valuation calculation). Changes to the relative change ratio based on internal ratings assigned are another potential weakness as internal ratings could differ from actual ratings provided by rating agencies. However, we believe our internal ratings are updated at least as frequently as the external ratings. Nonetheless, we believe the approach we have developed, described above, to increase the relative change ratio as the underlying reference obligation experiences credit deterioration is consistent with a market-based approach to valuation. Ultimately, our approach exhibits the same weakness as other modeling approaches, as it is unclear if we could execute at these values.

Valuation of Deferred Tax Assets:

Our provision for taxes is based on our income, statutory tax rates and tax planning opportunities available to us in the jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions. We review our tax positions quarterly and adjust the balances as new information becomes available. Deferred tax assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carry forwards. More specifically, deferred tax assets represent a future tax benefit (or receivable) that results from losses recorded under U.S. GAAP in a current period which are only deductible for tax purposes in future periods and net operating loss carry forwards. In accordance with ASC Topic 740, *Income Taxes*, we evaluate our deferred income taxes quarterly to determine if valuation allowances are required. ASC Topic 740 requires that companies

assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. All available evidence, both positive and negative, needs to be identified and considered in making the determination with significant weight given to evidence that can be objectively verified. The level of deferred tax asset recognition is influenced by management's assessment of future expected taxable income, which depends on the existence of sufficient taxable income of the appropriate character (ordinary vs. capital) within the carry back or carry forward periods available under the tax law. In the event that we determine that we would not be able to realize all or a portion of our deferred tax assets, we would record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable in the period in which that determination is made.

Federal Income Tax Legislation

During the fourth quarter of 2009, Congress enacted The Worker, Homeownership, and Business Assistance Act of 2009, which, among other measures, allows businesses to carryback net operating losses from 2008 and 2009 to profits from the past five years. Under prior law, the losses were limited to a two year carryback. As a result of this enacted legislation, Ambac realized a $443.9 million tax refund, which was received in February 2010.

RESULTS OF OPERATIONS

On November 8, 2010 (the "Petition Date"), Ambac ("Debtor") filed a voluntary petition for relief under Chapter 11 ("Bankruptcy Filing") of the Bankruptcy Code in the Bankruptcy Court. Ambac will continue to operate in the ordinary course of business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

We follow the accounting prescribed by Financial Accounting Standards Board Accounting Standards Codification Topic 852, "Reorganizations" ("ASC Topic 852"). Entities operating in bankruptcy and expecting to reorganize under Chapter 11 of the Bankruptcy Code are subject to the additional accounting and financial reporting guidance in ASC Topic 852. While ASC Topic 852 provides specific guidance for certain matters, other portions of US GAAP continue to apply so long as the guidance does not conflict with ASC Topic 852. This accounting literature provides guidance for periods subsequent to a Chapter 11 filing, among other things, the presentation of liabilities that are and are not subject to compromise by the Bankruptcy Court proceedings, as well as the treatment of interest expense and presentation of costs associated with the proceedings. Accordingly, the financial results in the prior periods or filed in future filings may not be comparable to 2010.

The financial results beginning in 2007 and continuing into 2010 have been impacted directly and indirectly by exposure to residential mortgages and other financial market disruption-related losses. Ambac has experienced significant losses within its financial guarantee business (both insurance policies and credit derivatives transactions) which, beginning 2008, led to rating downgrades of Ambac Assurance by the independent rating agencies. Also, as a result of these downgrades, most of Ambac's financial services counterparties exercised their contractual rights to either terminate contracts and/or obtain additional collateral from Ambac. Terminations of many interest rate, currency and total return swaps have also resulted in losses to Ambac. Financial guarantee losses and commutations along with financial services terminations and collateral requirements have resulted in partial liquidation of the investment portfolio, adversely impacting investment income. In certain circumstances, Ambac was able to negotiate terminations of investment agreement contracts at a discount to its liability, recognizing realized gains. The investment portfolio has suffered other-than-temporary impairment losses, especially among residential mortgage backed securities. Actions taken by our insurance regulator in early 2010 resulted in the temporary cessation of claim payments since March 24, 2010. While the claims moratorium has increased cash available for investment, it also resulted in additional investment impairment losses on Ambac-guaranteed securities within the investment portfolio. Also, in June 2010 Ambac commuted all of its CDS contracts related to CDO of ABS exposures, removing from credit derivative portfolio the contracts that have contributed the substantial majority of mark-to-market volatility in the Company's results over the past few years.

Ambac's diluted loss was ($753.2) million or ($2.56) per share, ($14.6) million or ($0.05) per share, and ($5,609.2) million or ($22.31) per share, for 2010, 2009 and 2008, respectively.

The 2010 financial results compared to 2009 were primarily negatively impacted by (i) lower net gains in the change in the fair value of credit derivatives; (ii) net losses related to variable interest entity activities; (iii) lower Financial Guarantee other income; (iv) lower net premiums earned, (v) lower net investment income, and (vi) reorganization items related to our Chapter 11 bankruptcy filing, partially offset by (i) a lower provision for loss and loss expenses; (ii) lower other-than-temporary impairment charges in the investment portfolio; (iii) lower derivative products losses; and (iv) a lower provision for income taxes.

The 2009 financial results compared to 2008 were positively affected by (i) changes in the fair value of credit derivatives ($3.8 billion gain in 2009 as compared to a $4.0 billion loss in 2008); (ii) lower underwriting and operating expenses; (iii) higher realized gains; and (iv) lower interest expense on investment and payment agreements, partially offset by (i) higher loss and loss expenses; (ii) higher other- than-temporary impairments charges in the investment portfolio; (iii) lower net premiums earned; (iv) higher derivative products losses; and (v) a higher provision for income taxes.

The following paragraphs describe the consolidated results of operations of Ambac and its subsidiaries for 2010, 2009 and 2008 and its financial condition as of December 31, 2010 and 2009. These results are presented for Ambac's two reportable segments: Financial Guarantee and Financial Services.

Financial Guarantee

Effective January 1, 2009, Ambac adopted new accounting guidance which amended the accounting for financial guarantee insurance contracts. The new guidance clarified the accounting for financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. As a result, a cumulative effect adjustment of $381.7 million was recorded to reduce the opening balance of retained earnings at January 1, 2009. Accordingly, the Financial Guarantee segment results for net premiums earned, loss and loss expenses and underwriting and operating expenses are not comparable from 2008 to 2009.

Effective January 1, 2010, Ambac adopted new accounting guidance for the consolidations of Variable Interest Entities (VIEs), which requires an enterprise to perform an analysis to determine whether the enterprise's variable interests give it a controlling financial interest in a VIE. As a result, a cumulative effect adjustment of $705.0 million was recorded as a net increase to total equity at January 1, 2010. Accordingly, amounts reported in 2010 are not comparable to amounts that were reported in 2009 for the significant majority of the Financial Guarantee Segment, including net premiums earned, losses incurred and underwriting and operating expenses. Refer to Note 10 of the Consolidated Financial Statements in Item 8 of this Form 10-K for further discussion of the cumulative effect of adopting the standard.

Commutations, Terminations and Settlements of Financial Guarantee Contracts. Ambac's loss mitigation strategy on poorly performing transactions, includes commutations of which a significant number have been executed since 2008. As discussed in "2010 Overview" located in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K, Ambac Assurance entered into a Settlement Agreement with respect to its CDO of ABS and certain other CDO-related obligations on June 7, 2010. Pursuant to the Settlement Agreement, in exchange for the termination of all credit default swaps written by ACP with respect to certain CDO of ABS obligations, and the related financial guarantee insurance policies written by Ambac Assurance with respect to ACP's obligations thereunder, Ambac Assurance paid to ACP's counterparties in the aggregate (i) $2,600 million in cash and (ii) $2,000 million in principal amount of newly issued surplus notes of Ambac Assurance. The par amount of the commuted CDO of ABS obligations was $16,543 million. In addition to the CDO of ABS obligations, Ambac Assurance has also commuted for $97 million of cash certain additional obligations, including certain non-CDO of ABS obligations to ACP's counterparties with par or notional

amounting to $1,407 million. Ambac Assurance commuted another CDO of ABS transaction in an amount equal to its remaining par value of $90 million. Also in 2010, Ambac Assurance settled all its remaining hedge contracts on exposures commuted as part of the Settlement Agreement and received $205 million. In addition to these commutations, during 2010 Ambac Assurance commuted certain additional obligations with a par of $4,516 million, receiving net settlement fees of approximately $7 million. These settlements are recognized within Net realized losses on credit derivatives on the Consolidated Statement of Operations.

In July 2010, the Segregated Account of Ambac Assurance Corporation commuted an insurance policy with a cash payment of $65 million and the issuance of Segregated Account Surplus Notes with a par value of $50 million.

During 2009, Ambac (i) commuted eight collateralized debt obligation of asset-backed securities ("CDO of ABS") exposures with multiple counterparties and (ii) reduced a significant portion of exposure under a CDO of ABS transaction. These transactions resulted in the reduction of exposure by $8,620 million and combined cash payments by Ambac of approximately $1,381 million, which is reflected in changes in the fair value of credit derivatives – realized losses and gains and other settlements. During 2008, Ambac commuted five CDO of ABS exposures resulting in the reduction of exposure by $4,912 million and combined cash payments of $1,850 million.

Reinsurance Terminations. Pursuant to the Amended and Restated 1997 Reinsurance Agreement between Ambac UK and Ambac Assurance (the "AUK Reinsurance Agreement"), Ambac Assurance reinsured substantially all of the liabilities under policies issued by Ambac UK. On March 24, 2010, Ambac Assurance's liabilities under the AUK Reinsurance Agreement were allocated to the Segregated Account. On September 28, 2010, Ambac Assurance entered into a Commutation and Release Agreement (the "AUK Commutation Agreement") with Ambac UK and the Special Deputy Commissioner of OCI, pursuant to which the AUK Reinsurance Agreement was commuted and other capital support arrangements between Ambac Assurance and AUK were terminated. In connection with this termination, Ambac recorded other income of $157.8 million in the Consolidated Statement of Operations in 2010. This gain resulted primarily from the recognition of foreign currency gains that, prior to the termination, were not reflected in certain of Ambac Assurance's non-monetary assets or liabilities such as unearned premium reserves or deferred acquisition costs, since these non-monetary assets and liabilities were required to be recorded based on their historical foreign exchange rates.

During 2009, Ambac terminated all reinsurance contracts with RAM Reinsurance Limited, Swiss Reinsurance Company, Assured Guaranty Municipal Corporation (formerly known as Financial Security Assurance Inc.), Financial Guaranty Insurance Company and all but one reinsurance contract with each of Radian Asset Assurance Inc. and MBIA Insurance Corporation. The terminations reflect a net recapture of approximately $22.3 billion of par. The economic result was net settlement payments to Ambac of $546 million. In connection with the terminations, Ambac recorded net gains of approximately $321.4 million in the Consolidated Statement of Operations during the year ended December 31, 2009 ($296.2 million recorded in other income).

Net Premiums Earned. Net premiums earned during 2010 were $546.0, a decrease of 32% from $797.4 million in 2009. Net premiums earned include accelerated premiums, which result from refunding, calls and other accelerations. Certain obligations insured by Ambac have been legally defeased whereby government securities are purchased by the issuer with the proceeds of a new bond issuance, or less frequently with other funds of the issuer, and held in escrow (a pre-refunding). The principal and interest received from the escrowed securities are then used to retire the Ambac-insured obligations at a future date either to their maturity date or a specified call date. Ambac has evaluated the provisions in certain financial guarantee insurance policies issued on legally defeased obligations and determined those policies have not been legally extinguished and, therefore, premium revenue recognition has not been accelerated. Normal net premiums earned excludes accelerated premiums. Normal net premiums earned for the year ended December 31, 2010 has been negatively impacted by the runoff of the insured portfolio, either via transaction terminations / refunding or scheduled maturities partially

offset by an increase in net earnings due to reinsurance cancellations that were executed during 2009. As a result of the adoption of the new consolidations standard and the resulting consolidation of VIEs, $43.9 million of net premiums earned were not recognized in the year ended December 31, 2010; rather, the total income statement results of such VIEs were recorded in Financial Guarantee: (Loss) income on variable interest entity activities. Normal net premiums earned and accelerated premiums are reconciled to total net premiums earned in the table below.

The following table provides a breakdown of net premiums earned by market sector:

($ in millions)	2010	2009	2008
Public Finance	$ 178.4	$ 195.9	$ 203.8
Structured Finance	164.8	220.5	261.0
International Finance	97.6	171.1	176.2
Total normal premiums earned	440.8	587.5	641.0
Accelerated earnings	105.2	209.9	381.8
Total net premiums earned	$ 546.0	$ 797.4	$ 1,022.8

The following table provides a breakdown of accelerated earnings by market sector:

($ in millions)	2010	2009	2008
Public Finance	$ 61.6	$ 124.8	$ 343.5
Structured Finance	4.6	27.7	31.3
International Finance	39.0	57.4	3.1
Reinsurance cancellations	—	—	3.9
Total accelerated earnings	$ 105.2	$ 209.9	$ 381.8

Normal net premiums earned for 2009 was negatively impacted by (i) limited new business written since November 2007, and none in 2009; (ii) the high level of public finance refunding activity during 2008 and 2009; and (iii) several structured finance transaction terminations, partially offset by an increase in net earnings due to the reinsurance cancellations that were executed during 2008 and 2009.

Net Investment Income. Net investment income in 2010 was $324.0 million, a 32.9% decrease from $482.7 million in 2009. The decline in net investment income resulted from the lower invested asset base in 2010 and a lower average yield of the portfolio compared to 2009. Please see "Liquidity and Capital Resources – Investment Portfolio" for more information.

The lower invested asset base in 2010 was driven by reductions in the portfolio to pay commutations on CDO of ABS transactions pursuant to the Settlement Agreement and RMBS claim payments, partially offset by cash flow from the collection of financial guarantee premiums, tax refunds, fees and coupon receipts on invested assets. Cash flow into the portfolio during most of 2010 also benefited from the claims moratorium on policies within the Segregated Account which was in effect from March 24, 2010. The average yield of the portfolio in 2010 declined compared to 2009 primarily as a result of changes in the portfolio mix. Higher yielding tax exempt municipals and certain RMBS and ABS securities were sold to fund the Settlement Agreement, reducing the average yield of these asset classes within the portfolio. The build up of liquidity for the Settlement Agreement, which settled on June 7, 2010, also caused a higher percentage of the investment portfolio to be held in short-term securities in 2010, earning low yields due to the prevailing interest rate environment during the year. The negative impact of these items was partially offset by increased investments in higher yielding corporate bonds, taxable municipal securities and Ambac-wrapped securities in 2010 compared to 2009.

Net investment income in 2009 was up 0.5% over year-end 2008. The comparatively lower invested asset base in 2009 was offset by a higher average yield on the portfolio. The lower invested asset base was driven by reductions in the portfolio to pay commutations on CDO of ABS transactions, RMBS claim payments and to provide loans to the financial services businesses, partially offset by $1.3 billion in funds received via the capital raise in March 2008, $800 million from the issuance of Ambac Assurance preferred stock in December 2008 and January 2009, and cash flow from the collection of financial guarantee premiums, tax refunds, fees and coupon receipts on invested assets. Compared to 2008, the average portfolio mix in 2009 shifted away from tax-exempt municipals toward taxable securities, primarily floating rate RMBS securities purchased from the investment agreement business, Ambac insured securities purchased in the open market and corporate bonds. The average yield in 2009 was higher primarily as a result of accretion of bond discounts on Ambac insured securities and RMBS securities previously written-down to fair value in connection with earlier period other-than-temporary impairments. Floating rate taxable and short-term securities in the portfolio were adversely impacted in 2009 by the lower interest rate environment compared to 2008.

Other-Than-Temporary Impairment Losses. Ambac adopted new accounting guidance related to other-than-temporary impairment losses effective April 1, 2009. Under the new guidance, beginning April 1, 2009, other-than-temporary impairment losses recorded in the statement of operations exclude non-credit related impairment amounts on securities that are credit impaired to the extent management does not intend to sell and it is not more likely than not that the company will be required to sell before recovery of the amortized cost basis less any current period credit impairment. Such non-credit related impairment amounts are recorded in accumulated other comprehensive income on the balance sheet. Alternatively, the non-credit related impairment would be recorded in other-than-temporary impairment losses in the statement of operations if management intends to sell the securities or it is more likely than not the company will be required to sell before recovery of amortized cost less any current period credit impairment. Prior to the adoption of the new other-than-temporary impairment guidance, the full impairment amount of a security (i.e., the difference between the amortized cost of a security and its fair value) found to be other-than-temporarily impaired would be written-down to fair value through earnings, including securities that were credit impaired even if management had the intent and ability to hold them to maturity.

Charges for other-than-temporary impairment losses were $56.7 million, $1,570.7 million and $70.9 million for 2010, 2009 and 2008, respectively. Other-than-temporary impairments for 2010 reflect charges to write-down structured finance securities to fair value as a result of management's intent to sell securities to meet liquidity needs as well as credit losses on securities guaranteed by Ambac Assurance. As further described in Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K, on March 24, 2010, the OCI commenced 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. As a result of actions taken by the OCI, financial guarantee payments on securities guaranteed by Ambac Assurance which have been placed in the Segregated Account are no longer under the control of Ambac management. Accordingly, estimated future cash flows on such securities have been adversely impacted, resulting in credit losses of $42.7 million and $98.7 million for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, management has not asserted its intent to sell any securities from its portfolio. Future changes in our estimated liquidity needs could result in a determination that Ambac no longer has the ability to hold such securities, which could result in additional other-than-temporary impairment charges. Other-than-temporary impairments for 2009 primarily reflect charges to write-down the amortized cost basis of residential mortgage-backed securities that management believed had experienced some credit impairment and/or intended to sell.

Net Realized Investment Gains. The following table provides a breakdown of net realized gains for the years ended December 31, 2010, 2009 and 2008:

(Dollars in Millions)	**2010**	**2009**	**2008**
Net gains on securities sold or called	$ 74.3	$ 128.5	$ 87.2
Foreign exchange gains	2.1	3.2	(7.3)
Total net realized gains	$ 76.4	$ 131.7	$ 79.9

Change in Fair Value of Credit Derivatives. The net change in fair value of credit derivatives was $60.2 million, $3,812.9 million, and ($4,031.1) million in 2010, 2009 and 2008, respectively. The net gain in 2010 is primarily the result of: (i) an increase in the valuation adjustment to reflect Ambac's own credit risk (see Note 16 of the Consolidated Financial Statements in Item 8 of this Form 10-K for a description of the methodology used to determine this credit valuation adjustment) and (ii) gains from increases in reference obligation pricing and exposure amortization in asset classes other than CDO of ABS, partially offset by: (i) the recognition of losses related to transactions included in the Settlement Agreement and (ii) the impact of internal credit downgrades to below investment grade ("BIG") on certain structured finance transactions within the portfolio. Our fair value methodology for credit derivatives reflects larger mark-to-market losses when a transaction is downgraded, with the greatest impact occurring upon a downgrade to BIG.

The net gain on change in fair value of credit derivatives during 2009 is primarily the result of: (i) the effect of significant widening of Ambac Assurance credit default swap spreads, which caused a $6,759.1 million benefit during the year, (ii) amortization of exposure in the portfolio and (iii) increases in reference obligation pricing in asset classes other than CDO of ABS, partially offset by rating downgrades and declines in reference obligation values related to CDO of ABS transactions. The net loss on change in fair value of credit derivatives of $4,031.1 million during 2008 is primarily the result of (i) declining market values on underlying reference obligations and (ii) internal ratings downgrades on CDO of ABS transactions, partially offset by the effect of incorporating Ambac Assurance credit default swap spreads into the measurement of fair value of credit derivative liabilities. The 2008 loss is net of a $10,793.9 million benefit from incorporating the risk of Ambac's own non-performance into the fair value of credit derivatives throughout the year. This reflects the adoption of new accounting guidance that was effective January 1, 2008 as well as additional Ambac credit spread widening during 2008. Prior to January 1, 2008, the fair value of credit derivatives did not incorporate a measure of Ambac's own credit risk. See Note 16 to the Consolidated Financial Statements in Item 8 of this Form 10-K for a further description of Ambac's methodology for determining the fair value of credit derivatives.

Realized gains (losses) and other settlements on credit derivative contracts were ($2,757.6) million, ($1,379.7) million and ($1,794.4) million for the years ended December 31, 2010, 2009 and 2008, respectively. These amounts represent premiums received and accrued on written contracts, premiums paid and accrued on purchased contracts and net losses and settlements paid and payable where a formal notification of shortfall has occurred. Net realized gains for the year ended December 31, 2010 included $33.1 million of net fees earned. Loss and settlement payments, net of recoveries from hedge counterparties, included in net realized losses for the year ended December 31, 2010 were $2,789.0 million related to the Settlement Agreement and commutation of associated contracts with hedge counterparties. Net realized losses in 2009 and 2008 included loss and settlement payments of $1,428.4 million and $1,857.2 million, respectively, related primarily to the commutation of various CDO of ABS transactions.

Unrealized gains (losses) on credit derivative contracts were $2,817.8 million, $5,192.7 million and ($2,236.7) million for 2010, 2009 and 2008, respectively. The net unrealized gains (losses) in fair value of credit derivatives reflect the same factors as the overall change in fair value of credit derivatives as noted above, adjusted for the reclassification to realized losses in connection with loss and settlement payments. Excluding the impact of amounts reclassified to realized losses, unrealized gains (losses) on credit derivative contracts were $28.8 million, $3,764.3 million and ($4,093.9) million in 2010, 2009 and 2008, respectively.

Other Income. Other income in 2010 was $106.0 million, as compared to $410.9 million in 2009 and $8.5 million in 2008. Included within other income are non-investment related foreign exchange gains and losses, deal structuring fees, commitment fees and reinsurance settlement gains (losses). Other income for the year ended December 31, 2010 primarily resulted from the consolidated effect of terminating the reinsurance agreement between Ambac UK and Ambac Assurance for a gain of $157.8 million. Additionally, other income for the year ended December 31, 2010 included the impact of the movement in the British Pound and Euro to US Dollar exchange rate upon premium receivables, resulting in a loss of approximately $48.7 million. Other income for 2009 primarily resulted from the termination of reinsurance contracts, resulting in net gains of $296.2 million and

the impact of the movement in the British Pound to US Dollar exchange rate upon premium receivables, resulting in a gain of $81.9 million.

(Loss) income on variable interest entity activities. (Loss) income on variable interest entity activities includes changes in fair value of consolidated VIEs' assets and liabilities and gains (losses) upon consolidation or deconsolidation of variable interest entities. Ambac adopted the new consolidation standard (ASU 2009-17) effective January 1, 2010, with the adoption gain of $705.0 million recorded as an adjustment to beginning retained earnings. Under ASU 2009-17, Ambac consolidated significantly more VIEs beginning January 1, 2010 than were consolidated during 2009, and accordingly amounts reported in 2010 are not comparable to amounts that were reported for 2009 or 2008. Further, as a result of the Rehabilitation of the Segregated Account of Ambac Assurance, effective March 24, 2010 Ambac no longer had the unilateral power to direct the activities that most significantly impact the economic performance of most of the newly consolidated VIEs. Accordingly, Ambac deconsolidated 49 VIEs, mostly RMBS transactions, on March 24, 2010. Additionally, the financial guarantee policies on certain student loan securitization transactions were allocated to the Segregated Account in October 2010 causing Ambac to deconsolidate the related VIEs. The net loss related to these deconsolidated VIEs for 2010 was $630.3 million. The loss upon deconsolidation primarily arises from re-establishment of the carrying value of insurance loss reserves and other insurance accounts which had a greater aggregate net liability balance at the time of deconsolidation than the aggregate net liabilities of the VIEs which were carried at fair value. Refer to Note 10 of the Consolidated Financial Statements in Item 8 of this Form 10-K for further information on the accounting for VIEs. The remaining loss on variable interest entities during 2010 reflects fair value changes caused primarily by reductions in the estimated future cash flows on assets of certain amortizing transactions and increases in the net liability position of the student loan transactions that were later deconsolidated, partially offset by the accretion of discounted net assets of most VIEs into income. Income on variable interest entities in 2009 primarily relates to changes in the fair value of assets caused by the accretion of discounted net assets into income.

Losses and Loss Expenses. Losses and loss expenses are based upon estimates of the aggregate losses inherent in the non-derivative financial guarantee portfolio as of the reporting date, net of subrogation recoverable and reinsurance. Loss and loss expenses were $719.4 million, $2,815.3 million, and $2,227.6 million in 2010, 2009 and 2008, respectively. As a result of the adoption of the new accounting guidance related to financial guarantee contracts in 2009, losses and loss expenses are not comparable from 2008 to 2009.

Loss and loss expenses in 2010 were primarily driven by deterioration in student loan transactions. Recent default data has shown a significant deterioration in the performance of private student loans underlying our transactions. Due to the failure of the auction rate and variable rate markets, the interest rates on these securities increased significantly to punitive levels pursuant to the terms of the documents. Additionally, RMBS transactions experienced continued deterioration in the performance of the underlying home loans, most notably in the second lien product (closed end second liens and home equity lines of credit).

Losses and loss expenses in 2009 were heavily concentrated in the RMBS insurance portfolio. Continued deterioration in the performance of the underlying RMBS home loans was observed, most prominently in the first lien product (negative amortization and interest-only loans) and second lien product (closed end second liens and home equity lines of credit). The non-RMBS losses and loss expenses were highly concentrated in a handful of asset-backed securitizations, several student loan deals, and one municipal transportation transaction. The increased loss provision in 2009 was primarily the result of increases related to the residential mortgage-backed security sector.

The following table summarizes the changes in the total net loss reserves for 2010 and 2009:

($ in millions)	Year Ended December 31, 2010	Year Ended December 31, 2009
Beginning balance of loss reserves, net of Subrogation recoverable and reinsurance	$ 3,777.3	
Impact of adopting ASU 2009-17[1]	(503.8)	
Beginning balance of net loss reserves	3,273.5	$ 2,469.2[4]
Provision for losses and loss expenses	719.4	2,766.6
Losses paid	(368.1)	(1,734.3)
Recoveries of losses paid from reinsurers	14.6	203.6
Other recoveries, net of reinsurance	107.9	72.2
Other adjustments (including foreign exchange)	0.5	—
Deconsolidation of certain VIEs[2]	676.7	—
Ending balance of net loss reserves[3]	$ 4,424.5	$ 3,777.3

(1) Refer to Note 2 and Note 10 to the Consolidated Financial Statements for discussion of the new accounting standard.

(2) Relates to VIEs where Ambac no longer has the unilateral power to direct the activities of the VIEs and, accordingly, Ambac deconsolidated the affected VIEs. Included here are VIEs that have insurance policies that were allocated to the Segregated Account.

(3) Includes $1,411.4 of claims presented and not paid as a result of the claim moratorium imposed on the Segregated Account of Ambac Assurance by OCI.

(4)		
	Net loss reserves, December 31, 2008	$ 2,129.8
	Impact of adoption of ASC Topic 944	339.4
	Net loss reserve, January 1, 2009	$ 2,469.2

The losses and loss expense reserves as of December 31, 2010 and December 31, 2009 are net of estimated recoveries under representation and warranty breaches for certain RMBS transactions in the amount of $2,391.3 million and $2,026.3 million, respectively. Please refer to the "Critical Accounting Estimates" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations and to the Loss Reserves section located in Note 2 of the Consolidated Financial Statements in Item 8 of this Form 10-K for further background information on the change in estimated recoveries.

The following tables provide details of net claims presented, net of recoveries received for the years ended December 31, 2010, 2009 and 2008:

($ in millions)	2010[1]	2009	2008
Net claims presented (recovered):			
Public Finance	$ 36.2	$ 29.7	$ 3.4
Structured Finance	1,597.0	1,276.0	567.6
International Finance	23.7	152.8	—
Total	$ 1,656.9	$ 1,458.5	$ 571.0

(1) Includes $1,411.4 of claims presented and not paid as a result of the Segregated Account payment moratorium ($9.6 and $1,401.8) for Public Finance and Structured Finance, respectively.

At December 31, 2010, the expected future claims to be presented (gross of reinsurance and net of expected recoveries) for credits that have already defaulted totaled $863.9 million for Ambac Assurance and $1,423.4 million for policies allocated to the Segregated Account. As a result of the Segregated Account Rehabilitation Plan, only 25% of Segregated Account claims presented are expected to be paid in cash with the remainder

settled via Segregated Account Surplus Notes. Related future claims expected to be presented are $1,548.0 million, ($242.2) million, ($1,225.5) million, $260.8 million and $167.6 million in 2011, 2012, 2013, 2014 and 2015 respectively. These amounts are net of the previously mentioned representation and warranty breach recoveries totaling $2,514.5 million (with $899.6 million and $1,614.9 million expected to be received in 2012 and 2013, respectively).

Please refer to the "Critical Accounting Estimates—Financial Guarantee Insurance Losses and Loss Expenses" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations and to the Loss Reserves section located in Note 2 of the Consolidated Financial Statements located in Item 8 of this Form 10-K for further background information on loss reserves.

Underwriting and Operating Expenses. Underwriting and operating expenses of $198.4 million in 2010 increased by 13% from $175.7 million in 2009. Underwriting and operating expenses consist of the gross underwriting and operating expenses plus the amortization of previously deferred expenses. The increase in underwriting and operating expenses was primarily due to higher consulting costs and legal fees, partially offset by lower compensation expenses. The increase in consulting and legal costs was primarily the result of the establishment and continued operations of the Segregated Account and the negotiation and closing of the Settlement Agreement. As a consequence of the Segregated Account Rehabilitation Proceedings, the rehabilitator retains operational control and decision-making authority with respect to all matters related to the Segregated Account, including the hiring of advisors. During 2010, expenses incurred in connection with legal and consulting services provided for the benefit of OCI amounted to $20.8 million. Accordingly, future expenses may include a significant amount of advisory costs for the benefit of OCI that are outside the control of Ambac's management.

Underwriting and operating expenses in 2009 decreased 19% from $215.8 million in 2008 primarily due to lower compensation expenses, consulting costs and premium taxes, partially offset by higher legal fees. Premium taxes in 2009 were impacted by the adoption of the new accounting guidance related to financial guarantee contracts and were lower due to reductions in estimated future installment premiums. Compensation expenses in 2010, 2009 and 2008 were $67.6 million, $94.5 million and $114.0 million, respectively.

Interest Expense. Interest of $62.2 million for the year ended December 31, 2010 relates to surplus notes issued by Ambac Assurance and the Segregated Account of Ambac Assurance in connection with the June 7, 2010 Settlement Agreement with certain Counterparties and the settlement of a Segregated Account insurance policy, respectively. Interest expense on the surplus notes includes accrual of the annual 5.1% coupon plus accretion of the original issue discount to par using the effective yield method.

Financial Services

Through its Financial Services subsidiaries, Ambac historically provided financial and investment products including investment agreements, funding conduits and derivative products. The primary activities in the derivative products business were intermediation of interest rate and currency swap transactions and taking total return swap positions on certain fixed income obligations. Since 2008, all Financial Services portfolios have been in runoff. As of December 31, 2009 all total return swap positions had been terminated. While the derivative products business generally seeks to remain neutral to interest rate and currency fluctuations, the portfolio could experience gains or losses related to certain aspects of portfolio positioning. Beginning in 2009, the derivative products portfolio has been positioned to benefit from rising interest rates in order to mitigate exposure to floating rate obligations in the Financial Guarantee segment.

Revenues. The following table provides a breakdown of Financial Services revenues for 2010, 2009 and 2008:

($ in millions)	2010	2009	2008	% Change 2010 vs. 2009	% Change 2009 vs. 2008
Investment income	$ 34.1	$ 70.7	$ 255.9	(52%)	(72%)
Derivative products	(106.6)	(207.2)	(134.2)	49%	(54%)
Other-than-temporary impairment losses	(3.1)	(283.9)	(451.9)	99%	37%
Net realized investment gains	72.9	184.5	215.6	(60%)	(14%)
Net change in fair value of total return swaps	—	18.6	(129.6)	(100%)	114%
Net mark-to-market (losses) gains on non-trading derivative contracts	(14.3)	11.3	(15.8)	(227%)	172%
Total Financial Services revenue	$ (17.0)	$ (206.0)	$ (260.0)	92%	21%

Investment Income. The decrease in investment income for the year ended December 31, 2010 compared to 2009 and 2008 was driven primarily by a decreasing portfolio of investments in the investment agreement business, as securities are sold to fund repayment of investment agreements. Ambac's investment agreement obligations were reduced from $2.8 billion at December 31, 2008 to $1.2 billion at December 31, 2009 and $0.8 billion at December 31, 2010.

Derivative Products. Losses in derivative product revenues for the year ended December 31, 2010 were lower than for 2009 as a result of lower termination charges and positive valuation adjustments related to Ambac's own credit risk in 2010, partially offset by higher mark-to-market losses caused by lower interest rates during the period. Termination charges generally reflect the counterparties' cost to replace Ambac on their swaps. These fees are realized upon the swap counterparties' exercise of termination rights allowed by Ambac Assurance's rating downgrades or upon negotiated settlements. Termination charges included in derivative product revenues for the years ended December 31, 2010 and 2009 also include fair value adjustments to reflect estimated swap termination or replacement costs in the current market for swaps that remain in the portfolio. The net gain (loss) included in derivative product revenues related to termination charges totaled $23.4 million and ($204.2) million for the years ended December 31, 2010 and 2009, respectively. Many derivative counterparties retain the right to terminate contracts. The value of future terminations cannot be determined with certainty until such terminations occur. Accordingly, further termination losses may occur in the future. The benefit of lower termination losses in 2010 compared to 2009 was partially offset by losses during 2010 arising from declines in interest rates during the year. Beginning in the third quarter of 2009, the derivative products portfolio was positioned to benefit from rising interest rates in order to mitigate interest rate exposure in the financial guarantee portfolio. Losses attributed to this macro hedge were ($120.5) million in 2010 compared to net gains of $16.3 million in 2009.

The increased losses in derivative product revenues for 2009 compared to 2008 resulted primarily from higher termination charges, partially offset by 2009 gains on the macro hedge. The net loss included in derivative product revenues for termination charges totaled ($204.2) million and ($35.0) million for the years ended December 31, 2009 and 2008, respectively. The 2009 results include a charge related to one municipal swap counterparty that exercised its termination rights but paid Ambac less than carrying value. Ambac is seeking legal remedies against this former counterparty; however, no recovery amount has been included in results. Additionally, 2009 results included the impact of applying fair value adjustments to reflect estimated swap replacement costs in the current market for swaps that remain in the portfolio. These fair value adjustments were based on actual experience from recently increased termination activity, and incorporated other information obtained from termination and settlement negotiations with certain counterparties. Derivative product revenues in 2008 were driven primarily from turmoil in the short-term municipal bond market. In certain interest rate swaps where a municipality is the counterparty, Ambac's swap subsidiary was required to pay the actual issue-

specific variable rate paid by the municipality on its floating-rate debt (primarily Ambac guaranteed debt), in exchange for receiving a fixed rate. These municipal interest rate swaps (the "cost of funds swaps") were hedged against general interest rate fluctuations but were not hedged between taxable index rates (such as LIBOR) and issue-specific rates (this is generally known as "basis risk"). Beginning in the first quarter 2008, the decline in demand for variable-rate municipal debt drove issue-specific rate resets to very high levels which persisted throughout 2008, thereby increasing Ambac's payment obligations under the interest rate swaps.

Other-Than-Temporary Impairment Losses. Charges for other-than-temporary impairment losses in the financial services investment portfolios were $3.1 million, $283.9 million and $451.9 million for 2010, 2009 and 2008, respectively. Other-than-temporary charges in 2010 related to securities that management intended to sell. Losses in 2009 and 2008 resulted from a combination of credit and price deterioration on Alt-A residential mortgage backed securities held in the investment agreement investment portfolio and the need to fund terminations of investment agreement contracts following downgrades of Ambac Assurance. Other-than-temporary impairments in 2009 reflected management's intent to dispose of Alt-A residential mortgage backed investment securities that are rated below investment grade. Other-than-temporary impairment charges in 2008 included $269.2 million of write-downs to fair value due to expected credit losses on the securities and $182.7 million as a result of management's intent to sell securities.

Net Realized Investment Gains. The following table summarizes the main components of net realized investment gains for 2010, 2009 and 2008:

($ in millions)	**2010**	**2009**	**2008**
Net (losses) gains on securities sold or called	$ (1.7)	$ 35.0	$ 27.7
Net gain on terminations of investment agreements	74.6	149.5	173.7
Other net realized gains	—	—	14.2
Total realized investment gains	$ 72.9	$ 184.5	$ 215.6

The net realized gains on investment agreements in 2010, 2009 and 2008 primarily resulted from the termination of certain investment agreement contracts at a discount from their carrying value. Other net realized gains include foreign exchange gains on investment agreements and cash recoveries on a previously defaulted investment security.

Net change in fair value of total return swaps. During 2009, Ambac terminated all remaining total return swaps. The net change in fair value of total return swaps resulted in gains in 2009 reflecting general credit spread tightening on the reference obligation bonds underlying the total return swaps. Prices on these underlying bonds declined substantially during 2008, resulting in mark-to-market losses in this portfolio.

Expenses. Financial Services expenses were $30.6 million, $46.7 million and $247.7 million for 2010, 2009 and 2008, respectively. Included in the above is interest expense related to investment and payment agreements of $16.8 million, $34.1 million and $235.0 million for 2010, 2009 and 2008, respectively. The decreases are primarily related to a smaller volume of investment agreements. Additionally, expenses for 2010 and 2009 include the positive impact from the liquidity support from Ambac Assurance for repayment of investment agreement liabilities. The result of this support is a reduction in both financial services interest expense and financial guarantee investment income of approximately $6.0 million and $16.1 million in consolidation for 2010 and 2009, respectively.

Corporate and Other Items

On July 16, 2010, Ambac completed the sale of its advisory services subsidiary, RangeMark Financial Services, Inc. ("RangeMark") to the management of RangeMark, resulting in a realized loss of $0.5 million plus $4.0 million of goodwill impairment charges included in 2010 Corporate and Other Expense. Ambac will

continue to contract with RangeMark for certain valuation services for a period of time. In October 2010, Ambac (Bermuda) Ltd. ("ABL") requested and received permission from the Bermuda Monetary Authority to cancel ABL's registration as a class 3 Bermuda Insurer. After approval of this application by the Bermuda Monetary Authority, $36.5 million was returned to Ambac.

Other Income. Other income was $1.7 million, $34.1 million and $3.3 million for 2010, 2009 and 2008, respectively. Included with other income for 2010 are (i) investment income from corporate investments, and (ii) RangeMark investment advisory, consulting and research services fees (prior to the sale in July 2010). Included within other income for 2009 are (i) investment income from corporate investments; (ii) distributions from a VIE consolidated under the relevant consolidation accounting guidance ($32.1 million earned in 2009), and (iii) RangeMark investment advisory, consulting and research services fees. Other income for 2008 includes only investment income from corporate investments.

Net Realized Investment Gains. Net realized investment gains were $10.2 million, $33 thousand and $0 for 2010, 2009 and 2008, respectively. Included in the year ended December 31, 2010 are gains of $10.7 million from the extinguishment of $20.3 million of Ambac's 9.375% debentures and the $0.5 million loss from the sale of RangeMark. These Ambac debentures were acquired when Ambac entered into a series of debt for equity exchanges with certain holders of Ambac's common stock. Ambac recognized a gain on the extinguishment of these debentures, which was the difference between the fair value of the new shares issued less than the net carrying value of the debentures.

Interest Expense. Interest expense was $102.3 million, $119.6 million and $114.2 million in 2010, 2009 and 2008, respectively. The decreased interest expense in 2010 is primarily due to Ambac's Chapter 11 bankruptcy filing. Interest was no longer accrued after November 8, 2010. If Ambac had continued to accrue interest on its debt obligations, contractual interest expense would have been $113.6 million for 2010, compared to $114.2 million in 2009. This lower amount is primarily due to the debt for equity exchange noted above, partially offset by higher compounded interest related to the Directly Issued Subordinated Capital Securities Due 2087 (the "DISCs"). The increase in 2009 compared to 2008 is primarily attributable to the public offering of $250 million of Equity Units on March 12, 2008.

Corporate and Other Expenses. Corporate and Other expenses include the operating expenses of Ambac, and, for 2010 and 2009 only, RangeMark Financial Services. Corporate and Other expenses were $42.3 million, $18.2 million and $45.8 million in 2010, 2009 and 2008, respectively. The increases in 2010 are due to higher legal expenses, litigation provision, and higher RangeMark operating expenses ($8.6 million in 2010 vs. $4.7 million in 2009). The decrease in 2009 expenses compared with 2008 is primarily due to lower legal expenses, consulting expenses and lower contingent capital costs, as Ambac Assurance exercised its rights under the contingent capital facility in December 2008, partially offset by RangeMark operating expenses. Ambac's contingent capital facility expense for 2010, 2009 and 2008 were $0, $0.3 million and $18.3 million, respectively.

Reorganization Items. Reorganization items are primarily expenses directly attributed to our Chapter 11 reorganization process. See Note 2 to the Consolidated Financial Statements in Item 8 of this Form 10-K for a summary of these costs. Reorganization items reported in 2010 included professional advisory fees and debt valuation adjustments on pre-petition liabilities. The debt valuation adjustments were one-time charges.

Provision for Income Taxes. Income taxes for 2010 were at an effective rate of 0.00%, compared to 102.0% and 0.2% for 2009 and 2008, respectively. The increase in the effective tax rates for 2009 relates predominantly to the set up of a full deferred tax valuation allowance against ordinary losses, partially offset by federal income tax refunds. See Critical Accounting Estimates—Valuation Allowance on Deferred Tax Assets for further information.

Ambac Assurance Statutory Basis Financial Results

Ambac Assurance's statutory financial statements are prepared on the basis of accounting practices prescribed or permitted by the OCI ("SAP"). 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.

On March 24, 2010, Ambac Assurance acquiesced to the request of OCI to establish a Segregated Account. Under Wisconsin insurance law, the Segregated Account is a separate insurer from Ambac Assurance and accordingly is subject to all of the filing and statutory reporting requirements of Wisconsin domiciled insurers. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities. The total assets, total liabilities, and total surplus of the Segregated Account are reported as discrete components of Ambac Assurance's assets, liabilities, and surplus reported in Ambac Assurance's statutory basis financial statements. Accordingly, Ambac Assurance's statutory financial statements include the results of Ambac Assurance's general account, the Segregated Account as well as Ambac Assurance's equity investment in its subsidiaries.

At December 31, 2010, Ambac Assurance reported statutory capital and surplus of $1,026.9 million and contingency reserves of $512.6 million, respectively, as compared to $801.9 million and $352.2 million, respectively, at December 31, 2009. Ambac Assurance reported a statutory net loss of $1,471.9 million for the year ended December 31, 2010. The primary drivers of the statutory net loss were (i) statutory loss and loss expenses related primarily to Ambac Assurance's RMBS financial guarantee portfolio for both initial defaults and continued deterioration in previously defaulted credits; (ii) impairment losses related to Ambac Assurance's CDO of ABS transactions which were commuted during the second quarter of 2010; and (iii) impairment losses within Ambac Assurance's investment portfolio driven by reduced pricing on certain previously impaired RMBS securities. These negative drivers were partially offset by (i) revenues (primarily premiums earned and investment income) generated during the period and (ii) the net income impact relating to the commutation of the AUK Reinsurance Agreement.

Statutory surplus is sensitive to: (i) further credit deterioration on the defaulted credits in the insured portfolio, (ii) deterioration in CDS exposures that give rise to further impairments, (iii) first time payment defaults of insured obligations, which increases statutory loss reserves, (iv) commutations of insurance policies or credit derivative contracts at amounts that differ from the amount of liabilities recorded, (v) reinsurance contract terminations at amounts that differ from net assets recorded, (vi) reductions in the fair value of previously impaired investments or additional downgrades of the ratings on investment securities to below investment grade by the independent rating agencies, (vii) settlements of representation and warranty breach claims at amounts that differ from amounts recorded, including failures to collect such amounts, (viii) issuance of Segregated Account Surplus Notes in settlement of presented and unpaid claims of the Segregated Account, (ix) intercompany loan impairments could change based on changes to interest rates and/or early terminations of investment agreements at amounts that differ from the amount of liabilities recorded, and (x) defaults by reinsurers.

The significant differences from U.S. GAAP are that under SAP:

- Loss reserves are only established for losses on guaranteed obligations that have defaulted in an amount that is sufficient to cover the present value of the anticipated defaulted debt service payments over the expected period of default, less estimated recoveries under subrogation rights (currently discounted at 5.10% as prescribed by OCI). Under U.S. GAAP, in addition to the establishment of loss reserves for defaulted obligations, loss reserves are established (net of U.S GAAP basis unearned premium reserves) for obligations that have experienced credit deterioration, but have not yet defaulted using a risk-free discount rate, currently at 3.02%.

- Mandatory contingency reserves are required based upon the type of obligation insured, whereas U.S. GAAP does not require such a reserve. Releases of the contingency reserves are generally subject to OCI approval and relate to a determination that the held reserves are deemed excessive.
- Investment grade fixed income investments are stated at amortized cost and below investment grade fixed income investments are reported at the lower of amortized cost or fair value. Under U.S. GAAP, all bonds are reported at fair value.
- Wholly owned subsidiaries are not consolidated; rather, the equity basis of accounting is utilized and the carrying values of these investments are subject to an admissibility test and permitted accounting practices. When Ambac Assurance's share of the subsidiaries' losses exceeds the related carrying amounts of the wholly owned subsidiary, Ambac Assurance discontinues applying the equity method and the investment is reduced to zero. For those subsidiaries that have insufficient claims paying resources and its obligations are guaranteed by Ambac Assurance, Ambac Assurance records an estimated impairment for probable losses which are in excess of the subsidiaries' claims paying resources. Such impairments were recorded for our credit derivative subsidiary for periods prior to the Settlement Agreement. Under U.S. GAAP, credit derivatives are recorded at fair value, which is impacted by market valuations of the exposures and includes the effect of Ambac Assurance's own credit in the measurement. This mark-to-market valuation often differs significantly from the statutory measure of impairment discussed above.
- Variable interest entities are not required to be assessed for consolidation. Under U.S. GAAP, a reporting entity that has both the following characteristics is required to consolidate the VIE: a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. With regard to issuance of a financial guarantee insurance policy, Ambac generally has the obligation to absorb losses of VIEs that could potentially be significant to the VIE as the result of its guarantee of insured obligations issued by VIEs.
- As a result of a prescribed practice by OCI, surplus notes issued in conjunction with commutations or the settlement of claims are included in Surplus at an amount equal to par regardless of the amounts received in consideration for issuance of the notes. Under U.S. GAAP, surplus notes are included in long-term debt obligations recorded at their estimated fair value and accrete up to face value via the effective interest method. The OCI has extended the preceding prescribed practice related to surplus notes to the evaluation of other-than-temporary impairments for Ambac Assurance guaranteed securities held in the investment portfolio. Under the NAIC SAP, the present value of cash flows expected to be collected will be equal the sum of the present value of (i) cash receipts and (ii) the fair value of surplus notes received from Ambac Assurance, as required under the Rehabilitation Plan. The Wisconsin Insurance Commissioner has directed Ambac Assurance to utilize par value rather than fair value of these surplus notes in this computation. Under U.S. GAAP, the present value of cash flows expected to be collected is equal to the sum of the present value of cash flows expected to be collected, plus the fair value of the surplus notes to be received from Ambac.
- Upfront premiums written are earned on a basis proportionate to the remaining scheduled debt service to the original total principal and interest insured. Installment premiums are reflected in income pro rata over the period covered by the premium payment. Under U.S. GAAP, premium revenues for both upfront and installment premiums are earned over the life of the financial guarantee contract in proportion to the insured principal amount outstanding at each reporting date.
- Costs related to the acquisition of new business are expensed as incurred, whereas under U.S. GAAP, the related costs are expensed over the periods in which the related premiums are earned; and
- Deferred tax assets are reduced by a statutory valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized; any remaining net deferred tax asset is then subject

to an admissibility test; whereas US GAAP only requires a valuation allowance if it is more likely than not that the deferred tax asset will not be realized.

LIQUIDITY AND CAPITAL RESOURCES

Ambac Financial Group, Inc. Liquidity. The matters described herein, to the extent that they relate to future events or expectations, may be significantly affected by Ambac's Chapter 11 Bankruptcy filing. We believe the consummation of a successful restructuring under Chapter 11 of the Bankruptcy Code is critical to our continued viability and long term liquidity. As with any judicial proceeding, there are risks of unavoidable delay with a Chapter 11 proceeding and there are risks of objections from certain stakeholders, including objections from the holders of unsecured debt that vote to reject a plan of reorganization. Any material delay in the confirmation of a plan, or the threat of rejection of the plan by the Bankruptcy Court, would add expense as Ambac will be required to incur substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 proceedings. A prolonged continuation of the Chapter 11 proceedings may also require us to seek financing. If we require financing during the Chapter 11 proceedings and we are unable to obtain the financing on favorable terms or at all, our chances of successfully reorganizing our businesses may be seriously jeopardized, and as a result, our assets and securities could become further devalued or worthless. While management believes that Ambac will have sufficient liquidity to satisfy its needs until it emerges from the bankruptcy proceeding, no guarantee can be given that it will be able to pay all such expenses. If its liquidity runs out prior to emergence from bankruptcy, a liquidation of Ambac pursuant to Chapter 7 of the Bankruptcy Code will occur.

Ambac's liquidity and solvency is largely dependent upon: (i) Ambac Assurance's ability to pay dividends; (ii) cash on hand; (iii) the level of costs associated with the reorganization; and (iv) the value of Ambac Assurance. It is highly unlikely that Ambac Assurance will be able to make dividend payments to Ambac for the foreseeable future. Ambac's principal uses of liquidity during 2010 were for the payment of interest on its senior debt (until its Bankruptcy filing on November 8, 2010) and operating expenses. In addition, contingencies could cause additional liquidity strain. Ambac did not pay any dividends on its common stock in 2010. Beginning August 15, 2009, Ambac elected to defer interest payments on its $400 million of Directly Issued Subordinated Capital Securities Due 2087 (the "DISCS"). By deferring interest payments on the DISCS, Ambac reduced its 2010 cash debt service requirements by $24.6 million to $88.7 million. Total operating expenses, which include legal and other professional fees, trust and stock transfer/listing fees, and compensation costs, etc., equaled $33.1 million for 2010. Contingencies (e.g., an unfavorable outcome in the outstanding class action lawsuits) could cause material liquidity strains on Ambac.

The following table includes aggregated information about contractual obligations for Ambac and its subsidiaries. These obligations include payments due under specified contractual obligations, aggregated by type of contractual obligation, including claim payments, principal and interest payments under Ambac Assurance and Ambac Assurance Segregated Account's surplus note obligations, investment agreement obligations, payment agreement obligations and payments due under operating leases. The table and commentary below reflect scheduled payments and maturities based on the original payment terms specified in the underlying agreements and contracts and exclude Liabilities subject to compromise which will be disbursed in accordance with our plan of reorganization.

($ in millions)	Contractual Obligations by Year					
	2011	2012	2013	2014	2015	Thereafter
Surplus note obligations[1]	$ 104.3	$ 104.6	$ 104.6	$ 104.6	$ 104.6	$ 2,572.8
Investment agreement obligations[2]	412.8	79.4	26.3	167.6	2.7	211.8
Operating lease obligations[3]	9.3	9.4	9.7	10.1	10.4	40.1
Purchase obligations[4]	3.5	1.5	493.1	—	68.3	175.1
Post retirement benefits[5]	0.3	0.3	0.4	0.4	0.4	2.9
Loss and loss expense reserves[6][9]	2,464.8	1,104.5	623.0	459.7	295.0	4,762.0
Impairment on credit default swaps[7][9]	—	7.3	—	—	—	43.7
Other[8]	—	—	—	—	—	23.0
Total	$ 2,995.0	$ 1,307.0	$ 1,257.1	$ 742.4	$ 481.4	$ 7,831.4

(1) Includes principal of and interest on surplus notes, issued as of December 31, 2010, when due. All payments of principal and interest on Surplus Notes are subject to the prior approval of the OCI. If the OCI does not approve the payment of interest on the surplus notes, such interest will accrue and compound annually until paid.

(2) Includes principal of and interest on obligations using current rates for floating rate obligations. Certain investment agreements have contractual provisions that allow our counterparty the flexibility to withdraw funds prior to legal maturity date. Amounts included in the table are based on the earliest optional draw date.

(3) Amount represents future lease payments on lease agreements existing as of December 31, 2010. On March 1, 2011, Ambac entered into an agreement with the landlord to terminate the 1992 Lease for the office space at One State Street Plaza originally scheduled to expired in 2019 ("Settlement Agreement") and entered into a new lease. The effective date of the Settlement Agreement and the new lease is subject to, among other things, the following: (i) the approval of the Settlement Agreement by the Rehabilitator, the Rehabilitation Court and the Boards of Directors of Ambac and Ambac Assurance, the OCI and the Bankruptcy Court and (ii) the approval of the new lease by the OCI and the Board of Directors of Ambac Assurance. The initial term of the new lease will end on December 31, 2015. If the Settlement Agreement and new lease were executed as of December 31, 2010 and effective as of March 1, 2011, the future lease payments in the table above would have been reduced by $3.8 million, $4.5 million, $4.8 million, $5.1 million, $5.4 million and $39.3 million for the years ended 2011, 2012, 2013, 2014, 2015 and thereafter, respectively. Refer to the Subsequent Event section located in Note 1 to the Consolidated Financial Statements for more information.

(4) Purchase obligations include the purchase of insured student loan obligations by Ambac Assurance, primarily variable rate demand obligations from liquidity providers as required by the terms of our insurance agreements. Amounts reflected in this table are the current outstanding par although actual ultimate payment amounts may differ primarily as a result of the successful execution of loss mitigation strategies, changes in interest rates, performance of the underlying collateral, the deterioration of the asset base and/or any amortization of the VRDO. Please refer to Financial Guarantees in Force located in Part 1 Item 1 in this Form 10-K. Additionally, Purchase obligations represent future expenditures for contractually scheduled fixed terms and amounts due for various technology related maintenance agreements, rating agency fees and other outside services.

(5) Amount represents future benefit payments on the postretirement benefit plans for the next 10 years (unfunded).

(6) The timing of expected claim payments is based on deal specific cash flow payments, excluding expected recoveries and those student loan obligations as noted in Purchase obligations. These deal specific cash flow payments are based on the expected cash flows of the underlying transactions (e.g. for RMBS credits we model estimated future claim payments). The timing of expected claim payments for credits with reserves that were established using our statistical loss reserve method is determined based on the weighted average expected life of the exposure. Refer to the Loss Reserves section located in Note 2 of this Form 10-K for further discussion of our statistical loss reserve method. The timing of these payments may vary

significantly from the amounts shown above, especially for credits that are based on our statistical loss reserve method. Claims on Segregated Account Policies remain subject to a payment moratorium until the Segregated Account Rehabilitation Plan becomes effective. Insurance claims presented during the moratorium of $1.4 billion for policies allocated to the Segregated Account have not yet been paid. Since the Rehabilitator has not established an effective date for the Rehabilitation Plan, we have not included such unpaid amounts in the table above, Under the Segregated Account Rehabilitation Plan, holders of permitted policy claims will receive 25% of their permitted claims in cash and 75% in Segregated Account Surplus Notes.

(7) Impairment amounts on CDS contracts represent Ambac's expected loss payments on such contracts.

(8) Includes $23.0 million of unrecognized tax benefits that is not possible to make a reliable estimate about the period in which the payment may occur.

(9) Refer to 2010 Overview section in Note 1 to the Consolidated Financial Statements for discussion of insurance policies and credit default swaps transferred to the Segregated Account on March 24, 2010 and the settlement with respect to certain CDO-related obligations.

Ambac Assurance Liquidity. Ambac Assurance's liquidity on a long-term basis is dependent on receipt of installment premiums on existing financial guarantees, principal and interest cash flows from investments, and the amount of required loss and commutation payments on both insurance and credit derivative contracts. The principal sources of Ambac Assurance's liquidity are gross installment premiums on insurance and credit default swap contracts, investment coupon receipts, scheduled investment maturities, sales of investment securities, repayment of affiliate loans, claim recoveries from reinsurers and RMBS subrogation recoveries. The principal uses of Ambac Assurance's liquidity are the payment of operating expenses, loss and commutation payments on both insurance and credit derivative contracts, reinsurance premiums, surplus notes interest payments and additional loans to affiliates. As a result of the Segregated Account Rehabilitation Plan, claim payments on policies allocated to the Segregated Account will not be paid until the Segregated Account Rehabilitation Plan is declared effective.

Our ability to recover the RMBS subrogation recoveries is subject to significant uncertainty, including risks inherent in litigation, collectability of such amounts from counterparties (and/or their respective parents and affiliates), timing of receipt of any such recoveries, regulatory intervention which could impede our ability to take actions required to realize such recoveries and uncertainty inherent in the assumptions used in estimating such recoveries. Our current estimate considers that we will receive subrogation recoveries of $900.2 million and $1,619.6 million in 2012 and 2013, respectively. The amount of these subrogation recoveries is significant and if we're unable to recover any amounts our future available liquidity to pay claims would be reduced.

A subsidiary of Ambac Assurance provides a $360 million liquidity facility to a reinsurance company which acts as reinsurer with respect to a portfolio of life insurance policies. The liquidity facility, which is guaranteed by Ambac Assurance, provides temporary funding in the event that the reinsurance company's capital is insufficient to make payments under the reinsurance agreement. The reinsurance is required to repay all amounts drawn under the liquidity facility. At December 31, 2010 and 2009, $8.8 million and $8.9 million were drawn on this liquidity facility, respectively. Therefore, at December 31, 2010 and December 31, 2009, the undrawn balance of the liquidity facility was $351.2 million and $351.1 million, respectively.

Ambac and its affiliates participate in leveraged lease transactions with municipalities, utilities and quasi-governmental agencies (collectively "lessees"), either directly or through various affiliated companies. Assets underlying these leveraged lease transactions involve equipment and facilities used by the lessees to provide basic public services such as mass transit and utilities. Ambac and its affiliates may provided one or more of the following financial products in these transactions: (i) credit default swaps, (ii) guarantees of the lessees' termination payment obligations, (iii) loans, and (iv) investment agreements and payment agreements, both of which serve as collateral to economically defease portions of the lessees' payment obligations in respect of termination payments.

These transactions expose Ambac to the following risks:

- Collateral posting requirements due to Ambac Assurance rating downgrade triggering events under certain agreements.
- As a consequence of Ambac Assurance's ratings downgrades, in some of the transactions the lessees are currently obligated to replace Ambac Assurance as credit enhancer, subject to waivers granted by the lessors. Failure of the waivers to be renewed followed by a failure to replace Ambac could result in a lease event of default and the requirement for a lessee to make a termination payment upon a demand by the lessor. Portions of any termination payments may be funded from the liquidation of the related defeasance collateral (i.e. payment agreements, investment agreements and/or other securities). To the extent a lessee fails to make a required termination payment, Ambac may be required to make a surety bond payment, or a swap settlement, under its guarantee policy or credit default swap, as applicable. The payment required under the Ambac credit enhancement will be based on the difference between the termination amount and the value derived from the defeasance collateral. Following a payment, Ambac would then be entitled to settle a credit default swap with the lessee or exercise its reimbursement rights against the lessee. In such circumstances Ambac, through subrogation or ownership in the leased assets, would have the right, along with other remedies, to liquidate the leased assets.

At December 31, 2010, Ambac Assurance's aggregate financial enhancement exposure related to leveraged lease transactions that contain Ambac Assurance rating downgrade triggering events at December 31, 2010 was $572 million. Ambac Assurance's exposure to these termination or swap settlement payments, net of defeasance collateral, was $432 million.

As a result of Ambac Assurance's credit rating downgrades, seven lessees in these transactions may be required to replace Ambac Assurance as financial enhancement provider if waivers granted by the lessors are not renewed. There are four additional lessees that could be required to replace Ambac Assurance as financial enhancement provider in certain circumstances. In one case, Ambac Assurance's replacement could be required upon the withdrawal of the guarantee provided by the lessee's municipal owner. In another case, Ambac Assurance's replacement could be required upon the rating downgrade of the second guarantor below a threshold level. In the other two cases, Ambac Assurance's replacement could be required if the lessee withdrew additional collateral it has pledged to the lessor.

Ambac Assurance's aggregate financial guarantee exposure to termination payments related to leveraged lease transactions that contain Ambac Assurance rating downgrade triggering events at December 31, 2009 was $889 million. Ambac Assurance's financial guarantee exposure to these termination payments, net of defeasance collateral was $749 million, at December 31, 2009.

Ambac Assurance elected to defer dividend payments on its Auction Market Preferred Securities for dividend payment dates subsequent to January 15, 2010.

Financial Services Liquidity. The principal uses of liquidity by Financial Services subsidiaries are payments on investment and payment agreement obligations; payments on intercompany loans; payments under derivative contracts (primarily interest rate swaps, currency swaps and US Treasury futures); collateral posting; and operating expenses. Management believes that its Financial Services' short and long-term liquidity needs can be funded from net investment income; the maturity of invested assets; sales of invested assets; intercompany loans from Ambac Assurance; and receipts from derivative contracts.

Investment agreements subject Ambac to liquidity risk associated with unanticipated withdrawals of principal as allowed by the terms of certain contingent withdrawal investment agreements, including those issued to entities that provide credit protection with respect to collateralized debt obligations. These entities issue credit linked-notes, invest a portion of the proceeds in the contingent withdrawal investment agreements and typically

sell credit protection by issuing a credit default swap referencing specified asset-backed or corporate securities. Upon a credit event of one of the underlying reference obligations, the issuer may need to draw on the investment agreement to pay under the terms of the credit default swap. Accordingly, these investment agreements may be drawn prior to our original expectations, resulting in an unanticipated withdrawal. As of December 31, 2010, $0.6 billion of contingent withdrawal investment agreements issued to CDOs remained outstanding, of which $0.02 billion were related to CDOs with primarily RMBS underlying collateral. To manage the liquidity risk of unscheduled withdrawals, Ambac utilizes several tools, including regular surveillance of the related transactions. This surveillance process is customized for each investment agreement transaction and includes a review of past activity, recently issued trustee reports, reference name performance characteristics and third party tools to analyze early withdrawal risk.

Credit Ratings and Collateral. The significant rating downgrades of Ambac Assurance by Moody's and S&P resulted in the triggering of required cure provisions in nearly all of the investment agreements issued. Most investment agreements contain multiple possible remedies, including collateral posting; a termination of the investment agreement contract, both of which demand significant liquidity; or the designation of a replacement guarantor. In most cases Ambac had the option to select the remedy and, therefore, could either post collateral or otherwise enhance its credit, prior to an actual draw on the investment agreement. In many cases, Ambac chose to terminate investment agreements, particularly when it was able to do so at levels that resulted in meaningful discounts to book value. In addition, Ambac has posted collateral of $845.6 million in connection with its outstanding investment agreements, including accrued interest, at December 31, 2010.

Ambac Financial Services ("AFS") provided interest rate and currency swaps for states, municipalities, asset-backed issuers and other entities in connection with their financings. AFS hedges most of the related interest rate and currency risks of these instruments with standardized derivative contracts, which include collateral support agreements. Under these agreements, AFS is required to post collateral to a swap dealer to cover unrealized losses. In addition, AFS is often required to post collateral in excess of the amounts needed to cover unrealized losses, often referred to as an independent amount. Additionally, AFS hedges part of its interest rate risk with financial futures contracts which require it to post margin with its futures clearing merchant. All AFS derivative contracts possessing rating-based downgrade triggers that could result in collateral posting or a termination have been triggered. If additional terminations were to occur, it would generally result in a return of collateral to AFS in the form of cash, U.S. Treasury or U.S. government agency obligations with market values approximately equal to or in excess of market values of the swaps. In most cases, AFS will look to re-establish the hedge positions that are terminated early. This may result in additional collateral posting obligations or the use of futures contracts or other derivative instruments which could require AFS to post margin amounts. The amount of additional collateral required or margin posted on futures contracts will depend on several variables including the degree to which counterparties exercise their termination rights and the ability to replace these contracts with existing counterparties under existing documents and credit support arrangements. All contracts that require collateral posting are currently collateralized. Collateral and margin posted by AFS totaled a net amount of $117.4 million, including independent amounts, under these contracts at December 31, 2010.

Ambac Credit Products enters into credit derivative contracts. Ambac Credit Products was not required to post collateral under any of its contracts, except under a 2009 negotiated amendment of one credit derivative contract. This contract was commuted and settled in 2010.

While meaningful progress has been made in unwinding the Financial Services businesses, multiple sources of risk continue to exist. These include further deterioration in investment security market values, additional unexpected draws on outstanding investment agreements, the inability to unwind derivative hedge positions needed to settle investment agreement terminations, the settlement of potential swap terminations, and the inability to replace or establish new hedge positions.

Capital and Capital Support. In December 2008, Ambac Assurance exercised a series of perpetual put options on its own preferred stock ("the preferred stock"). The counterparty to these put options were trusts established by a major investment bank. The trusts were created as a vehicle for providing capital support to

Ambac Assurance by allowing it to obtain immediate access to new capital at its sole discretion at any time through the exercise of the put option. Ambac Assurance received $800 million in return for the issuance of the preferred stock. The auction for these securities occurs every 28 days. Due to the dislocation in the auction rate markets and Ambac Assurance's downgrade below triple-A by Moody's, the dividend rate on the auction market preferred has continuously been reset at the maximum rate of one-month LIBOR plus 200 bps. Dividend payments on the preferred stock are cumulative only if Ambac Assurance pays dividends on its common stock. Ambac Assurance's Board of Directors has not declared cash dividend on the preferred stock for periods subsequent to July 31, 2009, except for the period December 23, 2009 through January 15, 2010. For the year ended December 31, 2008, Ambac Assurance incurred aggregate fees related to these perpetual put options of $18.3 million. The fees are included as Corporate expenses on the Consolidated Statements of Operations.

Balance Sheet. In 2010, total assets increased by approximately $10.2 billion, driven primarily by: (i) the impact of consolidating additional variable interest entities as a result of new accounting guidance effective January 1, 2010 ($14.7 billion); (ii) installment premium receipts on insurance and credit derivative transactions; and (iii) coupon payments on investment securities, partially offset by: (i) commutation payments, including the Settlement Agreement ($2.8 billion), (ii) payments for investment agreement contract maturities and settlements, and (iii) claim payments prior to the establishment of the Segregated Account and commencement of Segregated Account Rehabilitation Proceedings in March 2010. As of December 31, 2010, stockholders' deficit was $1.35 billion, as compared to $1.63 billion deficit at December 31, 2009. This change was primarily caused by the additional net assets of consolidated VIEs resulting from the adoption of new accounting guidance in 2010 and improvements in fair value of investment securities during the period, partially offset by net losses.

Investment Portfolio. Ambac Assurance's investment objectives for the Financial Guarantee portfolio are to achieve the highest yield on a diversified portfolio of fixed income investments while protecting claims-paying resources and satisfying liquidity needs. The Financial Guarantee investment portfolio is subject to internal investment guidelines. Such guidelines set forth minimum credit rating requirements and credit risk concentration limits. Beginning in 2008, Ambac Assurance has opportunistically purchased Ambac Assurance insured securities in the open market given their relative risk/reward characteristics and to mitigate the effect of potential future claim payments on operating results. Ambac Assurance financial guarantee policies related to these securities have been placed in the Segregated Account. As such, future payments on these securities are subject to the Segregated Account Rehabilitation Plan and the market for securities may be less liquid than other assets within Ambac Assurance's investment portfolio.

The Financial Services investment portfolio consists primarily of assets funded with proceeds from the issuance of investment agreement liabilities. The investment objectives are to (i) maintain sufficient liquidity to satisfy scheduled and unscheduled investment agreement maturities and withdrawals, and (ii) protect Ambac Assurance's claims-paying resources while maximizing investment earnings relative to the cost of liabilities. The investment portfolio is subject to internal investment guidelines. Such guidelines set forth minimum credit rating requirements and credit risk concentration limits.

The following table summarizes the composition of Ambac's investment portfolio at fair value by segment at December 31, 2010 and 2009:

($ in millions)	Financial Guarantee	Financial Services	Corporate	Total
December 31, 2010:				
Fixed income securities:				
Municipal obligations[1]	$ 2,181.6	$ —	$ 22.5	$ 2,204.1
Corporate obligations	811.0	106.9	—	917.9
Foreign obligations	118.4	—	—	118.4
U.S. government obligations	121.1	35.8	—	156.9
U.S. agency obligations	83.9	4.4	—	88.3
Residential mortgage-backed securities	944.2	554.5	—	1,498.7
Collateralized debt obligations	32.3	—	—	32.3
Other asset-backed securities	604.4	399.9	—	1,004.3
Other	0.1	—	—	0.1
	4,897.0	1,101.5	22.5	6,021.0
Short-term	661.0	6.9	40.9	708.8
	5,558.0	1,108.4	63.4	6,729.8
Fixed income securities pledged as collateral:				
U.S. government obligations	115.4	—	—	115.4
Residential mortgage-backed securities	8.1	—	—	8.1
	123.5	—	—	123.5
Total investments	$ 5,681.5	$ 1,108.4	$ 63.4	$ 6,853.3
Percent total	82.9%	16.2%	0.9%	100%
December 31, 2009:				
Fixed income securities:				
Municipal obligations	$ 3,166.0	$ 15.0	$ 24.5	$ 3,205.5
Corporate obligations	740.2	101.0	—	841.2
Foreign obligations	167.7	—	—	167.7
U.S. government obligations	79.5	153.9	—	233.4
U.S. agency obligations	65.8	7.7	—	73.5
Residential mortgage-backed securities	1,102.2	636.6	—	1,738.8
Collateralized debt obligations	56.4	—	—	56.4
Other asset-backed securities	831.3	424.7	—	1,256.0
Other	1.3	—	—	1.3
	6,210.4	1,338.9	24.5	7,573.8
Short-term	839.6	10.6	111.8	962.0
	7,050.0	1,349.5	136.3	8,535.8
Fixed income securities pledged as collateral:				
U.S. government obligations	123.1	—	—	123.1
U.S. agency obligations	17.4	—	—	17.4
Residential mortgage-backed securities	26.9	—	—	26.9
	167.4	—	—	167.4
Total investments	$ 7,217.4	$ 1,349.5	$ 136.3	$ 8,703.2
Percent total	82.9%	15.5%	1.6%	100%

(1) Includes taxable and tax exempt securities.

The following table represents the fair value of mortgage and asset-backed securities at December 31, 2010 and 2009 by classification:

($ in millions)	Financial Guarantee	Financial Services	Corporate	Total
December 31, 2010:				
Residential mortgage-backed securities:				
RMBS—First-lien—Alt-A	$ 502.9	$ 254.8	$ —	$ 757.7
U.S. Government Sponsored Enterprise Mortgages	121.0	293.2	—	414.2
RMBS—Second Lien	219.1	—	—	219.1
RMBS—First Lien—Sub Prime	99.6	—	—	99.6
Government National Mortgage Association	3.8	6.5	—	10.3
RMBS—First Lien—Prime	5.9	—	—	5.9
Total residential mortgage-backed securities	952.3	554.5	—	1,506.8
Other asset-backed securities				
Military Housing	368.6	—	—	368.6
Credit Cards	—	256.1	—	256.1
Structured Insurance	133.6	—	—	133.6
Auto	—	110.8	—	110.8
Student Loans	16.3	33.0	—	49.3
Other	85.9	—	—	85.9
Total other asset-backed securities	604.4	399.9	—	1,004.3
Total	$ 1,556.7	$ 954.4	$ —	$ 2,511.1
December 31, 2009				
Residential mortgage-backed securities:				
RMBS—First-lien—Alt-A	$ 701.8	$ 214.9	$ —	$ 916.7
U.S. Government Sponsored Enterprise Mortgages	157.3	379.8	—	537.1
RMBS—Second Lien	200.6	—	—	200.6
RMBS—First Lien—Sub Prime	47.2	—	—	47.2
Government National Mortgage Association	4.9	41.9	—	46.8
RMBS—First Lien—Prime	17.3	—	—	17.3
Total residential mortgage-backed securities	1,129.1	636.6	—	1,765.7
Other asset-backed securities				
Military Housing	362.9	—	—	362.9
Credit Cards	62.0	277.6	—	339.6
Structured Insurance	126.0	—	—	126.0
Auto	—	47.0	—	47.0
Student Loans	178.6	100.1	—	278.7
Aircraft Securitizations	5.2	—	—	5.2
Other	96.6	—	—	96.6
Total other asset-backed securities	831.3	424.7	—	1,256.0
Total	$ 1,960.4	$ 1,061.3	$ —	$ 3,021.7

The weighted average rating of the mortgage and asset-backed securities is BBB and BBB+, as of December 31, 2010 and 2009, respectively.

The following table provides the fair value of non-agency residential mortgage-backed securities by vintage and type at December 31, 2010 and 2009:

Year of Issue	First-lien Alt-A	Second-lien	First-lien Prime	First-lien Sub-Prime	Total
($ in millions)					
December 31, 2010					
2003 and prior	$ —	$ 1.0	$ —	$ 3.2	$ 4.2
2004	27.3	3.9	—	1.6	32.8
2005	209.1	50.9	5.9	3.5	269.4
2006	214.8	110.2	—	77.2	402.2
2007	306.5	53.1	—	14.1	373.7
Total	$ 757.7	$ 219.1	$ 5.9	$ 99.6	$ 1,082.3
December 31, 2009					
2003 and prior	$ —	$ 1.1	$ —	$ 2.7	$ 3.8
2004	26.4	4.0	—	1.9	32.3
2005	206.2	35.5	8.8	3.1	253.6
2006	289.5	121.2	—	24.4	435.1
2007	394.6	38.8	—	15.1	448.5
2009	—	—	8.5	—	8.5
Total	$ 916.7	$ 200.6	$ 17.3	$ 47.2	$ 1,181.8

The following table summarizes, for all securities in an unrealized loss position as of December 31, 2010 and 2009, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position:

	December 31, 2010		December 31, 2009	
($ in millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Municipal obligations in continuous unrealized loss for:				
0 - 6 months	$ 281.8	$ 7.6	$ 118.8	$ 4.1
7 - 12 months	—	—	—	—
Greater than 12 months	33.9	4.0	90.8	11.3
	315.7	11.6	209.6	15.4
Corporate obligations in continuous unrealized loss for:				
0 - 6 months	51.8	1.7	182.1	9.0
7 - 12 months	—	—	—	—
Greater than 12 months	212.4	22.1	188.7	28.6
	264.2	23.8	370.8	37.6
Foreign obligations in continuous unrealized loss for:				
0 - 6 months	—	—	21.0	0.5
7 - 12 months	—	—	—	—
Greater than 12 months	—	—	5.0	0.7
	—	—	26.0	1.2
U.S. treasury obligations in continuous unrealized loss for:				
0 - 6 months	5.0	—	68.1	1.5
7 - 12 months	—	—	—	—
Greater than 12 months	—	—	—	—
	5.0	—	68.1	1.5
U.S. agency obligations in continuous unrealized loss for:				
0 - 6 months	—	—	4.3	0.1
7 - 12 months	—	—	—	—
Greater than 12 months	—	—	—	—
	—	—	4.3	0.1
Residential mortgage-backed securities in continuous unrealized loss for:				
0 - 6 months	22.2	0.5	204.6	13.6
7 - 12 months	—	—	15.8	2.8
Greater than 12 months	127.8	40.2	129.0	79.7
	150.0	40.7	349.4	96.1
Collateralized debt obligations in continuous unrealized loss for:				
0 - 6 months	—	—	—	—
7 - 12 months	—	—	4.5	3.7
Greater than 12 months	30.4	9.1	51.9	19.0
	30.4	9.1	56.4	22.7
Other asset-backed securities in continuous unrealized loss for:				
0 - 6 months	97.3	1.5	272.9	30.1
7 - 12 months	4.7	—	107.5	12.9
Greater than 12 months	440.7	42.4	735.2	162.6
	542.7	43.9	1,115.6	205.6
Total	$ 1,308.0	$ 129.1	$ 2,200.2	$ 380.2

Management has determined that the unrealized losses in fixed income securities at December 31, 2010 are primarily driven by the uncertainty in the structured finance market, primarily with respect to non-agency residential mortgage backed securities and a general increase in risk and liquidity premiums demanded by fixed income investors. Ambac has concluded that unrealized losses reflected in the table above are temporary in nature based upon (a) no unexpected principal and interest payment defaults on these securities; (b) analysis of the creditworthiness of the issuer and analysis of projected defaults on the underlying collateral; and (c) Ambac's ability and current intent to hold these securities until a recovery in fair value or maturity. Of the $1,308.0 million that were in a gross unrealized loss position at December 31, 2010, below investment grade securities and non-rated securities had a fair value of $110.1 million and unrealized loss of $31.5 million, which represented 8.4% of the total fair value, and 24.4% of the unrealized loss as shown in the table above. Of the $2,200.2 million that were in a gross unrealized loss position at December 31, 2009, below investment grade securities and non-rated securities had a fair value of $114.4 million and an unrealized loss of $35.0 million, which represented 5.2% of the total fair value and 9.2% of the unrealized loss as shown in the above table.

During the years ended December 31, 2010 and 2009, there were other-than-temporary impairment write-downs in the Financial Guarantee and Financial Services investment portfolios. For the year ended December 31, 2010, other-than-temporary write-downs in the Financial Guarantee and Financial Services segments were $56.7 million and $3.1 million, respectively. As a result of the Segregated Account Rehabilitation, financial guarantee payments on securities guaranteed by Ambac Assurance which have been placed in the Segregated Account are no longer under the control of Ambac management. Accordingly, estimated cash flows on such securities have been adversely impacted resulting in credit losses as of December 31, 2009 and over the course of 2010, since we own some of those securities in our investment portfolio. For the year ended December 31, 2009 other-than-temporary write-downs in the Financial Guarantee and Financial Services segments were $1,570.7 million and $283.9 million, respectively. In addition to the effects of the Segregated Account Rehabilitation Plan as described above, the 2009 impairments were primarily related to Alt-A residential mortgage-backed securities which management believed had experienced some credit impairment and/or intended to sell. As of December 31, 2010, management has not asserted an intent to sell any securities from its portfolio. Future changes in our estimated liquidity needs could result in a determination that Ambac no longer has the ability to hold such securities, which could result in additional other-than-temporary impairment charges.

The following table summarizes amortized cost and fair value for all securities in an unrealized loss position as of December 31, 2010 and 2009, by contractual maturity date:

	December 31, 2010		December 31, 2009	
($ in millions)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Municipal obligations:				
Due in one year or less	$ —	$ —	$ —	$ —
Due after one year through five years	5.0	4.0	19.6	15.4
Due after five years through ten years	73.5	71.2	44.9	42.3
Due after ten years	248.8	240.5	160.5	151.9
	327.3	315.7	225.0	209.6
Corporate obligations:				
Due in one year or less	—	—	—	—
Due after one year through five years	70.6	69.3	95.2	89.7
Due after five years through ten years	129.4	114.4	218.7	197.7
Due after ten years	88.0	80.5	94.5	83.4
	288.0	264.2	408.4	370.8
Foreign obligations:				
Due in one year or less	—	—	5.7	5.0
Due after one year through five years	—	—	—	—
Due after five years through ten years	—	—	21.5	21.0
Due after ten years	—	—	—	—
	—	—	27.2	26.0
U.S. treasury obligations:				
Due in one year or less	—	—	—	—
Due after one year through five years	—	—	40.0	39.7
Due after five years through ten years	5.0	5.0	29.6	28.4
Due after ten years	—	—	—	—
	5.0	5.0	69.6	68.1
U.S. agency obligations:				
Due in one year or less	—	—	—	—
Due after one year through five years	—	—	—	—
Due after five years through ten years	—	—	4.4	4.3
Due after ten years	—	—	—	—
	—	—	4.4	4.3
Residential mortgage-backed securities	190.7	150.0	445.5	349.4
Collateralized debt obligations	39.5	30.4	79.1	56.4
Other asset-backed securities	586.6	542.7	1,321.2	1,115.6
Total	$ 1,437.1	$ 1,308.0	$ 2,580.4	$ 2,200.2

The following table summarizes, for all securities sold at a loss during 2010 and 2009, the aggregate fair value and realized loss by length of time those securities were continuously in an unrealized loss position prior to the sale date:

	December 31, 2010		December 31, 2009	
($ in millions)	Fair Value	Gross Realized Losses	Fair Value	Gross Realized Losses
Municipal obligations in continuous unrealized loss for:				
0 - 6 months	$ 49.1	$ 0.1	$ 96.2	$ 1.2
7 - 12 months	—	—	13.0	0.3
Greater than 12 months	2.0	—	25.1	2.6
	51.1	0.1	134.3	4.1
Corporate obligations in continuous unrealized loss for:				
0 - 6 months	4.5	0.9	28.2	0.5
7 - 12 months	0.2	—	—	—
Greater than 12 months	24.6	0.8	25.3	0.1
	29.3	1.7	53.5	0.6
U.S. government obligations in continuous unrealized loss for:				
0 - 6 months	29.9	1.0	58.8	0.2
7 - 12 months	—	—	—	—
Greater than 12 months	—	—	—	—
	29.9	1.0	58.8	0.2
U.S. agency obligations in continuous unrealized loss for:				
0 - 6 months	0.5	—	67.7	1.8
7 - 12 months	—	—	0.2	—
Greater than 12 months	—	—	—	—
	0.5	—	67.9	1.8
Residential mortgage-backed securities in continuous unrealized loss for:				
0 - 6 months	—	—	12.5	0.1
7 - 12 months	—	—	—	—
Greater than 12 months	—	—	5.2	0.2
	—	—	17.7	0.3
Collateralized debt obligations in continuous unrealized loss for:				
0 - 6 months	—	—	—	—
7 - 12 months	—	—	—	—
Greater than 12 months	28.1	6.0	0.4	0.3
	28.1	6.0	0.4	0.3
Other asset-backed securities in continuous unrealized loss for:				
0 - 6 months	—	—	1.0	—
7 - 12 months	5.6	0.7	51.0	0.2
Greater than 12 months	282.0	77.1	208.6	47.3
	287.6	77.8	260.6	47.5
Other securities in continuous unrealized loss for:				
0 - 6 months	—	—	0.4	0.1
7 - 12 months	—	—	0.2	0.1
Greater than 12 months	—	—	0.1	—
	—	—	0.7	0.2
Total	$ 426.5	$ 86.6	$ 593.9	$ 55.0

Excluded from 2010 and 2009 gross realized losses in the above table were impairment write-downs of $59.8 million and $1,854.6 million, respectively. Refer to the "Results of Operations—Financial Guarantee and Financial Services" sections for a further discussion of the impairment write-downs.

The following table provides the ratings distribution of the fixed income investment portfolio at December 31, 2010 and 2009 by segment:

Rating [1]:	Financial Guarantee	Financial Services	Combined
2010:			
AAA	30%	65%	36%
AA	32	14	29
A	16	2	13
BBB	10	2	9
Below investment grade	12	17	13
Not rated	<1	—	<1
	100%	100%	100%
2009:			
AAA	30%	70%	37%
AA	33	20	31
A	17	2	14
BBB	8	—	7
Below investment grade	12	8	11
Not rated	<1	—	<1
	100%	100%	100%

(1) Ratings are based on the lower of Moody's or S&P ratings. If guaranteed, rating represents the higher of the underlying or guarantor's financial strength rating.

Ambac's fixed income portfolio includes securities covered by guarantees issued by Ambac Assurance and other financial guarantors ("insured securities"). The published Moody's and S&P ratings on these securities reflect the higher of the financial strength rating of the financial guarantor or the rating of the underlying issuer. Rating agencies do not always publish separate underlying ratings (those ratings excluding the insurance by the financial guarantor) because the insurance cannot be legally separated from the underlying security by the insurer. Ambac obtains underlying ratings through ongoing dialogue with rating agencies and other sources. In the event these underlying ratings are not available from the rating agencies, Ambac will assign an internal rating. Since the insurance cannot be legally separated from the underlying security, the fair value of the insured securities in the investment portfolio includes the value of any financial guarantee embedded in such securities, including guarantees written by Ambac Assurance. In addition, a hypothetical fair value assuming the absence of the insurance is not readily available from our independent pricing sources.

The following table represents the fair value, including the value of the financial guarantee, and weighted-average underlying rating, excluding the financial guarantee, of the insured securities at December 31, 2010 and 2009, respectively:

($ in millions)	Municipal obligations	Corporate obligations	Mortgage and asset-backed securities	Other	Total	Weighted Average Underlying Rating[1]
December 31, 2010						
Financial Guarantee						
National Public Finance Guarantee Corporation	$ 815.8	$ 80.9	$ —	$ —	$ 896.7	AA-
Ambac Assurance Corporation	55.8	4.6	840.2	—	900.6	BB
Assured Guaranty Municipal Corporation	399.4	93.2	25.8	—	518.4	A+
Financial Guarantee Insurance Corporation	16.4	—	11.8	—	28.2	BBB+
MBIA Insurance Corporation	—	19.6	5.6	—	25.2	BBB-
Assured Guaranty Corporation	—	—	16.4	—	16.4	D
Total	$ 1,287.4	$ 198.3	$ 899.8	$ —	$ 2,385.5	BBB+
Financial Services						
Assured Guaranty Municipal Corporation	$ —	$ 57.9	$ —	$ —	$ 57.9	BBB
Assured Guaranty Corporation	—	—	28.7	—	28.7	BB
Total	$ —	$ 57.9	$ 28.7	$ —	$ 86.6	BBB-
Corporate						
Assured Guaranty Municipal Corporation	$ 22.5	$ —	$ —	$ —	$ 22.5	AA-
Total	$ 22.5	$ —	$ —	$ —	$ 22.5	AA-
December 31, 2009						
Financial Guarantee						
National Public Finance Guarantee Corporation	$ 1,546.0	$ 24.7	$ —	$ —	$ 1,570.7	A+
Ambac Assurance Corporation	53.8	22.9	745.9	1.2	823.8	BB
Assured Guaranty Municipal Corporation	630.6	86.7	28.1	—	745.4	A+
MBIA Insurance Corporation	—	17.7	10.8	—	28.5	BBB-
Financial Guarantee Insurance Corporation	16.0	—	22.5	—	38.5	BBB+
Assured Guaranty Corporation	—	—	16.2	—	16.2	D
Total	$ 2,246.4	$ 152.0	$ 823.5	$ 1.2	$ 3,223.1	A-
Financial Services						
Assured Guaranty Municipal Corporation	$ —	$ 54.8	$ —	$ —	$ 54.8	BBB
Assured Guaranty Corporation	—	—	27.0	—	27.0	BB
Total	$ —	$ 54.8	$ 27.0	$ —	$ 81.8	BBB-
Corporate						
Assured Guaranty Municipal Corporation	$ 24.5	$ —	$ —	$ —	$ 24.5	AA-
Total	$ 24.5	$ —	$ —	$ —	$ 24.5	AA-

(1) Ratings represent the lower underlying rating assigned by Moody's or S&P. If unavailable, Ambac's internal rating is used.

Taxes. On February 2, 2010, Ambac entered into a Tax Benefit Preservation Plan (the "Rights Plan") with Mellon Investor Services LLC, as Rights Agent. The Rights Plan was adopted in an effort to protect Ambac's valuable federal net operating losses ("NOLs") under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code").

As of December 31, 2010, Ambac had NOLs amounting to approximately $7.0 billion. Ambac can utilize these tax attributes in certain circumstances to offset future U.S. taxable income and reduce Ambac's U.S. federal income tax liability, which may arise even in periods when Ambac incurs a US GAAP accounting loss. However, Ambac's ability to use the NOLs could be substantially limited if there were an "ownership change" as defined under Section 382 of the Code. In general, an ownership change would occur if certain ownership changes related to Ambac's stock held by 5% or greater shareholders exceeded 50%, measured over a rolling up to three year period beginning with the last ownership change. These provisions can be triggered not only by new issuances and merger and acquisition activity, but by normal market trading, as well. The Rights Plan is designed to deter trading that would lead to the loss of Ambac's valuable NOLs and the resulting reduction in shareholder value.

Our Board of Directors has the discretion to exempt an acquisition of common stock from the provisions of the Rights Plan if it determines that the acquisition will not jeopardize tax benefits or is otherwise in Ambac's best interests. The Rights Plan was adopted with the sole intent of preserving Ambac's tax attributes, and not with the goal of deterring any strategic transactions.

Under the Rights Plan, from and after the record date of February 16, 2010, each share of our common stock will carry with it one preferred share purchase right (a "Right"), until the Distribution Date (as defined below) or earlier expiration of the Rights. In general terms, the Rights will work to impose a significant penalty upon any person or group which acquires 4.9% or more of our outstanding common stock after February 2, 2010, without the approval of our Board. Shareholders who own 4.9% or more of the outstanding common stock as of the close of business on February 2, 2010, will not trigger the Rights so long as they do not (i) acquire additional shares of common stock representing one percent (1.0%) or more of the shares of common stock then outstanding or (ii) fall under 4.9% ownership of common stock and then reacquire shares that in the aggregate equal 4.9% or more of the common stock.

Cash Flows. As a result of Ambac's bankruptcy filing on November 8, 2010, Ambac's pre-petition obligations are reported as Liabilities subject to compromise in the Consolidated Balance Sheets which will be disbursed in accordance with our plan of reorganization, including future interest on Ambac's debentures. Additionally, since August 15, 2009, Ambac has deferred interest payments on its $400 million of Directly Issued Subordinated Capital Securities Due 2087. By deferring interest payments on the DISCS, Ambac reduced its 2010 cash debt service requirements by $24.6 million. Net cash used in operating activities was ($2,087.0) million, ($1,877.3) million and ($845.7) million during 2010, 2009 and 2008, respectively.

Operating cash flows were negatively impacted by CDS loss payments, net of recoveries from hedge counterparties, of $2,789.0 million, including the Settlement Agreement of CDO of ABS, partially offset the reduction in insurance losses paid as a result of the claim moratorium with respect to the rehabilitation of the Segregated Account ($1,411.4 million of claims presented but not paid in 2010). Future net cash provided by operating activities will be impacted by the level of premium collections, surplus note interest payments (subject to approval by OCI) and claim payments (including the ultimate payment of presented but unpaid claims as a result of the claims moratorium), including payments under credit default swap contracts. Cash used in operating activities in 2009 and 2008 was primarily due to increased payments under interest rate, currency and total return swap obligations (including termination payments) and high loss / commutation payments on insurance policies and CDS contracts. The years ended December 31, 2009 and 2008 included $1,380.6 million and $1,850 million in CDS commutation payments and $1,458.5 million and $571.8 million in insurance loss payments, respectively. In 2009, Ambac received approximately $541.0 million in connection with reinsurance commutations that were executed during the year.

Net cash provided by investing activities was $2,471.7 million, $3,613.7 million and $4,672.6 million in 2010, 2009 and 2008, respectively. These investing activities were primarily from sales and maturities of fixed income securities to meet operating cash flow needs. Net cash used in financing activities was ($487.3) million, ($1,731.2) million and ($3,842.8) million during 2010, 2009 and 2008, respectively. Financing activities for the year ended December 31, 2010, 2009 and 2008 included repayments of investment and payment agreements of $400.2 million, $1,862.7 million and $5,363.0 million, respectively. Financing activities for the year ended December 31, 2008 include the proceeds from the issuance of common stock and long-term debt totaling $1,411.0 million and the proceeds from Ambac Assurance's issuance of preferred stock of $700 million. Total cash (used in) provided by operating, investing and financing activities was ($102.6) million, $5.4 million and ($15.8) million in 2010, 2009 and 2008, respectively.

SPECIAL PURPOSE and VARIABLE INTEREST ENTITIES

Please refer to Note 2, "Significant Accounting Policies" and Note 10, "Special Purpose Entities, Including Variable Interest Entities" of the Consolidated Financial Statements, located in Item 8 of this Form 10-K, for information regarding special purpose and variable interest entities. Ambac does not have any other off-balance sheet arrangements.

ACCOUNTING STANDARDS

Please refer to Note 2, "Significant Accounting Policies" of the Consolidated Financial Statements, located in Item 8 of this Form 10-K, for a discussion of the impact of recent accounting pronouncements on Ambac's financial condition and results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

RISK MANAGEMENT

Ambac's principal business strategy going forward is to increase the residual value of its financial guarantee business by mitigating losses on poorly performing transactions (including through the pursuit of recoveries in respect of paid claims, commutations of policies and repurchases of surplus notes issued in respect of claims) and maximizing the return on its investment portfolio. The Risk Management group is primarily responsible for the development, implementation and oversight of loss mitigation strategy. As a consequence of the Segregated Account Rehabilitation Proceedings, the rehabilitator retains operational control and decision-making authority with respect to all matters related to the Segregated Account, including surveillance, remediation and loss mitigation. Similarly, by virtue of the contracts executed between Ambac Assurance and the Segregated Account in connection with the establishment, and subsequent rehabilitation, of the Segregated Account, the rehabilitator retains the discretion to oversee and approve certain actions taken by Ambac Assurance in respect of assets and liabilities which remain in Ambac Assurance. As such, Ambac's risk management practices are qualified by reference to the rehabilitator's exercise of its discretion to alter or eliminate any of these risk management practices. By virtue of a management services contract executed between Ambac Assurance and the Segregated Account in connection with the establishment, and subsequent rehabilitation, of the Segregated Account, the Risk Management group is responsible for all surveillance, remediation and mitigation services provided to the Segregated Account under the supervision of the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"). Please refer to Risk Management located in Part I, Item 1: Business of this Form 10-K for further discussion of our Risk Management Group.

Credit Risk. Ambac is exposed to credit risk in various capacities including as an issuer of financial guarantees, including credit default swaps, as counterparty to reinsurers and derivative and other financial contracts and as a holder of investment securities.

Financial Guarantees—Risk Management's focus is on surveillance, remediation, loss mitigation and risk reduction. Surveillance analysts review, on a regular and ad hoc basis, credits in the financial guarantee book of business. Risk-adjusted surveillance strategies have been developed for each bond type. The monitoring activities are designed to detect deterioration in credit quality or changes in the economic, regulatory or political environment which could adversely impact the portfolio. Active surveillance enables Portfolio Risk Management to track single credit migration and industry credit trends. In some cases, Portfolio Risk Management will engage internal or external workout experts or attorneys and other consultants with appropriate expertise in the targeted loss mitigation to assist management in examining the underlying contracts or collateral, providing industry specific advice and/or executing strategies.

Investment Securities—Ambac manages credit risk associated with its investment portfolio through adherence to specific investment guidelines. These guidelines establish limits based upon single risk concentration, asset type limits and minimum credit rating standards. Additionally, senior credit personnel monitor the portfolio on a continuous basis. Credit monitoring of the investment portfolio includes procedures on residential mortgage backed securities consistent with these utilized to assign the risk of our insured RMBS expenses. Please refer to Note 3 "Investments" to the Consolidated Financial Statements, located in Item 8, and "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations, located in Item 7 of this Form 10-K for further disclosures relating to the investment portfolio.

Derivatives—Credit risks relating to derivative positions (other than credit derivatives) primarily concern the default of a counterparty. Counterparty default exposure is mitigated through the use of industry standard collateral posting agreements. For counterparties subject to such collateral posting agreements, collateral is posted when a derivative counterparty's credit exposure exceeds contractual limits. Derivative contracts entered into with financial guarantee customers are not subject to collateral posting agreements. Credit risk associated with such customer derivatives is managed through the financial guarantee portfolio risk management processes

described above. Please refer to Note 3 "Investments" to the Consolidated Financial Statements located in Item 8, and "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations, located in Item 7 of this Form 10-K for disclosures of collateral posted to Ambac under derivative contracts.

Reinsurance—To minimize its exposure to significant losses from reinsurer insolvencies, Ambac Assurance (i) monitors the financial condition of its reinsurers; (ii) is entitled to receive collateral from its reinsurance counterparties in certain reinsurance contracts; and (iii) has certain cancellation rights that can be exercised by Ambac Assurance in the event of rating agency downgrades of a reinsurer. At the inception of each reinsurance contract, Ambac Assurance requires collateral from certain reinsurers primarily to (i) receive statutory credit for the reinsurance for foreign reinsurers, and (ii) provide liquidity to Ambac Assurance in the event of claims on the reinsured exposures. Ambac Assurance held letters of credit and collateral amounting to approximately $313 million from its reinsurers at December 31, 2010. The largest reinsurer accounted for 6.4% of gross par outstanding at December 31, 2010.

As of December 31, 2010, the aggregate amount of insured par ceded by Ambac to reinsurers under reinsurance agreements was $26,273 million. The following table represents the percentage ceded to reinsurers and reinsurance recoverable at December 31, 2010 and the reinsurers' rating levels as of March 2, 2011:

	Moody's			
Reinsurers	Rating	Outlook	Percentage of total ceded par	Net unsecured reinsurance recoverable (in thousands)[1]
Assured Guaranty Re Ltd	A1	Negative Outlook	84.47%	$ —
Sompo Japan Insurance Inc	Aa3	Stable	7.77	—
Assured Guaranty Corporation	Aa3	Negative Outlook	7.62	14,747
Other			0.14	5,433
Total			100.00%	$ 20,180

(1) Represents reinsurance recoverables on paid and unpaid losses and deferred ceded premiums, net of ceded premium payables due to reinsurers, letters of credit, and collateral posted for the benefit of the Company.

Market Risk. Market risk represents the potential for losses that may result from changes in the value of a financial instrument as a result of changes in market conditions. The primary market risks that would impact the value of Ambac's financial instruments are interest rate risk, basis risk (e.g., taxable index rates relative to issue specific or tax-exempt index rates) and credit spread risk. Below we discuss each of these risks and the specific types of financial instruments impacted. Senior managers in Ambac's Risk Management group are responsible for monitoring risk limits and applying risk measurement methodologies. The estimation of potential losses arising from adverse changes in market conditions is a key element in managing market risk. Ambac utilizes various systems, models and stress test scenarios to monitor and manage market risk. This process includes frequent analyses of both parallel and non-parallel shifts in the benchmark interest rate curve and "Value-at-Risk" ("VaR") measures. These models include estimates, made by management, which utilize current and historical market information. The valuation results from these models could differ materially from amounts that would actually be realized in the market.

Financial instruments for which fair value may be adversely affected by changes in interest rates consist primarily of investment securities, loans, investment agreement liabilities, obligations under payment agreements, long-term debt and interest rate derivatives. The following table summarizes the estimated change in fair value (based primarily on the valuation models discussed above) on these financial instruments, assuming immediate changes in interest rates at specified levels at December 31, 2010 and 2009:

Change in Interest Rates	Estimated Net Fair Value	Estimated Change in Net Fair Value
($ in millions)		
2010:		
300 basis point rise	$ 5,628	$ (266)
200 basis point rise	5,709	(185)
100 basis point rise	5,798	(96)
Base scenario	5,894	—
100 basis point decline	5,992	103
200 basis point decline	6,109	215
300 basis point decline	6,226	332
2009:		
300 basis point rise	$ 7,046	$ (496)
200 basis point rise	7,217	(325)
100 basis point rise	7,384	(158)
Base scenario	7,542	—
100 basis point decline	7,694	152
200 basis point decline	7,840	298
300 basis point decline	7,981	439

Ambac Financial Services ("AFS") manages its swaps business with the goal of being market neutral to changes in benchmark interest rates while retaining some basis risk and some excess interest rate sensitivity as an economic hedge against the effects of rising interest rates elsewhere in the Company, including on Ambac's financial guarantee exposures (the "Macro Hedge"). Basis risk in the portfolio arises from (i) variability in the ratio of benchmark tax-exempt to taxable interest rates, (ii) potential changes in municipal issuers' bond-specific variable rates relative to taxable interest rates, and (iii) variability between Treasury and swap rates. If actual or projected benchmark tax-exempt interest rates increase or decrease in a parallel shift by 1% in relation to taxable interest rates, Ambac would experience a mark-to-market gain or loss of $0.2 million and $0.02 million at December 31, 2010 and 2009, respectively. For a 1 basis point parallel shift in USD Libor interest rates versus the US Treasury rate Ambac would experience a mark-to-market gain or loss of $0.01 million and $0.06 million at December 31, 2010 and 2009, respectively. Each of the amounts above is presenting sensitivity (gain or loss) under the assumption that everything else remains unchanged. Actual changes in tax-exempt interest rates, and US Libor vs. US Treasury, as well as changes in Libor curves for different currencies themselves are correlated. This correlation is taken into account when we produce VaR numbers based on historical changes of all interest rate risk components as discussed below.

The estimation of potential losses arising from adverse changes in market relationships, known as VaR, is a key element in management's monitoring of basis risk for the municipal interest rate swap portfolio. Ambac has developed a VaR methodology to estimate potential losses using a one day time horizon and a 99% confidence level. This means that Ambac would expect to incur losses greater than that predicted by VaR estimates only once in every 100 trading days, or about 2.5 times a year. Ambac's methodology estimates VaR using a 300-day historical "look back" period. This means that changes in market values are simulated using market inputs from the past 300 days. For the years ended December 31, 2010 and 2009, Ambac's VaR, for its interest rate swap portfolio (which excludes the Macro Hedge) averaged approximately $3.7 million and $4.5 million, respectively. Ambac's VaR ranged from a high of $6.5 million to a low of $1.9 million in 2010 and from a high of $6.5 million to a low of $2.2 million in 2009. Ambac supplements its VaR methodology, which it believes is a good

risk management tool in normal markets, by performing rigorous stress testing to measure the potential for losses in abnormally volatile markets. These stress tests include (i) parallel and non-parallel shifts in the benchmark interest rate curve and (ii) immediate changes in normal basis relationships, such as those between taxable and tax-exempt markets.

The municipal interest rate swaps we provide require AFS to receive a fixed rate and pay either a tax-exempt index rate or an issue-specific bond rate on a variable-rate municipal bond. Beginning 2008, dislocation in the credit markets and rating agency actions on Ambac Assurance led to increases in Ambac's payments under interest rate swaps where Ambac pays an issue-specific rate, resulting in losses on those swaps. These swaps contain provisions that are designed to protect against certain forms of basis risk or tax reform. Such provisions include the ability of AFS to convert the rate from the underlying issue-specific bond rate to an alternative floating rate that is a tax-exempt index rate or a fixed percentage of a taxable index rate in the event that the interest rate on the bond is adversely affected due to a credit downgrade or in the event the bonds are put to a liquidity provider under a liquidity facility. Since 2008, Ambac has (i) terminated the vast majority of these swaps, (ii) converted others to an alternative floating rate; or (iii) purchased the variable rate bonds for inclusion in the investment portfolio. As a result of these actions, the remaining notional value of affected variable-rate municipal bond swaps is $69 million as of December 31, 2009.

Financial instruments that may be adversely affected by changes in credit spreads include Ambac's outstanding credit derivative contracts and invested assets. Changes in credit spreads are generally caused by changes in the market's perception of the credit quality of the underlying obligations. Market liquidity and prevailing risk premiums demanded by market participants are also reflected in credit spreads and impact valuations.

Ambac, through its subsidiary Ambac Credit Products ("ACP"), entered into credit derivative contracts. These contracts require ACP to make payments upon the occurrence of certain defined credit events relating to an underlying obligation (generally a fixed income obligation). If credit spreads of the underlying obligations change, the market value of the related credit derivative changes. As such, ACP could experience mark-to-market gains or losses.

The following table summarizes the net par exposure outstanding (notional values) and net derivative asset (liability) balance related to credit derivatives as of December 31, 2010 and 2009 by asset type:

($ in millions)	CDO of ABS	CLO	Other	Total
2010:				
Net par outstanding	$ —	$ 11,593	$ 7,173	$ 18,766
Net liability fair value	—	(71)	(151)	(222)
2009:				
Net par outstanding	$ 16,718	$ 17,774	$ 8,784	$ 43,276
Net liability fair value	(2,253)	(382)	(404)	(3,039)

The following table summarizes the estimated change in fair values on the net balance of Ambac's net credit derivative contracts assuming immediate parallel shifts in reference obligation spreads at December 31, 2010 and 2009:

Change in Underlying Spreads	CDO of ABS	CLO	Other	Total	Total Estimated Unrealized Gain/(Loss)
2010:					
500 basis point widening	$ —	$ (130)	$ (126)	$ (256)	$ (478)
250 basis point widening	—	(65)	(63)	(128)	(350)
50 basis point widening	—	(13)	(12)	(25)	(247)
Base scenario	—	—	—	—	(222)
50 basis point narrowing	—	13	12	25	(197)
250 basis point narrowing	—	58	52	110	(112)
500 basis point narrowing	—	69	83	152	(70)
2009:					
500 basis point widening	$ (1,363)	$ (450)	$ (250)	$ (2,063)	$ (5,102)
250 basis point widening	(682)	(225)	(125)	(1,032)	(4,071)
50 basis point widening	(136)	(45)	(25)	(206)	(3,245)
Base scenario	—	—	—	—	(3,039)
50 basis point narrowing	136	45	25	206	(2,833)
250 basis point narrowing	677	217	115	1,009	(2,030)
500 basis point narrowing	1,322	295	193	1,810	(1,229)

The decrease in the credit derivative portfolio's sensitivity to changes in reference obligation credit spreads from December 31, 2009 to December 31, 2010 resulted from the commutation of all CDO of ABS and certain other transactions during 2010. Refer to "2010 Overview" in Note 1 to the Consolidated Financial Statements located in Item 8 of this Form 10-K for a description of the Settlement Agreement with respect to CDO of ABS and certain other CDO-related obligations.

Also included in the fair value of credit derivative liabilities is the effect of current Ambac's creditworthiness, which reflects market perception of Ambac's ability to meet its obligations. Refer to Note 16 to the Consolidated Financial Statements located in Item 8 of this Form 10-K for discussion of Ambac's fair value measurements for credit derivatives. Incorporating estimates of Ambac's credit valuation adjustment into the determination of fair value has resulted in a $886.7 million and $13.2 billion reduction to the credit derivatives liability as of December 31, 2010 and 2009, respectively.

Beginning in the second half of 2007 and continuing through 2010, credit spreads on certain fixed income securities held in our investment portfolio have widened substantially. In particular, certain Alt-A residential mortgage backed securities originally rated triple-A and purchased at or near par value are valued at yields indicating spreads greater than 1,200 basis points over LIBOR as of December 31, 2010. Some of the impairments to fair value on these securities have been determined to be other-than-temporary during management's quarterly evaluation process resulting in adjustments to the cost basis of the securities. Cumulative reductions to fair value on Ambac's investments in Alt-A securities held at December 31, 2010, including those recorded as adjustments to the amortized cost basis due to other-than-temporary impairment, total $0.6 billion. Future performance of the mortgages underlying these securities, as well as U. S. residential mortgages in general, market liquidity for RMBS securities and other factors could result in significant changes to credit spreads and consequently the fair value of our invested assets.

Liquidity Risk. Liquidity risk relates to the possible inability to satisfy contractual obligations when due. This risk is present in financial guarantee contracts, derivative contracts, surplus notes (included in Long-term debt on the Consolidated Balance Sheet) and investment agreements. Ambac Assurance manages its liquidity risk

by maintaining a comprehensive analysis of projected cash flows. Additionally, the financial guarantee business maintains a specified level of cash and short-term investments at all times. Interest and principal payments on surplus notes are subject to approval of Ambac Assurance's insurance regulator, which has full discretion over deferral of payments regardless of the liquidity position of Ambac Assurance. The investment agreement business manages liquidity risk by matching the maturity schedules of its invested assets with the maturity schedules of its investment agreement liabilities. AFS maintains cash and short-term investments and closely matches the date swap payments are made and received. Liquidity risk also exists in the derivative contract and investment agreement portfolios due to contract provisions which may require collateral posting or early termination of contracts. Both the investment agreement business and AFS also borrow cash and securities from Ambac Assurance to meet liquidity needs when such borrowing is determined to be most economically beneficial to Ambac Assurance. Intercompany loans are made under established lending agreements with defined borrowing limits that have received non-disapproval from Ambac Assurance's insurance regulator.

Operational Risk. Operational risk relates to the potential for loss resulting from: inadequate or failed internal processes, loss of key personnel, breakdown of settlement or communication systems, inadequate execution of strategy or from external events, leading to disruption of our business. Events subject to operational risk include:

* Internal Fraud—misappropriation of assets, intentional mismarking of positions,
* External Fraud—theft of information, third-party theft and forgery,
* Clients, Products, & Business Practice—improper trade, fiduciary breaches,
* Damage to Physical Assets—vandalism,
* Business Disruption & Systems Failures—software failures, hardware failures; and
* Execution, Delivery, & Process Management—data entry errors, accounting errors, failed mandatory reporting, settlement errors, negligence.

Ambac mitigates operational risk through the maintenance of current control documentation and the performance of control procedures surrounding transaction authorization, confirmation, booking and settlement. Additionally, internal audits and control reviews are performed throughout the year to help validate the ongoing design and operating effectiveness of the internal controls over financial reporting (ICOFR) and other controls determined to be key to Ambac's operations.

Ambac tests critical systems (and their backup), and maintains a disaster recovery site in upstate New York as part of its Disaster Recovery Plan. This remote hot-site facility is complete with user work stations, phone system, data center, internet connectivity and a power generator, capable of serving the needs of the disaster recovery team to support all business segment operations. The plan, facility and systems are revised and upgraded where necessary, and user tested annually to confirm their readiness.

Legal Risk. Legal risks attendant to Ambac's businesses include uncertainty with respect to the enforceability of the obligations insured by Ambac Assurance and the security for such obligations, as well as uncertainty with respect to the enforceability of the obligations of Ambac's counterparties, including contractual provisions intended to reduce exposure by providing for the offsetting or netting of mutual obligations. Ambac seeks to remove or minimize such uncertainties through continuous consultation with internal and external legal advisers to analyze and understand the nature of legal risk, to improve documentation and to strengthen transaction structure.

Item 8. Financial Statements and Supplementary Data.

Management's Responsibility for Financial Information

The management of Ambac Financial Group, Inc. ("Ambac") is responsible for the integrity and objectivity of the Consolidated Financial Statements and all other financial information presented in this Form 10-K and for assuring that such information fairly presents the consolidated financial position and operating results of Ambac. The accompanying Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles using management's best estimates and judgment. The financial information presented elsewhere in this Form 10-K is consistent with that in the Consolidated Financial Statements.

The independent registered public accounting firm audits Ambac's Consolidated Financial Statements in accordance with the standards of the Public Company Accounting Oversight Board.

The Audit Committee of the Board of Directors, comprised solely of independent directors, meets regularly with financial and risk management, the internal auditors and the independent registered public accounting firm to review the work and procedures of each. The independent registered public accounting firm and the internal auditors have free access to the Audit Committee, without the presence of management, to discuss the results of their work and their considerations of Ambac and its subsidiaries and the quality of Ambac's financial reporting. The Audit Committee appoints the independent registered public accounting firm, subject to stockholder approval.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Ambac Financial Group, Inc.:

We have audited Ambac Financial Group, Inc.'s (Debtor-in-Possession) (the "Company" or "Ambac") internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying*Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to the Company's loss reserving practices has been identified and included in management's assessment. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ambac as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2010 consolidated financial statements, and this report does not affect our report dated March 16, 2011, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, Ambac has not maintained effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

New York, New York
March 16, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Ambac Financial Group, Inc.:

We have audited the accompanying consolidated balance sheets of Ambac Financial Group, Inc. and subsidiaries (Debtor-in-Possession) (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedules in this Form 10-K. These consolidated financial statements and financial statement schedules are the responsibility of Ambac Financial Group, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ambac Financial Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ambac Financial Group, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2011, expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

The accompanying consolidated financial statements and financial statement schedules have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, on November 8, 2010, Ambac Financial Group, Inc. filed for relief under Chapter 11 of the United States Bankruptcy Code and there are uncertainties inherent in the bankruptcy process. The significant deterioration of the guaranteed portfolio coupled with the inability to write new financial guarantees has adversely impacted the business, results of operations and financial condition of the Company's operating subsidiary, Ambac Assurance Corporation. Ambac Assurance Corporation is subject to significant regulatory oversight by the Office of the Commissioner of Insurance of the State of Wisconsin, including the recent establishment and rehabilitation of a segregated account of Ambac Assurance Corporation. Additionally, as discussed in Note 1 to the consolidated financial statements, the Company has limited liquidity. Such factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements and financial statement schedules do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2 to the consolidated financial statements; the Company changed its method of accounting for qualifying special purpose entities and variable interest entities due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board as of January 1, 2010, the Company changed its method of evaluating other-than-temporary impairments on securities due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board as of April 1, 2009, and the

Company changed its method of accounting for financial guarantee contracts due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board as of January 1, 2009. Also as discussed in Note 2, as a result of filing for relief under Chapter 11 of the United States Bankruptcy Code, the Company began applying additional accounting and financial reporting guidance applicable to Debtors-in-Possession on November 8, 2010.

/s/ KPMG LLP

New York, New York
March 16, 2011

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
Consolidated Balance Sheets

(Dollars in Thousands, Except per Share Data)	December 31, 2010	December 31, 2009
Assets:		
Investments:		
Fixed income securities, at fair value (amortized cost of $5,707,727 in 2010 and $7,605,565 in 2009)	$ 6,020,895	$ 7,572,570
Fixed income securities pledged as collateral, at fair value (amortized cost of $120,918 in 2010 and $164,356 in 2009)	123,519	167,366
Short-term investments at cost (approximates fair value)	708,797	962,007
Other (cost of $100 in 2010 and $1,278 in 2009)	100	1,278
Total investments	6,853,311	8,703,221
Cash and cash equivalents	9,497	112,079
Restricted cash	2,500	—
Receivable for securities sold	23,505	3,106
Investment income due and accrued	45,066	73,062
Premium receivables	2,422,596	3,718,158
Reinsurance recoverable on paid and unpaid losses	136,986	78,115
Deferred ceded premium	264,858	500,804
Subrogation recoverable	714,270	902,612
Deferred taxes	—	11,250
Current taxes	—	421,438
Deferred acquisition costs	250,649	279,704
Loans	20,167	80,410
Derivative assets	290,299	496,494
Other assets	82,579	229,299
Variable interest entity assets:		
Fixed income securities, at fair value	1,904,361	525,947
Restricted cash	2,098	1,151
Investment income due and accrued	4,065	4,133
Loans (includes $15,800,918 and $2,428,352 at fair value)	16,005,066	2,635,961
Derivative assets	4,511	109,411
Other assets	10,729	12
Total assets	$ 29,047,113	$ 18,886,367
Liabilities and Stockholders' Equity:		
Liabilities:		
Liabilities subject to compromise	$ 1,695,231	$ —
Unearned premiums	4,007,886	5,687,114
Losses and loss expense reserve	5,288,655	4,771,684
Ceded premiums payable	141,450	291,843
Obligations under investment and payment agreements	767,982	1,177,406
Obligations under investment repurchase agreements	37,650	113,527
Current taxes	22,534	—
Long-term debt	208,260	1,631,556
Accrued interest payable	61,708	47,125
Derivative liabilities	348,791	3,536,858
Other liabilities	124,748	248,655
Payable for securities purchased	—	2,074
Variable interest entity liabilities:		
Accrued interest payable	3,425	3,482
Long-term debt (includes $15,885,711 and $2,789,556 at fair value)	16,101,026	3,008,628
Derivative liabilities	1,580,120	—
Other liabilities	11,875	60
Total liabilities	30,401,341	20,520,012

(Dollars in Thousands, Except per Share Data)	December 31, 2010	December 31, 2009
Stockholders' deficit:		
Preferred stock, par value $0.01 per share; authorized shares—4,000,000; issued and outstanding shares—none	—	—
Common stock, par value $0.01 per share; authorized shares—650,000,000 at December 31, 2010 and 2009; issued and outstanding shares—308,016,764 at December 31, 2010 and 294,378,282 at December 31, 2009	3,080	2,944
Additional paid-in capital	2,187,485	2,172,656
Accumulated other comprehensive income (loss)	291,774	(24,827)
Accumulated deficit	(4,042,335)	(3,878,015)
Common stock held in treasury at cost, 5,893,054 shares at December 31, 2010 and 6,780,093 shares at December 31, 2009	(448,540)	(560,543)
Total Ambac Financial Group, Inc. stockholders' deficit	(2,008,536)	(2,287,785)
Noncontrolling interest	654,308	654,140
Total stockholders' deficit	(1,354,228)	(1,633,645)
Total liabilities and stockholders' deficit	$29,047,113	$18,886,367

See accompanying Notes to Consolidated Financial Statements.

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
Consolidated Statements of Operations

(Dollars in Thousands, Except Share Data)	Years Ended December 31,		
	2010	2009	2008
Revenues:			
Financial Guarantee:			
Net premiums earned	$ 545,975	$ 797,360	$ 1,022,757
Net investment income	324,042	482,684	480,138
Other-than-temporary impairments:			
Total other-than-temporary impairment losses	(62,104)	(1,587,994)	(70,931)
Portion of loss recognized in other comprehensive income	5,380	17,276	—
Net other-than-temporary impairment losses recognized in earnings	(56,724)	(1,570,718)	(70,931)
Net realized investment gains	76,405	131,660	79,938
Change in fair value of credit derivatives:			
Realized (losses) and gains and other settlements	(2,757,624)	(1,379,736)	(1,794,428)
Unrealized gains (losses)	2,817,807	5,192,663	(2,236,694)
Net change in fair value of credit derivatives	60,183	3,812,927	(4,031,122)
Other income	106,032	410,927	8,523
(Loss) income on variable interest entity activities	(616,688)	7,454	123
Financial Services:			
Investment income	34,129	70,746	255,885
Derivative products	(106,565)	(207,210)	(134,198)
Other-than-temporary impairments:			
Total other-than-temporary impairment losses	(3,079)	(283,858)	(451,932)
Portion of loss recognized in other comprehensive income	—	—	—
Net other-than-temporary impairment losses recognized in earnings	(3,079)	(283,858)	(451,932)
Net realized investment gains	72,874	184,474	215,582
Net change in fair value of total return swap contracts	—	18,573	(129,565)
Net mark-to-market (losses) gains on non-trading derivative contracts	(14,295)	11,268	(15,792)
Corporate and Other:			
Other income	1,674	34,121	3,309
Net realized investment gains	10,172	33	—
Total revenues before reorganization items	434,135	3,900,441	(2,767,285)
Expenses:			
Financial Guarantee:			
Losses and loss expenses	719,362	2,815,313	2,227,583
Underwriting and operating expenses	198,423	175,718	215,773
Interest expense on surplus notes	62,207	—	—
Financial Services:			
Interest from investment and payment agreements	16,844	34,131	234,977
Operating expenses	13,740	12,588	12,747
Corporate and Other:			
Interest	102,278	119,626	114,226
Other expenses	42,302	18,160	45,752
Total expenses before reorganization items	1,155,156	3,175,536	2,851,058
Pre-tax (loss) income from continuing operations before reorganization items	(721,021)	724,905	(5,618,343)
Reorganization items	31,980	—	—
Pre-tax (loss) income from continuing operations	(753,001)	724,905	(5,618,343)
Provision (benefit) for income taxes	135	739,521	(9,207)
Net loss	($ 753,136)	($ 14,616)	($ 5,609,136)
Less: net gain (loss) attributable to the noncontrolling interest	63	(3)	112
Net loss attributable to Ambac Financial Group, Inc.	($ 753,199)	($ 14,613)	($ 5,609,248)
Net loss per share	($ 2.56)	($ 0.05)	($ 22.31)
Weighted-average number of common shares outstanding:			
Basic	294,423,698	287,647,272	251,391,680
Diluted	294,423,698	287,647,272	251,391,680

See accompanying Notes to Consolidated Financial Statements.

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AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
Consolidated Statements of Stockholders' Equity

			Ambac Financial Group, Inc.						
(Dollars in Thousands)	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Preferred Stock	Common Stock	Paid-in Capital	Common Stock Held in Treasury, at Cost	Noncontrolling Interest
Balance at January 1, 2008	$ 2,271,954	$ —	$ 2,107,773	($ 22,138)	$ —	$ 1,092	$ 839,952	($ 646,786)	($ 7,939)
Sales of subsidiary shares to noncontrolling interest	700,000								700,000
Net loss	(5,609,136)	(5,609,136)	(5,609,248)						112
Comprehensive loss:									
Other comprehensive loss:									
Unrealized losses on securities, net of deferred income taxes of ($838,871)[1]	(1,635,326)	(1,635,326)		(1,635,326)					
Gain on derivative hedges, net of deferred income taxes of $7,440	9,303	9,303		9,303					
Gain on foreign currency translation, net of deferred income taxes of ($11,866)	(21,023)	(21,023)		(22,037)					1,014
Other comprehensive loss	(1,647,046)	(1,647,046)							
Total comprehensive loss	(7,256,182)	($ 7,256,182)							
Adjustment to initially apply ASC 820 and ASC 825, net of deferred income taxes of $10,826	20,102		20,102						
Dividends declared—common stock	(15,804)		(15,804)						
Dividends on restricted stock units	(33)		(33)						
Exercise of stock options	(53,558)		(53,558)						
Issuance of stock	1,182,032					1,852	1,180,180		
Stock-based compensation	23,749						23,749		
Excess cost related to share-based compensation	(13,850)						(13,850)		
Cost of shares acquired	(1,090)							(1,090)	
Shares issued under equity plans	53,558							53,558	
Balance at December 31, 2008	($ 3,089,122)		($ 3,550,768)	($ 1,670,198)	$ —	$ 2,944	$ 2,030,031	($ 594,318)	$ 693,187
Balance at January 1, 2009	($ 3,089,122)	$ —	($ 3,550,768)	($ 1,670,198)	$ —	$ 2,944	$ 2,030,031	($ 594,318)	$ 693,187
Sale of subsidiary shares to noncontrolling interest	100,000								100,000
Retirement of shares issued to noncontrolling interest	(11,178)						128,547		(139,725)
Net loss	(14,616)	(14,616)	(14,613)						(3)
Comprehensive income:									
Other comprehensive income:									
Unrealized gains on securities, net of deferred income taxes of $879,166[1]	1,734,803	1,734,803		1,734,803					
Gain on derivative hedges, net of deferred income taxes of $617	1,145	1,145		1,145					
Gain on foreign currency translation, net of deferred income taxes of $6,467	12,679	12,679		11,998					681
Other comprehensive gain	1,748,627	1,748,627							
Total comprehensive gain	1,734,011	1,734,011							
Adjustment to initially apply ASC 944-20-65-1	(381,716)		(381,716)						
Adjustment to initially apply ASC 320-10-65-1	—		102,065	(102,065)					

Valuation allowance on equity	13,307	13,307						
Net Change related to employee benefit plan	(510)		(510)					
Dividends declared—subsidiary shares to noncontrolling interest	(12,509)	(12,509)						
Dividends on restricted stock units	—	—						
Stock-based compensation	(19,703)	(33,781)				14,078		
Excess cost related to share-based compensation	—					—		
Cost of shares acquired	(122)						(122)	
Shares issued under equity plans	33,897						33,897	
Balance at December 31, 2009	($ 1,633,645)	($ 3,878,015)	($ 24,827)	$ —	$ 2,944	$ 2,172,656	($ 560,543)	$ 654,140

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AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
Consolidated Statements of Stockholders' Equity

			Ambac Financial Group, Inc.						
(Dollars in Thousands)	Total	Comprehensive Income	Accumulated Deficit	Accumulated Other Comprehensive Income	Preferred Stock	Common Stock	Paid-in Capital	Common Stock Held in Treasury, at Cost	Noncontrolling Interest
Balance at January 1, 2010	($1,633,645)	$ —	($ 3,878,015)	($ 24,827)	$ —	$ 2,944	$ 2,172,656	($ 560,543)	$ 654,140
Comprehensive loss:									
Net loss	(753,136)	(753,136)	(753,199)						63
Other comprehensive loss:									
Unrealized gains on securities, net of deferred income taxes of $10,495[(1)]	332,251	332,251		332,251					
Loss on derivative hedges, net of deferred income taxes of $755	1,403	1,403		1,403					
Loss on foreign currency translation, net of deferred income taxes of $1,528	(18,231)	(18,231)		(18,336)					105
Other comprehensive gain	315,423	315,423							
Total comprehensive loss	(437,713)	(437,713)							
Adjustment to initially apply ASU 2009-17	705,046		702,042	3,004					
Dividends declared—subsidiary shares to noncontrolling interest	(817)		(817)						
Excess cost related to share-based compensation	—						—		
Issuance of stock	9,618					136	9,482		
Stock-based compensation	(108,720)		(112,346)	(1,721)			5,347		
Dividends on restricted stock units	—		—						
Cost of shares acquired	(342)							(342)	
Shares issued under equity plans	112,345							112,345	
Balance at December 31, 2010	($1,354,228)		($ 4,042,335)	$ 291,774	$ —	$ 3,080	$ 2,187,485	($ 448,540)	$ 654,308

(1) Disclosure of reclassification amount:

	2010	2009	2008
Unrealized holding gains (losses) arising during period	$ 397,082	$ 685,979	($ 1,944,299)
Less: reclassification adjustment for net gains (losses) included in net (loss) income	64,831	(1,048,824)	(308,973)
Net unrealized gains (losses) on securities	$ 332,251	$ 1,734,803	($ 1,635,326)

See accompanying Notes to Consolidated Financial Statements.

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AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
Consolidated Statements of Cash Flows

(Dollars in Thousands)	Years Ended December 31, 2010	2009	2008
Cash flows from operating activities:			
Net loss attributable to common shareholders	($ 753,199)	($ 14,613)	($ 5,609,248)
Noncontrolling interest in subsidiaries' earnings	63	(3)	112
Net loss	($ 753,136)	($ 14,616)	($ 5,609,136)
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	3,645	2,983	3,161
Amortization of bond premium and discount	(125,884)	(215,866)	(36,768)
Reorganization items	31,980	—	—
Share-based compensation	5,364	14,078	17,414
Current income taxes	443,972	(228,769)	(290,495)
Deferred income taxes, net	—	1,243,587	822,286
Deferred acquisition costs	29,055	(80,187)	48,410
Unearned premiums, net	(1,443,282)	(801,900)	(545,517)
Losses and loss expenses, net	646,442	1,342,628	1,635,819
Ceded premiums payable	(150,393)	(387,541)	(16,838)
Investment income due and accrued	27,996	39,108	85,135
Premium receivables	1,295,562	904,700	6,161
Accrued interest payable	14,583	(17,840)	(43,722)
Net mark-to-market gains	(2,803,512)	(5,222,504)	2,382,051
Net realized investment gains	(159,451)	(316,167)	(295,520)
Other-than-temporary impairment charges	59,803	1,854,576	522,863
Variable interest entity activities	616,688	(7,454)	(123)
Other, net	171,055	13,921	469,136
Transfers to restricted cash	2,500	—	—
Net cash used in operating activities	(2,087,013)	(1,877,263)	(845,683)
Cash flows from investing activities:			
Proceeds from sales of bonds	2,448,814	3,692,378	7,694,587
Proceeds from matured bonds	701,288	658,705	1,293,819
Purchases of bonds	(1,124,881)	(2,176,535)	(3,320,776)
Change in short-term investments	253,210	492,222	(575,190)
Loans, net	60,243	482,323	32,677
Change in swap collateral receivable	117,143	460,048	(577,063)
Other, net	15,891	4,593	124,579
Net cash provided by investing activities	2,471,708	3,613,734	4,672,633
Cash flows from financing activities:			
Dividends paid—common stockholders	—	—	(15,804)
Dividends paid—subsidiary shares to noncontrolling interest	(817)	(12,509)	—
Securities sold under agreements to repurchase	—	—	(100,000)
Proceeds from issuance of investment and payment agreements	1,315	96,140	84,412
Payments for investment and payment draws	(400,206)	(1,862,721)	(5,362,970)
Proceeds from issuance of long-term debt	—	—	228,969
Proceeds from issuance of subsidiary shares to noncontrolling interest	—	100,000	700,000
Retirement of subsidiary shares to noncontrolling interest	—	(11,178)	—
Capital issuance costs	—	(297)	(18,298)
Net cash collateral received	(87,569)	(40,589)	(526,168)
Proceeds from issuance of common stock	—	—	1,182,032
Purchases of treasury stock	—	—	(1,090)
Excess tax benefit related to share-based compensation	—	—	(13,850)
Net cash used in financing activities	(487,277)	(1,731,154)	(3,842,767)
Net cash flow	(102,582)	5,317	(15,817)
Cash and cash equivalents at January 1	112,079	106,762	122,579
Cash and cash equivalents at December 31	$ 9,497	$ 112,079	$ 106,762

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Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes	$ —	$ —	$ 29,641
Interest expense on long-term debt	$ 61,568	$ 101,016	$ 105,597
Interest on investment agreements	$ 19,584	$ 43,870	$ 276,494
Cash receipts and payments related to reorganization items:			
Professional fees paid for services rendered in connection with the Chapter 11 proceeding	$ —	$ —	$ —

Supplemental disclosure of noncash financing activities:

The company issued common stock upon the extinguishment of $20,311 in long-term debt. In addition, the company issued $2,050,000 of surplus notes in connection with the settlement of credit derivative and insurance liabilities as discussed in Note 7 to the Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements

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1 BACKGROUND AND BASIS OF PRESENTATION

Ambac Financial Group, Inc. ("Ambac" or the "Company"), headquartered in New York City, is a holding company incorporated in the state of Delaware. Ambac was incorporated on April 29, 1991. On November 8, 2010, Ambac filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code ("Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York ("Bankruptcy Court"). Ambac will continue to operate in the ordinary course of business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. Ambac Assurance Corporation ("Ambac Assurance") is Ambac's principal operating subsidiary. Ambac Assurance is a financial guaranty insurer whose financial strength was formerly rated triple-A by each of the major rating agencies and which provided financial guarantees and financial services to clients in both the public and private sectors around the world.

The deterioration of Ambac Assurance's financial condition resulting from losses in its insured portfolio and the resulting downgrades of Ambac Assurance's financial strength ratings have made it impossible for it to write new business. Inability to write new business will negatively impact Ambac's future business, operations and financial results. Ambac Assurance's ability to pay dividends, and as a result Ambac's liquidity, has been significantly restricted by the deterioration of Ambac Assurance's financial condition, by the rehabilitation of the Segregated Account (defined and described in more detail below) and by the terms of the Settlement Agreement (as hereinafter defined) with counterparties of CDO of ABS transactions. Refer to "2010 Overview" below for further discussion of Ambac's bankruptcy, the creation and rehabilitation of the Segregated Account and the Settlement Agreement with the counterparties of CDO of ABS transactions.

Ambac's principal business strategy is to reorganize its capital structure and financial obligations through the bankruptcy process and to increase the residual value of its financial guarantee business by mitigating losses on poorly performing transactions (including through the pursuit of recoveries in respect of paid claims, commutations of policies and repurchases of surplus notes issued in respect of claims) and maximizing the return on its investment portfolio. The execution of such strategy with respect to Segregated Account Policies will be subject to the authority of the rehabilitator of the Segregated Account to control the management of the Segregated Account. In exercising such authority, the rehabilitator will act for the benefit of policyholders, and will not take into account the interests of Ambac. Similarly, by operation of the contracts executed in connection with the establishment, and subsequent rehabilitation, of the Segregated Account, the rehabilitator retains rights to oversee and approve certain actions taken in respect of Ambac Assurance. This oversight by the rehabilitator could impair Ambac's ability to execute the foregoing strategy. As a result of uncertainties associated with the aforementioned factors, management has concluded that there is substantial doubt about the ability of the Company to continue as a going concern. The Company's financial statements as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009, and 2008 are prepared assuming the Company continues as a going concern and do not include any adjustment that might result from its inability to continue as a going concern.

2010 Overview:

Chapter 11 Reorganization

On November 8, 2010 (the "Petition Date"), Ambac ("Debtor") filed a voluntary petition for relief under Chapter 11 ("Bankruptcy Filing") of the Bankruptcy Code in the Bankruptcy Court. Ambac will continue to operate in the ordinary course of business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

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As required by the Bankruptcy Code, the United States Trustee appointed the "Official Committee of Unsecured Creditors ("Creditors' Committee")". The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to the Debtor. There can be no assurance that the Creditors' Committee will support the Debtor's positions on matters to be presented to the Bankruptcy Court in the future or on any plan of reorganization. Disagreements between the Debtor and the Creditors' Committee could prolong the court proceedings, negatively impact the Debtor's ability to operate, and delay the Debtor's emergence from bankruptcy.

Ambac was unable to raise additional capital as an alternative to seeking bankruptcy protection and was also unable to agree to terms with an ad-hoc committee of certain senior debt holders in order to restructure its outstanding debt prior to the Bankruptcy Filing. As such, Ambac will seek to propose a reorganization plan as a debtor-in-possession; contingent upon the outcome of negotiations among Ambac, the Creditors' Committee and Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"), such reorganization plan may or may not be supported by the Creditors' Committee. There is significant uncertainty as to how holders of Ambac's securities will be treated under the Reorganization Plan. It is likely, however, that Ambac's debt holders and creditors will receive all equity in the reorganized company.

Prior to the Bankruptcy Filing, Ambac, Ambac Assurance, OCI and the ad hoc committee agreed to a non-binding term sheet that currently serves as the basis for negotiation with the Creditors' Committee with respect to the allocation of potential sources of value and expenses between Ambac and Ambac Assurance, respectively. This includes the allocation of tax attributes (including, without limitation, Net Operating Loss ("NOLs")) and cost sharing arrangements among Ambac and Ambac Assurance. Given the implications to Ambac Assurance of any agreement with respect to these matters, OCI and the Rehabilitator have participated in negotiations. If the negotiations do not produce an agreement among the parties, Ambac's creditors could take actions which would adversely affect Ambac Assurance and/or the Segregated Account. As such, OCI may determine that it is in the best interests of policyholders to initiate rehabilitation proceedings with respect to Ambac Assurance, either pre-emptively, or in response to any such action.

As of December 31, 2010, Ambac had debt outstanding amounting to $1,622,189. The Bankruptcy Filing constituted an event of default with respect to the following debt instruments (collectively, the "Debt Documents"):

- Indenture, dated as of August 1, 1991, between Ambac and The Bank of New York Mellon (as successor trustee to The Chase Manhattan Bank (National Association)) (the "1991 Indenture"), as trustee, with respect to $122,189 principal and accrued and unpaid interest on outstanding debt securities in the form of 9-3/8% debentures due August 1, 2011;
- 1991 Indenture with respect to $75,000 principal and accrued and unpaid interest on outstanding debt securities in the form of 7-1/2% debentures due May 1, 2023;
- Indenture, dated as of August 24, 2001, between Ambac and The Bank of New York Mellon (as successor trustee to JP Morgan Chase Bank) (the "2001 Indenture"), as trustee, with respect to $200,000 principal and accrued and unpaid interest on outstanding debt securities in the form of 5.95% debentures due February 28, 2103;
- 2001 Indenture with respect to $175,000 principal and accrued and unpaid interest on outstanding debt securities in the form of 5.875% debentures due March 24, 2103;
- Indenture, dated as of April 22, 2003, between Ambac and The Bank of New York Mellon (as successor trustee to JP Morgan Chase Bank), as trustee, with respect to $400,000 principal and accrued and unpaid interest on outstanding debt securities in the form of 5.95% debentures due December 5, 2035;

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- Indenture, dated as of February 15, 2006, as supplemented by the Supplemental Indenture, dated as of March 12, 2008, both between Ambac and The Bank of New York Mellon, as trustee, with respect to $250,000 principal and accrued and unpaid interest on outstanding debt securities in the form of 9.50% senior notes due February 15, 2021; and
- Junior Subordinated Indenture and First Supplemental Indenture, both dated as of February 12, 2007, between Ambac and The Bank of New York Mellon, as trustee, with respect to $400,000 principal and accrued and unpaid interest on outstanding debt securities in the form of 6.15% Directly Issued Subordinated Capital Securities due February 7, 2087.

As a result of the Bankruptcy Filing, Ambac's obligations under the debt securities described above were accelerated. Upon the bankruptcy filing, any efforts to enforce such payment obligations under the Debt Documents are stayed pursuant to the automatic stay provisions of section 362 of the Bankruptcy Code, and the creditors' rights of enforcement in respect of the Debt Documents are subject to the applicable provisions of the Bankruptcy Code.

Ambac has and will continue to file various documents with, and provide certain information to, the Bankruptcy Court, including statements of financial affairs, schedules of assets and liabilities and monthly operating reports in forms prescribed by federal bankruptcy law. While these documents and information accurately provide then-current information required under federal bankruptcy law, they are nonetheless unconsolidated, unaudited and are prepared in a format different from that used in Ambac's US GAAP basis consolidated financial statements filed under the securities laws. Accordingly, Ambac believes that the substance and format do not allow meaningful comparison with its publicly-disclosed US GAAP basis consolidated financial statements. Moreover, the materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to Ambac's securities, or for comparison with other financial information filed with the SEC.

Shortly after the Petition Date, Ambac began notifying current or potential creditors of the Bankruptcy Filing. Subject to certain exceptions under the Bankruptcy Code, the Bankruptcy Filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against Ambac. Thus, for example, most creditor actions to obtain possession of property from Ambac, or to create, perfect or enforce any lien against the property of Ambac, or to collect on monies owed or otherwise exercise rights or remedies to a claim arising prior to the Petition Date are enjoined unless and until the Bankruptcy Court lifts the automatic stay. Vendors are being paid for goods furnished and services provided after the Petition Date in the ordinary course of business. The deadline for filing of proofs of claims against Ambac was March 4, 2011. At this time, the Company is still assessing the amount and the validity of the claims recently filed.

In order to successfully emerge from bankruptcy, Ambac will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve Ambac's obligations arising prior to the Petition Date, set forth the revised capital structure of a newly reorganized Ambac and provide for corporate governance subsequent to emergence from bankruptcy. As described above, a plan of reorganization may also resolve the issues with respect to the allocation of value and expenses as between Ambac and Ambac Assurance which are the subject of negotiations among Ambac, Ambac Assurance, the Creditors' Committee and OCI.

Upon commencing the Bankruptcy Filing, Ambac had the exclusive right for 120 days after the Petition Date to file a plan of reorganization and, if we do so, 60 additional days to obtain necessary acceptances of the

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plan. Ambac filed and received Bankruptcy Court approval to extend its exclusive rights to file a plan of reorganization and obtain necessary acceptances of the plan by 120 days to and including July 6, 2011 and September 6, 2011, respectively. Further extensions are subject to approval by the Bankruptcy Court. If Ambac's exclusivity period lapses, any party in interest would be able to file a plan of reorganization for Ambac. In addition to being approved by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be approved, or confirmed by the Bankruptcy Court in order to become effective.

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

A significant consideration for any restructuring or reorganization is the impact, if any, on Ambac's estimated $7,002,069 net operating loss tax carry forward. Ambac considers the NOLs to be a valuable asset. However, Ambac's ability to use the NOLs could be substantially limited if there were an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended. In general, an ownership change would occur if shareholders owning 5% or more of Ambac's stock increased their percentage ownership (by value) in Ambac to 50% or more, as measured over a rolling three year period beginning with the last ownership change. These provisions can be triggered by new issuances of stock, merger and acquisition activity or normal market trading. On February 2, 2010, Ambac entered into a Tax Benefit Preservation Plan to reduce the risk of an ownership change resulting from the trading of Ambac's stock.

In connection with the Bankruptcy Filing, the Bankruptcy Court issued an interim order (the "Interim Order") restricting certain transfers of equity interests in and claims against Ambac. The purpose of the Interim Order is to preserve Ambac's NOLs. Under section 382 of the Internal Revenue Code of 1986, as amended (the "Tax Code"), transfers by persons or entities holding 5 percent or more of Ambac's outstanding equity interests could impair or permanently eliminate Ambac's NOLs. Moreover, transfers of claims against Ambac by persons or entities who may receive 5 percent or more of the reorganized Company's stock pursuant to a bankruptcy plan of reorganization may impair or permanently eliminate Ambac's NOLs. Accordingly, the Interim Order implements notice and hearing procedures for transfers by a person or entity that beneficially owns, or would beneficially own, more than 13,500,000 shares of Ambac's stock. Transfers of stock in violation of this Interim Order will be void ab initio. In addition, the Interim Order requires persons or entities that beneficially own claims against Ambac totaling more than an amount which could permit such claimholder to acquire 4.5 percent or more of the reorganized debtor agree to "sell down" a portion of its claims against Ambac prior to a bankruptcy reorganization, such that the claimholder would receive less than 4.5 percent of the reorganized

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Company's stock in a bankruptcy plan of reorganization that may qualify for section 382(l)(5) of the Tax Code. Any claimholder who does not comply with the Interim Order would only receive stock in the reorganized Company equal to less than 4.5 percent of the reorganized Company's outstanding stock. The Ambac Assurance NOL and certain other tax attributes or tax benefits of the Ambac Consolidated Tax Group may be subject to limitation as a result of a bankruptcy reorganization.

Ambac Assurance's CDS portfolio experienced significant losses. The majority of these CDS contracts are on a "pay as you go" basis, and we believe that they are properly characterized as notional principal contracts for U.S. federal income tax purposes. Generally, losses on notional principal contracts are ordinary losses. However, the federal income tax treatment of credit default swaps is an unsettled area of the tax law. As such, it is possible that the Internal Revenue Service may decide that the "pay as you go" CDS contracts should be characterized as capital assets or that certain payments made with respect to the CDS contracts should be characterized as capital losses. Recently, the Internal Revenue Service opened an examination into certain issues related to Ambac Assurance's tax accounting methods with respect to such CDS contracts and Ambac Assurance's related characterization of such losses as ordinary losses. Although, as discussed above, Ambac Assurance believes these contracts are properly characterized as notional principal contracts, if the Internal Revenue Service today were to successfully assert, as a result of its examination, that these contracts should be characterized as capital assets or as generating capital losses, Ambac and Ambac Assurance would be subject to both a substantial reduction in its net operating loss carryforwards and would suffer a material assessment for federal income taxes.

On November 9, 2010, Ambac and the Internal Revenue Service (the "IRS") agreed to a stipulation on the record that provides that the IRS would give notice at least 5 business days prior to taking any action against Ambac's nondebtor subsidiaries in the consolidated tax group that would violate the State Court Injunction, whether or not in effect. The stipulation permits the status quo to be maintained from November 9, 2010 until a hearing on the preliminary injunction that Ambac plans to seek under Bankruptcy Code section 105(a) barring assessment and collection of the 2003 through 2008 tax refunds by the IRS against Ambac's nondebtor subsidiaries in the consolidated tax group. On the same date, Ambac filed and served a complaint against the IRS for a declaratory judgment relating to the tax refunds. On January 14, 2011, the IRS filed its Answer and opposition to Ambac's Motion for Temporary Restraining Order and Preliminary Injunction. On January 13, 2011, the IRS filed a motion in the United States District Court for the Southern District of New York ("USDC SDNY") to withdraw the Adversary Proceeding from the Bankruptcy Court to the USDC SDNY. Ambac has opposed such motion. On February 1, 2011, Ambac filed a motion with the Bankruptcy Court for Pretrial Conference and for Authorization to Implement Alternative Dispute Resolution Procedures. The Bankruptcy Court on March 2, 2011 ordered the process of non-binding mediation to begin on or about May 1, 2011 and to conclude no later than on or about September 6, 2011. The Bankruptcy Court also approved a scheduling order which, among other things, ordered fact discovery in the Adversary proceeding to be completed by August 5, 2011; dispositive motions to be filed by September 16, 2011, and trial to be scheduled, thereafter, pursuant to further order of the Court.

Ambac's liquidity and solvency are largely dependent on its current cash and investments of $63,491 at December 31, 2010 (excluding $2,500 of restricted cash), dividends from Ambac Assurance, and on the residual value of Ambac Assurance. It is highly unlikely that Ambac Assurance will be able to make dividend payments to Ambac for the foreseeable future. The principal uses of liquidity will be the payment of operating expenses, professional advisory fees incurred in connection with the bankruptcy and expenses related to pending litigation. The likelihood of dividend payments to Ambac from Ambac Assurance could be further reduced if OCI initiates delinquency proceedings against Ambac Assurance.

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While management believes that Ambac will have sufficient liquidity to satisfy its needs until it emerges from the bankruptcy proceeding, no guarantee can be given that it will be able to pay all such expenses. If its liquidity runs out prior to emergence from bankruptcy, a liquidation of Ambac pursuant to Chapter 7 of the Bankruptcy Code will occur. While the Company's NOLs could be used to offset income or gain of Ambac Assurance realized prior to a completion of a liquidation (and/or by Ambac in the event that a transaction allocating NOLs to Ambac is completed), the NOLs would not be available following the liquidation or sale of Ambac's assets. As a result, in the event of a Chapter 7 liquidation, the Company is likely to be unable to utilize a substantial portion of its NOLs.

NYSE Delisting

On December 17, 2010, the New York Stock Exchange delisted the common stock of Ambac and certain other securities of Ambac.

The delisted NYSE securities include:

- Common Stock, $0.01 per share (former NYSE ticker symbol: ABK);
- 5.875% Debentures, Due March 24, 2103 (former NYSE ticker symbol: AKT);
- 5.95% Debentures, Due February 28, 2103 (former NYSE ticker symbol: AKF); and
- 9.50% Equity Units, Due February 15, 2021 (former NYSE ticker symbol: ABK PRZ).

As a result of the delisting, Ambac's common stock and the shares of its equity units are trading exclusively on the over-the-counter ("OTC") market. On the OTC market, shares of Ambac's common stock trade under the symbol ABKFQ. The debt underlying the shares of Ambac's equity units trade under the symbol ABKFQ.BK.

Segregated Account

On March 24, 2010, Ambac Assurance acquiesced to the request of the OCI to establish a segregated account pursuant to Wisc. Stat. §611.24(2) (the "Segregated Account"). Under Wisconsin insurance law, the Segregated Account is a separate insurer from Ambac Assurance for purposes of the Segregated Account Rehabilitation Proceedings (as defined and described below). The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities. The Segregated Account is operated in accordance with a Plan of Operation (the "Plan of Operation") and certain operative documents relating thereto (which include the Secured Note, the Reinsurance Agreement, the Management Services Agreement and the Cooperation Agreement). These operative documents provide that the Segregated Account will act exclusively through the rehabilitator. Pursuant to the Plan of Operation, Ambac Assurance has allocated to the Segregated Account (1) certain policies insuring or relating to credit default swaps; (2) residential mortgage-backed securities ("RMBS") policies; (3) certain Student Loan Policies, some of which were allocated to the Segregated Account on March 24, 2010 (or shortly thereafter), and some of which were allocated on October 8, 2010, after undergoing an assessment process contemplated by the Plan of Operations; and (4) other policies insuring obligations with substantial projected impairments or relating to transactions which have contractual triggers based upon Ambac Assurance's financial condition or the commencement of rehabilitation, which triggers are potentially damaging (collectively, the "Segregated Account Policies"). The policies described in (4) above include (a) certain types of securitizations, including commercial asset-backed transactions, consumer asset-backed transactions and other types of structured transactions; (b) the policies relating to Las Vegas Monorail Company; (c) policies relating to debt securities purchased by, and the debt securities issued by, Juneau

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Investments, LLC and Aleutian Investments, LLC, which are both finance companies owned by Ambac Assurance; (d) policies relating to leveraged lease transactions; and (e) policies relating to interest rate, basis, and/or currency swap or other swap transactions. Ambac Assurance also allocated the following to the Segregated Account: (i) all remediation claims, defenses, offsets, and/or credits (except with respect to recoveries arising from remediation efforts or reimbursement or collection rights), if any, in respect of the Segregated Account Policies, (ii) Ambac Assurance's disputed contingent liability, if any, under the long-term lease with One State Street, LLC, and its contingent liability (as guarantor), if any, under the Ambac Assurance UK Limited ("Ambac UK") lease with British Land, (iii) Ambac Assurance's limited liability interests in Ambac Credit Products, LLC ("ACP"), Ambac Conduit Funding LLC, Aleutian Investments, LLC ("Aleutian") and Juneau Investments, LLC ("Juneau") and (iv) all of Ambac Assurance's liabilities as reinsurer under reinsurance agreements (except for reinsurance assumed from Everspan). The Ambac UK lease was terminated in 2010 without any payment by Ambac Assurance. As noted below in "Subsequent Event" on March 1, 2011, Ambac entered into a termination agreement with the landlord at One State Street, LLC, and as a result, Ambac Assurance's contingent liability will be released upon the effective date of the termination agreement. Net par exposure as of December 31, 2010 for policies allocated to the Segregated Account is $44,190,797. Net par exposure allocated to the Segregated Account no longer includes exposure previously assumed from Ambac UK. See below for further discussion on the Commutation of the AUK Reinsurance Agreement in 2010.

On March 24, 2010, the OCI commenced rehabilitation proceedings with respect to the Segregated Account (the "Segregated Account Rehabilitation Proceedings") in order to permit the OCI to facilitate an orderly run-off and/or settlement of the liabilities allocated to the Segregated Account pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act. The rehabilitator of the Segregated Account is Theodore Nickel, the Commissioner of Insurance of the State of Wisconsin. On March 24, 2010, the rehabilitation court also issued an injunction effective until further order of the court enjoining certain actions by Segregated Account policyholders and other counterparties, including the assertion of damages or acceleration of losses based on early termination and the loss of control rights in insured transactions. Certain Segregated Account policyholders have filed lawsuits challenging the Segregated Account Rehabilitation Proceedings. See Note 13 for more information on our Legal Proceedings.

On October 8, 2010, the Rehabilitator filed a plan of rehabilitation for the Segregated Account (the "Segregated Account Rehabilitation Plan") in the Dane County Circuit Court in Wisconsin (the "Rehabilitation Court"). The Rehabilitation Court confirmed the Segregated Account Rehabilitation Plan on January 24, 2011. The effective date of the Segregated Account Rehabilitation Plan will be determined by the Rehabilitator. Claims on Segregated Account Policies remain subject to a payment moratorium until the Segregated Account Rehabilitation Plan becomes effective. Insurance claims presented during the moratorium of $1,411,446 for policies allocated to the Segregated Account have not yet been paid. Under the Segregated Account Rehabilitation Plan holders of permitted policy claims will receive 25% of their permitted claims in cash and 75% in Segregated Account Surplus Notes, and delivery of such cash and Segregated Account Surplus Notes will constitute satisfaction under the Segregated Account Rehabilitation Plan in full of the Segregated Account's obligations in respect of each claim. The policyholders will not have the option to reject the surplus notes as consideration for settling claim liabilities. The Segregated Account Rehabilitation Plan also makes permanent the injunctions issued by the Rehabilitation Court on March 24, 2010.

Effective November 7, 2010, the Plan of Operation for the Segregated Account was amended for the purpose of allocating to the Segregated Account (i) any and all liabilities (including contingent liabilities) it has or may have, now or in the future, to Ambac, or any successor to Ambac, in regard to, or respecting, tax refunds and/or the July 18, 1991 Tax Sharing Agreement, as amended (other than any liability to Ambac pertaining to

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any possible misallocation of up to $38,486 of tax refunds received by Ambac Assurance in September 2009 and February 2010), (ii) any and all liabilities (including contingent liabilities) it has or may have, now or in the future, to the IRS and/or the United States Department of the Treasury (the "U.S. Treasury") in regard to, or in respect of, taxes imposed under the Internal Revenue Code of 1986, as amended (the "Federal Taxes"), for taxable periods ending on or prior to December 31, 2009 and, (iii) to the extent not described in clause (ii), any and all liabilities (including contingent liabilities) Ambac Assurance has or may have, now or in the future, to the IRS and/or the U.S. Treasury in regard to, or respect of, any Federal Tax refunds that were received prior to November 7, 2010 by Ambac Assurance, Ambac or their affiliates (each of clauses(i), (ii) and (iii), the "Allocated Disputed Contingent Liabilities"). In addition, on November 8, 2010, the rehabilitation court issued an order for temporary supplemental injunctive relief (the "State Court Injunction") enjoining Ambac, any successor-in-interest, any state court receiver of Ambac, all persons purporting to be creditors of Ambac, the IRS and all other federal and state governmental entities from commencing or prosecuting any actions, claims, lawsuits or other formal legal proceedings relating to the Allocated Disputed Contingent Liabilities.

Ambac Assurance has issued a $2,000,000 secured note due in 2050 (the "Secured Note") to the Segregated Account. The Segregated Account has the ability to demand payment from time to time to pay claims and other liabilities. The balance of the Secured Note is $1,912,051 at December 31, 2010, inclusive of capitalized interest since the date of issuance. In addition, once the Secured Note has been exhausted, the Segregated Account has the ability to demand payment from time to time under an aggregate excess of loss reinsurance agreement provided by Ambac Assurance (the "Reinsurance Agreement") to pay claims and other liabilities. Ambac Assurance is not obligated to make payments on the Secured Note or under the Reinsurance Agreement if its surplus as regards to policyholders is (or would be) less than $100,000, or such higher amount as the OCI permits pursuant to a prescribed accounting practice (the "Minimum Surplus Amount"). As long as the surplus as regards to policyholders is not less than the Minimum Surplus Amount, payments by the general account of Ambac Assurance (the "General Account") to the Segregated Account under the Reinsurance Agreement are not capped. There is no Wisconsin insurance fund available to pay claims.

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

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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, which amounted to $151,989 at December 31, 2010. 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 attaches only after all principal under the Secured Note has been paid. The Reinsurance Agreement contains the same covenants for the benefit of the Segregated Account as those that appear in the Secured Note, as described in the preceding paragraph.

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

During the Segregated Account Rehabilitation Proceedings, the Rehabilitator controls the management of the Segregated Account. Ambac Assurance provides 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 are 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.

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Ambac Assurance and the Segregated Account have also entered into a Cooperation Agreement (the "Cooperation Agreement"), pursuant to which the parties have agreed to certain matters related to decision-making, information sharing, tax compliance and allocation of expenses (including an agreement by Ambac Assurance to reimburse the Segregated Account for specified expenses to the extent not reimbursed under the Secured Note, subject to the Minimum Surplus Amount). Ambac Assurance has made certain covenants to the Segregated Account, including an agreement to not enter into any transaction involving more than $5,000 (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 operating expense budget for Ambac Assurance and its subsidiaries, as well as quarterly analyses of variances. 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.

Settlement Agreement

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

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

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

Pursuant to a commutation agreement entered into with each of the Counterparties that is a party to credit default swaps written by ACP with respect to certain CDO of ABS obligations and related financial guarantee insurance policies written by Ambac Assurance with respect to ACP's obligations thereunder, Ambac Assurance and ACP commuted all of such obligations (the "Commuted CDO of ABS Obligations"), totaling $16,542,575 of par. In addition to the commutation of the Commuted CDO of ABS Obligations, Ambac Assurance has also commuted for $96,518 of cash certain additional obligations, including certain non-CDO of ABS obligations, to the Counterparties with par or notional amounting to $1,406,544. Ambac Assurance commuted another CDO of ABS transaction in an amount equal to its remaining par value of $90,000. It is expected that, subject to certain

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conditions, certain other non-CDO of ABS obligations with par amounting to a maximum of approximately $701,750 will be commuted within the next six months for approximately $44,712. Each of the Counterparties, in the aggregate and Ambac Assurance, ACP and Ambac, in the aggregate, have released the other party from any claims relating to any credit default swaps or financial guarantee insurance policies commuted pursuant to the Commutation Agreements. In addition, Ambac Assurance, ACP and Ambac, in the aggregate, and a Counterparty have generally released the other parties from any claims relating to actions taken or omitted to be taken prior to June 7, 2010, subject to certain exceptions.

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

Ambac UK

Pursuant to the Amended and Restated 1997 Reinsurance Agreement between Ambac UK and Ambac Assurance (the "AUK Reinsurance Agreement"), Ambac Assurance reinsured substantially all of the liabilities under policies issued by Ambac UK. On March 24, 2010, Ambac Assurance's liabilities under the AUK Reinsurance Agreement were allocated to the Segregated Account. On September 28, 2010, Ambac Assurance entered into a Commutation and Release Agreement (the "AUK Commutation Agreement") with Ambac UK and the Special Deputy Commissioner of OCI, pursuant to which the AUK Reinsurance Agreement was commuted and other capital support arrangements between Ambac Assurance and AUK were terminated.

Impact of Settlement Agreement and Segregated Account Rehabilitation Proceeding on Ambac

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

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

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Tax Treatment of Surplus Notes

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

To the extent Ambac Assurance is no longer a member of the Company Consolidated Tax Group, the Ambac Assurance NOL (and certain other available tax attributes of Ambac Assurance and the other members of the Ambac Assurance Consolidated Tax Group) may no longer be available for use by Ambac or any of the remaining members of 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 future tax liabilities of Ambac Consolidated Tax Group. In addition, certain other benefits resulting from U.S. federal income tax consolidation may no longer be available to 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 Surplus Notes are characterized as equity of Ambac Assurance and it is determined the Surplus Notes represent more than 50% of the total value of the stock of Ambac Assurance, the Ambac Assurance NOL (and certain other tax attributes or tax benefits of the Ambac Assurance Consolidated Tax Group) may be subject to limitation, including the limitation provided by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). If Section 382 were applicable with respect to the Ambac Assurance Consolidated Tax Group, in general, the Ambac Assurance Consolidated Tax Group annual use of the group's NOL may be limited to an amount equal to the product of (i) the value of the Ambac Assurance Consolidated Tax Group's stock and (ii) the applicable federal long-term tax exempt interest rate. However, certain exemptions to the Code Section 382 limitation may be applicable.

Furthermore, to the extent Ambac Assurance is no longer characterized as a member of the Company Consolidated Tax Group, the Ambac Assurance Consolidated Tax Group may not reconsolidate with Ambac Consolidated Tax Group for a period of five years following such event, even if Ambac were to be characterized as reacquiring or owning 80% or more of the stock of the Ambac Assurance Consolidated Tax Group following any deconsolidation. In addition, depending upon certain facts related to the potential deconsolidation of the Ambac Assurance Consolidated Tax Group and any reconsolidation with 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 NOL to the Ambac Assurance Consolidated Tax Group.

Reclassifications:

Certain reclassifications have been made to prior periods' amounts to conform to the current period's presentation, including those related to the adoption of ASU 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprise Involved with Variable Interest Entities*.

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Subsequent Event:

On March 1, 2011, Ambac, Ambac Assurance, the Segregated Account of Ambac Assurance Corporation and One State Street, LLC ("OSS") entered into a settlement agreement (the "Settlement Agreement") to terminate the Company's existing headquarters office lease with OSS (the "Existing Lease") and agree to settle all claims among the parties relating to the Existing Lease.

The Settlement Agreement provides that Ambac Assurance and OSS will enter into a new lease (the "New AAC Lease") for a reduced amount of space. The Settlement Agreement also provides that OSS will have an allowed general unsecured claim in Ambac's bankruptcy case for the amount that the Company would owe OSS under the U. S. Bankruptcy Code upon rejection of the existing lease, which amount will be determined on the Effective Date (as defined below) but will not exceed $14.3 million (the "AFG Payment"). The AFG Payment will be made by the Company in the same form as payment is made to the Company's other creditors. The Settlement Agreement further provides that the Segregated Account will issue junior surplus notes to OSS. The amount of the junior surplus notes will be determined on the Effective Date and will equal: (i) the net present value using a 7% discount rate ("NPV") of certain amounts owed under the Existing Lease; minus (ii) the NPV of amounts owed under the New AAC Lease; minus (iii) 83.33% of the value of any distribution received by OSS from the Company's bankruptcy estate; minus (iv) the NPV of amounts paid for any extension of term of the New AAC Lease.

The Effective Date will occur on the date on which certain conditions have been satisfied, so long as such events occur prior to June 30, 2011, including, without limitation, approval of the Settlement Agreement by (i) the rehabilitator for the Segregated Account, (ii) the Wisconsin rehabilitation court, (iii) the bankruptcy court in the Company's bankruptcy, (iv) OCI and (v) OSS's mortgage holder.

On March 1, 2011, Ambac Assurance also entered into the New AAC Lease with OSS for an initial term commencing on the Effective Date through December 31, 2015. The New AAC Lease provides for the rental of a reduced amount of space at the Company's current location, One State Street Plaza, at a current market price of approximately $20 million in the aggregate over the initial term. The New AAC Lease also provides that its term may be extended to September 30, 2019 under certain circumstances. If the Settlement Agreement and new lease were executed as of December 31, 2010 and effective as of March 1, 2011, the future net minimum lease payments disclosed in Note 13 would have been reduced by $3,790, $4,554, $4,788, $5,063, $5,390 and $39,361 for the years ended 2011, 2012, 2013, 2014, 2015 and thereafter, respectively.

2 SIGNIFICANT ACCOUNTING POLICIES

Ambac's consolidated financial statements have been prepared on the basis of U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. Such estimates that are particularly susceptible to change in the near term are used in connection with certain fair value measurements, the evaluation of other than temporary impairments on investments, loss reserves for non-derivative insurance policies and the evaluation of the need for a valuation allowance on the deferred tax asset, any of which individually could be material. Current market conditions increase the risk and complexity of the judgments in estimates.

Entities operating in bankruptcy and expecting to reorganize under Chapter 11 of the Bankruptcy Code are subject to the additional accounting and financial reporting guidance in ASC Topic 852 "*Reorganizations*". While ASC Topic 852 provides specific guidance for certain matters, other portions of US GAAP continue to

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apply so long as the guidance does not conflict with ASC Topic 852. This accounting literature provides guidance for periods subsequent to a Chapter 11 filing, among other things, the presentation of liabilities that are and are not subject to compromise by the Bankruptcy Court proceedings, as well as the treatment of interest expense and presentation of costs associated with the proceedings. In accordance with ASC Topic 852, debt discounts or premiums as well as debt issuance costs should be viewed as valuations of the related debt. When the debt has become an allowed claim and the allowed claim differs from the carrying amount of the debt, the recorded amount should be adjusted to the expected amount of the allowable claim. We have written-off premiums and discounts as well as debt issuance cost associated with unsecured debts that are subject to compromise at December 31, 2010. See below for Reorganization Items. For the purpose of presenting an entity's financial condition during a Chapter 11 reorganization, the financial statements for periods including and after filing the Chapter 11 petition shall distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business.

All of the Debtor's pre-petition debt is now in default due to the Bankruptcy Filing. As described below, the accompanying consolidated financial statements present the Debtor's pre-petition debt within Liabilities subject to compromise. In accordance with ASC Topic 852, following the Petition Date, we discontinued recording interest expense on debt classified as Liabilities subject to compromise, which amounted to $16,431. The stated contractual interest on debt classified as Liabilities subject to compromise amounted to $113,552 for the year ended December 31, 2010.

Liabilities Subject to Compromise

As required by ASC Topic 852, the amount of the Liabilities subject to compromise represents our estimate of known or potential pre-petition claims to be addressed in connection with the Bankruptcy. Such claims are subject to future adjustments. Adjustments may result from, among other things, negotiations with creditors, rejection of executory contracts and unexpired leases and orders of the Bankruptcy Court. The Liabilities subject to compromise in the Consolidated Balance Sheet consists of the following at December 31, 2010:

Accrued interest payable	$	68,091
Accounts payable		4,951
Senior unsecured notes		1,222,189
Directly-issued Subordinated capital securities		400,000
Consolidated liabilities subject to compromise		1,695.231
Payable to non-debtor subsidiaries		1,657
Debtor's Liabilities subject to compromise	$	1,696,888

Reorganization Items

Professional advisory fees and other costs directly associated with our reorganization are reported separately as reorganization items pursuant to ASC Topic 852. Reorganization items also include adjustments to reflect the carrying value of certain pre-petition liabilities at their estimated allowable claim amounts. The debt valuation adjustments represent one-time charges. The reorganization items in the Consolidated Statement of Operations for year ended December 31, 2010 consisted of the following items:

Professional fees	$	5,536
Debt valuation adjustments		26,444
Total reorganization items	$	31,980

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Debtor in Possession Financial Information

Financial information of the debtor is presented in Schedule II to this Form 10-K as of and for the year ended December 31, 2010. Investments in subsidiaries are accounted for using the equity method of accounting.

Our consolidated financial statements are prepared on a going-concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, such realization of assets and liquidation of liabilities is subject to uncertainty. While operating as debtor in possession under the protection of Chapter 11 of the Bankruptcy Code, the debtor may dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements, subject to Bankruptcy Court approval or as otherwise permitted in the ordinary course of business. Further, our plan of reorganization could materially change the amounts and classifications reported in our historical consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

Consolidation:

The consolidated financial statements include the accounts of Ambac and all other entities in which Ambac has a controlling financial interest as well as variable interest entities (VIEs) for which Ambac is deemed the primary beneficiary. All significant intercompany balances have been eliminated. The usual condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. However, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests. A reporting entity that is deemed the primary beneficiary of a VIE is required to consolidate the VIE.

In December 2009, the Financial Accounting Standards Board ("FASB") issued ASU 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets* and ASU 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprise Involved with Variable Interest Entities.* Ambac adopted ASU 2009-16 and ASU 2009-17 effective January 1, 2010. Among other changes, ASU 2009-16 eliminated the concept of a qualifying special-purpose entity (QSPE) and all QSPEs need to be considered for consolidation under ASU 2009-17. ASU 2009-17 requires an enterprise to perform an analysis to determine whether the enterprise's variable interests give it a controlling financial interest in a VIE. ASU 2009-17 identifies the primary beneficiary of a VIE as the enterprise that has both the following characteristics: a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

ASU 2009-17 eliminated the quantitative approach previously required to determine the primary beneficiary of a VIE, which was based on determining which enterprise absorbs the majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both upon the inception of that holder's involvement in the VIE. ASU 2009-17 requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. The previous guidance required reconsideration of whether an enterprise is the primary beneficiary only when specific events occur.

A VIE is an entity: a) that lacks enough equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; or b) where the group of equity holders does not have: (1) the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance; (2) the obligation to absorb the entity's expected losses;

or (3) the right to receive the entity's expected residual returns. The determination of whether Ambac is the primary beneficiary involves performing a qualitative analysis of the VIE that includes, among other factors, its capital structure, contractual terms including the rights of each variable interest holder, the activities of the VIE, whether Ambac has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, whether Ambac has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, related party relationships and the design of the VIE. Refer to Note 10 for a detailed discussion of Ambac's involvement in VIEs, Ambac's methodology for determining whether Ambac is required to consolidate a VIE and the effects of VIEs consolidated including the effects of the initial adoption of ASU 2009-16 and ASU 2009-17.

Net Premiums Earned:

Gross premiums are received either upfront (typical of public finance obligations) or in installments (typical of structured finance obligations). For premiums received upfront, an unearned premium revenue ("UPR") liability is established, which is initially recorded as the cash amount received. For installment premium transactions, a premium receivable asset and offsetting UPR liability is initially established in an amount equal to: (i) the present value of future contractual premiums due (the "contractual" method) or, (ii) if the underlying insured obligation is a homogenous pool of assets which are contractually prepayable (the "expected" method), the present value of premiums to be collected over the expected life of the transaction. An appropriate risk-free rate corresponding to the weighted average life of each policy and exposure currency is used to discount the future premiums contractually due or expected to be collected. For example, U.S. dollar exposures are discounted using U.S. Treasury rates while exposures denominated in a foreign currency are discounted using the appropriate risk-free rate for the respective currency. The weighted average risk-free rate and weighted average period of future premiums used to estimate the premium receivable at December 31, 2010 and 2009 is 3.1% and 2.7%, and 10.4 years and 10.2 years, respectively. Insured obligations consisting of homogeneous pools for which Ambac uses expected future premiums to estimate the premium receivable and UPR include residential mortgage-backed securities and consumer auto loans. As prepayment assumptions change for homogenous pool transactions, or if there is an actual prepayment for a "contractual" method installment transaction, the related premium receivable and UPR are adjusted in equal and offsetting amounts with no immediate effect on earnings using new premium cash flows and the then current risk free rate.

Generally, the priority for the payment of financial guarantee premiums to Ambac, as required by the bond indentures of the insured obligations, is very senior in the waterfall. Additionally, in connection with the allocation of certain liabilities to the Segregated Account, trustees are required under the Rehabilitation Plan to continue to pay installment premiums, notwithstanding the claims moratorium. As such, Ambac has not historically written off any meaningful amount of uncollectible premiums. In evaluating the credit quality of the premiums receivable, management evaluates the internal ratings of the transactions underlying the premiums receivable. As of December 31, 2010, approximately 29% of the premiums receivable related to transactions with non-investment grade internal ratings, comprised mainly of non-investment grade MBS and student loan transactions, which comprised 9% and 11% of the total premiums receivable at December 31, 2010, respectively.

For both upfront and installment premium policies, premium revenues are earned over the life of the financial guarantee contract in proportion to the insured principal amount outstanding at each reporting date (referred to as the level-yield method). For installment paying policies, the premium receivable discount, equating to the difference between the undiscounted future installment premiums and the present value of future installment premiums, is accreted as premiums earned in proportion to the premium receivable balance at each reporting date. Because the premium receivable discount and UPR are being accreted into income using different

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rates, the total premiums earned as a percentage of insured principal is higher in the earlier years and lower in the later years for an installment premium transaction as compared to an upfront premium transaction.

Premium receivable at December 31, 2009	$ 3,718,158
Impact of adoption of ASU 2009-17 (1)	(670,997)
Premium receivable at January 1, 2010	3,047,161
Premium payments received	(266,028)
Adjustments for changes in expected life of homogeneous pools or contractual cash flows	(577,626)
Accretion of premium receivable discount	84,567
Deconsolidation of Certain VIEs(1)	173,511
Other adjustments (including foreign exchange)	(38,989)
Premium receivable at December 31, 2010	$ 2,422,596

(1) Refer to Note 10 of these consolidated financial statements for discussion of the new accounting standard.

Below is the premium receivable roll-forward for the period ended December 31, 2009:

Premium receivable at December 31, 2008	$ 28,895
Impact of adoption of ASC Topic 944	4,593,963
Premium receivable at January 1, 2009	4,622,858
Premium payments received	(416,280)
Adjustments for changes in expected life of homogeneous pools or contractual cash flows	(628,421)
Accretion of premium receivable discount	111,587
Other adjustments (including foreign exchange)	28,414
Premium receivable at December 31, 2009	$ 3,718,158

Similar to gross premiums, premiums ceded to reinsurers are paid either upfront or in installments. For premiums paid upfront, a deferred ceded premium asset is established which is initially recorded as the cash amount paid. For installment premiums, a ceded installment premiums payable liability and offsetting deferred ceded premium asset are initially established in an amount equal to: i) the present value of future contractual premiums due or, ii) if the underlying insured obligation is a homogenous pool of assets which are contractually prepayable, the present value of premiums to be paid over the life of the transaction. An appropriate risk-free rate corresponding to the weighted average life of each policy and exposure currency is used to discount the future premiums contractually due or expected to be collected. Premiums ceded to reinsurers reduce the amount of premiums earned by Ambac from its financial guarantee insurance policies. For both up-front and installment premiums, ceded premiums written are primarily recognized in earnings in proportion to and at the same time the related gross premium revenue is recognized. For premiums paid to reinsurers on an installment basis, Ambac records the present value of future ceding commissions as an offset to ceded premiums payable, using the same assumptions noted above for installment premiums. The ceding commission revenue associated with the ceding premiums payable is deferred (as an offset to deferred acquisition cost) and recognized in income in proportion to ceded premiums.

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The table below summarizes the future gross undiscounted premiums expected to be collected, and future expected premiums earned, net of reinsurance at December 31, 2010:

	Future premiums expected to be collected[1]	Future expected premiums to be earned, net of reinsurance[1]
Three months ended:		
March 31, 2011	$ 60,470	$ 76,967
June 30, 2011	55,752	76,516
September 30, 2011	43,632	75,466
December 31, 2011	55,316	73,754
Twelve months ended:		
December 31, 2012	226,101	275,261
December 31, 2013	183,333	249,605
December 31, 2014	180,270	232,114
December 31, 2015	165,442	217,623
Five years ended:		
December 31, 2020	752,620	913,365
December 31, 2025	636,850	675,512
December 31, 2030	511,535	468,948
December 31, 2035	324,325	271,226
December 31, 2040	123,405	98,954
December 31, 2045	32,280	28,277
December 31, 2050	7,545	8,152
December 31, 2055	557	1,288
Total	$ 3,359,433	$ 3,743,028

(1) The future undiscounted premiums expected to be collected and future net premiums earned disclosed in the above table relate to the discounted premium receivable asset and unearned premium liability recorded on Ambac's balance sheet. The use of contractual lives for many bond types which do not have homogeneous pools of underlying collateral is required in the calculation of the premium receivable as described above, which results in a higher premium receivable balance than if expected lives were considered. If installment paying policies are retired early as a result of rate step-ups or other early retirement provision incentives for the issuer, premiums reflected in the premium receivable asset and amounts reported in the above table for such policies may not be collected in the future.

When an issue insured by Ambac Assurance has been retired, including those retirements due to refunding or calls, the remaining unrecognized premium is recognized at that time to the extent the financial guarantee contract is legally extinguished. Accelerated premium revenue for retired obligations for the years ended December 31, 2010 and 2009 were $105,149 and $209,906, respectively. Certain obligations insured by Ambac have been legally defeased whereby government securities are purchased by the issuer with the proceeds of a new bond issuance, or less frequently with other funds of the issuer, and held in escrow (a pre-refunding). The principal and interest received from the escrowed securities are then used to retire the Ambac-insured obligations at a future date either to their maturity date or a specified call date. Ambac has evaluated the provisions in certain financial guarantee insurance policies issued on legally defeased obligations and determined those policies have not been legally extinguished and, therefore, premium revenue recognition has not been accelerated.

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Prior to the adoption of ASC Topic 944, up-front premiums written were allocated to each bond maturity proportionately based on total principal amount guaranteed and were recognized as premiums on a straight-line basis over the term of each maturity. Installment insurance premiums written were recognized as premiums earned over each installment period, typically one year or less, on a straight-line basis. Premium earnings under both the upfront and installment revenue recognition methods were in proportion to the principal amount guaranteed and resulted in higher premium earnings during periods where guaranteed principal is higher. When an issue insured by Ambac Assurance had been refunded or called, the remaining unrecognized premium was recognized at that time.

Loss Reserves:

Ambac's financial guarantee insurance policies generally pay scheduled interest and principal if the issuer of the insured obligation fails to meet its obligation. The loss and loss expense reserve ("loss reserve") policy for financial guarantee insurance discussed in this footnote relates only to Ambac's non-derivative insurance business. The policy for derivative contracts is discussed in "Derivative Contracts" below. Under ASC Topic 944 a loss reserve is recorded on the balance sheet on a policy-by-policy basis for the excess of: (a) the present value of expected net cash outflows to be paid under an insurance contract, i.e. the expected loss, over (b) the UPR for that contract. To the extent (a) is less than (b), no loss reserve is recorded. Changes to the loss reserve in subsequent periods are recorded as a loss and loss expense on the income statement. Expected losses are based upon estimates of the ultimate aggregate losses inherent in the non-derivative financial guarantee portfolio as of the reporting date. The evaluation process for determining expected losses is subject to certain estimates and judgments based on our assumptions regarding the probability of default and expected severity of performing credits as well as our active surveillance of the insured book of business and observation of deterioration in the obligor's credit standing.

Ambac's loss reserves are based on management's on-going review of the non-derivative financial guarantee credit portfolio. Active surveillance of the insured portfolio enables Ambac'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. As a consequence of the Segregated Account Rehabilitation Proceedings, the rehabilitator retains operational control and decision-making authority with respect to all matters related to the Segregated Account, including surveillance, remediation and loss mitigation. Similarly, by virtue of the contracts executed between Ambac Assurance and the Segregated Account in connection with the establishment, and subsequent rehabilitation, of the Segregated Account, the rehabilitator retains the discretion to oversee and approve certain actions taken by Ambac Assurance in respect of assets and liabilities which remain in Ambac Assurance. As such, the following

discussion of Ambac's risk management practices is qualified by reference to the rehabilitator's exercise of its discretion to alter or eliminate any of these risk management practices.

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

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

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

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

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

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

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

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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, reserves have been established to fully cover such claims, and no claim volatility is expected.

The population of credits evaluated in Ambac's loss reserve process are: i) all adversely classified credits (Class IA through V) and ii) non-adversely classified credits (Class I and SL) which had an internal Ambac rating downgrade since the transaction's inception. One of two approaches is then utilized to estimate expected losses to ultimately determine if a loss reserve should be established. The first approach is a statistical expected loss approach, which considers the likelihood of all possible outcomes. The "base case" 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 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 "base case" statistical expected losses. As such, loss severities used in estimating the "base case" 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 assign multiple probability weighted severities to 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). Ambac's surveillance group will consider the likelihood of all possible outcomes and develop cash flow scenarios. This approach can include the utilization of market accepted software tools to develop net claim payment estimates. We have utilized such tools primarily for residential mortgage-backed and student loans exposures. These tools, in conjunction with detailed data of the historical performance of the collateral pools, assist Ambac 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. In this approach a probability-weighted expected loss estimate is developed based on assigning probabilities to multiple net claim payment scenarios and applying an appropriate discount factor. A loss reserve is recorded for the excess, if any, of estimated expected losses (net cash outflows) using either of these two approaches, over UPR. For certain policies, estimated potential recoveries exceed estimated future claim payments because all or a portion of such recoveries relate to claims previously paid. The expected net cash inflows for these policies are recorded as a subrogation recoverable asset.

The discount factor applied to both of the above described approaches is based on a risk-free discount rate corresponding to the remaining expected weighted-average life of the exposure and the exposure currency. The discount factor is updated for the current risk-free rate each reporting period. The weighted average risk-free rate used to discount the loss reserve was 3.0% and 2.9% at December 31, 2010 and 2009, respectively.

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

The tables below summarize information related to policies currently included in Ambac's loss reserves at December 31, 2010 and 2009:

Surveillance Categories (at December 31, 2010)

	I/SL	IA	II	III	IV	V	Total
Number of policies	24	4	34	118	127	1	308
Remaining weighted-average contract period (in years)	5	9	17	19	9	10	14
Gross insured contractual payments outstanding:							
Principal	$1,831,525	$198,460	$2,620,973	$17,723,814	$13,766,322	$ 47	$36,141,141
Interest	392,486	58,317	1,983,875	10,609,295	3,327,242	27	16,371,242
Total	$2,224,011	$256,777	$4,604,848	$28,333,109	$17,093,564	$ 74	$52,512,383
Gross undiscounted claim liability	$ 19,664	$ 9,952	$ 62,469	$ 4,195,891	$ 7,197,833	$ 75	$11,485,884
Discount, gross claim liability	(925)	(4,700)	13,974	(1,517,671)	(1,234,704)	(20)	(2,744,046)
Gross claim liability before all subrogation and before reinsurance	$ 18,739	$ 5,252	$ 76,443	$ 2,678,220	$ 5,963,129	$ 55	$ 8,741,838
Less:							
Gross RMBS subrogation[1]	—	—	—	—	(2,514,477)	—	(2,514,477)
Discount, RMBS subrogation	—	—	—	—	97,371	—	97,371
Discounted RMBS subrogation, before reinsurance	—	—	—	—	(2,417,106)	—	(2,417,106)
Less:							
Gross other subrogation[2]	—	—	(11)	(629,022)	(1,033,055)	—	(1,662,088)
Discount, other subrogation	—	—	—	207,811	89,166	—	296,977
Discounted other subrogation, before reinsurance	—	—	(11)	(421,211)	(943,889)	—	(1,365,111)
Gross claim liability, net of all subrogation, before reinsurance	18,739	5,252	76,432	2,257,009	2,602,134	55	4,959,621
Less: Unearned premium reserves	(9,095)	(3,959)	(49,782)	(289,408)	(149,235)	—	(501,479)
Plus: Loss adjustment expenses reserves	—	—	—	9,762	85,495	—	95,257
Claim liability reported on Balance Sheet, before reinsurance[3]	9,644	1,293	26,650	1,977,363	2,538,394	55	4,553,399
Reinsurance recoverable reported on Balance Sheet	542	8	1,588	107,920	26,928	—	136,986

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(1) RMBS subrogation represents Ambac's estimate of subrogation recoveries from RMBS transaction sponsors for representations and warranty breaches. Please see "Representation and Warranty Breaches by RMBS Transaction Sponsors" below for detailed discussion.

(2) Other subrogation represents subrogation other than subrogation as defined in (1) above.

(3) Claim liability reported is included in the Consolidated Balance Sheets as follows:

Loss and loss expense reserve (net of potential remediation subrogation of $714,679)	$ 5,288,655
Subrogation recoverable (includes gross potential remediation of $1,702,427)	(714,270)
Other assets (within)	(20,986)
	$ 4,553,399

Loss expense reserves were also established for significant surveillance and mitigation expenses associated with adversely classified credits. Total loss expense reserves were $93,900 and $32,452 at December 31, 2010 and 2009, respectively. Loss reserves ceded to reinsurers at December 31, 2010 and 2009 were $128,993 and $64,311, respectively. Amounts were included in reinsurance recoverable on paid and unpaid losses on the Consolidated Balance Sheet.

Surveillance Categories (at December 31, 2009)

	I/SL	IA	II	III	IV	V	Total
Number of policies	7	7	21	89	90	1	215
Remaining weighted-average contract period (in years)	13	9	13	9	6	8	8
Gross insured contractual payments outstanding:							
Principal	$26,385	$352,659	$4,298,063	$16,649,368	$12,014,840	$747	$33,342,062
Interest	38,884	55,862	1,548,616	5,021,388	3,500,538	164	10,165,452
Total	$65,269	$408,521	$5,846,679	$21,670,756	$15,515,378	$911	$43,507,514
Gross claim liability	$ 219	$100,229	$ 149,778	$ 3,864,109	$ 5,350,348	$911	$ 9,465,594
Less:							
Gross potential recoveries	—	(3,818)	(10,628)	(1,171,701)	(2,594,919)	—	(3,781,066)
Discount, net	6,216	(7,482)	(23,038)	(217,998)	(1,153,424)	(54)	(1,395,780)
Net claim liability (excluding reinsurance)	6,435	88,929	116,112	2,474,410	1,602,005	857	4,288,748
Gross Unearned premium revenue	6,290	4,691	58,967	263,130	146,489	—	479,567
Claim liability reported in the balance sheet (excluding reinsurance)	$ 145	$ 84,238	$ 57,145	$ 2,211,280	$ 1,455,516	$857	$ 3,809,181
Reinsurance recoverables reported in the balance sheet	$ 21	$ 3,541	$ 3,481	$ 38,831	$ 32,241	—	$ 78,115

* Excludes $32,850 gross of reinsurance and $32,452 net of reinsurance, of loss adjustment expense reserves.

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Loss reserves on non-defaulted credits were $2,646,517 at December 31, 2009. These loss reserves were comprised of 130 credits with net par of $21,424,301. Loss reserves on defaulted credits were $1,098,352 at December 31, 2009, comprising 85 credits with net par outstanding of $11,345,697. Loss expense reserves were also established for significant surveillance and mitigation expenses associated with adversely classified credits. Total loss expense reserves were $32,452 at December 31, 2009. Loss reserves ceded to reinsurers at December 31, 2009 were $64,311. Amounts were included in reinsurance recoverable on paid and unpaid losses on the Consolidated Balance Sheet.

Prior to the adoption of ASC Topic 944, the liability for losses and loss expense reserves consisted of active credit and case basis credit reserves. Both the active credit and case basis credit reserves were recognized on a discounted basis. The discount rate was equal to the average rate of return on the admitted assets of the insurance enterprise. Active credit reserves were for probable and estimable losses due to credit deterioration on insured credits that have not yet defaulted or have defaulted, but had not been reported as of the reporting date. Case basis credit reserves were for losses insured on obligations that had defaulted. Upon the occurrence of a payment default, the related active credit reserve was transferred to case basis credit reserve. Additional provisions for losses upon further credit deterioration of a case basis exposure were initially recorded through the active credit reserve and subsequently transferred to case basis credit reserves. Our case reserves represented the present value of anticipated loss and loss expense payments expected over the estimated period of default. Loss and loss expense reserves considered anticipated defaulted debt service payments, estimated expenses associated with settling the claims and estimated recoveries under collateral, contractual and subrogation rights.

Active credit and case basis credit reserves were $969,219 and $1,296,641 at December 31, 2008, respectively. Included in the calculation of active credit reserves at December 31, 2008 was the consideration of $49,819 of reinsurance which would be due Ambac from reinsurers, upon default of the insured obligation. Ambac provided information on the classification of its loss reserve between active credit reserve and case basis credit reserve for the purpose of disclosing the components of the total reserve that related to exposures that have not yet defaulted and those that have defaulted. Loss expense reserves were also established for significant surveillance and mitigation expenses associated with class IA to class V credits.

Representation and Warranty Breaches by RMBS Transaction Sponsors:

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

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

Ambac's estimate of subrogation recoveries includes two components: (1) estimated dollar amounts of loans with material breaches of representations and warranties based on an extrapolation of the breach rate identified in a random sample of loans taken from the entire population of loans in a securitization ("random sample approach"); and (2) dollar amount of actual loans with identified material breaches of representations and warranties discovered from samples of impaired loans in a securitization ("adverse sample approach"). We do not include estimates of damages in our estimate of subrogation recoveries under either approach. The amount the sponsors believe to be their liability for these breaches is not known; however, certain large financial institutions who have served as sponsors for certain transactions that Ambac has insured have disclosed that reserves have been established related to claims by financial guarantors and others for breaches of representations and warranties.

The random sample approach to estimate subrogation recoveries was based on obtaining a statistically valid random sample for all the original loans in the pool. First, a "breach rate" was computed by dividing (i) the loans identified in sample as having breached representations and warranties by (ii) the total sample size. Second, an extrapolation to the entire loan pool was performed by multiplying the breach rate by the sum of (a) the current unpaid loan pool balance ("CULPB") plus (b) realized losses resulting from loan liquidations or charge-offs to date, to compute an estimated repurchase obligation. The CULPB includes principal only on non-charged-off and non-liquidated loans, and the realized losses include principal, interest and unreimbursed servicer advances and/or trustee expenses on charged-off and liquidated loans. As a result, the CULPB and realized loss components, which are used in extrapolating the estimated repurchase obligation, do not precisely correspond to each sponsor's contractual repurchase obligation as defined in the transaction documents. Nonetheless, the CULPB and realized loss components are provided through trustee reports we receive in the normal course of our surveillance of these transactions and is the best information we have available to estimate the sponsor's

repurchase obligation under the random sample approach. Third, a realization factor (which incorporates Ambac's views about the uncertainties surrounding the litigation process and/or settlement negotiation) was then applied to the estimated repurchase obligation to compute the undiscounted subrogation recovery. The realization factor was developed from a range of realization factors using Ambac's own assumptions about the likelihood of outcomes based on all the information available to it including (i) discussions with external legal counsel and their views on ultimate settlement, (ii) recent experience with loan put back negotiations where the existence of a material breach was debated and negotiated at the loan level, and (iii) the pervasiveness of the breach rates. Finally, a discount factor was applied (using the assumptions discussed in the paragraph subsequent to the next table below) to the undiscounted subrogation recovery to compute the estimated subrogation recovery.

Due to the nature of the sampling methodology used, the subrogation recovery estimate Ambac has recorded based on the above-described random sample approach includes all breached loans which Ambac believes the sponsor is contractually required to repurchase, including extrapolation to a loan pool which includes loans which have not defaulted, and, in fact, may not default in the future (i.e. performing loans). In theory, a loan that continues to perform in accordance with its terms through repayment should have little or no effect on Ambac's anticipated claim payments, regardless of whether or not the sponsor repurchases the loan. In other words, since there will be sufficient cash flows to service the notes in either situation (i.e. whether cash is received from a sponsor loan repurchase or whether cash is received from the underlying performing loan), there should be no claim payment under Ambac's insurance policy in respect of such loans. Nonetheless, Ambac may have recorded a subrogation recovery for certain performing loans because it believes the breaches of representations and warranties are so pervasive that a court would deem it impractical to have the sponsor re-underwrite every loan in a given transaction and repurchase only individual loans that have breached. Rather, Ambac believes there is precedent for the utilization of a statistical sampling and extrapolation methodology across a population to prove liability and damages where it would be impractical to make a determination on an individual loan basis. A recent court ruling in a similar suit unrelated to Ambac but in the same jurisdiction in which Ambac has filed its litigation to date, supports the view that a sampling methodology is permissible. Ambac believes a court would likely award damages based on a reasonable methodology, such as our random sample approach, which damages would be either remitted directly to Ambac, placed in the securitization trust, or otherwise held under an arrangement for the benefit of the securitization trust; however, Ambac believes that under such an approach individual loans would not be repurchased from the trust. In either case, Ambac believes those damages would compensate Ambac for past and future claim payments. Consequently, since the sponsor is contractually obligated to repurchase those loans which breach representations and warranties regardless of whether they are current or defaulted, Ambac believes the appropriate measure in estimating subrogation recoveries is to apply the breach rate to both performing and defaulted loans.

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

(i) There is no extrapolation to the CULPB and realized losses under the adverse sample approach. At December 31, 2010, the adverse sample approach continues to be used for 15 transactions that are with

the same sponsor, who has limited our access to the underlying loan files and, therefore, a statistically valid random sample from the entire loan pool cannot be selected. This is in contrast to the transactions subject to the random sample approach where Ambac's access to individual loan files has not been limited and the Company, therefore, has been able to develop a statistically valid representative sample.

(ii) The adverse sample approach is based on the original principal balance rather than the principal balance at the time of default and liquidation or charge-off. Furthermore, it does not include other components of the sponsor's contractual repurchase obligation where the sponsor is also obligated to repay accrued interest, servicer advances and/or trustee expenses. The adverse sample approach relies on individual loan level data where all of the components of the sponsor's buyback obligation have not been specifically provided by the sponsor nor is easily estimable. For example, home equity lines of credit (HELOCs) are revolving loans whose principal balances may be higher or lower at the time of default and liquidation or charge-off than at the time of origination. However, given the limited information available to Ambac in estimating such principal balances at the time of liquidation or charge-off, the original principal balance was used in calculating subrogation recoveries. Another example is closed-end second lien RMBS where the interest due on a particular loan will be a function of the length of time of delinquency prior to liquidation or charge-off, and cannot be readily estimated. Incremental costs, including fees and servicer advances for such items as property taxes and maintenance, are likewise not readily estimated.

(iii) Unlike the random sample approach, for the adverse sample approach Ambac did not apply a realization factor to the estimated repurchase obligation for the adverse loans related to uncertainties surrounding settlement negotiation or litigation processes given that the adverse loans selected represent only approximately 40% of the value of the impaired population of loans, only approximately 5% of the value of the original loans in the pool, and the breach rate in the sample was pervasive. In other words, because the adverse loans selected represent only a fraction of the population of impaired loans and a very small proportion of the original loans in the pools, Ambac believes there is an ample population of additional impaired loans where breaches of representations and warranties exist that could potentially replace any adverse loans it already identified that might be successfully challenged in negotiations or litigation.

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Ambac has updated its estimated subrogation recoveries to $2,417,106 ($2,391,336, net of reinsurance) at December 31, 2010 from $2,046,788 ($2,026,266, net of reinsurance) at December 31, 2009. The balance of subrogation recoveries and the related claim liabilities at December 31, 2010 and December 31, 2009 are as follows:

	December 31, 2010			
Method	Count	Gross claim liability before subrogation recoveries	Subrogation recoveries[1]	Gross claim liability after subrogation recoveries
Adverse samples	15[2]	$ 1,644,488	$ (719,448)	$ 925,040
Random samples	12[3]	1,010,704	(1,697,658)	(686,954)
Totals	27	$ 2,655,192	$ (2,417,106)	$ 238,086

	December 31, 2009			
Method	Count	Gross claim liability before subrogation recoveries	Subrogation recoveries[1]	Gross claim liability after subrogation recoveries
Adverse samples	10	$ 759,369	$ (460,617)	$ 298,752
Random samples	9	937,272	(1,586,171)	(648,899)
Totals	19	$ 1,696,641	$ (2,046,788)	$ (350,147)

(1) The amount of recorded subrogation recoveries related to each securitization is limited to ever-to-date paid losses plus the present value of projected future paid losses for each policy. To the extent significant losses have been paid but not yet recovered, the recorded amount of subrogation recoveries may exceed the projected future paid losses for a given policy. The net cash inflow for these policies is recorded as a "Subrogation recoverable" asset. For those transactions where the subrogation recovery is less than projected future paid losses, the net cash outflow for these policies is recorded as a "Loss and loss expense reserve" liability. Of the $2,417,106 of subrogation recoveries recorded at December 31, 2010, $1,702,427 was included in "Subrogation recoverable" and $714,679 was included in "Loss and loss expense reserves."

(2) Of these 15 transactions, 10 contractually require the sponsor to repurchase loans at the unpaid principal balance and 5 contractually require the sponsor to repurchase loans at unpaid principal plus accrued interest. However, for reasons discussed above in the description of the adverse sample approach, our estimated subrogation recovery for these transactions may not include all the components of the sponsor's contractual repurchase obligation.

(3) Of these 12 transactions, 3 contractually require the sponsor to repurchase loans at unpaid principal plus accrued interest and 9 contractually require the sponsor to repurchase loans at unpaid principal plus accrued interest plus servicer advances/expense and/or trustee expenses. However, for reasons discussed above in the description of the random sample approach, our estimated subrogation recovery for these transactions may not include all the components of the sponsor's contractual repurchase obligation.

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

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projecting the future subrogation cash flows, Ambac assumes, on average, approximately three and a half years to collect recoveries, discounted at a risk-free rate of 2.39%.

We have performed the above-mentioned, detailed examinations on a variety of second-lien and first-lien transactions that have experienced exceptionally poor performance. However, the loan file examinations and related estimated recoveries we have reviewed and recorded to date have been limited to only those transactions whose sponsors (or their successors) are subsidiaries of large financial institutions, all of which carry an investment grade rating from at least one nationally recognized rating agency. A total of seven sponsors represent the 27 transactions which have been reviewed as of December 31, 2010. While our contractual recourse is generally to the sponsor/subsidiary, rather than to the financial institutional parent, each of these financial institutions has significant financial resources and an ongoing interest in mortgage finance, and we therefore believe that the financial institution/ parent would not seek to disclaim financial responsibility for these obligations if the sponsor/subsidiary is unable to honor its contractual obligations or pay a judgment that we may obtain in litigation. Additionally, in the case of successor institutions, we are not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. In fact, we have witnessed to date, certain successor financial institutions make significant payments to certain claimants to settle breaches of representations and warranties perpetrated by sponsors that have been acquired by such financial institutions. As a result, we did not make any significant adjustments to our estimated subrogation recoveries with respect to the credit risk of these sponsors or their successors. We believe that focusing our loan remediation efforts on large financial institutions first will provide the greatest economic benefit to Ambac. Ambac retains the right to review other RMBS transactions for representations and warranties breaches. Since a significant number of other second-lien and first-lien transactions are also experiencing poor performance, management is considering expanding the scope of this effort.

Below is the rollforward of RMBS subrogation for the period December 31, 2009 through December 31, 2010:

	Random sample	# of deals	Adverse Sample	# of deals
Rollforward:				
Discounted RMBS subrogation (gross of reinsurance) at 12/31/09	$ 1,586,171	9	$ 460,617	10
Changes recognized in 2010:				
Additional transactions reviewed	124,589	3	218,196	5
Additional adverse sample loans reviewed	—	n/a	60,679	n/a
Loans repurchased by the sponsor	(6,026)	n/a	(32,194)	n/a
Subtotal of changes recognized in current period	118,563	3	246,681	5
Changes from re-estimation of opening balance:				
Change in pre-recovery loss reserves	(7,076)	n/a	12,150	n/a
Discounted RMBS subrogation (gross of reinsurance) at 12/31/10	$ 1,697,658	12	$ 719,448	15

Our ability to recover the RMBS subrogation recoveries is subject to significant uncertainty, including risks inherent in litigation, collectability of such amounts from counterparties (and/or their respective parents and affiliates), timing of receipt of any such recoveries, regulatory intervention which could impede our ability to take actions required to realize such recoveries and uncertainty inherent in the assumptions used in estimating such recoveries. Our current estimate considers that we will receive subrogation recoveries of $900,162 and $1,619,677 in 2012 and 2013, respectively (gross of discounting, reinsurance and credit risk valuation in the amount of $97,634, $25,770 and $5,098, respectively). The amount of these subrogation recoveries is significant and if we are unable to recover any amounts our future available liquidity to pay claims would be reduced and our stockholders' deficit as of December 31, 2010 would increase from $1,354,228 to $3,745,564.

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Deferred Acquisition Costs:

Financial guarantee insurance costs that vary with and are primarily related to the production of business had been deferred. These costs included compensation of certain employees, premium taxes, ceding commissions payable on assumed business and certain other underwriting expenses, net of ceding commissions receivable on ceded business. Certain future costs associated with installment premium contracts, such as premium taxes and ceding commissions, are estimated and present valued using the same assumptions used to estimate the related premiums receivable described in the "Net Premiums Earned" section above. Premium taxes and reinsurance commissions are deferred in their entirety. Ambac has not undertaken any new business since 2007; accordingly, we have not deferred any costs in the periods presented, except for changes in estimates for premiums taxes and ceding commissions. Costs associated with credit derivatives are expensed as incurred. Deferred acquisition costs are expensed in proportion to premium revenue recognized. Amortization of deferred acquisition costs is adjusted to reflect acceleration of premium revenue due to refunding or calls and to reflect changes in the estimated lives of certain obligations. Amortization of deferred acquisition costs amounted to $21,181, $33,735, and $32,798 for the years ended December 31, 2010, 2009 and 2008, respectively. A premium deficiency exists if the sum of: (i) unearned premium, and (ii) losses and loss expense reserve, net of reinsurance and subrogation recoveries, recognized as of the balance sheet date, is less than the sum of: (i) the present value of expected loss and loss expenses, (ii) present value of future expected servicing and maintenance costs, and (iii) unamortized deferred acquisition costs. The present value of the expected loss and loss expenses and future expected servicing and maintenance costs are discounted at the rate of return on Ambac's investment portfolio. If a premium deficiency was to exist, unamortized deferred acquisition costs would be reduced by a charge to expense and a liability would be established for any remaining deficiency.

Cash and Cash Equivalents:

Cash and cash equivalents include cash and U.S. agency obligations maturing within ninety days.

Restricted Cash:

Cash that we do not have the right to use for general purposes as of reporting period end is recorded as restricted cash in our consolidated balance sheets. Restricted cash include: i) cash held in an escrow account for the purpose of pending litigation settlement subject to Bankruptcy Court approval and ii) consolidated variable interest entity cash restricted to fund the obligation of the consolidated VIEs.

Investments:

ASC Topic 320, *Investment—Debt and Equity Securities* requires that all debt instruments and certain equity instruments be classified in Ambac's Consolidated Balance Sheets according to their purpose and, depending on that classification, be carried at either cost or fair market value. Ambac's investment portfolio is accounted for on a trade-date basis and consists primarily of investments in fixed income securities that are considered available-for-sale as defined by ASC Topic 320. Available-for-sale securities are reported in the financial statements at fair value with unrealized gains and losses, net of deferred taxes, reflected in Accumulated Other Comprehensive Income in Stockholders' Equity and are computed using amortized cost as the basis. Fair value is based primarily on quotes obtained from independent market sources. When quotes are not available, valuation models are used to estimate fair value. These models include estimates, made by management, which utilize current market information. The quotes received or valuation results from valuation models could differ materially from amounts that would actually be realized in the market. For purposes of computing amortized cost, premiums and discounts are accounted for using the effective interest method over the remaining term of

the securities. For securities that are not structured securities with a large underlying pool of homogenous loans, such as typical corporate and municipal bonds, premiums and discounts are amortized or accreted over the remaining term of the securities even if they are callable. Premiums and discounts on mortgage-backed and asset-backed securities are adjusted for the effects of actual and anticipated prepayments on a retrospective basis. Certain short-term investments, such as money market funds, are carried at cost, which approximates fair value. Realized gains and losses on the sale of investments are determined on the basis of specific identification.

VIE investments in fixed income securities are carried at fair value under the fair value option in accordance with ASC Topic 825. For additional information about VIE investments, including fair value by asset-type, see Note 10.

Ambac has a formal impairment review process for all securities in its investment portfolio. Ambac conducts a review each quarter to identify and evaluate investments that have indications of possible impairment that is other than temporary in accordance with ASC Topic 320. Factors considered when assessing impairment include: (i) fair values that have declined by 20% or more below amortized cost; (ii) market values that have declined by 5% or more but less than 20% below amortized cost for a continuous period of at least six months; (iii) recent downgrades by rating agencies; (iv) the financial condition of the issuer and financial guarantor, as applicable, and an analysis of projected defaults on the underlying collateral; (v) whether scheduled interest payments are past due; and (vi) whether Ambac has the ability and intent to hold the security for a sufficient period of time to allow for anticipated recoveries in fair value. If we believe a decline in the fair value of a particular investment is temporary, we record the decline as an unrealized loss net of tax in Accumulated Other Comprehensive Income in Stockholders' Equity on our Consolidated Balance Sheets. Effective April 1, 2009, Ambac adopted ASC Paragraph 320-10-65-1 of ASC Topic 320. ASC Paragraph 320-10-65-1 amends existing GAAP guidance for recognition of other-than-temporary impairments of debt securities and presentation and disclosure of other-than-temporary impairments of debt and equity securities. Under the new guidance, if an entity assesses that it either (i) has the intent to sell its investment in a debt security or (ii) more likely than not will be required to sell the debt security before its anticipated recovery of the amortized cost basis less any current period credit impairment, then an other-than-temporary impairment charge must be recognized in earnings, with the amortized cost of the security being written-down to fair value. If these conditions are not met, but it is determined that a credit loss exists, the credit impairment loss is recognized in earnings, and the other-than-temporary amount related to all other factors is recognized in other comprehensive income. The cumulative effect of adopting ASC Paragraph 320-10-65-1 was recognized as a $102,065 adjustment to increase Retained Earnings with an offsetting adjustment to Accumulated Other Comprehensive Income. The adoption adjustment represents the after-tax difference between (i) the April 1, 2009 amortized cost of debt securities for which an other-than-temporary impairment was previously recognized and which management does not intend to sell and it is not more likely than not that the company will be required to sell before recovery of the amortized cost basis and (ii) the present value of cash flows expected to be collected on such securities. For fixed income securities that have other-than-temporary impairments in a period, the previous amortized cost of the security less the amount of the other-than-temporary impairment recorded through earnings, becomes the investment's new cost basis. Ambac accretes the new cost basis to par or to the estimated future cash flows to be recovered over the expected remaining life of the security using the effective interest rate of the security prior to impairment.

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether, and to what extent, declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of regulatory actions on the investment portfolio, the performance of the underlying collateral, the effects of changes in interest

rates or credit spreads and the expected recovery period. Ambac's assessment of a decline in value reflects management's current judgment regarding facts and circumstances specific to a security and the factors noted above, including whether Ambac will continue to have the intent and ability to hold temporarily impaired securities until recovery. If that judgment changes, Ambac may ultimately record a charge for other-than-temporary impairment in future periods.

Loans:

Loans are reported at either their outstanding principal balances, net of any unearned discounts and unamortized deferred fees, or at fair value. For loans reported at their outstanding principal balances, interest income is accrued on the unpaid principal balance. Structuring fees are deferred and recognized as adjustments to income over the lives of the related loans. A loan is considered impaired when, based on current events and the financial condition of the borrower, it is probable that Ambac will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. Loan collectability is monitored by Ambac's surveillance group in connection with the ongoing monitoring of the associated financial guarantee transactions. Loans held by VIEs consolidated as required under ASC Topic 810 are primarily carried at fair value, with changes in fair value recorded through earnings as part of Financial Guarantee: (Loss) income on variable interest entity activities.

Obligations under Investment and Payment Agreements and Investment Repurchase Agreements:

Obligations under investment and payment agreements and investment repurchase agreements are recorded as liabilities on the Consolidated Balance Sheets at amortized cost. The carrying value of these obligations is adjusted for principal paid and interest credited to the account as well as any fair value hedge adjustments. These fair value hedge adjustments are discussed further in "Derivative Contracts used for Non-trading and Hedging Purposes" below. Interest expense is computed based upon daily outstanding liability balances at rates and periods specified in the agreements.

Under certain circumstances, such as in the event of financial guarantor rating downgrades or upon negotiation among the parties, investment agreements may be settled for an amount different than the carrying value of the obligation. Any difference between final settlement payment and carrying value of the terminated investment agreement obligation is reported in Financial Services: Net realized investment gains on the Consolidated Statements of Operations.

Financial Services Revenue:

Ambac's Financial Services revenues include the following products:

Investment agreements—Ambac provided investment agreements and investment repurchase agreements principally to asset-backed and structured finance issuers, states, municipalities and municipal authorities, whereby Ambac agrees to pay an agreed-upon return based on funds deposited. Proceeds from these investment agreement and investment repurchase agreement obligations are used to invest in fixed income investments. Interest income from these investments is included in Financial Services revenues.

Interest rate, currency swaps and total return swaps—Ambac provided interest rate and currency swaps principally to states, municipalities and their authorities and asset-backed issuers in connection with their financings. Ambac also entered into total return swaps, which contain contractual provisions similar to credit default swaps, with various financial institutions. All total return swap positions have been terminated and settled as of December 31, 2009. All interest rate, currency and total return swap revenues are accounted for as "Derivative Contracts Classified as Held for Trading Purposes," which is discussed in the Derivatives Contracts section below.

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Derivative Contracts:

ASC Topic 815, *Derivatives and Hedging*, establishes accounting and reporting standards for derivative instruments. All derivatives, whether designated for hedging relationships or not, are required to be recorded on the Consolidated Balance Sheets at fair value on a gross basis; assets and liabilities are netted by customer only when a legal right of offset exists. Methodologies used to determine fair value of derivative contracts, including model inputs and assumptions where applicable, are described further in Note 16, Fair Value Measurements.

The Company has entered into derivative contracts both for trading purposes and to hedge certain economic risks inherent in its financial asset and liability portfolios. VIEs consolidated under ASC Topic 810 also entered into derivative contracts to meet specified purposes within the securitization structure. Changes in fair value of consolidated VIE derivatives are included within Financial Guarantee: (Loss) income on variable interest entity activities on the Consolidated Statements of Operations. The notional for VIE credit derivatives and currency swaps outstanding were $21,976 and $680,449 as of December 31, 2010, respectively. The notional for VIE interest rate swaps outstanding as of December 31, 2010 was $8,048,502 and consisted of $6,001,264 for pay-fixed/receive-variable contracts and $2,047,238 for receive-fixed/pay-variable contracts. The notional for VIE interest rate swaps outstanding as of December 31, 2009 was $323,257 and only consisted of the receive-fixed/pay-variable contract. Derivatives for trading include credit derivatives issued as a form of financial guarantee, total return swaps, certain interest rate and currency swaps and futures contracts. Interest rate and currency swaps were also used to manage the risk of changes in fair value or cash flows caused by variations in interest rates and foreign currency exchange rates. Certain of these transactions were designated as fair value hedges or cash flow hedges under ASC Topic 815. See "*Derivative Contracts used for Non-Trading and Hedging Purposes"* below for further discussion of derivatives used for risk management purposes.

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Ambac determines that the amounts recognized for the right to reclaim cash collateral or futures margin or the obligation to return cash collateral are not at fair value and are not offset against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The amounts representing the right to reclaim cash collateral and posted margin, recorded in "Other assets" were $281 and $119,456 as of December 31, 2010 and 2009, respectively. The amounts representing the obligation to return cash collateral, recorded in "Other liabilities" were $7,005 and $90,009 as of December 31, 2010 and 2009, respectively. The following tables summarize the location and fair values of individual derivative instruments reported in the Consolidated Balance Sheet as of December 31, 2010 and 2009. Amounts are presented gross of the effect of offsetting balances even where a legal right of offset exists:

Fair Values of Derivative Instruments

	Derivative Asset		Derivative Liability	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair value
December 31, 2010:				
Derivatives held for trading				
Credit derivatives	Derivative assets	$ —	Derivative liabilities	$ 221,684
Interest rate swaps	Derivative assets	408,299	Derivative liabilities	124,932
	Derivative liabilities	4,756	Derivative assets	129,185
Currency swaps	Derivative assets	—	Derivative liabilities	6,699
	Derivative liabilities	—	Derivative assets	—
Futures contracts	Derivative assets	11,185	Derivative liabilities	—
Other contracts	Derivative assets	—	Derivative liabilities	232
Total derivatives held for trading		**424,240**		**482,732**
Non-trading derivatives not designated as hedging instruments under ASC Topic 815				
Interest rate swaps	Derivative liabilities	—	Derivative liabilities	—
Total non-trading derivatives not designated as hedging instruments under ASC Topic 815		**—**		**—**
Total derivatives		**$ 424,240**		**$ 482,732**
Variable Interest Entities				
Credit derivatives	Derivative assets	$ 4,511	Derivative liabilities	$ —
Currency swaps	Derivative liabilities	26,577	Derivative liabilities	17,835
Interest rate swaps	Derivative liabilities	2,203	Derivative liabilities	1,591,065
		$ 33,291		**$ 1,608,900**
December 31, 2009:				
Derivatives held for trading				
Credit derivatives	Derivative assets	$ 212,402	Derivative liabilities	$ 3,251,893
Interest rate swaps	Derivative assets	217,855	Derivative liabilities	320,766
	Derivative liabilities	121,914	Derivative assets	14,013
Currency swaps	Derivative assets	76,347	Derivative liabilities	85,396
	Derivative liabilities	—	Derivative assets	18,574
Futures contracts	Derivative assets	10,125	Derivative liabilities	—
Other contracts	Derivative assets	—	Derivative liabilities	717
Total derivatives held for trading		**638,643**		**3,691,359**
Non-trading derivatives not designated as hedging instruments under ASC Topic 815				
Interest rate swaps	Derivative assets	12,352	Derivative liabilities	—
Total non-trading derivatives not designated as hedging instruments under ASC Topic 815		**12,352**		—
Total derivatives		**$ 650,995**		**$ 3,691,359**
Variable Interest Entities—Interest Rate Swaps	Derivative assets	**$ 109,411**	Derivative liabilities	**$ —**

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Derivative Contracts Classified as Held for Trading Purposes:

Financial Guarantee Credit Derivatives:

Credit derivatives, which are privately negotiated contracts, provide the counterparty with credit protection against the occurrence of a specific event such as a payment default or bankruptcy relating to an underlying obligation. Upon a credit event, ACP is generally required to make payments equal to the difference between the scheduled debt service payment and the actual payment made by the issuer. The majority of our credit derivatives are written on a "pay-as-you-go" basis. Similar to an insurance policy execution, pay-as-you-go provides that Ambac pays interest shortfalls on the referenced transaction as they are incurred on each scheduled payment date, but only pays principal shortfalls upon the earlier of (i) the date on which the assets designated to fund the referenced obligation have been disposed of and (ii) the legal final maturity date of the referenced obligation.

In a small number of transactions, ACP is required to (i) make a payment equal to the difference between the par value and market value of the underlying obligation or (ii) purchase the underlying obligation at its par value and a loss is realized for the difference between the par and market value of the underlying obligation. There are 19 transactions, which are not "pay-as-you-go", with a combined notional of approximately $1,337,615 and a net liability fair value of $6,519 as of December 31, 2010. These transactions are primarily in the form of CLOs written between 2002 and 2005.

Substantially all of ACP's credit derivative contracts relate to structured finance transactions. Credit derivatives issued by ACP are insured by Ambac Assurance. None of our outstanding credit derivative transactions at December 31, 2010 include ratings based collateral-posting triggers or otherwise require Ambac to post collateral regardless of Ambac's ratings or the size of the mark to market exposure to Ambac.

Ambac maintains internal credit ratings on its guaranteed obligations, including credit derivative contracts, solely to indicate management's view of the underlying credit quality of the guaranteed obligations. Independent rating agencies may have assigned different ratings on the credits in Ambac's portfolio than Ambac's internal ratings. Ambac's BBB internal rating reflects bonds which are of medium grade credit quality with adequate capacity to pay interest and repay principal. Certain protective elements and margins may weaken under adverse economic conditions and changing circumstances. These bonds are more likely than higher rated bonds to exhibit unreliable protection levels over all cycles. Ambac's below investment grade ("BIG") internal ratings reflect bonds which are of speculative grade credit quality with the adequacy of future margin levels for payment of interest and repayment of principal potentially adversely affected by major ongoing uncertainties or exposure to adverse conditions.

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The following tables summarize the net par outstanding for CDS contracts, by Ambac rating, for each major category as of December 31, 2010 and 2009:

December 31, 2010

Ambac Rating	CDO of ABS	CLO	Other	Total
AAA	$ —	$ 282,294	$ 2,209,540	$ 2,491,834
AA	—	8,323,435	1,237,993	9,561,428
A	—	2,955,030	2,851,213	5,806,243
BBB	—	31,938	627,021	658,959
Below investment grade	—	—	247,890	247,890
	$ —	$ 11,592,697	$ 7,173,657	$ 18,766,354

December 31, 2009

Ambac Rating	CDO of ABS	CLO	Other	Total
AAA	$ —	$ 2,297,468	$ 4,075,144	$ 6,372,612
AA	—	11,209,335	2,885,019	14,094,354
A	—	2,946,071	806,344	3,752,415
BBB	—	910,562	917,462	1,828,024
Below investment grade	16,717,686	411,230	100,000	17,228,916
	$ 16,717,686	$ 17,774,666	$ 8,783,969	$ 43,276,321

The tables below summarize information by major category as of December 31, 2010 and 2009:

	CDO of ABS	CLO	Other	Total
December 31, 2010				
Number of CDS transactions	—	59	30	89
Remaining expected weighted-average life of obligations (in years)	—	3.4	4.4	3.8
Gross principal notional outstanding	$ —	$ 11,592,697	$ 7,173,657	$ 18,766,354
Net derivative liabilities at fair value	$ —	$ (70,467)	$ (151,217)	$ (221,684)
	CDO of ABS	**CLO**	**Other**	**Total**
December 31, 2009				
Number of CDS transactions	19	76	37	132
Remaining expected weighted-average life of obligations (in years)	25.3	4.2	4.8	12.5
Gross principal notional outstanding	$ 17,052,686	$ 17,774,666	$ 8,783,969	$ 43,611,321
Hedge principal notional outstanding	$ 335,000	$ —	$ —	$ 335,000
Net derivative liabilities at fair value	$ (2,253,341)	$ (381,707)	$ (404,443)	$ (3,039,491)

The maximum potential amount of future payments under Ambac's credit derivative contracts written on a "pay-as-you-go" basis is generally the gross principal notional outstanding amount included in the above table plus future interest payments payable by the derivative reference obligations. For contracts that are not written with pay-as-you-go terms, the maximum potential future payment is represented by the principal notional only. Since Ambac's credit derivatives typically reference obligations of or assets held by SPEs that meet the definition of a VIE, the amount of maximum potential future payments for credit derivatives is included in the table in Note 10, Special Purpose Entities Including Variable Interest Entities.

Ambac's credit derivative contracts are accounted for at fair value since they do not qualify for the financial guarantee scope exception under ASC Topic 815. Changes in fair value are recorded in "Net change in fair value

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of credit derivatives" on the Consolidated Statements of Operations. The "Realized gains and losses and other settlements" component of this income statement line includes (i) premiums received and accrued on written credit derivative contracts, (ii) premiums paid and accrued on purchased credit derivative contracts, (iii) losses paid and payable on written credit derivative contracts and (iv) paid losses recovered and recoverable on purchased credit derivative contracts for the appropriate accounting period. Losses paid and payable and losses recovered and recoverable reported in "Realized gains and losses and other settlements" include those arising after a credit event that requires a payment under the contract terms has occurred or in connection with a negotiated termination of a contract. Paid losses included in realized gains and losses and other settlements were $2,789,037, $1,428,377 and $1,857,153 for the years ended December 31, 2010, 2009, and 2008, respectively. Realized gains and losses and other settlements also included credit derivative fees received in advance and other fees received in connection with early transaction terminations of $7,192, $0 and $0 for the years ended December 31, 2010, 2009 and 2008, respectively. The "Unrealized gains (losses)" component of this income statement line includes all other changes in fair value, including reductions in the fair value of liabilities as they are paid or settled. Refer to Note 16 for a detailed description of the components of our credit derivative contracts' fair value.

Although CDS contracts are accounted for at fair value in accordance with ASC Topic 815, they are surveilled similar to non-derivative financial guarantee contracts. As with financial guarantee insurance policies, Ambac's surveillance group tracks credit migration of CDS contracts' reference obligations from period to period. Adversely classified credits are assigned risk classifications by the surveillance group using the guidelines described above. As of December 31, 2010, there are 3 CDS contracts on Ambac's adversely classified credit listing, with a net derivative liability value (at fair value) of $23,148 and total notional principal outstanding of $247,890.

Financial Services Derivative Products:

Ambac, through its subsidiary Ambac Financial Services ("AFS"), provided interest rate and currency swaps to states, municipalities and their authorities, asset-backed issuers and other entities in connection with their financings. The interest rate swaps provided typically require AFS to receive a fixed rate and pay either a tax-exempt index rate or an issue-specific bond rate on a variable-rate bond. AFS manages its interest rate swaps business with the goal of being market neutral to changes in benchmark interest rates while retaining some basis risk and excess interest rate sensitivity as an economic hedge against the effects of rising interest rates elsewhere in the company, including on Ambac's financial guarantee exposures (beginning in 2009). Within the trading derivatives portfolio, AFS enters into interest rate and currency swaps with professional counterparties and uses exchange traded U.S. Treasury futures with the objective of managing overall exposure to benchmark interest rates and currency risk exposure. Basis risk in the portfolio arises primarily from (i) variability in the ratio of benchmark tax-exempt to taxable interest rates, (ii) potential changes in the counterparty bond issuers' bond-specific variable rates relative to taxable interest rates, and (iii) variability between Treasury and swap rates. The derivative portfolio also includes an unhedged Sterling-denominated exposure to Consumer Price Inflation in the United Kingdom. As of December 31, 2010, and 2009, the notional amounts of AFS's trading derivative products are as follows:

	Notional December 31,	
Type of derivative	**2010**	**2009**
Interest rate swaps—receive-fixed/pay-variable	$ 1,798,704	$ 2,040,984
Interest rate swaps—pay-fixed/receive-variable	3,802,086	2,862,866
Interest rate swaps—basis swaps	231,250	641,370
Currency swaps	35,971	1,165,213
Futures contracts	290,000	394,200
Other contracts	154,045	241,641

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Ambac, through its subsidiary Ambac Capital Services, entered into total return swap contracts with professional counterparties. These contracts required Ambac Capital Services to pay a specified spread in excess of LIBOR in exchange for receiving the total return of an underlying fixed income obligation over a specified period of time. During 2009, all remaining total return swaps were terminated and settled.

The following tables summarize the location and amount of gains and losses of derivative contracts held for trading purposes in the Consolidated Statement of Operations for the years ended December 31, 2010 and 2009:

	Location of Gain or (Loss) Recognized in Consolidated Statement of Operations	Amount of Gain or (Loss) Recognized in Consolidated Statement of Operations	
		2010	2009
Financial Guarantee:			
Credit derivatives	Net change in fair value of credit derivatives	$ 60,183	$ 3,812,927
Financial Services derivatives products:			
Interest rate swaps	Derivative products	205	(186,779)
Currency swaps	Derivative products	(70,552)	(14,121)
Total return swaps	Net change in fair value of total return swap contracts	—	18,573
Futures contracts	Derivative products	(37,393)	(7,186)
Other derivatives	Derivative products	794	469
Total Financial Services derivative products		(106,946)	(189,044)
Total derivative contracts held for trading purposes		($ 46,763)	$ 3,623,883

Derivative Contracts used for Non-Trading and Hedging Purposes:

Interest rate and currency swaps have been used to manage specified risks of changes in fair value or cash flows caused by variations in interest rates and foreign currency exchange rates. These risks exist within the investment agreement business primarily related to differences in coupon interest terms between investment agreement contracts and invested assets that support those contracts. In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item, the risk exposure, and how effectiveness will be assessed prospectively and retrospectively. The extent to which a hedging instrument is effective at achieving offsetting changes in fair values or cash flows must be assessed at least quarterly. Any ineffectiveness must be reported in net income. Derivatives may be used for non-trading and hedging purposes, even if they do not meet the technical requirements for hedge accounting under ASC Topic 815. Ambac had certain designated cash flow and fair value hedges during 2008 and 2009. There were no designated hedges under ASC Topic 815 as of, or subsequent to December 31, 2009. Additionally, the remaining derivative contracts that were not designated hedges under ASC Topic 815, but were considered by management to be for non-trading and hedging purposes, expired during 2010.

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As of December 31, 2009, the notional amounts of Ambac's derivative contracts used for non-trading and hedging purposes are as follows:

	Notional
Derivatives not designated or qualifying as hedging instruments under ASC Topic 815:	
Interest rate swaps	$ 474,239

Interest rate and currency swaps were utilized to hedge exposure to changes in fair value of assets or liabilities resulting from changes in interest rates and foreign exchange rates, respectively. These interest rate and currency swap hedges are referred to as "fair value" hedges. If the provisions of the derivative contract meet the technical requirements for fair value hedge accounting under ASC Topic 815, the change in fair value of the derivative contract, excluding accrued interest, is recorded as a component of "Net mark-to-market gains (losses) on non-trading derivative contracts" in the Consolidated Statements of Operations. The change in fair value of the hedged asset or liability attributable to the hedged risk adjusts the carrying amount of the hedged item and is recorded as a component of "Net mark-to-market gains (losses) on non-trading derivative contracts." Changes in the accrued interest component of the derivative contract are recorded as an offset to changes in the accrued interest component of the hedged item.

As noted above, there were no designated fair value hedges during 2010. The following table summarizes the location and amount of gains and losses of fair value hedges and related hedge item reported in the Consolidated Statements of Operations for 2009:

Derivatives in ASC Topic 815 Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Consolidated Statement of Operations	Amount of Gain or (Loss) Recognized on Derivatives	Amount of Gain or (Loss) Recognized on Hedged Item	Net Gain or (Loss) Recognized in Income Related to Hedge Terminations and Ineffectiveness
Interest rate swaps	Net mark-to-market gains (losses) on non-trading derivative contracts	$ (65,375)	$ 66,011	$ 636
	Financial Services: Interest from investment and payment agreements	6,691	(8,403)	(1,712)
Currency swaps	Net mark-to-market gains (losses) on non-trading derivative contracts	(94)	92	(2)
	Financial Services: Interest from investment and payment agreements	35	(54)	(19)
Total		$ (58,743)	$ 57,646	$ (1,097)

Interest rate swaps were also utilized to hedge the exposure to changes in cash flows caused by variable interest rates of assets or liabilities. These interest rate swap hedges are referred to as "cash flow" hedges. The effective portion of the gains and losses on interest rate swaps that meet the technical requirements for cash flow hedge accounting under ASC Topic 815 is reported in "Accumulated Other Comprehensive Loss" in Stockholders' Deficit. If the cumulative change in fair value of the derivative contract exceeds the cumulative change in fair value of the hedged item, ineffectiveness is required to be recorded in net income. All designated hedge relationships under ASC Topic 815 were terminated by December 31, 2009. There were no designated

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accounting hedges in 2010. In the first quarter of 2010, all remaining deferred gains of derivative instruments, previously reported in Accumulated Other Comprehensive Loss, have been reclassified to net income, resulting in a gain of $1,156, included in Net mark-to-market (losses) gains on non-trading derivative contracts, for the year ended December 31, 2010.

As noted above, there were no designated cash flow hedges during 2010. The following table summarizes the location and amount of gains and losses of cash flow hedges reported in the Consolidated Statement of Operations for the year ended December 31, 2009:

Derivatives in ASC Topic 815 Cash Flow Hedge Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income (Ineffective Portion)	Amount of Gain (Loss) Recognized in Income (Ineffective Portion)
Interest rate swaps	$ (1,427)	Financial Services: Investment income	$ 2,196	Net mark-to-market gains (losses) on non-trading derivative contracts	$ 75

Ambac discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative or hedged item expires or is sold or the hedge relationship is re-designated. When hedge accounting is discontinued because the derivative no longer qualifies as an effective fair value hedge, Ambac continues to carry the derivative on the balance sheet at its fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. The net derivative gain or loss related to a discontinued cash flow hedge (recognized during the period of hedge effectiveness) will continue to be reported in "Accumulated Other Comprehensive Loss" and amortized into net income as a yield adjustment to the previously designated asset or liability. If the previously designated asset or liability is sold or matures, the net derivative gain or loss related to a discontinued cash flow hedge reported in "Accumulated Other Comprehensive Loss" will be reclassified into net income immediately. All subsequent changes in fair values of derivatives previously designated as cash flow hedges will be recognized in net income.

Ambac enters into non-trading derivative contracts for the purpose of economically hedging exposures to fair value or cash flow changes caused by fluctuations in interest rates and foreign currency rates. Such contracts include derivatives that do not meet the technical requirements for hedging under ASC Topic 815. Net gains (losses) recognized on such contracts recognized as part of net mark-to-market gains (losses) on non-trading derivative contracts was ($14,295) and $13,928 for the years ended December 31, 2010 and 2009, respectively.

Contingent Features in Derivatives Related to Ambac Credit Risk:

Ambac's interest rate swaps and currency swaps with professional swap-dealer counterparties and certain front-end counterparties are generally executed under standardized derivative documents including collateral support and master netting agreements. Under these agreements, Ambac is required to post collateral in the event net unrealized losses exceed predetermined threshold levels. Additionally, given AAC's current credit ratings counterparties have the right to terminate the swap positions.

As of December 31, 2010 and 2009, the aggregate fair value of all derivative instruments with contingent features linked to Ambac's own credit risk that are in a net liability position after considering legal rights of

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offset was $31,739 and $74,636, respectively, related to which Ambac had posted assets as collateral with a fair value of $119,863 and $192,495, respectively. All such ratings-based contingent features have been triggered as of December 31, 2010, requiring maximum collateral levels to be posted by Ambac and allowing counterparties to elect to terminate the contracts. Assuming all contracts terminated on December 31, 2010, settlement of collateral balances and net derivative liabilities would result in a net receipt of cash and/or securities by Ambac. If counterparties elect to exercise their right to terminate, the actual termination payment amounts will be determined in accordance with derivative contract terms, which may result in amounts that differ from market values as reported in Ambac's financial statements.

Depreciation and Amortization:

Depreciation of furniture and fixtures and electronic data processing equipment is charged over the estimated useful lives of the respective assets, ranging from three to five years, using the straight-line method. Amortization of leasehold improvements is charged over the lesser of ten years or the remaining term of the operating leases using the straight-line method.

Postretirement and Postemployment Benefits:

Ambac provides postretirement and postemployment benefits, including health and life benefits covering substantially all employees who meet certain age and service requirements. Ambac accounts for these benefits under the accrual method of accounting. Amounts related to the postretirement health benefits liability are established and charged to expense based on actuarial determinations. Effective August 1, 2005, new employees were not eligible for postretirement benefits.

Stock Compensation Plans:

The Ambac 1997 Equity Plan (the "Equity Plan"), as amended, provided for the granting of stock options, restricted stock, stock appreciation rights, restricted stock units ("RSUs"), performance units and other awards that are valued or determined by reference to the common stock. Ambac generally expects to deliver shares to employees under this plan from its treasury stock. Ambac also maintains the Ambac 1997 Non-employee Directors Equity Plan, which provides similar awards to non-employee members of Ambac's Board of Directors. The number of shares awarded to each non-employee director under the Directors Equity Plan were determined by formula. Awards under the Directors Equity Plan were suspended in March 2010. As of December 31, 2010, approximately 12,909,314 shares were available for future grant under the Equity Plan and the Directors Equity Plan.

Ambac recognizes compensation costs for all equity classified awards granted to employees or existing awards modified on of after January 1, 2003 at fair value with an estimation of forfeitures for all unvested shares. Ambac elected to accrue the estimated cost of future stock-compensation grants to retirement-eligible employees over the service period. The fair value of share-based awards that only require future service are amortized over the relevant service period. For an award with only service conditions that has a graded vesting schedule, the fair value of the award is attributed on a straight-line basis over the requisite service period for each separately vested portion of the award as if the award was, in-substance, multiple awards. The fair value of the market condition based stock option awards are attributed over the shorter of the derived vesting periods based on the output of the valuation model or the service period. RSU awards are attributed over the shorter of the vesting or service period.

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Foreign Currency:

Financial statement accounts expressed in foreign currencies are translated into U.S. dollars in accordance with ASC Topic 830, *Foreign Currency Matters*. Under ASC 830, functional currency assets and liabilities of Ambac's foreign subsidiaries are translated into U.S. dollars using exchange rates in effect at the balance sheet dates and the related translation adjustments are included as a component of "Accumulated Other Comprehensive Losses," net of any related taxes in Stockholders' Equity. Functional currencies are generally the currencies of the local operating environment. Income statement accounts expressed in functional currencies are translated using average exchange rates.

Foreign currency transaction gains and losses of Ambac's U.S. dollar functional currency subsidiaries', arising primarily from sales of long-term foreign denominated investment securities, short-term investment securities and cash denominated in foreign currencies, are reflected in net (loss) income. Additionally, the remeasurement of non-functional currency premium receivables are reflected in net (loss) income. The Consolidated Statements of Operations include pre-tax (losses) gains from such foreign exchange items of ($47,974), $80,334 and $1,933 for 2010, 2009 and 2008, respectively.

Income Taxes:

Ambac files a consolidated Federal income tax return with its subsidiaries. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Ambac evaluates our deferred income taxes quarterly to determine if valuation allowances are required. ASC Topic 740, *Income Taxes*, requires that companies assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified.

The level of deferred tax asset recognition is influenced by management's assessment of future profitability, which depends on the existence of sufficient taxable income of the appropriate character (ordinary vs. capital) within the carry back or carry forward periods available under the tax law. In the event that we determine that we would not be able to realize all or a portion of our deferred tax assets in the future, we would reduce such amounts through a charge to the Statement of Operations in the period in which that determination is made.

ASC Topic 740 provides a framework to determine the appropriate level of tax reserves for uncertain tax positions. ASC Topic 740 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Ambac also accrues interest and penalties related to these unrecognized tax benefits in the provision for income taxes.

Net Income Per Share:

ASC Paragraph 260-10-65-2 of ASC Topic 260, *Earnings Per Share*, effective for fiscal years beginning after December 15, 2008, clarified that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in

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the computation of EPS pursuant to the two-class method, which Ambac adopted in 2009. Retrospective application is required. Ambac had participating securities consisting of nonvested common stock with the same voting and dividend rights as our common stock. These shares of common stock all vested in January 2010. Basic net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Ambac was in a net loss position; consequently, no income or loss was allocated to participating securities during the years ended December 31, 2010 or 2009.

Common shares outstanding includes common stock issued less treasury shares plus restricted stock units for which no future service is required as a condition to the delivery of the underlying common stock. Diluted net income per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding plus all dilutive potential common shares outstanding during the period. All dilutive potential common shares outstanding consider common stock deliverable pursuant to stock options, nonvested restricted stock units, nonvested common shares, and stock purchase contracts. There were no dilutive effects for the years ended December 31, 2010, 2009 and 2008. The following table presents securities outstanding that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because they were antidilutive for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Stock options	2,794,047	3,852,403	4,923,402
Restricted stock and units	1,080,483	3,499,374	3,174,191
Stock purchase contracts	0	37,037,000	27,306,958

In March 2008, Ambac issued 5,000,000 Corporate Units. Each Unit has a stated amount of $50 and initially consists of (a) a Purchase Contract on Ambac common stock issued by Ambac and (b) a 5% beneficial ownership interest in $1,000 principal amount of 9.50% Senior Notes due 2021, to be held by the Collateral Agent to secure the performance of the Holder's obligations under the Purchase Contract.

As discussed in Note 1, on November 8, 2010, Ambac filed a petition for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Pursuant to the Purchase Contract Agreement the filing of the bankruptcy case constitutes a Termination Event. As a result, the Purchase contracts were terminated and the Corporate Units thereafter represent the rights of the Holders to receive their applicable Ownership Interests in the $250,000,000 Senior Notes. On November 16, 2010, Ambac filed a motion seeking an order approving the termination of the Purchase Contracts and the release of the Senior Notes. On November 30, 2010, the Bankruptcy Court approved the motion. Consequently, at December 31, 2010, no Purchase Contracts are outstanding.

Future Application of Accounting Standards:

In January 2010, the FASB issued ASU 2010-06, *Fair value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires some new disclosures and clarifies existing disclosure requirements related to the level of disaggregation for each class of assets and liabilities; and inputs and valuation techniques for fair value measurements that fall in either Level 2 or Level 3. The new disclosures include a) separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers; and b) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), information about purchases, sales,

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issuances, and settlements presented separately on a gross basis. This ASU is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activities in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Ambac will adopt the disclosure related to the detailed Level 3 roll forward disclosures on January 1, 2011 and the remaining disclosure was adopted as of January 1, 2010. Since this ASU requires only enhanced disclosures concerning fair value measurement, adoption of this ASU did not and will not have an effect on Ambac's financial statements.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* The ASU applies to both public and nonpublic entities that hold financing receivables that are not measured at a) fair value with changes in fair value recognized in earnings or b) lower of cost or fair value, or trade accounts receivables that have a contractual maturity of one year or less that arose from the sale of goods or services. The ASU will enhance disclosures that entities make about credit quality of financing receivables and the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activities that occur during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Ambac will adopt the provisions related to disclosures about activities that occur during a reporting period on January 1, 2011 and the remaining disclosure requirements were adopted as of December 31, 2010. Since this ASU requires only enhanced disclosures concerning credit quality of financing receivables and allowance for credit losses, adoption of this ASU did not and will not have an effect on Ambac's financial statements. Refer to Net Premium Earned discussion above and Note 4 "Loans" for the enhanced disclosures made.

In October 2010, the FASB issued ASU 2010-26, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts—a consensus of the FASB Emerging Issues Task Force*. ASU 2010-26 modifies the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. ASU 2010-26 requires only incremental costs or costs directly related to the successful acquisition of new or renewal contracts to be capitalized as a deferred acquisition cost. ASU 2010-26 is effective for interim and annual periods beginning after December 15, 2011 with either prospective or retrospective application permitted. Early adoption is permitted. Ambac will adopt ASU 2010-26 on January 1, 2012 on a prospective basis. Ambac is currently evaluating the implications of ASU 2010-26 on its financial statements.

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3 INVESTMENTS

The amortized cost and estimated fair value of investments, excluding VIE investments, at December 31, 2010 and December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Non-credit other-than-temporary Impairments[1]
December 31, 2010					
Fixed income securities:					
Municipal obligations	$ 2,161,627	$ 54,093	$ 11,614	$ 2,204,106	$ —
Corporate obligations	897,670	44,015	23,777	917,908	—
Foreign obligations	113,127	5,328	—	118,455	—
U.S. government obligations	153,609	3,299	35	156,873	—
U.S. agency obligations	81,696	6,598	—	88,294	—
Residential mortgage-backed securities	1,239,107	300,302	40,717	1,498,692	1,111
Collateralized debt obligations	40,997	391	9,132	32,256	—
Other asset-backed securities	1,019,894	28,274	43,857	1,004,311	—
Short-term	708,797	—	—	708,797	—
Other	100	—	—	100	—
	6,416,624	442,300	129,132	6,729,792	1,111
Fixed income securities pledged as collateral:					
U.S. government obligations	113,232	2,170	—	115,402	—
Residential mortgage-backed securities	7,686	431	—	8,117	—
Total collateralized investments	120,918	2,601	—	123,519	—
Total investments	$ 6,537,542	$ 444,901	$ 129,132	$ 6,853,311	$ 1,111
December 31, 2009					
Fixed income securities:					
Municipal obligations	$ 3,103,761	$ 117,095	$ 15,376	$ 3,205,480	$ —
Corporate obligations	859,797	19,003	37,582	841,218	—
Foreign obligations	158,498	10,368	1,215	167,651	—
U.S. government obligations	230,587	3,541	712	233,416	—
U.S. agency obligations	68,719	4,877	116	73,480	—
Residential mortgage-backed securities	1,644,580	190,273	96,055	1,738,798	17,276
Collateralized debt obligations	79,135	22	22,706	56,451	—
Asset-backed securities	1,460,488	1,228	205,640	1,256,076	—
Short-term	962,007	—	—	962,007	—
Other	1,278	—	—	1,278	—
	8,568,850	346,407	379,402	8,535,855	17,276
Fixed income securities pledged as collateral:					
U.S. government obligations	122,139	1,688	777	123,050	—
U.S. agency obligations	16,832	617	—	17,449	—
Residential mortgage-backed securities	25,385	1,482	—	26,867	—
Total collateralized investments	164,356	3,787	777	167,366	—
Total investments	$ 8,733,206	$ 350,194	$ 380,179	$ 8,703,221	$ 17,276

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(1) Represents the amount of cumulative non-credit other-than-temporary impairment losses recognized in accumulated other comprehensive loss on securities that also had a credit impairment. These losses are included in gross unrealized losses as of December 31, 2010 and December 31, 2009.

Foreign obligations at December 31, 2010 consist primarily of government issued securities which are denominated in Pounds Sterling and held by Ambac Assurance UK, Limited. At December 31, 2009, foreign obligations also included Euro and Australian dollar-denominated securities, all of which were sold in the first quarter of 2010.

The amortized cost and estimated fair value of investments, excluding VIE investments, at December 31, 2010, by contractual maturity, were as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 799,839	$ 800,320
Due after one year through five years	788,797	820,629
Due after five years through ten years	816,492	841,553
Due after ten years	1,824,730	1,847,433
	4,229,858	4,309,935
Residential mortgage-backed securities	1,246,793	1,506,809
Collateralized debt obligations	40,997	32,256
Other asset-backed securities	1,019,894	1,004,311
	$ 6,537,542	$ 6,853,311

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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Unrealized Losses:

The following table shows gross unrealized losses and fair values of Ambac's investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2010 and 2009:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
December 31, 2010:						
Fixed income securities:						
Municipal obligations.	$ 281,760	$ 7,633	$ 33,946	$ 3,981	$ 315,706	$ 11,614
Corporate obligations	51,806	1,691	212,417	22,086	264,223	23,777
U.S. government obligations	4,981	35	—	—	4,981	35
Residential mortgage-backed securities	22,180	537	127,782	40,180	149,962	40,717
Collateralized debt obligations	—	—	30,433	9,132	30,433	9,132
Other asset-backed securities	101,950	1,515	440,731	42,342	542,681	43,857
Total temporarily impaired securities	$ 462,677	$ 11,411	$ 845,309	$ 117,721	$ 1,307,986	$ 129,132
December 31, 2009:						
Fixed income securities:						
Municipal obligations	$ 118,770	$ 4,073	$ 90,775	$ 11,303	$ 209,545	$ 15,376
Corporate obligations	182,129	9,011	188,634	28,571	370,763	37,582
Foreign obligations	21,037	471	4,938	744	25,975	1,215
U.S. government obligations	68,073	1,489	—	—	68,073	1,489
U.S. agency obligations	4,345	116	—	—	4,345	116
Residential mortgage-backed securities	220,419	16,351	128,991	79,704	349,410	96,055
Collateralized debt obligations	4,541	3,716	51,888	18,990	56,429	22,706
Other asset-backed securities	380,426	43,029	735,190	162,611	1,115,616	205,640
Total temporarily impaired securities	$ 999,740	$ 78,256	$ 1,200,416	$ 301,923	$ 2,200,156	$ 380,179

Management has determined that the unrealized losses reflected in the table above are temporary in nature as of December 31, 2010 and December 31, 2009 based upon (i) no unexpected principal and interest payment defaults on these securities; (ii) analysis of the creditworthiness of the issuer and financial guarantor, as applicable, and analysis of projected defaults on the underlying collateral; (iii) management has no intent to sell these investments in debt securities; and (iv) it is not more likely than not that Ambac will be required to sell these debt securities before the anticipated recovery of its amortized cost basis. The assessment under (iv) is based on a comparison of future available liquidity from the fixed income investment portfolio against the projected net cash outflow from operating activities and debt service. For purposes of this assessment, available liquidity from the fixed income investment portfolio is comprised of the fair value of securities for which management has asserted its intent to sell plus the scheduled maturities and interest payments from the remaining securities in the portfolio. To the extent that securities that management intends to sell are in an unrealized loss

position, they would have already been considered other-than-temporarily impaired with the amortized cost written down to fair value. As of December 31, 2010, management has not asserted an intent to sell any securities from its portfolio, which would be considered immediately available for liquidity needs in our analysis. Because the above-described assessment indicates that future available liquidity exceeds projected net cash outflow, it is not more likely than not that we would be required to sell securities before the recovery of their amortized cost basis. In the liquidity assessment described above, principal payments on securities pledged as collateral are not considered to be available for other liquidity needs until the collateralized positions are projected to be settled. Projected interest receipts on securities pledged as collateral generally belong to Ambac and are considered to be sources of available liquidity from the investment portfolio. As of December 31, 2010, for securities that have indications of possible other-than-temporary impairment but which management does not intend to sell and will not more likely than not be required to sell, management compared the present value of cash flows expected to be collected to the amortized cost basis of the securities to assess whether the amortized cost will be recovered. Cash flows were discounted at the effective interest rate implicit in the security at the date of acquisition. For floating rate securities, future cash flows and the discount rate used were both adjusted to reflect changes in the index rate applicable to each security as of the evaluation date.

Of the securities that were in a gross unrealized loss position at December 31, 2010, $110,120 of the total fair value and $31,521 of the unrealized loss related to below investment grade securities and non-rated securities. Of the securities that were in a gross unrealized loss position at December 31, 2009, $114,391 of the total fair value and $34,987 of the unrealized loss related to below investment grade securities and non-rated securities.

Corporate Obligations

The decrease in gross unrealized losses on corporate obligations during the twelve months ended December 31, 2010 is primarily the result of lower interest rates. Of the $22,086 of unrealized losses on corporate obligations greater than 12 months, one security comprises $14,295 of the total. This security, which was purchased in multiple lots, is a closed-block life insurance issuance that is insured by Assured Guaranty Municipal Corporation, has been in an unrealized loss position for 17-36 months. The unrealized loss on this security is the result of general credit spread widening on life insurers. Given the insured rating of AA- and Investment Grade underlying rating, management believes that timely receipt of all principal and interest is probable.

Residential mortgage-backed securities

The decrease in the amount of residential mortgage-backed securities in a gross unrealized loss position at December 31, 2010 compared to 2009 is attributable primarily to sales of Alt-A securities during 2010. The gross unrealized loss on mortgage-backed securities as of December 31, 2010 is primarily related to Alt-A residential mortgage-backed securities. Of the $40,180 of unrealized losses on mortgage-backed securities for greater than 12 months, $39,463 is attributable to 16 individual Alt-A securities. These individual securities have been in an unrealized loss position for 36 months. Each of these Alt-A securities have very similar characteristics such as vintage of the underlying collateral (2004-2007) and placement in the structure (generally class-A tranche rated triple-A at issuance). As part of the quarterly impairment review process, management has analyzed the cash flows of all Alt-A RMBS securities held based on the default, prepayment and severity loss assumptions specific to each security's underlying collateral. Management has contracted consultants to model each of the securities in our portfolio. The cash flow model incorporates actual cash flows on the mortgage loans through the current period, and then projects remaining cash flows using a number of loan-specific assumptions, including default

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rates, prepayment rates, and recovery rates. The model then distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. Management considered this analysis in making our determination that non-receipt of contractual cash flows is not probable on these transactions.

Asset-backed securities

The decrease in gross unrealized losses on other asset-backed securities during the year ended December 31, 2010 is the result of sales of other asset-backed securities as well as the effect of improved market liquidity for certain higher quality, shorter term consumer asset-backed securities. As part of the quarterly impairment review process, management monitors each deal's performance metrics and other available qualitative and fundamental information in developing an analytical opinion. Ambac determined that there is sufficient credit enhancement to mitigate recent market stresses. Management believes that the timely receipt of all principal and interest from other asset-backed securities is probable.

Realized Gains and Losses and Other-Than-Temporary Impairments:

The following table details amounts included in net realized gains (losses) and other-than-temporary impairments included in earnings for the years ended December 31, 2010, 2009 and 2008 by segment:

	2010		2009		2008	
	Financial Guarantee	Financial Services	Financial Guarantee	Financial Services	Financial Guarantee	Financial Services
Gross realized gains on securities	$ 151,818	$ 7,383	$ 141,088	$ 77,100	$ 130,221	$ 58,435
Gross realized losses on securities	(77,528)	(9,060)	(12,676)	(42,158)	(42,939)	(28,928)
Net gain on investment agreement terminations	—	74,551	—	149,532	—	173,673
Foreign exchange gains (losses)	2,115	—	3,248	—	(7,344)	12,401
Net realized gains, excluding other–than-temporary impairments[1]	76,405	72,874	131,660	184,474	79,938	215,581
Other–than-temporary impairment on securities	(56,724)	(3,079)	(1,570,718)	(283,858)	(70,931)	(451,931)
Net realized gains (losses) and other-than-temporary impairments included in earnings	$ 19,681	$ 69,795	($ 1,439,058)	($ 99,384)	$ 9,007	($ 236,350)

(1) Other-than-temporary impairments since April 1, 2009 exclude impairment amounts recorded in other comprehensive income under ASC Paragraph 320-10-65-1, which comprise non-credit related amounts on securities that are credit impaired but which management does not intend to sell and it is not more likely than not that the company will be required to sell before recovery of the amortized cost basis.

Other-than-temporary impairment charges to earnings for year ended December 31, 2010 included $42,656 in credit losses on securities guaranteed by Ambac Assurance. Additionally, other-than-temporary impairments for the year ended December 31, 2010 included charges of $17,147, to write-down the amortized cost basis of tax-exempt municipal bonds and student loan securities to fair value at their respective impairment dates as a result of management's previous intent to sell securities in connection with plans to reposition the investment

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portfolio and to meet general liquidity needs, including amounts needed under the Settlement Agreement with CDS counterparties. As further described in Note 1, on March 24, 2010, the OCI commenced 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. As a result of actions taken by OCI, financial guarantee payments on securities guaranteed by Ambac Assurance which have been placed in the Segregated Account are no longer under the control of Ambac management. Accordingly, estimated cash flows on such securities have been adversely impacted resulting in credit losses.

Other-than-temporary impairments for the year ended December 31, 2009 included charges of $1,746,021 to write-down the amortized cost basis of tax-exempt municipal bonds and most residential mortgage-backed securities to fair value at their respective impairment dates as a result of management's intent to sell securities in connection with plans to reposition the investment portfolio and to meet general liquidity needs. Additionally, other-than-temporary impairment charges to earnings in 2009 included $98,654 in credit losses on securities guaranteed by Ambac Assurance. Other-than-temporary impairment charges were $522,862 for the year ended December 31, 2008. Charges in 2008 included $335,930 related to write-downs of certain securities that were believed to be credit impaired and $186,932 related to securities that management had the intent to sell primarily to meet financial services liquidity needs at that time.

Credit losses on Ambac-guaranteed securities which are included in other-than-temporary impairments for the years ended December 31, 2010 and 2009 were estimated using market accepted cash flow models and inputs consistent with those used to develop loss reserves described in Note 2. These credit losses relate primarily to Ambac-guaranteed RMBS senior bonds collateralized by either first or second-lien mortgage products. Pool cash flows are run through a market accepted deal model library based on either loan level or pool level assumptions for underlying collateral to project cash flows on the bond level. Each RMBS transaction structural features are modeled, including loss allocations, triggers, prepayment penalty allocations, and interest-rate hedges. Through the deal model waterfalls we generate principal and interest cash flow vectors for each tranche in the portfolio. For investments collateralized by first-lien mortgages, we employ a loan-level model which uses regression analysis derived from a subset of two million mortgages to estimate the effect of projected Home Price Appreciation, unemployment, and interest rates on individual mortgages based on their individual characteristics. Variable values and loan conditions are updated monthly. The model runs 300 simulations for each transaction. The heart of the framework, the discrete choice credit module, estimates the probability of monthly loan level credit performance evolutions through time across eight possible status states (current, 30 day delinquent, 60 day delinquent, 90 + day delinquent, foreclosure, REO, prepay, and default). Specific inputs used include: property type; occupancy; purpose; documentation; lien type; time to payment shock; effective LTV; change of monthly LTV; FICO score; debt to income ratio; mortgage rate; initial spread; loan age; delinquency history; and macroeconomic factors including interest rates, unemployment rate, HPA rate, loan modification program and government rescue plan. Our loss estimates for the second lien products in the RMBS portfolio were based on pool level assumptions. A monthly roll-rate methodology was applied to project future prepayment, default, and severity vectors on a pool-specific basis. We examined the historical rate at which delinquent loans in each transaction rolled into later delinquency categories (i.e. 30-59 days, 60-89 days, 90+ days, and default) and used this data along with the most recent delinquency information to project a default curve for the life of the transaction. Lifetime prepayment and loss severity factors were also projected by examining historical data. Specific inputs we used were: roll rates; initial delinquencies; prepayment rates; loss severity and burnout. These modeling results on the underlying bonds are used along with assumptions about future guarantor claim payments as described below to determine credit losses.

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Under the Segregated Account Rehabilitation Plan, future claim payments made by Ambac Assurance on these securities will be 25% in cash and 75% in surplus notes. All future cash payments on the surplus notes are subject to approval of OCI. The calculation of partial cash payments by Ambac Assurance is highly subjective and not readily available through market standard cash flow tools. To consider the uncertainty of guarantor cash payments, particularly on the surplus notes, our analysis of credit impairment of Ambac-guaranteed securities in our investment portfolio reflects a weighted average of estimated future cash flows under two scenarios: (i) the "with guarantor" scenario in which Ambac Assurance pays 100% of its claims in cash (weighted 30%) and (ii) the "without guarantor" scenario that fully excludes payments from Ambac Assurance (weighted 70%). Although the Segregated Account Rehabilitation Plan contemplates payments of 25% of claims in cash, we have applied 30% weight to the "with guarantor" scenario to reflect assumed market participants' expectations of future cash payments from the surplus notes.

The following table presents a roll-forward of Ambac's cumulative credit impairments that were recognized in earnings on securities held as of December 31, 2010:

	Credit Impairment
Balance as of January 1, 2010	$ 98,654
Additions for credit impairments recognized on[(1)]:	
Securities not previously impaired	27,057
Securities previously impaired	15,599
Reductions for credit impairments previously recognized on:	
Securities that matured or were sold during the period	(1,544)
Balance as of December 31, 2010	$ 139,766

(1) These additions are included in the Financial Guarantee net other-than-temporary impairment losses recognized in earnings of $56,724 in the Consolidated Statements of Operations, as well as impairments on securities for which Ambac intended to sell.

***Counterparty Collateral and Deposits with Regulators*:**

Ambac routinely pledges and receives collateral related to certain business lines and/or transactions. The following is a description of those arrangements by collateral source:

(1) *Cash and securities held in Ambac's investment portfolio*—Ambac pledges assets it holds in its investment portfolio to (a) investment and payment agreement counterparties; and (b) derivative counterparties. Securities pledged to investment and payment agreement counterparties may not then be re-pledged to another entity. Ambac's counterparties under derivative agreements have the right to pledge or rehypothecate the securities and as such, pledged securities are separately classified on the Consolidated Balance Sheets as "Fixed income securities pledged as collateral, at fair value".

(2) *Cash and securities pledged to Ambac under derivative agreements*—Ambac may repledge securities it holds from certain derivative counterparties to other derivative counterparties in accordance with its rights and obligations under those agreements.

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The following table presents (i) the sources of collateral either received from various counterparties where Ambac is permitted to sell or re-pledge or directly held in the investment portfolio and (ii) how that collateral was pledged to various investment and payment agreement, derivative and repurchase agreement counterparties at December 31, 2010 and December 31, 2009:

	Fair Value of Cash and Underlying Securities	Fair Value of Cash and Securities Pledged to Investment and Payment Agreement Counterparties	Fair Value of Cash and Securities Pledged to Derivative Counterparties
December 31, 2010:			
Sources of Collateral:			
Cash and securities pledged directly from the investment portfolio	$ 962,919	$ 846,124	$ 116,795
Cash and securities pledged from its derivative counterparties	7,005	—	7,005
December 31, 2009:			
Sources of Collateral:			
Cash and securities pledged directly from the investment portfolio	$ 1,322,341	$ 1,125,528	$ 196,813
Cash and securities pledged from its derivative counterparties	90,009	—	90,009

Securities carried at $6,947 and $7,069 at December 31, 2010 and December 31, 2009, respectively, were deposited by Ambac Assurance and Everspan with governmental authorities or designated custodian banks as required by laws affecting insurance companies.

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Guaranteed Securities:

Ambac's fixed income portfolio includes securities covered by guarantees issued by Ambac Assurance and other financial guarantors ("insured securities"). The published rating agency ratings on these securities reflect the higher of the financial strength rating of the financial guarantor or the rating of the underlying issuer. Rating agencies do not always publish separate underlying ratings (those ratings excluding the insurance by the financial guarantor) because the insurance cannot be legally separated from the underlying security by the insurer. Ambac obtains underlying ratings through ongoing dialogue with rating agencies and other sources. In the event these underlying ratings are not available from the rating agencies, Ambac will assign an internal rating. The following table represents the fair value, including the value of the financial guarantee, and weighted-average underlying rating, excluding the financial guarantee, of the insured securities at December 31, 2010 and 2009, respectively:

	Municipal obligations	Corporate obligations	Mortgage and asset-backed securities	Other	Total	Weighted Average Underlying Rating[1]
2010:						
Financial Guarantee						
National Public Finance Guarantee Corporation	$ 815,824	$ 80,942	$ —	$ —	$ 896,766	AA-
Ambac Assurance Corporation	55,786	4,547	840,228	—	900,561	BB
Assured Guaranty Municipal Corporation	399,408	93,186	25,805	—	518,399	A+
Financial Guarantee Insurance Corporation	16,428	—	11,800	—	28,228	BBB+
MBIA Insurance Corporation	—	19,547	5,630	—	25,177	BBB-
Assured Guaranty Corporation	—	—	16,374	—	16,374	D
Total	$ 1,287,446	$ 198,222	$ 899,837	$ —	$ 2,385,505	BBB+
Financial Services						
Assured Guaranty Municipal Corporation	$ —	$ 57,908	$ —	$ —	$ 57,908	BBB
Assured Guaranty Corporation	—	—	28,673	—	28,673	BB
Total	$ —	$ 57,908	$ 28,673	$ —	$ 86,581	BBB-
Corporate						
Assured Guaranty Municipal Corporation	$ 22,500	$ —	$ —	$ —	$ 22,500	AA-
Total	$ 22,500	$ —	$ —	$ —	$ 22,500	AA-
2009:						
Financial Guarantee						
National Public Finance Guarantee Corporation	$ 1,545,997	$ 24,711	$ —	$ —	$ 1,570,708	A+
Ambac Assurance Corporation	53,803	22,897	745,937	1,178	823,815	BB
Assured Guaranty Municipal Corporation	630,674	86,697	28,089	—	745,460	A+
MBIA Insurance Corporation	—	17,674	10,831	—	28,505	BBB-
Financial Guarantee Insurance Corporation	16,001	—	22,574	—	38,575	BBB+
Assured Guaranty Corporation	—	—	16,132	—	16,132	D
Total	$ 2,246,475	$ 151,979	$ 823,563	$ 1,178	$ 3,223,195	A-
Financial Services						
Assured Guaranty Municipal Corporation	$ —	$ 54,781	$ —	$ —	$ 54,781	BBB
Assured Guaranty Corporation	—	—	27,001	—	27,001	BB
Total	$ —	$ 54,781	$ 27,001	$ —	$ 81,782	BBB-
Corporate						
Assured Guaranty Municipal Corporation	$ 24,485	$ —	$ —	$ —	$ 24,485	AA-
Total	$ 24,485	$ —	$ —	$ —	$ 24,485	AA-

(1) Ratings are based on the lower of Standard & Poor's or Moody's rating. If unavailable, Ambac's internal rating is used.

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Financial Guarantee Investment Income:

Net investment income from the Financial Guarantee segment was comprised of the following:

	2010	2009	2008
Fixed income securities	$ 323,052	$ 480,161	$ 459,556
Short-term investments	1,484	5,025	24,457
Other investments	2,205	958	169
Loans	646	983	974
Total investment income	327,387	487,127	485,156
Investment expense	(3,345)	(4,443)	(5,018)
Net investment income	$ 324,042	$ 482,684	$ 480,138

4 LOANS

Loans had been extended: (i) to customers participating in certain structured municipal transactions, (ii) by VIEs which are consolidated by Ambac under ASC Topic 810 as a result of Ambac's financial guarantees of the VIEs' note liabilities and/or assets, and (iii) to three institutions in connection with various unrelated transactions. The structured municipal loans were collateralized with cash in amounts adequate to repay the loan balance. Equipment and other assets underlying these transactions served as additional collateral for the loans. Ambac acted as the payment custodian and held the funds posted as collateral. At December 31, 2010 all remaining structured municipal loans had been terminated and collected in full. At December 31, 2009, both the loan balances outstanding and collateral held under these arrangements were $58,903, with interest rates ranging from 7.05% to 7.90%.

Loans receivable by consolidated VIEs are generally carried at fair value on the Consolidated Balance Sheet. See Note 10 for further information about VIEs for which the assets and liabilities are carried at fair value. VIE loans receivable carried at cost had a principal balance of $204,148 and $207,609 at December 31, 2010 and 2009. Interest rates on these loans ranged from 5.33% to 5.42% at December 31, 2010 and 2009. The loans outstanding at December 31, 2010 and 2009 have a stated maturity of 2047. Collectability of these loans is evaluated individually on an ongoing basis in connection with the surveillance of the related financial guarantee transactions. No loan has been considered impaired and as such no loan impairments have been recorded as of December 31, 2010 or 2009.

Other loans had a combined outstanding principal balance of $20,167 and $21,507 at December 31, 2010 and 2009, respectively. Interest rates on these loans ranged from 2.79% to 7.00% at December 31, 2010 and 2.76% to 7.00% at December 31, 2009. The range of maturity dates of these loans is December 2013 to June 2024 as of December 31, 2010 and 2009. Collectability of these loans is evaluated individually on an ongoing basis in connection with the surveillance of the related financial guarantee transactions. No loan has been considered impaired and as such no loan impairments have been recorded as of December 31, 2010 or 2009.

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5 REINSURANCE

The effect of reinsurance on premiums written and earned was as follows:

	2010		2009		2008	
	Written	Earned	Written	Earned	Written	Earned
Direct	($ 476,270)	$ 565,657	($ 438,513)	$ 897,369	$ 519,139	$ 1,249,146
Assumed	178	1,294	(110,333)	5,182	17,736	22,964
Ceded	110,363	(20,976)	610,023	(105,191)	(53,162)	(249,353)
Net premiums	($ 365,729)	$ 545,975	$ 61,177	$ 797,360	$ 483,713	$ 1,022,757

Ceded Reinsurance:

Ambac Assurance has reinsurance in place pursuant to treaty and facultative reinsurance agreements. The reinsurance of risk does not relieve Ambac Assurance of its original liability to its policyholders. In the event that any of Ambac Assurance's reinsurers are unable to meet their obligations under reinsurance contracts, Ambac Assurance would, nonetheless, be liable to its policyholders for the full amount of its policy.

Ambac Assurance's reinsurance assets, including deferred ceded premiums and reinsurance recoverables on losses amounted to $401,844 at December 31, 2010. Credit exposure existed at December 31, 2010 with respect to reinsurance recoverables to the extent that any reinsurer may not be able to reimburse Ambac Assurance under the terms of these reinsurance arrangements. At December 31, 2010, there were ceded reinsurance balances payable of $141,450 offsetting this credit exposure.

To minimize its exposure to significant losses from reinsurer insolvencies, Ambac Assurance (i) is entitled to receive collateral from its reinsurance counterparties in certain reinsurance contracts; and (ii) has certain cancellation rights that can be exercised by Ambac Assurance in the event of rating agency downgrades of a reinsurer. At the inception of each reinsurance contract, Ambac Assurance required collateral from certain reinsurers primarily to (i) receive statutory credit for the reinsurance for foreign reinsurers, and (ii) provide liquidity to Ambac Assurance in the event of claims on the reinsured exposures. Ambac Assurance held letters of credit and collateral amounting to approximately $312,862 from its reinsurers at December 31, 2010. The largest reinsurer accounted for 6.4% of gross par outstanding at December 31, 2010.

As of December 31, 2010, the aggregate amount of insured par ceded by Ambac to reinsurers under reinsurance agreements was $26,273,459. The following table represents the percentage ceded to reinsurers and reinsurance recoverable at December 31, 2010 and its rating levels as of March 2, 2011:

	Moody's			
Reinsurers	Rating	Outlook	Percentage ceded par	Net unsecured reinsurance recoverable (in thousands)[1]
Assured Guaranty Re Ltd	A1	Negative outlook	84.47%	$ —
Sompo Japan Insurance Inc	Aa3	Stable	7.77%	—
Assured Guaranty Corporation	Aa3	Negative outlook	7.62%	14,747
Other			0.14%	5,433
Total			100.00%	$ 20,180

(1) Represents reinsurance recoverables on paid and unpaid losses and deferred ceded premiums, net of ceded premium payables due to reinsurers, letters of credit, and collateral posted for the benefit of Ambac Assurance.

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Assumed Reinsurance:

The vast majority of assumed reinsurance contracts were cancelled in 2009. At December 31, 2010, the remaining assumed par outstanding was $439,452. On March 24, 2010, all assumed reinsurance agreements with third parties were allocated to the Segregated Account, which will not allow for further cancellations without the approval of the Rehabilitator.

6 LOSSES AND LOSS EXPENSE RESERVE

As discussed in Note 2, a loss reserve is recorded on the balance sheet on a policy-by-policy basis for the excess of: (a) the present value of expected net cash outflows to be paid under an insurance contract, i.e. the expected loss, over (b) the UPR for that contract. To the extent (a) is less than (b), no loss reserve is recorded. Below is the loss reserve roll-forward, net of subrogation recoverable and reinsurance for the years ended December 31, 2010 and 2009:

	2010	2009
Loss reserves at December 31, net of subrogation recoverable and reinsurance	$ 3,777,321	$ 2,129,758
Impact of adopting ASU 2009-17	(503,887)	—
Impact of adopting ASC Topic 944	—	339,426
Beginning balance of net loss reserves, net of subrogation recoverable and reinsurance	3,273,434	2,469,184
Changes in the loss reserves due to:		
Current year:		
Establishment of new loss reserves, gross of subrogation and net of reinsurance	266,913	2,030,278
Claim payments, net of subrogation and reinsurance	(874)	(239,530)
Establishment of subrogation recoveries, net of reinsurance	(342,979)	(814,010)
Total current year	(76,940)	976,738
Prior year:		
Change in previously established loss reserves, gross of subrogation and net of reinsurance	822,848	1,929,513
Change in previously established subrogation recoveries, net of reinsurance	(26,864)	(379,145)
Claim payments, net of subrogation recoverable and reinsurance	(244,661)	(1,218,969)
Total prior year	551,323	331,399
Changes in loss reserves	474,383	1,308,137
Deconsolidation of certain VIEs under ASU 2009-17	676,633	—
Ending loss reserves, net of subrogation recoverable and reinsurance	$ 4,424,450	$ 3,777,321

The adverse development relating to prior years is due to the continued deterioration of collateral supporting insured RMBS securitizations resulting in greater expected ultimate losses, partially offset by higher expected subrogation recoveries related to representation and warranty breaches on insured RMBS securitizations.

The net change in loss reserves of $474,383, $1,308,137 and $2,155,888 for the years ended December 31, 2010, 2009 and 2008, respectively, are included in loss and loss expenses in the Consolidated Statement of

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Operations. Loss expense reserves are also established for significant surveillance and mitigation expenses associated with adversely classified credits. Total loss expense reserves were $93,900 and $32,452 at December 31, 2010 and December 31, 2009, respectively. Total loss expense of $186,420, $110,597 and $39,142 for the years ended December 31, 2010, 2009 and 2008, respectively, are included in loss and loss expenses in the Consolidated Statement of Operations. During the years ended December 31, 2010, 2009 and 2008, reinsurance recoveries of losses included in loss and loss expenses in the Consolidated Statement of Operations were $73,926, $141,792 and $180,184, respectively.

Prior to the adoption of ASC Topic 944, the liability for losses and loss expense reserves consisted of active credit and case basis credit reserves. Following is a summary of the activity in the case basis credit and active credit reserve accounts and the components of the liability for loss and loss expense reserves:

	2008
Case basis loss and loss expense reserves:	
Balance at January 1	$ 120,904
Less: reinsurance recoverables	11,088
Plus impact on foreign exchange gains on loss reserves	156
Net balance at January 1	109,972
Transfers from (to) active credit reserves:	
Current year	960,008
Prior years	661,727
Total transfers from active reserves	1,621,735
Paid (net of recoveries) related to:	
Current year	236,842
Prior years	334,170
Total paid	571,012
Net balance at December 31	1,160,695
Less impact on foreign exchange gains on loss reserves	156
Plus reinsurance recoverables	136,102
Balance at December 31	1,296,641
Active credit reserve:	
Balance at January 1	363,372
Provision for losses	2,227,583
Transfers to case reserves	(1,621,736)
Balance at December 31	969,219
Total	$ 2,265,860

The 2008 provision for losses of $2,227,583 is the amount recorded as loss and loss expenses in the Consolidated Statements of Operations. The provision for losses and loss expenses represented the expense recorded for losses inherent in the non-derivative financial guarantee insurance portfolio as of the reporting date. The loss and loss expenses were primarily driven by provisions for losses on deteriorating mortgage-backed security exposures.

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7 LONG-TERM DEBT

The carrying value of long-term debt was as follows:

	2010	2009
Ambac Financial Group, Inc.:		
9-3/8% Debentures, due 2011	$ —	$ 142,436
9.500% Senior Notes, due 2021	—	241,948
7-1/2% Debentures, due 2023	—	74,723
5.95% Debentures, due 2035	—	399,854
6.15% Directly-issued subordinated capital securities ("DISCs"), due 2087	—	397,595
5.95% Debentures, due 2103	—	200,000
5.875% Debentures, due 2103	—	175,000
Ambac Financial Group, Inc. total debentures and DISCs	—	1,631,556
Ambac Assurance Corporation:		
5.1% surplus notes, general account, due 2020	203,195	—
5.1% surplus notes, segregated account, due 2020	5,065	—
Long-term debt	208,260	—
Variable Interest Entities:		
Long-term debt	16,101,026	3,008,628

Ambac's total debentures and DISCs are in default due to the Company filing Chapter 11 bankruptcy in 2010 and are included on the 2010 Consolidated Balance Sheet under "Liabilities Subject to Compromise". For additional information on Ambac's debentures and DISCs, please refer to Note 1 "2010 Overview".

As a result of the Settlement Agreement, Ambac Assurance has issued $2,000,000 par amount of surplus notes. Additionally, the Segregated Account of Ambac Assurance, in connection with a commutation agreement, has issued $50,000 par amount of surplus notes to an insured party. At December 31, 2010, the Ambac Assurance Surplus Notes and the Segregated Account Surplus Notes are reported in long-term debt on the consolidated balance sheet, based on an imputed interest rate of 53.9% at the date of issuance and have a scheduled maturity of June 7, 2020. Interest on these notes is payable annually at the rate of 5.1% on the unpaid principal balance outstanding. All payments of principal and interest on the Ambac Assurance Surplus Notes and the Segregated Account Surplus Notes are subject to the prior approval of the OCI. If the OCI does not approve the payment of interest on the Ambac Assurance Surplus Notes or the Segregated Account Surplus Notes, such interest will accrue and compound annually until paid. The Ambac Assurance Surplus Notes and the Segregated Account Surplus Notes were issued pursuant to Fiscal Agency Agreements entered into with The Bank of New York Mellon, as fiscal agent (the "Fiscal Agency Agreement").

Ambac Assurance has entered into call options with certain of the Counterparties pursuant to which, with the prior consent of OCI, Ambac Assurance may repurchase Ambac Assurance Surplus Notes from such Counterparties. As of the date hereof, Ambac Assurance has options to call an aggregate of $940,000 in principal amount of Ambac Assurance Surplus Notes at a weighted average call price of $0.22 per $1.00 face amount. At December 31, 2010, these options have a weighted average maturity of approximately 20 months.

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The variable interest entity notes were issued by consolidated VIEs. Ambac is the primary beneficiary of the VIEs as a result of providing financial guarantees on the variable interest notes. Consequently, Ambac has consolidated these variable interest entity notes and all other assets and liabilities of the VIEs. Ambac is not primarily liable for the debt obligations of this entity. Ambac would only be required to make these payments on these debt obligations in the event that the issuer defaults on any principal or interest due. Ambac's creditors do not have rights with regard to the assets of the VIEs. The total unpaid principal amount of all outstanding long-term debt associated with the VIEs was $18,372,283 and $3,766,914 as of December 31, 2010 and December 31, 2009, respectively. The range of final maturity dates of the outstanding long-term debt associated with the VIEs is August 2011 to December 2047 as of December 31, 2010. As of December 31, 2010, the interest rates on the VIE long-term debt ranged from 0.74% to 12.63%. Please refer to Note 10 for a detailed description of the VIEs.

8 OBLIGATIONS UNDER INVESTMENT AND PAYMENT AGREEMENTS

Obligations under investment agreements, including those structured in the form of repurchase agreements, are recorded on a settlement-date basis. Certain investment agreements have contractual provisions that allow our counterparty the flexibility to withdraw funds prior to the legal maturity date. Amounts included in the table below are based on the earliest optional draw date. As of December 31, 2010 and 2009, the contractual interest rates for these agreements, which include both fixed and variable, ranged from 0.17% to 6.37% and from 0.10% to 7.08%, respectively. As of December 31, 2010 and 2009, obligations under investment agreements and investment repurchase agreements, excluding fair value hedge adjustments, were $805,632 and $1,215,053, respectively.

Net payments due under investment agreements, based on the earliest optional draw date, in each of the next five years ending December 31, and the periods thereafter, are as follows:

	Principal Amount
2011	$ 351,835
2012	75,149
2013	23,202
2014	164,617
2015	(22)
All later years	190,851
	$ 805,632

9 INCOME TAXES

Ambac files a consolidated Federal income tax return with its subsidiaries. Ambac and its subsidiaries also file separate or combined income tax returns in various states, local and foreign jurisdictions. The following are the major jurisdictions in which Ambac and its affiliates operate and the earliest tax years subject to examination:

Jurisdiction	Tax Year
United States	2005
New York State	2008
New York City	2000
United Kingdom	2005

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In November 2009, *The Worker, Homeownership, and Business Assistance Act of 2009 ("2009 Act")* was enacted. Under the 2009 Act, net operating losses (NOLs) from tax years beginning or ending in either 2008 or 2009 may be carried back for up to five years, instead of the general two-year carryback. As a result of electing to carryback the 2008 NOL five years under the 2009 Act in the fourth quarter of 2009, Ambac recognized a receivable of $443,900 for the tax refund and a corresponding tax benefit in the Consolidated Statement of Operations. This refund was received in 2010. Refer to "2010 Overview" in Note 1 and the IRS litigation contingency discussion in Note 13 for further developments relating to refunds received.

Ambac's provision for income taxes charged to income from continuing operations is comprised of the following:

	2010	2009	2008
Current taxes	$ 135	($ 504,066)	($ 831,493)
Deferred taxes	—	1,243,587	822,286
	$ 135	$ 739,521	($ 9,207)

The total effect of income taxes on net income and stockholders' equity for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Total income taxes charged to net income	$ 135	$ 739,521
Income taxes charged (credited) to stockholders' equity:		
Unrealized gains (losses) on investment securities and hedges	121,769	879,783
Valuation Allowance to Equity	(119,116)	(13,607)
Adoption of ASU 2009-17 (VIEs)	245,715	—
Other	8,597	6,186
Total charged (credited to) stockholders' equity:	256,965	872,362
Total effect of income taxes	$ 257,100	$ 1,611,883

The tax provisions in the accompanying Consolidated Statements of Operations reflect effective tax rates differing from prevailing Federal corporate income tax rates. The following is a reconciliation of these differences:

	2010	%	2009	%	2008	%
Tax on income from continuing operations at statutory rate	($ 263,551)	35.0%	$ 253,717	35.0%	$ (1,966,460)	35.0%
Reductions in expected tax resulting from:						
Tax-exempt interest	(24,700)	3.3%	(48,414)	(6.7)	(96,762)	1.7
Valuation allowance	288,195	(38.3)	614,136	84.7	2,053,000	(36.5)
Net addition to (release of) tax reserves	—	—	(60,125)	(8.3)	(6,400)	0.1
AMT	—	—	(20,770)	(2.7)	—	—
Other, net	191	—	977	—	7,415	(0.1)
Tax expense on income from continuing operations	$ 135	— %	$ 739,521	102.0%	($ 9,207)	0.2%

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The release of tax reserves in 2009 relates to the extension of the NOL carryback period from two to five years net of accrual of interest on open years.

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 2010 and 2009 are presented below:

	2010	2009
Deferred tax liabilities:		
Variable interest entities	$ 50,324	$ —
Deferred acquisition costs	92,784	103,527
Unearned premiums and credit fees	33,638	5,395
Mark–to-market gains on non-trading derivatives	9,794	9,794
Other	14,108	5,661
Total deferred tax liabilities	200,648	124,377
Deferred tax assets:		
Unrealized losses & impairments on investments	148,728	410,666
Net operating loss carryforward	2,450,724	1,795,606
Loss reserves	18,106	603,298
Compensation	10,733	12,467
Other	9,195	15,083
Sub-total deferred tax assets	2,637,486	2,837,120
Valuation allowance	2,436,838	2,701,493
Total deferred tax assets	200,648	135,627
Net deferred tax assets	$ —	11,250

A reconciliation of the beginning and ending amount of unrecognized tax benefits for 2010 and 2009 is as follows:

	2010	2009
Balance at January 1,	$ 22,850	$ 83,200
Increases related to prior year tax positions	200	6,023
Decreases related to prior year tax positions	—	(66,373)
Balance at December 31,	$ 23,050	$ 22,850

Included in these balances at December 31, 2010 and 2009 are $23,050 and $22,850, respectively, of unrecognized tax benefits that, if recognized, would affect the effective tax rate. During the years ended December 31, 2009 federal tax reserves related to unrecognized tax benefits decreased by $66,373. The December 31, 2009 release relates to the availability of net operating loss carryback to offset any IRS assessment for potential tax issues related to tax years 2003 through 2007. Ambac accrues interest and penalties related to unrecognized tax benefits in the provision for income taxes. During 2010, 2009 and 2008, Ambac recognized interest of approximately $200, $6,023 and $4,100, respectively. Ambac had approximately $15,220 and $15,020 for the payment of interest accrued at December 31, 2010 and 2009, respectively.

Aside from an additional accrual for interest and penalties, it is not likely that the uncertain tax position will change in the next 12 months.

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As a result of the development of additional losses and the related impact on the Company's cash flows, management believes it is more likely than not that the Company will not generate sufficient taxable income to recover the deferred tax operating asset. A full valuation allowance has been established against the operating portion of its deferred tax asset for both 2010 and 2009.

As of December 31, 2010 Ambac has a net operating tax carryforward of approximately $7,002,069, which if not utilized will begin expiring in 2028 and will fully expire in 2030.

10 SPECIAL PURPOSES ENTITIES, INCLUDING VARIABLE INTEREST ENTITIES

Ambac has engaged in transactions with special purpose entities, including VIEs, in various capacities. Ambac has provided financial guarantees, including credit derivative contracts for various debt obligations issued by various entities, including VIEs. Ambac has also sponsored two special purpose entities that issue medium-term notes to fund the purchase of certain financial assets. Finally, Ambac is an investor in collateralized debt obligations, mortgage-backed and other asset-backed securities issued by VIEs and its ownership interest is generally insignificant to the VIE and/or Ambac does not have rights that direct the activities that are most significant to such VIE.

Financial Guarantees:

Ambac has provided financial guarantees in respect of assets held or debt obligations of special purpose entities, including VIEs. Ambac's primary variable interest exists through this financial guarantee insurance or credit derivative contract. The transaction structure provides certain financial protection to Ambac. This financial protection can take several forms; however, the most common are over-collateralization, first loss and excess spread. In the case of over-collateralization (i.e., the principal amount of the securitized assets exceeds the principal amount of the debt obligations guaranteed by Ambac Assurance), the structure allows the transaction to experience defaults among the securitized assets before a default is experienced on the debt obligations that have been guaranteed by Ambac Assurance. In the case of first loss, the financial guarantee insurance policy only covers a senior layer of losses on assets held or debt issued by special purpose entities, including VIEs. The first loss with respect to the assets is either retained by the seller or sold off in the form of equity or mezzanine debt to other investors. In the case of excess spread, the securitized assets contributed to special purpose entities, including VIEs, generate interest cash flows that are in excess of the interest payments on the related debt; such excess cash flow is applied to redeem debt, thus creating over-collateralization. Generally, upon deterioration in the performance of a transaction or upon an event of default as specified in the transaction legal documents, Ambac will obtain certain loss remediation rights. These rights enable Ambac to direct the activities of the entity that most significantly impact the entity's economic performance.

We determined that Ambac generally has the obligation to absorb the VIE's expected losses given that we have issued financial guarantees supporting the liabilities (and in certain cases assets) of a VIE. We also determined for certain transactions that experienced the aforementioned performance deterioration, that we had the power, through voting rights or similar rights, to direct the activities of certain VIEs that most significantly impact the VIE's economic performance because: a) certain triggers had been breached in these transactions resulting in Ambac having the ability to exercise certain loss remediation activities, or b) due to the passive nature of the VIEs' activities, Ambac's contingent loss remediation rights upon a breach of certain triggers in the future is considered to be the power to direct the activities that most significantly impact the VIEs' economic performance.

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Ambac Sponsored VIEs:

A subsidiary of Ambac has transferred financial assets to two special purpose entities. The business purpose of these entities is to provide certain financial guarantee clients with funding for their debt obligations. These special purpose entities are legal entities that are demonstrably distinct from Ambac. Ambac, its affiliates or its agents cannot unilaterally dissolve these entities. The permitted activities of these entities are limited to those outlined below. As a result of the adoptions of both ASU-2009-16 and ASU 2009-17 on January 1, 2010, Ambac was required to consolidate these VIEs on January 1, 2010. As a result of the Rehabilitation Proceedings of the Segregated Account, Ambac was required to deconsolidate these entities because Ambac's policies issued to these entities have been allocated to the Segregated Account of Ambac Assurance. The consolidation of these entities did not have any effects on Ambac's beginning retained earnings as these entities were accounted for at fair value before initial consolidation. Prior to 2010 and upon deconsolidation, Ambac has elected to account for its equity interest in these entities at fair value under the fair value option in accordance with ASC Topic 825, *Financial Instruments*. We believe that the fair value of these investments in these entities provides for greater transparency for recording profit or loss as compared to the equity method under ASC Topic 323, *Investments – Equity Method in Joint Ventures*. At December 31, 2010 and December 31, 2009 the fair value of these entities is $17,909 and $18,843, respectively, and is reported within Other Assets within the Consolidated Balance Sheets. The change in fair value of these entities for the years ended December 31, 2010 and December 31, 2009, is ($934) and $4,554, respectively, and is included within Financial Guarantee: (Loss) income on variable interest entity activities on the Consolidated Statements of Operations.

As of December 31, 2010 and 2009, there have been 15 individual transactions with these entities, of which 5 and 9 are outstanding, respectively. Total principal amount outstanding was $572,509 and $1,243,377 at December 31, 2010 and 2009, respectively. In each case, Ambac sold fixed income debt obligations to these entities. The fixed income debt obligations are composed of asset-backed securities and utility obligations with a weighted average rating of BBB+ and A- and weighted average life of 8.9 and 6.4 years at December 31, 2010 and 2009, respectively. The purchase by these entities is financed through the issuance of medium-term notes ("MTNs"), which are cross-collateralized by the purchased assets. The MTNs have the same expected weighted average life as the purchased assets. Derivative contracts (interest rate and currency swaps) may be used within the entities for economic hedging purposes only. Hedges are established at the time MTNs are issued to purchase financial assets. The activities of these entities are contractually limited to purchasing assets from Ambac, issuing MTNs to fund such purchase, executing derivative hedges and obtaining financial guarantee policies with respect to indebtedness incurred. Ambac Assurance may issue a financial guarantee insurance policy on the assets sold, the MTNs issued and/or the related derivative contracts. As of December 31, 2010 and 2009, Ambac Assurance had financial guarantee insurance policies issued for all assets, MTNs and derivative contracts owned and outstanding by the entities.

Insurance premiums paid to Ambac Assurance by these entities are earned in a manner consistent with other insurance policies, over the risk period. Additionally, any losses incurred on such insurance policies are included in Ambac's Consolidated Statements of Operations. Under the terms of an Administrative Agency Agreement, Ambac provides certain administrative duties, primarily collecting amounts due on the obligations and making interest payments on the MTNs.

There were no assets sold to these entities during the year ended December 31, 2010, 2009 and 2008. Ambac Assurance received premiums for issuing the financial guarantee policies on the assets, MTNs and derivative contracts of $2,642, $4,906 and $5,695 for the years ended December 31, 2010, 2009 and 2008, respectively. Ambac paid claims to these entities of $24,411, $89,796 and $0 for the years ended December 31, 2010, 2009 and 2008, respectively, under these financial guarantee contracts. Ambac also earned fees for

providing other services amounting to $62, $205 and $221 for the years ended December 31, 2010, 2009 and 2008, respectively.

Derivative contracts are provided by AFS to these entities. Consistent with other non-hedging derivatives, AFS accounts for these contracts on a trade date basis at fair value. AFS received $10,588, paid $6,196 and $10,905 for the years ended December 31, 2010, 2009 and 2008, respectively, under these derivative contracts.

Consolidation of VIEs:

Except for consolidations resulting from the adoption of ASU 2009-17 on January 1, 2010, upon initial consolidation of a VIE, we recognized a gain or loss in earnings for the difference between: a) the fair value of the consideration paid, the fair value of any non-controlling interests and the reported amount of any previously held interests and b) the net amount as measured on a fair value basis, of the assets and liabilities consolidated. Upon deconsolidation of a VIE, we recognized a gain or loss for the difference between: a) the fair value of any consideration received, the fair value of any retained non-controlling investment in the VIE and the carrying amount of any non-controlling interest in the VIE and b) the carrying amount of the VIE's assets and liabilities. Gains or losses from consolidation and deconsolidation that are reported in earnings are reported within Financial Guarantee: Income (Loss) on variable interest entities.

Upon the adoption of ASU 2009-17, Ambac generally measured the assets and liabilities of newly consolidated VIEs at fair value, as the carrying amount transition method was not practical. The carrying amount transition method (whereby assets, liabilities, and non-controlling interests of the VIE are recorded in amounts that would have been carried in the consolidated financial statements if ASU 2009-17 had been effective when Ambac first met the conditions to be the primary beneficiary) was used for one VIE. Ambac has elected to account for the assets and liabilities of the VIEs which were consolidated at fair value under the fair value option in accordance with ASC Topic 825, *Financial Instruments* in subsequent periods. The fair value option is elected to allow for consistency in the measurement attributes of assets and liabilities of these VIEs. For VIEs where the assets, liabilities, and non-controlling interests were measured at initial consolidation under the carrying amount transition method, balances continue to be measured and reported based on other applicable GAAP guidance.

Impact of ASU 2009-17 and ASU 2009-16

As a result of adopting ASU 2009-17, a cumulative effect gain adjustment of $705,046 was recorded as a net increase to total equity as of January 1, 2010, which includes changes to the opening balance of retained earnings and accumulated other comprehensive loss, net of taxes as Ambac was required to consolidate 83 additional VIEs. The types of entities that Ambac was required to consolidate included: (i) RMBS securitization trusts as a result of financial guarantee insurance policies on the senior debt of such trusts; (ii) collateralized debt obligation trusts as a result of credit derivative contracts issued to investors of the debt of such trust; (iii) international and other asset-backed securitizations as a result of insurance policies guarantying the debt of such financing entities; and (iv) other transactions, including the Ambac sponsored special purpose entities, Juneau and Aleutian. The net impact of consolidating these VIEs on Ambac's balance sheet at adoption of ASU 2009-17 and ASU 2009-16 was as follows:

- Ambac was required to recognize the assets and liabilities of the VIE. The aggregate amount of the VIE assets and liabilities recorded upon adoption were generally recognized at fair value as described above.
- For a financial guarantee policy issued to a consolidated VIE, Ambac does not reflect the financial guarantee insurance policy in accordance with the related insurance accounting rules under ASC Topic 944, *Financial Services—Insurance*. The financial guarantee policy would be eliminated upon

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consolidation. Consequently, Ambac eliminated insurance assets (premium receivables, reinsurance recoverables, deferred ceded premium, subrogation recoverable and deferred acquisition costs) and insurance liabilities (unearned premiums, loss and loss expense reserves and ceded premiums payable) from the Consolidated Balance Sheet.

- For VIEs consolidated as a result of Ambac's credit derivative transactions, the consolidation results in offsetting increases to assets and liabilities with no transition effect. The credit derivative liabilities remained on Ambac's consolidated financial statements and were not eliminated upon the consolidation of the VIE because Ambac's credit derivative contracts are not entered into directly with the VIE, but rather entered into with third parties, typically the holders of the notes issued by the VIEs.
- For investment securities owned by Ambac that are debt instruments issued by the VIE, the investment securities balance is eliminated upon consolidation.

The impact of the above items upon adoption of ASU 2009-17 and ASU 2009-16 on January 1, 2010 is summarized below:

Addition of VIE assets	$	23,112,303
Addition of VIE liabilities		(22,798,176)
Net VIE assets added upon adoption		314,127
Elimination of insurance assets		(833,716)
Elimination of insurance liabilities		1,269,477
Net insurance liabilities eliminated upon adoption		435,761
Elimination of intercompany invested assets		(44,842)
Net decrease of Shareholders' deficit upon adoption	$	705,046

As a result of the establishment of the Segregated Account and the rehabilitation proceedings with respect to the Segregated Account as discussed in Note 1, including the terms of the management agreement which permit OCI to terminate the agreement with Ambac at any point in time, Ambac no longer has the unilateral power to direct the activities of the VIEs that most significantly impact the entity's economic performance for those insurance policies that were allocated to the Segregated Account. A significant number of insurance policies related to the VIEs were allocated to the Segregated Account during 2010. Accordingly, Ambac deconsolidated such VIEs. Ambac continues to provide financial guarantee policies on the senior debt or assets of such trusts upon deconsolidation. Additionally, as described in Note 1, Ambac commuted certain CDO of ABS credit derivative obligations and related financial guarantee insurance policies written by Ambac Assurance under the Settlement Agreement and other insurance policies related to VIEs consolidated as of January 1, 2010 expired. The effect of these commutations and other insurance expirations, in combination with the impact of policy allocations to the Segregated Account, was to reverse a significant portion of the transition adjustment to adopt ASU 2009-17 on January 1, 2010.

VIEs that were consolidated for part of 2010 but are no longer consolidated as of December 31, 2010 contributed a combined loss of $630,293 during the year ended December 31, 2010, which is included in Financial Guarantee: (Loss) income on variable interest entity activities. The loss on these VIEs is primarily a result of deconsolidation, as the carrying value of the re-established net insurance liabilities exceeded the net liabilities of the VIEs which were carried at fair value in consolidation.

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As of December 31, 2010, consolidated VIE assets and liabilities relating to 19 consolidated entities were $17,930,829 and $17,696,445, respectively. As of December 31, 2009, consolidated VIE assets and liabilities were $3,276,615 and $3,012,170, respectively. Ambac is not primarily liable for the debt obligations issued by the VIEs. Ambac would only be required to make payments on these debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due. Additionally, Ambac's creditors do not have rights with regard to the assets of the VIEs. Ambac evaluates the net income statement effects and earnings per share effects to determine attributions between Ambac and non-controlling interests as a result of consolidating a VIE. Ambac has determined that the net changes in fair value of most consolidated VIE assets and liabilities are attributable to Ambac due to Ambac's interest through financial guarantee premium and loss payments with the VIE. VIE activities related to entities that remain consolidated as of December 31, 2010 resulted in a gain of $13,605 for the year ended December 31, 2010, which is included in Financial Guarantee: (Loss) on variable interest entity activities.

The financial reports of certain VIEs are prepared by an outside trustee and are not available within the time constraints Ambac requires to ensure the financial accuracy of the operating results. As such, the financial results of certain VIEs are consolidated on a time lag that is no longer than 90 days.

The table below provides the fair value of fixed income securities, by asset-type, held by consolidated VIEs as of December 31, 2010 and December 31, 2009:

	December 31, 2010	December 31, 2009
Investments:		
Corporate obligations	$ 1,904,361	$ 160,518
Residential mortgage-backed securities	—	173,066
Other asset-backed securities	—	192,363
Total Variable interest entity assets: Fixed income securities	$ 1,904,361	$ 525,947

The following table provides supplemental information about the loans held as assets and long-term debt associated with the VIEs for which the fair value option has been elected as of December 31, 2010 and December 31, 2009:

	Estimated fair value	Unpaid principal balance
December 31, 2010:		
Loans	$ 15,800,918	$ 16,750,029
Long-term debt	$ 15,885,711	$ 18,156,968
December 31, 2009:		
Loans	$ 2,428,352	$ 2,459,003
Long-term debt	$ 2,789,556	$ 3,547,842

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Variable Interests in Non-Consolidated VIEs

The following table displays the carrying amount of the assets, liabilities and maximum exposure to loss of Ambac's variable interests in non-consolidated VIEs resulting from financial guarantee and credit derivative contracts by major underlying asset classes, considering the consolidation guidance for each period, as of December 31, 2010 and December 31, 2009:

		Carrying Value of Assets and Liabilities		
	Maximum Exposure To Loss[1]	Insurance Assets[2]	Insurance Liabilities[3]	Derivative Liabilities[4]
December 31, 2010:				
Global Structured Finance:				
Collateralized debt obligations	$ 20,976 ,454	$ 36,372	$ 122,158	$ 168,219
Mortgage-backed – residential	35,303,782	962,835	4,192,877	95
Mortgage-backed—commercial	934,873	—	—	7,340
Other consumer asset-backed	12,704,948	171,725	1,049,142	23,148
Other commercial asset-backed	18,405,545	710,685	716,796	5,444
Other	8,635,192	145,110	504,199	1,974
Total Global Structured Finance	96,960,794	2,026,727	6,585,172	206,220
Global Public Finance	41,357,921	638,626	774,000	9,786
Total	$ 138,318,715	$ 2,665,353	$ 7,359,172	$ 216,006

		Carrying Value of Assets and Liabilities		
	Maximum Exposure To Loss[1]	Insurance Assets[2]	Insurance Liabilities[3]	Derivative Liabilities[4]
December 31, 2009:				
Global Structured Finance:				
Collateralized debt obligations	$ 56,497,731	$ 118,168	$ 187,532	$ 3,160,188
Mortgage-backed—residential	43,190,006	1,217,048	4,077,046	7,757
Mortgage-backed—commercial	1,499,683	4,476	3,252	26,095
Other consumer asset-backed	16,785,050	216,017	385,755	8,594
Other commercial asset-backed	42,566,049	1,512,502	1,637,898	16,961
Other	12,431,608	206,124	518,971	19,886
Total Global Structured Finance	172,970,127	3,274,335	6,810,454	3,239,481
Global Public Finance	46,045,541	734,860	899,136	5,969
Total	$ 219,015,668	$ 4,009,195	$ 7,709,590	$ 3,245,450

(1) Maximum exposure to loss represents the gross maximum future payments of principal and interest on insured obligations and credit derivative contracts. Ambac's maximum exposure to loss does not include the benefit of any financial instruments (such as reinsurance or hedge contracts) that Ambac may utilize to mitigate the risks associated with these variable interests.

(2) Insurance assets represents the amount recorded in "Premium receivables" and "Subrogation recoverable" for financial guarantee contracts on Ambac's Consolidated Balance Sheets.

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(3) Insurance liabilities represents the amount recorded in "Losses and loss expense reserve" and "Unearned premiums" for financial guarantee contracts on Ambac's Consolidated Balance Sheets.

(4) Derivative liabilities represents the fair value recognized on credit derivative contracts on Ambac's Consolidated Balance Sheets.

11 RETIREMENT PLANS

Postretirement Health Care and Other Benefits:

Ambac provides postretirement and postemployment benefits, including health and life benefits covering substantially all employees who meet certain age and service requirements. Effective August 1, 2005, new employees were not eligible for postretirement benefits. None of the plans are currently funded. Postretirement and postemployment benefits expense was $271, ($371) and $730 in 2010, 2009 and 2008, respectively. The unfunded accumulated postretirement benefit obligation was $10,302 as of December 31, 2010. The assumed health care cost trend rates range from 10% in 2010, decreasing ratably to 6% in 2015. Increasing the assumed health care cost trend rate by one percentage point in each future year would increase the accumulated postretirement benefit obligation at December 31, 2010, by $2,377 and the 2010 benefit expense by $336. Decreasing the assumed health care cost trend rate by one percentage point in each future year would decrease the accumulated postretirement benefit obligation at December 31, 2010 by $1,849 and the 2010 benefit expense by $255.

The following table sets forth projected benefit payments from Ambac's postretirement plan and reflects expected future service where appropriate:

	Amount
2011	$ 280
2012	291
2013	354
2014	397
2015	426
All later years	2,933
	$ 4,681

The discount rate used in determining the projected benefit obligations for the postretirement plan is selected by reference to the year-end Moody's corporate AA rate, as well as other high-quality indices with similar duration to that of the benefit plans. The rate used for the projected plan benefit obligations at the measurement date for 2010 and 2009 (December 31) was 5.50% and 5.75%, respectively.

Savings Incentive Plan:

Substantially all employees of Ambac are covered by a defined contribution plan (the "Savings Incentive Plan"). Prior to January 1, 2010 Ambac made employer matching contributions of 100% of the employee's contributions up to 6% of such participants' base compensation, subject to limits set by the Internal Revenue Code. Ambac had the option to make a Basic Profit Sharing contribution of 3% of base compensation and a Supplemental Profit Sharing contribution of an additional 3% of base compensation to eligible employees.

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Effective January 1, 2010, matching contributions now equal 100% of the employees' contributions, up to 3% of such participants' base compensation plus 50% of contributions to an additional 2% of base compensation, subject to limits set by the Internal Revenue Code. No Basic Profit-Sharing contributions or Supplemental Profit-Sharing contributions will be made to the Plan. The total cost of the Savings Incentive Plan was $1,455, $4,474 and $4,393 in 2010, 2009 and 2008, respectively.

12 STOCK COMPENSATION

Employees of Ambac participated in Ambac Financial Group Inc.'s 1997 Equity Plan, which provides for the granting of stock options, stock appreciation rights, restricted stock units, performance units and other awards that are valued or determined by reference to its common stock.

Stock Options:

Stock options awarded to eligible employees are exercisable and expire as specified at the time of grant. Such options are awarded based on the fair market value of Ambac's Common Stock on the grant date and have a term of seven years from the date of the grant. All employee stock option agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, permanent disability or death.

No stock options were granted in 2010 and 2009. Ambac used the Black-Scholes model to value the 2008 service condition based stock options. The assumptions for the 2008 stock option grants are as follows:

	2008
Risk-free interest rate	2.68%
Expected volatility	68.8%
Dividend yield	0.36%
Expected life	4.50 years

The expected volatility considers the implied volatility in Ambac's traded options and historical volatility levels on Ambac's common stock over the expected life of the option. The expected dividend yield was based on historical dividend payments. The risk-free interest rates reflect the yields on U.S. Treasuries over the expected life of the award.

A summary of option activity for the period ending December 31, 2010 is as follows:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life
Outstanding at beginning of year	3,587,182	$ 49.08		
Granted	0	n.a.		
Exercised	0	n.a.		
Forfeited or expired	(979,419)	$ 54.66		
Outstanding at end of year	2,607,763	$ 46.98	$ 0	2.75
Exercisable	1,674,675	$ 51.58	$ 0	0.85

The grant date weighted average fair value of stock options granted during 2008 was $5.71.

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As of December 31, 2010, there was $365 of total unrecognized compensation costs related to unvested stock options granted. These costs are expected to be recognized over a weighted average period of 2.29 years. Gross stock option expense for 2010, 2009 and 2008 was $1,825, $3,319 and $1,749, respectively. The net income effect from stock options for 2010, 2009 and 2008 were $4,033, $5,426 and $138, respectively. Excess tax benefits are included in financing activities of the Consolidated Statements of Cash Flows.

RSUs and Restricted Stock:

RSUs were granted to all eligible employees based upon the performance of Ambac, the performance of the employee's department and the performance of the employee. RSUs do not have a vesting period in excess of four years. Typically, RSU agreements provide that vesting is accelerated in certain circumstances, such as retirement, permanent disability or death.

As of December 31, 2010, 1,026,728 RSUs remained outstanding, of which (i) 953,786 units required future service as a condition to the delivery of the underlying shares of common stock and (ii) 72,942 units did not require future service.

Information with respect to the RSU and other stock awards is as follows:

	2010	2009	2008
RSUs and other stock awarded	$ 181,702	$ 398,513	$ 4,112,130
Weighted average fair value per share	$ 0.69	$ 1.04	$ 9.93
Gross RSU expense	$ 3,538	$ 10,557	$ 16,119
Net income effect	$ 5,212	$ 14,368	$ 13,368

A summary of RSU and other stock activity for 2010 is as follows:

	2010	
	Shares	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	2,437,624	$ 14.19
Granted	181,702	$ 0.69
Delivered	(1,377,361)	$ 15.25
Forfeited	(215,237)	$ 13.13
Outstanding at end of year	1,026,728	$ 10.61

As of December 31, 2010, there was $1,007 of total unrecognized compensation costs related to unvested RSUs granted. These costs are expected to be recognized over a weighted average period of 2.19 years. The fair value for RSUs vested during 2010, 2009 and 2008 was $52, $563 and $4,324, respectively.

13 COMMITMENTS AND CONTINGENCIES

Impact of Our Bankruptcy Filing

Under the Bankruptcy Code, the filing of our petition on November 8, 2010 automatically stayed most actions against us. Substantially all of our pre-petition liabilities will be addressed under our plan of reorganization, if not otherwise addressed pursuant to orders of the Bankruptcy Court.

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Ambac is responsible for leases on the rental of office space. The lease agreements, which expire periodically through September 2019, contain provisions for scheduled periodic rent increases and are accounted for as operating leases. An estimate of future net minimum lease payments in each of the next five years ending December 31, and the periods thereafter, is as follows:

	Amount
2011	$ 9,315
2012	9,410
2013	9,697
2014	10,096
2015	10,373
All later years	40,119
	$ 89,010

Rent expense for the aforementioned leases amounted to $9,973, $10,097 and $9,858 for the years ended December 31, 2010, 2009 and 2008, respectively.

On March 1, 2011, Ambac entered into an agreement with the landlord to terminate the 1992 Lease for the office space at One State Street Plaza originally scheduled to expire in 2019 ("Termination Agreement") and entered into a new lease. Refer to the Subsequent Event section in Note 1 for more information.

A subsidiary of Ambac provides a $360,000 liquidity facility to a reinsurance company which acts as reinsurer with respect to a portfolio of life insurance policies. The liquidity facility, which is guaranteed by Ambac Assurance, provides temporary funding in the event that the reinsurance company's capital is insufficient to make payments under the reinsurance agreement. The reinsurance company is required to repay all amounts drawn under the liquidity facility. At December 31, 2010 and 2009, $8,800 and $8,900 were drawn on this liquidity facility, and the undrawn balance of the liquidity facility was $351,200 and $351,100, respectively.

Ambac Financial Group, Inc. (defined herein as "Ambac" or "Ambac Financial Group") and certain of its present or former officers or directors have been named in lawsuits that allege violations of the federal securities laws and/or state law. Various putative class action suits alleging violations of the federal securities laws have been filed against the Company and certain of its present or former directors or officers. These suits include four class actions filed in January and February of 2008 in the United States District Court for the Southern District of New York that were consolidated on May 9, 2008 under the caption *In re Ambac Financial Group, Inc. Securities Litigation*, Lead Case No. 08 CV 411. On July 25, 2008, another suit, *Painting Industry Insurance and Annuity Funds v. Ambac Assurance Corporation, et al.*, case No. 08 CV 6602, was filed in the United States District for the Southern District of New York. On or about August 22, 2008, a consolidated amended complaint was filed in the consolidated action. The consolidated amended complaint includes the allegations presented by the original four class actions, the allegations presented by the *Painting Industry* action, and additional allegations. The consolidated amended complaint purports to be brought on behalf of purchasers of Ambac's common stock from October 25, 2006 to April 22, 2008, on behalf of purchasers of Ambac's "DISCS", issued in February of 2007, and on behalf of purchasers of equity units and common stock in Ambac's March 2008 offerings. The suit names as defendants the Company, the underwriters for the three offerings, the Company's independent Certified Public Accountants and certain present and former directors and officers of the Company. The complaint alleges, among other things, that the defendants issued materially false and misleading statements regarding Ambac's business and financial results and guarantees of CDO and MBS transactions and that the

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Registration Statements pursuant to which the three offerings were made contained material misstatements and omissions in violation of the securities laws. On August 27, 2009, the Company and the individual defendants named in the consolidated securities action moved to dismiss the consolidated amended complaint**.** On February 22, 2010, the Court dismissed the claims arising out of the March 2008 equity units and common stock offering (resulting in the dismissal of the Company's independent Certified Public Accountants from the action), and otherwise denied the motions to dismiss. On April 15, 2010, the Court ordered a Discovery Plan and Proposed Pretrial Schedule, pursuant to which discovery was scheduled to commence on May 10, 2010, with dispositive motions due by December 2, 2011. As discussed in more detail below, on December 9, 2010, Ambac and the present or former officers or directors who are defendants in these actions entered into a memorandum of understanding with Plaintiffs with respect to settlement.

On December 24, 2008, a complaint in a putative class action entitled *Stanley Tolin et al. v. Ambac Financial Group, Inc. et al.*, asserting alleged violations of the federal securities laws was filed in the United States District Court for the Southern District of New York against Ambac, one former officer and director and one former officer, Case No. 08 CV 11241. An amended complaint was subsequently filed on January 20, 2009. This action is brought on behalf of all purchasers of Structured Repackaged Asset-Backed Trust Securities, Callable Class A Certificates, Series 2007-1, STRATS(SM) Trust for Ambac Financial Group, Inc. Securities 2007-1 ("STRATS") from June 29, 2007 through April 22, 2008. The STRATS are asset-backed securities that were allegedly issued by a subsidiary of Wachovia Corporation and are allegedly collateralized solely by Ambac's DISCS. The complaint alleges, among other things, that the defendants issued materially false and misleading statements regarding Ambac's business and financial results and Ambac's guarantees of CDO and MBS transactions, in violation of the securities laws. On April 15, 2009, the Company and the individual defendants named in *Tolin* moved to dismiss the amended complaint**.** On December 23, 2009, the Court initially denied defendants' motion to dismiss, but later recalled that decision and requested further briefing from parties in the case before it rendered a decision on the motion to dismiss. The additional briefing was completed on March 5, 2010, and oral argument on the motion to dismiss was heard on August 4, 2010. As discussed in more detail below, on December 9, 2010, Ambac and the present or former officers or directors who are defendants in these actions entered into a memorandum of understanding with Plaintiffs with respect to settlement.

Various shareholder derivative actions have been filed against certain present or former officers or directors of Ambac, and against Ambac as a nominal defendant. These suits, which are brought purportedly on behalf of the Company, are in many ways similar and allege violations of law for conduct occurring between October 2005 and the dates of suit regarding, among other things, Ambac's guarantees of CDO and MBS transactions, Ambac's public disclosures regarding such guarantees and Ambac's financial condition, and certain defendants' alleged insider trading on non-public information. The suits include (i) three actions filed in the United States District Court for the Southern District of New York that have been consolidated under the caption *In re Ambac Financial Group, Inc. Derivative Litigation*, Lead Case No. 08 CV 854; on June 30, 2008, plaintiffs filed a consolidated and amended complaint that asserts violations of state and federal law, including breaches of fiduciary duties, waste of corporate assets, unjust enrichment and violations of the federal securities laws; on August 8, 2008, the Company and the individual defendants named in the consolidated Southern District of New York derivative action moved to dismiss that action for want of demand and failure to state a claim upon which relief can be granted; on December 11, 2008, the court granted plaintiffs' motion for leave to amend the complaint and plaintiffs filed an amended complaint on December 17, 2008; on June 2, 2009 defendants moved to dismiss the amended complaint; on November 22, 2010, the Court dismissed the consolidated derivative action without prejudice to its renewal when and if the automatic stay provided by the Bankruptcy Code is lifted (ii) two actions filed in the Delaware Court of Chancery that have been consolidated under the caption *In re Ambac Financial Group, Inc. Shareholders Derivative Litigation*, Consolidated C.A. No. 3521; on May 7, 2008,

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plaintiffs filed a consolidated and amended complaint that asserts claims including breaches of fiduciary duties, waste, reckless and gross mismanagement, and unjust enrichment; on December 30, 2008, the Delaware Court of Chancery granted defendants' motion to stay the Delaware shareholder derivative action in favor of the Southern District of New York Consolidated Derivative Action; plaintiffs in the Delaware action subsequently moved to intervene in the Southern District of New York derivative action and on May 12, 2009, the motion to intervene was denied; and (iii) two actions filed in the Supreme Court of the State of New York, New York County, that have been consolidated under the caption *In re Ambac Financial Group, Inc. Shareholder Derivative Litigation*, Consolidated Index No. 650050/2008E; on September 22, 2008, plaintiffs filed a consolidated and amended complaint that asserts claims including breaches of fiduciary duties, gross mismanagement, abuse of control, and waste; on January 5, 2010, the New York Supreme Court granted defendants motion to stay the New York Supreme Court action in favor of the Southern District of New York Consolidated Derivative Action.

On December 9, 2010, Ambac and certain of its present or former officers or directors, including the present or former officers or directors who are defendants in the Securities Class Actions, entered into a memorandum of understanding (the "MOU") with the lead plaintiffs in *In re Ambac Financial Group, Inc. Securities Litigation* and the named plaintiffs in *Tolin v. Ambac Financial Group, Inc.* for settlement of both of the Securities Class Actions. The MOU provides that the claims of the putative plaintiff classes will be settled for a cash payment of $27,100. The insurance carriers who provided directors and officers' liability coverage to Ambac's present and former officers and directors for the period July 2007-July 2009 have agreed to pay $24,600 of the settlement and Ambac has agreed to pay $2,500 of the settlement (classified as Restricted Cash on the Consolidated Balance Sheet since these amounts are held in escrow). Lead and named plaintiffs in the Securities Class Actions, on behalf of themselves and all other members of the settlement class, have agreed to releases of claims against, among others, Ambac and the present or former officers or directors who are parties to the MOU. The settlement provided for in the MOU is subject to various conditions, including, among others, approval by the United States District Court for the Southern District of New York and approval by the bankruptcy court of Ambac's entry into the settlement and the releases and bar orders that would release and bar claims against present or former officers or directors of Ambac that were, could have been, might have been or might be in the future asserted by or on behalf of Ambac, including claims purportedly asserted derivatively by any shareholder or creditor of Ambac. The MOU further provides that nothing in the MOU shall be deemed an admission by any defendant (or any person or entity associated with any defendant) of any fault, liability, or wrongdoing. The MOU also provides that the parties will attempt in good faith to agree upon and execute an appropriate stipulation of settlement and to seek the necessary court approvals of the settlement.

On December 14, 2009, a purchaser of Ambac's DISCS filed an individual action entitled *Judy Ehrenreich v. Ambac Financial Group, Inc. et al.*, asserting alleged violations of the federal securities laws, in the United States District Court for the Southern District of New York, against Ambac and one former officer, Case No. 09 CV 10173. The complaint alleges, among other things, that the defendants issued materially false and misleading statements regarding Ambac's plans to meet certain investment agreement collateral requirements as well as materially false and misleading statements regarding Ambac's valuation of certain of its investment securities. On March 9, 2010, the Company and the former officer moved to dismiss. On November 10, 2010, Ambac filed a "Notice of Bankruptcy" in the action, advising the Court of its position that in light of Ambac's filing for bankruptcy, as of November 8, 2010, any new or further action against Ambac is stayed pursuant to section 362 of the Bankruptcy Code.

Karthikeyan V. Veera v. Ambac Financial Group, Inc. et al., (United States District Court for the Southern District of New York, Case No. 10 CV 4191, filed on or about May 24, 2010, and amended on September 7, 2010). Plaintiff, a former employee and participant in the Company's Saving Incentive Plan (the "Plan"), asserts

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violations of the Employee Retirement Income Security Act of 1974 ("ERISA") and names as defendants the Plan Administrative Committee, the Plan Investment Committee, the Compensation Committee of the Board of Directors of the Company, and a number of current and former officers of the Company. This action is purportedly brought on behalf of all persons, excluding defendants and their immediate families, who were participants in the Plan from October 1, 2006 through July 2, 2008 and whose Plan accounts included an investment in Ambac stock. The complaint alleges, among other things, breaches of fiduciary duties by defendants in respect of the continued offering of Ambac stock as an investment option for the Plan and the failure to provide complete and accurate information to Plan participants regarding the Company's financial condition. This ERISA action seeks, among other things, compensatory damages, a constructive trust for amounts by which the fiduciaries allegedly benefited as a result of their breaches, and attorneys' fees. On October 20, 2010, all of the defendants named in the amended complaint moved to dismiss all of the claims in the amended complaint**.** In an Opinion and Order issued January 6, 2011, the Court denied the motion to dismiss, but held that the defendants had no "affirmative duty under ERISA to disclose information about the company's financial condition to plan participants." On January 28, 2011, the defendants filed a motion to certify the Court's January 6, 2011 Opinion and Order for interlocutory appeal. On January 18, 2011, the Company filed an adversary complaint in the Bankruptcy Court against Plaintiff, seeking declaratory relief to confirm the applicability of the automatic stay under Bankruptcy Code section 362(a) to plaintiff's claims or, alternatively, for injunctive relief under section 105(a) of the Bankruptcy Code to preclude plaintiff from prosecuting his claims pending the effective date of a chapter 11 plan or further order of the Bankruptcy Court. On February 11, 2011, the Company filed a motion in the adversary proceeding for summary judgment declaring that the protections of the automatic stay apply or should be extended to the claims in the ERISA action and for injunctive relief. Following a hearing on the Company's motion on March 4, 2011, the Bankruptcy Court entered an order granting the Company's motion, holding that the automatic stay applied to the ERISA action, but also granted Plaintiff relief from the stay to pursue limited discovery during the extended exclusivity period in the Company's chapter 11 case.

County of Alameda et al. v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, filed on or about October 13, 2010) ("Alameda Complaint"); Contra Costa County et al. v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, filed on or about October 13, 2010) ("Contra Costa Complaint"); The Olympic Club v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, filed on or about October 13, 2010) ("Olympic Club Complaint"). The Contra Costa Complaint is brought on behalf of five California municipal entities and the non-profit Jewish Community Center of San Francisco. The Alameda Complaint is brought on behalf of nineteen California municipal entities. The Olympic Club Complaint is brought on behalf of the non-profit Olympic Club. The three actions make similar allegations against Ambac Assurance, various other financial guarantee insurance companies and employees thereof (collectively with Ambac Assurance, the "Bond Insurer Defendants"), and, in the case of the Contra Costa Complaint and the Olympic Club Complaint, the major credit rating agencies (the "Rating Agencies"). The actions allege that (1) Ambac Assurance and the other Bond Insurer Defendants colluded with the Rating Agencies to perpetuate a "dual rating system" pursuant to which the Rating Agencies rated the debt obligations of municipal issuers differently from corporate debt obligations, thereby keeping municipal ratings artificially low relative to corporate ratings; (2) Ambac Assurance and the other Bond Insurer Defendants issued false and misleading financial statements which failed to disclose the extent of the insurers' respective exposures to mortgage backed securities and collateralized debt obligations; and (3) as a result of these actions, plaintiffs incurred higher interest costs and bond insurance premiums in respect of their respective bond issues. Ambac Assurance and the other Bond Insurer Defendants filed a demurrer seeking the dismissal of each of these complaints on September 17, 2010. The plaintiffs filed their opposition papers to the demurrer on October 22, 2010. The reply

papers in support of the demurrer were filed on November 19, 2010 and oral argument on the demurrer is scheduled for April 26, 2011. Ambac Financial Group was originally a defendant in each of these actions, but on November 22, 2010, Ambac Financial Group was dismissed without prejudice as a defendant by the plaintiffs in each of these actions.

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

City of Phoenix v. Ambac Assurance Corporation et al. (United States District Court, District of Arizona, filed on or about March 11, 2010). This action is brought by the City of Phoenix against Ambac Assurance and other financial guarantee insurance companies. The complaint alleges that the defendants sought to perpetuate the Rating Agencies' "dual rating system", and that the perpetuation of the "dual rating system" enabled the defendants to unfairly discriminate against the City of Phoenix in the pricing of bond insurance premiums. Pursuant to the Court's Scheduling Order, discovery is scheduled to be completed by October 3, 2011, with dispositive motions due by November 1, 2011.

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

The Confederated Tribes of the Warm Springs Reservation of Oregon v. Ambac Assurance Corporation (United States District Court, District of Oregon, Portland Division, filed on February 4, 2010). This action alleged breach of contract, tortious breach of the covenant of good faith and fair dealing, violations of Oregon securities and insurance statutes, and negligence. Plaintiff claimed that, in connection with plaintiff's purchase of

a bond insurance policy with respect to its auction rate bond issue in October 2003, Ambac Assurance misrepresented the stability of its "AAA" financial strength ratings and subsequently breached an implied covenant by underwriting residential mortgage-backed securities and collateralized debt obligations that ultimately led to the loss of the "AAA" financial strength ratings. Ambac Assurance moved to dismiss all of the plaintiff's claims. On November 17, 2010, the court granted Ambac Assurance's motion to dismiss with respect to five of the nine claims. On January 21, 2011, the plaintiff agreed to the dismissal of the entire action, with prejudice.

Ambac Assurance Corporation v. Adelanto Public Utility Authority (United States District Court, Southern District of New York, filed on June 1, 2009). Ambac Assurance commenced this action to recover $4,524 from the defendant on account of Ambac Assurance's payment under a swap termination surety bond. The defendant has counterclaimed (as amended on June 12, 2010), alleging breach of contract, breach of the covenant of good faith and fair dealing, violations of California insurance statutes, fraud and promissory estoppel. Defendant claims that, in connection with defendant's purchase of a bond insurance policy with respect to its variable rate bond issue in September 2005, Ambac Assurance misrepresented the stability of its "AAA" financial strength ratings and subsequently breached an implied covenant by underwriting risky structured obligations that ultimately led to the loss of the "AAA" ratings. Ambac Assurance has moved to dismiss all of the defendant's counterclaims and that motion has been fully briefed.

Ambac Assurance has also received various regulatory inquiries and requests for information. These include a subpoena duces tecum and interrogatories from the Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts (the "Secretary of Massachusetts"), dated January 18, 2008, that seeks certain information and documents concerning "Massachusetts Public Issuer Bonds." Ambac Assurance has also received subpoenas from the Office of the Attorney General, State of Connecticut (the "Connecticut Attorney General") with respect to the Connecticut Attorney General's investigation into municipal bond rating practices employed by the credit rating agencies. The focus of the investigation appears to be the disparity in ratings with respect to municipal and corporate credits, respectively. Insofar as Ambac Assurance is concerned, the Connecticut Attorney General has sought information with respect to communications between the credit rating agencies and the financial guarantee insurance industry (acting through the Association of Financial Guaranty Insurers, the industry trade association) in relation to proposals by the Rating Agencies to implement a corporate equivalency rating system with respect to municipal credits. Ambac Assurance has also received a subpoena duces tecum and interrogatories from the Attorney General of California (the "California Attorney General") dated December 15, 2008 related to the California Attorney General's investigation of credit rating agencies in the rating of municipal bonds issued by the State of California and its related issuers. The subpoena requests that Ambac Assurance produce a wide range of documents and information. Ambac has also received a subpoena and interrogatories from the Attorney General of West Virginia (the "WVAG"), dated June 17, 2009, with respect to the WVAG's investigation of possible antitrust violations in connection with the use of swaps, guaranteed investment contracts and other derivatives and investment vehicles related to municipal bonds issued by West Virginia governmental entities. The WVAG has sought, among other things, information and documents relating to any such swaps, guaranteed investment contracts and other derivatives and investment vehicles sold by Ambac Assurance to a West Virginia governmental entity or for which Ambac Assurance submitted a bid or offer that was not the winning bid. Ambac Assurance has not received any further requests from the Secretary of Massachusetts, the Connecticut Attorney General, the California Attorney General or the WVAG.

An insurance rehabilitation proceeding was commenced in the Wisconsin Circuit Court for Dane County (the "Rehabilitation Court") on March 24, 2010 by the Commissioner of Insurance of the State of Wisconsin (the "Commissioner"). The principal parties to this proceeding are the Commissioner and the Segregated Account,

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which was established with the permission of the Commissioner, pursuant to Wis. Stat. § 611.24(2), for certain policies and liabilities placing Ambac Assurance at risk. The factual basis alleged to underlie this proceeding is that court-supervised rehabilitation was required in order to avoid further deterioration of Ambac Assurance's financial condition through the payment of claims and other demands. The ultimate relief sought is a plan of rehabilitation that will reform and revitalize the Segregated Account.

On March 24, 2010, the Rehabilitation Court entered an order of rehabilitation for the Segregated Account, appointing the Commissioner as rehabilitator. Policies and other liabilities were allocated to the Segregated Account if they had current or projected material impairments or contractual triggers creating a risk of default based upon Ambac Assurance's financial condition or the existence of rehabilitation proceedings. The remainder of Ambac Assurance's business is not subject to rehabilitation. The Commissioner concluded that rehabilitation of the Segregated Account would preserve Ambac Assurance's claims-paying resources, while avoiding the disruption and additional claims that would likely result from a full rehabilitation of Ambac Assurance, as opposed to a rehabilitation limited to the Segregated Account.

Also on March 24, 2010, the Rehabilitation Court entered a temporary injunction order (the "Temporary Injunction") that, until further order of the court: (a) prevents the exercise of certain contractual *ipso facto* provisions; (b) enjoins payment of claims or obligations without consent from the Commissioner or his authorized representatives; and (c) requires the continued payment of premiums. The Rehabilitation Court further ordered that any interested party could seek modification or dissolution of the injunction, in whole or in part, by filing a written motion by June 22, 2010. On November 8, 2010, the Rehabilitation Court entered a supplemental temporary injunction order (the "Supplemental Injunction") enjoining any purported creditor of Ambac's consolidated tax group and any government entity, including the U.S. Internal Revenue Service ("IRS"), from commencing or prosecuting any action or claim against Ambac Assurance and a number of its affiliates and subsidiaries.

Various third parties have filed motions or objections in the Rehabilitation Court and/or moved to intervene in the rehabilitation proceedings. These challenges can be divided into three groups.

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

Second, a number of third parties have objected to the creation and rehabilitation of the Segregated Account on constitutional, statutory and common law grounds. The first such challenge was filed by Wells Fargo Bank, N.A., in its capacity as trustee for the beneficial owners of the Las Vegas Monorail Project Revenue bonds. The RMBS Investors filed similar challenges, which were denied in the May 27, 2010 order. The LVM Bondholders

objected to the allocation of their policies to the Segregated Account. This motion and the motion filed by Wells Fargo were denied in an order entered on July 16, 2010. On August 2, 2010, the LVM Bondholders filed a notice of appeal from this order. On October 8, 2010, the Wisconsin Court of Appeals granted the Commissioner's motion to consolidate this appeal with the appeal from the May 27, 2010 order by RMBS Investors, the LVM Bondholders and Freddie Mac. These appeals are now fully briefed.

Additional third parties have challenged the creation and rehabilitation of the Segregated Account and/or the allocation of their policies to the Segregated Account, including Deutsche Bank National Trust Co., Deutsche Bank Trust Co. Americas and U.S. Bank National Association, all in their capacities as trustees for securitization trusts, as well as PNC Bank, N.A., as servicer of a securitization trust, and ALL Student Loan Corp. ("ALL"), Lloyds TSB Bank plc ("Lloyds"), Depfa Bank, plc ("Depfa"), One State Street LLC ("One State Street"), KnowledgeWorks Foundation and the Treasurer of the State of Ohio. The motion filed by PNC Bank was never briefed or decided, but the other challenges were rejected in an order filed on October 26, 2010, as amended on November 1, 2010.

Third, certain third parties filed motions seeking dissolution or modification of the court's temporary injunction order on constitutional, statutory and common law grounds. These objectors include Bank of America, N.A., Bank of New York Mellon, Deutsche Bank National Trust Co., Deutsche Bank Trust Co. Americas, U.S. Bank National Association, and Wells Fargo Bank, N.A., all in their capacities as trustees for securitization trusts, as well as PNC Bank, N.A., as servicer of a securitization trust, and KnowledgeWorks Foundation, the Treasurer of the State of Ohio, Depfa Bank plc, and One State Street LLC. The motion filed by PNC Bank was never briefed or decided, but the other motions were denied in the October 26, 2010 order, as amended on November 1, 2010.

Depfa, One State Street, Lloyds, and ALL filed notices of appeal from the October 26, 2010 order, as amended on November 1, 2010. The Commissioner and Ambac Assurance moved to dismiss these appeals. On February 18, 2011, the Wisconsin Court of Appeals stayed appeals from the October 26, 2010 order, as well as the fully-briefed appeals from the May 27, 2010 and July 16, 2010 orders, until further order of the court.

On December 8, 2010, the IRS removed the rehabilitation proceeding to the United States District Court for the Western District of Wisconsin (the "District Court"). On December 17, 2010, the IRS filed a motion in the District Court to dissolve the Supplemental Injunction. The Commissioner moved to remand the proceeding back to the Rehabilitation Court, and on January 14, 2011, that motion was granted by the District Court, which found that it lacked subject matter jurisdiction. The IRS has appealed this decision to the United States Court of Appeals for the Seventh Circuit. On January 20, 2011, the Seventh Circuit *sua sponte* ordered the IRS to show cause why its appeal should not be dismissed for lack of jurisdiction, which led to additional briefing.

On January 24, 2011, the Rehabilitation Court issued its Decision and Final Order Confirming the Rehabilitator's Plan of Rehabilitation, with Findings of Fact and Conclusions of Law (the "Confirmation Order"). Notices of appeal from the Confirmation Order were filed by the following: ALL; Lloyds; Depfa; Wells Fargo Bank, N.A., as Trustee for Las Vegas Monorail Bondholders; the Consumer Asset Protection Company; the United States on behalf of the IRS; Eaton Vance Management, Eaton Vance Municipal Income Trust, Eaton Vance Municipal Bond Fund, and Eaton Vance Municipal Bond Fund II; One State Street; Bank of America, N.A., in its Capacity as Trustee and in Similar Capacities for Certain Residential Mortgage-backed Securities Trusts; Freddie Mac; Wells Fargo N.A., in its Capacity as Trustee and in Similar Capacities for Certain Residential Mortgage-backed Securities Trusts and as Indenture Trustee on Certain Student Loan-backed Securities Transactions; Wilmington Trust Company and Wilmington Trust FSB; the Federal National Mortgage

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Association; U.S. Bank, N.A., in its Capacity as Trustee for Certain Securitization Trusts; Deutsche Bank National Trust Company and Deutsche Bank Trust Company Americas, in their Capacities as Trustees for Certain Securitization Trusts; and the RMBS Investors (as defined above).

On February 9, 2011, the IRS filed a complaint and a motion for a preliminary injunction in the District Court seeking, *inter alia*, to enjoin enforcement of the Supplemental Injunction and the Confirmation Order against the IRS. The District Court dismissed the suit for lack of subject matter jurisdiction on February 18, 2011, and the IRS filed a notice of appeal on February 22, 2011.

On February 10, 2011, the Commissioner filed a motion seeking Rehabilitation Court approval for a settlement with three of the four LVM Bondholders, i.e., Nuveen Asset Management, Restoration Capital Management LLC and Stone Lion Capital Partners L.P. The impact of the settlement on the pending appeals will depend on a number of conditions and contingencies, including the approval of the Rehabilitation Court. A hearing was scheduled to consider this settlement on April 21, 2011.

On March 3, 2011, the Commissioner filed a motion seeking Rehabilitation Court approval for a settlement with One State Street. The effectiveness of this settlement depends on a number of conditions and contingencies, including approval of the Rehabilitation Court. A hearing was scheduled to consider this settlement on March 24, 2011.

Ambac Assurance's CDS portfolio experienced significant losses. The majority of these CDS contracts are on a "pay as you go" basis, and we believe that they are properly characterized as notional principal contracts for U.S. federal income tax purposes. Generally, losses on notional principal contracts are ordinary losses. However, the federal income tax treatment of credit default swaps is an unsettled area of the tax law. As such, it is possible that the Internal Revenue Service may decide that the "pay as you go" CDS contracts should be characterized as capital assets or that certain payments made with respect to the CDS contracts should be characterized as capital losses. Recently, the Internal Revenue Service opened an examination into certain issues related to Ambac Assurance's tax accounting methods with respect to such CDS contracts and Ambac Assurance's related characterization of such losses as ordinary losses. Although, as discussed above, Ambac Assurance believes these contracts are properly characterized as notional principal contracts, if the Internal Revenue Service today were to successfully assert, as a result of its examination, that these contracts should be characterized as capital assets or as generating capital losses, Ambac Assurance would be subject to both a substantial reduction in its net operating loss carryforwards and would suffer a material assessment for federal income taxes up to an estimated amount of $1,079,000. On November 9, 2010, the Company and the IRS agreed to a stipulation on the record that provides that the IRS would give notice at least 5 business days prior to taking any action against the Company's nondebtor subsidiaries in the consolidated tax group that would violate the State Court Injunction, whether or not in effect. The stipulation permits the status quo to be maintained from November 9, 2010 until a hearing on the preliminary injunction that the Company plans to seek under Bankruptcy Code section 105(a) barring assessment and collection of the 2003 through 2008 tax refunds by the IRS against the Company's nondebtor subsidiaries in the consolidated tax group. On the same date, Ambac filed and served a complaint against the IRS for a declaratory judgment relating to the tax refunds. On January 14, 2011, the IRS filed its Answer and opposition to Ambac's Motion for Temporary Restraining Order and Preliminary Injunction. As of this date, no hearing on such Motion has been scheduled. On January 13, 2011, the IRS filed a motion in the United States District Court for the Southern District of New York ("USDC SDNY") to withdraw the Adversary Proceeding from the Bankruptcy Court to the USDC SDNY. Ambac has opposed such motion. On February 1, 2011, Ambac filed a motion with the Bankruptcy Court for Pretrial Conference and for Authorization to Implement Alternative Dispute Resolution Procedures. The Bankruptcy Court on March 2, 2011 ordered the process of non-binding mediation to begin on or about May 1, 2011 and to conclude no later than on or about September 6, 2011. The

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Bankruptcy Court also approved a scheduling order which, among other things, ordered fact discovery in the Adversary proceeding to be completed by August 5, 2011; dispositive motions to be filed by September 16, 2011, and trial to be scheduled, thereafter, pursuant to further order of the Court.

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

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

In connection with Ambac's efforts to seek redress for breaches of representations and warranties and fraud related to the information provided by both the underwriters and the sponsors of various transactions and for failure to comply with the obligation by the sponsors to repurchase ineligible loans, it has filed the following lawsuits. Ambac Assurance Corporation v. EMC Mortgage Corporation (U.S. District Court for the Southern District of New York, filed on November 5, 2008). As originally filed, this lawsuit asserted claims for breach of contract, indemnification and reimbursement against EMC, formerly a wholly-owned subsidiary of The Bear Stearns Companies, Inc. On July 28, 2010, Ambac made a motion to amend the complaint to new claims and parties. In particular, Ambac sought to add claims of fraudulent conduct by EMC and EMC's affiliate Bear, Stearns & Co., Inc. (now known as J. P. Morgan Securities Inc.). In a decision dated February 8, 2011, the Court granted the motion to amend to allow Ambac to pursue a fraud claim against EMC and J.P. Morgan Securities Inc., but denied the motion to amend to allow assertion of federal securities law claims. As a result of the decision, the Court lost jurisdiction over the litigation and closed the case. Ambac intends to re-file the suit in New York state court. Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation v. DLJ Mortgage Capital, Inc. and Credit Suisse Securities (USA) LLC (Supreme Court of the State of New York, County of New York), filed on January 12, 2010. Ambac has alleged breach of contract, fraudulent inducement, breach of implied duty of good faith and fair dealing, indemnification, reimbursement and requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages. On July 8, 2010, the defendants moved to dismiss the complaint. Ambac opposed the motion and the Court held oral argument on October 12, 2010. The Court has not yet decided the motion. Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Countrywide Securities Corp., Countrywide Financial Corp. (a.k.a. Bank of America Home Loans) and Bank of America Corp. (Supreme Court of the State of New York, County of New York, filed on September 28, 2010). Ambac has alleged breach of contract, fraudulent inducement, indemnification and reimbursement, breach of representations and warranties and has requested the repurchase of loans that breach representations and warranties as required under the contracts as well as damages and has asserted a successor liability claim against Bank of America.

It is not reasonably possible to predict whether additional suits will be filed or whether additional inquiries or requests for information will be made, and it is also not possible to predict the outcome of litigation, inquiries or requests for information. It is possible that there could be unfavorable outcomes in these or other proceedings. Legal accruals for certain litigation matters discussed above which are probable and reasonably estimable, and management's estimated range of loss for such matters, are not material to the operating results or financial

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

14 STOCKHOLDERS' EQUITY

Stockholders' equity includes non-controlling interests primarily related to the preferred stock of Ambac Assurance. During 2009, Ambac Assurance sold an additional $100,000 of preferred stock. Also, in 2009, Ambac Assurance retired 5,589 shares of preferred stock for $11,178; 4,686 of these shares were acquired in connection with a CDO commutation in July 2009. The retirement of the preferred stock resulted in an increase in equity attributed to Ambac Financial Group, Inc. of $128,547.

The following schedule presents the effects of changes in Ambac Financial Group, Inc.'s ownership interest in Ambac Assurance on the equity attributable to Ambac Financial Group, Inc.:

Income (Loss) Attributable to Ambac Financial Group, Inc.
Debtor-In-Possession
Transfers (to) from the noncontrolling interest
As of December 31, 2010 and 2009

	2010	2009
Net loss attributable to Ambac Financial Group, Inc.	($ 753,199)	($ 14,613)
Transfers (to) from the noncontrolling interest:		
Increase in Ambac Financial Group, Inc's paid-in-capital from retirement of 5,589 shares of preferred stock in 2009	—	128,547
Change from net (loss) income attributable to Ambac Financial Group, Inc. and transfers (to) from noncontrolling interest	($ 753,199)	$ 113,934

In June 2010, Ambac entered into a series of debt for equity exchanges with certain holders of Ambac's 9.375% debentures, due August 2011. Ambac has issued an aggregate of 13,638,482 shares of its common stock in exchange for $20,311 in aggregate principal amount of the 2011 debentures. Ambac recognized a gain on the extinguishment of these debentures in the amount of $10,693, which was the difference between the fair value of the new shares issued less than the net carrying value of the debentures. As a result of our Bankruptcy Filing, the remaining debentures outstanding are included in Liabilities subject to compromise on our consolidated financial statements.

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15 GUARANTEES IN FORCE

The gross par amount of financial guarantees outstanding was $345,127,000 and $422,237,000 at December 31, 2010 and 2009, respectively. The par amount of financial guarantees outstanding, net of reinsurance, was $318,854,000 and $390,406,000 at December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, the guarantee portfolio was diversified by type of guaranteed bond as shown in the following table:

	Net Par Amount Outstanding	
	2010	2009
Public Finance:		
Lease and tax-backed revenue	$ 65,843,000	$ 73,081,000
General obligation	48,241,000	54,047,000
Utility revenue	26,360,000	30,835,000
Transportation revenue	20,722,000	22,501,000
Higher education	15,279,000	16,577,000
Housing revenue	9,878,000	10,247,000
Health care revenue	9,603,000	11,987,000
Other	3,423,000	3,892,000
Total Public Finance	199,349,000	223,167,000
Structured Finance:		
Mortgage-backed and home equity	27,488,000	32,407,000
Other CDOs	11,463,000	18,313,000
Student loan	11,408,000	14,518,000
Investor-owned utilities	10,685,000	13,212,000
Asset-backed and conduits	10,005,000	16,455,000
CDO of ABS > 25% MBS	—	16,718,000
Other	2,750,000	3,092,000
Total Structured Finance	73,799,000	114,715,000
International Finance:		
Investor-owned and public utilities	10,861,000	10,388,000
Asset-backed and conduits	10,738,000	13,691,000
Sovereign/sub-sovereign	7,119,000	6,859,000
Other CDOs	6,775,000	9,083,000
Transportation	6,744,000	7,584,000
Mortgage-backed and home equity	1,898,000	3,386,000
Other	1,571,000	1,533,000
Total International Finance	45,706,000	52,524,000
Total	$ 318,854,000	$ 390,406,000

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Ambac's total outstanding "asset-backed and conduit" exposures within both Structured Finance and International Finance are comprised of the following bond types as of December 31, 2010 and December 31, 2009:

Business Mix by Net Par	December 31, 2010	December 31, 2009
Commercial ABS	$ 17,813,000	$ 23,217,000
Consumer ABS	2,930,000	6,229,000
Asset-backed commercial paper conduits	—	700,000
Total	$ 20,743,000	$ 30,146,000

As of December 31, 2010 and 2009, the International Finance guaranteed portfolio is shown in the following table by location of risk:

	Net Par Amount Outstanding	
	2010	2009
United Kingdom	$ 22,215,000	$ 22,840,000
Australia	6,292,000	6,034,000
Italy	3,674,000	3,821,000
Austria	999,000	1,842,000
Turkey	848,000	1,149,000
Internationally diversified[(1)]	7,793,000	9,914,000
Other international	3,885,000	6,924,000
Total International Finance	$ 45,706,000	$ 52,524,000

(1) Internationally diversified obligations represent pools of geographically diversified exposures which includes significant components of domestic exposure.

Gross financial guarantees in force (principal and interest) was $554,700,000 and $677,553,000 at December 31, 2010 and 2009, respectively. Net financial guarantees in force (after giving effect to reinsurance) was $509,429,000 and $619,566,000 as of December 31, 2010 and 2009, respectively.

In the United States, California and New York were the states with the highest aggregate net par amounts in force, accounting for 12.3% and 6.6% of the total at December 31, 2010. No other state accounted for more than 5%. The highest single insured risk represented 1.0% of the aggregate net par amount guaranteed.

In connection with its financial guarantee business, Ambac has outstanding commitments to provide guarantees of $5,919,000 at December 31, 2010. These commitments relate to potential future debt issuances or increases in funding levels for existing insurance or credit derivative transactions. Commitments generally have fixed termination dates and are contingent on the satisfaction of all conditions set forth in the contract. These commitments may expire unused or be reduced or cancelled at the counterparty's request. Additionally, approximately 80% of the total commitment amount represents commitments that contain one or more of the following provisions: (i) the commitment may be terminated at the Company's election upon a material adverse change, (ii) in order for the funding levels to be increased, certain asset eligibility requirements must be met, or (iii) for commitments to provide protection in credit derivative form, the commitment may not be exercised upon an event of default or after the reinvestment period. Moreover, as a consequence of the Segregated Account Rehabilitation Proceedings and under the terms of the Settlement Agreement, it is unclear whether such new

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policies could be issued. Accordingly, the $5,919,000 of commitments outstanding at December 31, 2010 does not necessarily reflect actual future amounts. Additionally, due to Ambac's current financial strength ratings and investor concern with respect to our financial position, certain commitments are unlikely to be exercised.

16 FAIR VALUE MEASUREMENTS

ASC Topic 820, *Fair Value Measurements and Disclosures* establishes a framework for measuring fair value and disclosures about fair value measurements.

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

	December 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Fixed income securities[1]	$ 6,020,895	$ 6,020,895	$ 7,572,570	$ 7,572,570
Fixed income securities pledged as collateral[1]	123,519	123,519	167,366	167,366
Short-term investments	708,797	708,797	962,007	962,007
Other investments	100	100	1,278	1,278
Cash	9,497	9,497	112,079	112,079
Loans	20,167	21,706	80,410	93,614
Derivative assets	290,299	290,299	496,494	496,494
Other assets	17,909	17,909	18,843	18,843
Variable interest entity assets:				
Fixed income securities	1,904,361	1,904,361	525,947	525,947
Restricted cash	2,098	2,098	1,151	1,151
Loans	16,005,066	15,990,120	2,635,961	2,615,260
Derivative assets	4,511	4,511	109,411	109,411
Financial liabilities:				
Obligations under investment, repurchase and payment agreements	$ 805,632	$ 811,263	$ 1,290,933	$ 1,341,280
Liabilities subject to compromise	1,622,189	130,826	—	—
Long-term debt	208,260	270,600	1,631,556	358,864
Derivative liabilities	348,791	348,791	3,536,858	3,536,858
Liability for net financial guarantees written	5,977,077	1,638,181	5,639,122	2,035,987
Variable interest entity liabilities:				
Long-term debt	16,101,026	16,073,110	3,008,628	2,974,654
Derivative liabilities	1,580,120	1,580,120	—	—

(1) See breakout of fixed income securities in Note 3.

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Fair value Hierarchy:

ASC Topic 820 specifies a fair value hierarchy based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company-based market assumptions. In accordance with ASC Topic 820, the fair value hierarchy prioritizes model inputs into three broad levels as follows:

- Level 1 – Quoted prices for identical instruments in active markets. Assets and liabilities classified as Level 1 include US Treasury securities, exchange traded futures contracts, money market funds and mutual funds.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Assets and liabilities classified as Level 2 generally include direct investments in fixed income securities representing municipal, asset-backed and corporate obligations, financial services derivatives (including certain interest rate and currency swap derivatives), certain credit derivative contracts and most long-term debt of variable interest entities consolidated under ASC Topic 810.
- Level 3 – Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. This hierarchy requires the use of observable market data when available. Assets and liabilities classified as Level 3 include most credit derivative contracts written as part of the financial guarantee business, certain financial services interest rate swaps contracts which are not referenced to commonly quoted interest rates and certain investments in fixed income securities. Additionally, Level 3 assets and liabilities generally include fixed income securities and loan receivables, as well as certain long-term debt of variable interest entities consolidated under ASC Topic 810.

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The following table sets forth Ambac's financial assets and liabilities that were accounted for at fair value as of December 31, 2010 and December 31, 2009 by level within the fair value hierarchy. As required by ASC Topic 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
2010				
Financial assets:				
Fixed income securities:				
Municipal obligations	$ —	$ 2,204,106	$ —	$ 2,204,106
Corporate obligations	—	909,839	8,069	917,908
Foreign obligations	—	118,455	—	118,455
U.S. government obligations	156,873	—	—	156,873
U.S. agency obligations	—	87,097	1,197	88,294
Residential mortgage-backed securities	—	1,498,692	—	1,498,692
Collateralized debt obligations	—	1,823	30,433	32,256
Other asset-backed securities	—	844,838	159,473	1,004,311
Short term investments	708,797	—	—	708,797
Fixed income securities, pledged as collateral:				
U.S. government obligations	115,402	—	—	115,402
Residential mortgage-backed securities	—	8,117	—	8,117
Cash	9,497	—	—	9,497
Derivative assets:				
Interest rate swaps—asset position	—	142,842	265,457	408,299
Interest rate swaps—liability position	—	(105)	(129,080)	(129,185)
Future contracts	11,185	—	—	11,185
Other assets	—	—	17,909	17,909
Variable interest entity assets:				
Fixed income securities:				
Corporate obligations	—	—	1,904,361	1,904,361
Restricted cash	2,098	—	—	2,098
Loans	—	—	15,800,918	15,800,918
Derivative assets:				
Credit derivatives	—	—	4,511	4,511
Total financial assets	**$ 1,003,852**	**$ 5,815,704**	**$ 18,063,248**	**$ 24,882,804**
Financial liabilities:				
Derivative liabilities:				
Credit derivatives	$ —	$ —	$ 221,684	$ 221,684
Interest rate swaps—asset position	—	—	(4,756)	(4,756)
Interest rate swaps— liability position	—	9,550	115,382	124,932
Futures contracts	—	—	—	—
Currency swaps	—	6,699	—	6,699
Other contracts	—	232	—	232
Variable interest entity liabilities:				
Long-term debt	—	14,029,345	1,856,366	15,885,711
Derivative liabilities:				
Interest rate swaps—asset position	—	(2,203)	—	(2,203)
Interest rate swaps—liability position	—	1,591,065	—	1,591,065
Currency swaps—asset position	—	(26,577)	—	(26,577)
Currency swaps—liability position	—	17,835	—	17,835
Total financial liabilities	**$ —**	**$ 15,625,946**	**$ 2,188,676**	**$ 17,814,622**

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	Level 1	Level 2	Level 3	Total
2009				
Financial assets:				
Fixed income securities	$ 233,416	$ 7,149,554	$ 189,600	$ 7,572,570
Fixed income securities, pledged as collateral	123,050	44,316	—	167,366
Short-term investments	962,007	—	—	962,007
Other investments[(1)]	—	1,178	—	1,178
Cash	112,079	—	—	112,079
Derivative assets:				
Currency swaps—asset position	—	74,029	2,318	76,347
Currency swaps—liability position	—	—	(18,574)	(18,574)
Interest rate swaps—asset position	—	38,345	191,862	230,207
Interest rate swaps—liability position	—	(371)	(13,642)	(14,013)
Credit derivatives	—	—	212,402	212,402
Futures contracts	10,125	—	—	10,125
Other assets	—	—	18,843	18,843
Variable interest entity assets:				
Fixed income securities	—	365,429	160,518	525,947
Restricted cash	1,151	—	—	1,151
Loans	—	—	2,428,352	2,428,352
Interest rate swaps	—	109,411	—	109,411
Total financial assets	**$ 1,441,828**	**$ 7,781,891**	**$ 3,171,679**	**$ 12,395,398**
Financial liabilities:				
Derivative liabilities:				
Currency swaps	$ —	$ 12,241	$ 73,155	$ 85,396
Interest rate swaps—asset position	—	(3,879)	(118,035)	(121,914)
Interest rate swaps—liability position	—	154,966	165,800	320,766
Credit derivatives	—	—	3,251,893	3,251,893
Other contracts	—	717	—	717
Variable interest entity liabilities:				
Long-term debt	—	2,401,553	388,003	2,789,556
Total financial liabilities	**$ —**	**$ 2,565,598**	**$ 3,760,816**	**$ 6,326,414**

(1) Excludes a $100 investment in 2010 and 2009, which is carried in the Consolidated Balance Sheets at cost.

Determination of Fair Value:

When available, the Company generally uses quoted market prices to determine fair value, and classifies such items within Level 1. Because many fixed income securities do not trade on a daily basis, pricing sources apply available information through processes such as matrix pricing to calculate fair value. In those cases the items are classified within Level 2. If quoted market prices are not available, fair value is based upon models that use, where possible, current market-based or independently-sourced market parameters. Items valued using valuation models are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be significant inputs that are readily observable.

The determination of fair value for financial instruments categorized in Level 2 or 3 involves significant judgment due to the complexity of factors contributing to the valuation. The current market disruptions make valuation even more difficult and subjective. Third-party sources from which we obtain independent market quotes also use assumptions, judgments and estimates in determining financial instrument values and different

third parties may use different methodologies or provide different prices for securities. We believe the potential for differences in third-party pricing levels is particularly significant with respect to residential mortgage backed and certain other asset-backed securities held in our investment portfolio and referenced in our credit derivative portfolio, due to the very low levels of recent trading activity for such securities. In addition, the use of internal valuation models for certain highly structured instruments such as credit default swaps, require assumptions about markets in which there has been a negligible amount of trading activity for an extended period of time. As a result of these factors, the actual trade value of a financial instrument in the market, or exit value of a financial instrument position by Ambac, may be significantly different from its recorded fair value.

Ambac's financial instruments carried at fair value are mainly comprised of investments in fixed income securities, derivative instruments, most variable interest entity assets and liabilities and equity interests in Ambac sponsored special purpose entities.

We reflect Ambac's own creditworthiness in the fair value of financial liability by including a credit valuation adjustment ("CVA") in the determination of fair value. A decline in Ambac's creditworthiness as perceived by market participants will generally result in a higher CVA, thereby lowering the fair value of Ambac's financial liabilities as reported. Through March 31, 2010 the CVA was determined using credit spreads observed in the market pricing of credit default swaps on Ambac or Ambac Assurance. The Ambac Assurance CVA at December 31, 2010 is internally estimated using related data points, including the final settlement value of Ambac Assurance credit default swaps (determined through auction in June 2010) and current quoted prices of securities guaranteed by Ambac Assurance.

Fixed Income Securities:

The fair values of fixed income investment securities held by Ambac and its operating subsidiaries are based primarily on market prices received from dealer quotes or alternative pricing sources with reasonable levels of price transparency. Such quotes generally consider a variety of factors, including recent trades of the same and similar securities. For those fixed income investments where quotes were not available, fair values are based on internal valuation models. Key inputs to the internal valuation models include maturity date, coupon and yield curves for asset-type and credit rating characteristics that closely match those characteristics of the specific investment securities being valued. At December 31, 2010, approximately 7%, 80%, and 3% of the investment portfolio (excluding variable interest entity investments) was valued using dealer quotes, alternative pricing sources with reasonable levels of price transparency, and internal valuation models, respectively. Approximately 10% of the investment portfolio, which represents short-term money market funds, was valued based on amortized cost.

Third party quotes represent the only input to the reported fair value of Level 2 fixed income securities. Fixed income securities are classified as Level 3 when the fair value is internally modeled. Information about the valuation inputs for fixed income securities classified as Level 3 is included below:

Corporate obligations: These securities represent interest only strips of investment grade corporate obligations. Fair value was calculated using a discounted cash flow approach with the discount rate determined from the yields of corporate bonds from the same issuers. Significant inputs for the valuation at December 31, 2010 include the following weighted averages:

a. Coupon rate: 0.60 %

b. Maturity: 22.44 years

c. Discount rate: 6.50 %

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U.S. agency obligations: These notes are secured by separate lease rental agreements with the U.S. Government acting through the General Services Administration. Fair value was calculated using a discounted cash flow approach with the yield based on comparable U.S. agency securities. Significant inputs for the valuation at December 31, 2010 include the following weighted averages:

a. Coupon rate: 6.88 %

b. Maturity: 0.37 years

c. Yield: 3.11 %

Collateralized debt obligations: Securities are floating rate senior notes with the underlying securities of the CDO consist of subordinated bank perpetual preferred securities. Fair value was calculated using a discounted cash flow approach with expected future cash flows discounted using a yield curve consistent with the security type and rating. Significant inputs for the valuation at December 31, 2010 include the following weighted averages:

a. Coupon rate: 0.84 %

b. Weighted Average Life: 16.26 years

c. Yield: 10.33 %

Asset-backed securities: These securities are floating rate investment grade notes collateralized by various asset types. Fair value was calculated using a discounted cash flow approach with expected future cash flows discounted using a yield curve consistent with the security type and rating. Significant inputs for the valuation at December 31, 2010 include the following weighted averages:

a. Coupon rate: 0.94 %

b. Weighted Average Life: 9.95 years

c. Yield curve rate corresponding to WAL: 4.75 %

Derivative Instruments:

Ambac's derivative instruments comprise interest rate, currency, and credit default swaps and exchange traded futures contracts. Fair value is determined based upon market quotes from independent sources, when available. When independent quotes are not available, fair value is determined using valuation models. These valuation models require market-driven inputs, including contractual terms, credit spreads and ratings on underlying referenced obligations, yield curves and tax-exempt interest ratios. The valuation of certain interest rate and currency swaps as well as all credit derivative contracts also require the use of data inputs and assumptions that are determined by management and are not readily observable in the market. Under ASC Topic 820, Ambac is required to consider its own credit risk when measuring the fair value of derivative and other liabilities The fair value of net credit derivative liabilities was reduced by $886,735 and $13,230,000 at December 31, 2010 and December 31, 2009, respectively, as a result of incorporating a CVA on Ambac Assurance into the valuation model for these transactions. Interest rate swaps, currency swaps or other derivative liabilities may also require an adjustment to fair value to reflect Ambac Assurance's credit risk. Factors considered in estimating the amount of any Ambac CVA on such contracts include collateral posting provisions, right of set-off with the counterparty, the period of time remaining on the derivatives and the pricing of recent terminations and amendments. Derivative liabilities were reduced by $68,772 at December 31, 2010 as a result of Ambac CVA adjustments to derivative contracts other than credit derivatives.

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As described further below, certain valuation models require other inputs that are not readily observable in the market. The selection of a model to value a derivative depends on the contractual terms of, and specific risks inherent in the instrument as well as the availability of pricing information in the market. For derivatives that are less complex and trade in liquid markets or may be valued primarily by reference to interest rates and yield curves that are observable and regularly quoted, such as interest rate and currency swaps, we utilize vendor-developed models. These models provide the net present value of the derivatives based on contractual terms and observable market data. Downgrades of Ambac Assurance, as guarantor of the financial services derivatives, beginning 2008 have increased collateral requirements and triggered termination provisions in certain interest rate and currency swaps. Increased termination activity since the initial rating downgrades of Ambac Assurance has provided additional information about the current replacement and/or exit value of our financial services derivatives, which may not be fully reflected in our vendor-models but has been incorporated into the fair value of these derivatives at December 31, 2010 and 2009. These fair value adjustments are applied to individual groups of derivatives based on common attributes such as counterparty type and credit condition, term to maturity, derivative type and net present value. Generally, the need for counterparty (or Ambac) credit valuation adjustments is mitigated by the existence of collateral posting agreements under which adequate collateral has been posted. Derivative contracts entered into with financial guarantee customers are not typically subject to collateral posting agreements. Counterparty credit risk related to such customer derivative assets is included in our fair value adjustments. For derivatives that do not trade, or trade in less liquid markets such as credit derivatives on collateralized debt obligations, a proprietary model is used because such instruments tend to be unique, contain complex or heavily modified and negotiated terms, and pricing information is not readily available in the market. Derivative fair value models and the related assumptions are continuously re-evaluated by management and enhanced, as appropriate, based on improvements in modeling techniques. Ambac has not made significant changes to its modeling techniques for the periods presented.

Credit Derivatives ("CDS"):

Fair value of Ambac's CDS is determined using internal valuation models and represents the net present value of the difference between the fees Ambac originally charged for the credit protection and our estimate of what a financial guarantor of comparable credit worthiness would hypothetically charge to provide the same protection at the balance sheet date. Ambac competed in the financial guarantee market, which differs from the credit markets where Ambac-insured obligations may trade. As a financial guarantor, Ambac assumes only credit risk; we do not assume other risks and costs inherent in direct ownership of the underlying reference securities. Additionally, as a result of having the ability to influence our CDS counterparty in certain investor decisions, financial guarantors generally have the ability to actively remediate the credit, potentially reducing the loss given a default. Financial guarantee contracts, including CDS, issued by Ambac and its competitors are typically priced to capture some portion of the spread that would be observed in the capital markets for the underlying (insured) obligation, with minimum pricing constrained by objective estimates of expected loss and financial guarantor required rates of return. Such pricing was well established by historical financial guarantee fees relative to capital market spreads as observed and executed in competitive markets, including in financial guarantee reinsurance and secondary market transactions. Because of this relationship and in the absence of severe credit deterioration, changes in the fair value of our credit default swaps (both unrealized gains and losses) will generally be less than changes in the fair value of the underlying reference obligations.

Key variables used in our valuation of substantially all of our credit derivatives include the balance of unpaid notional, expected term, fair values of the underlying reference obligations, reference obligation credit ratings, assumptions about current financial guarantee CDS fee levels relative to reference obligation spreads and the CVA applied against Ambac Assurance liabilities by market participants. Notional balances, expected

remaining term and reference obligation credit ratings are monitored and determined by Ambac's Surveillance Group. Fair values of the underlying reference obligations are obtained from broker quotes when available, or are derived from other market indications such as new issuance spreads and quoted values for similar transactions. Implicit in the fair values we obtain on the underlying reference obligations are the market's assumptions about default probabilities, default timing, correlation, recovery rates and collateral values.

Broker quotes on the reference obligations named in our CDS contracts represent an input to determine the estimated fair value of the CDS contract. Broker quotes are indicative values for the reference obligation and generally do not represent a bid or doing-business quote for the reference instrument. Such quotes follow methodologies that are generally consistent with those used to value similar assets on the quote providers' own books. Methodologies may differ among brokers but are understood to reflect observable trading activity (when available) and modeling that relies on empirical data and reasonable assumptions. For certain CDS contracts referencing unsecuritized pools of assets, we will obtain counterparty quotes on the credit derivative itself. Such quotes are adjusted to reflect Ambac's own credit risk when determining the fair value of credit derivative liabilities. Third party reference obligation values or specific credit derivative quotes were used in the determination of CDS fair values related to transactions representing 91 % of CDS gross par outstanding and 94 % of the CDS derivative liability as of December 31, 2010.

When broker quotes for reference obligations are not available, reference obligation prices used in the valuation model are estimated internally based on averages of the quoted prices for other transactions of the same bond type and Ambac rating as well as changes in published credit spreads for securities with similar collateral and ratings characteristics. When price quotes of a similar bond type vary significantly or the number of similar transactions is small, as had been observed with CDO of ABS transactions, management will consider additional factors, such as specific collateral composition and performance and contractual subordination, to identify similar transactions. Internally estimated prices for CDO of ABS used in the valuation model also consider the discounted value of future cash flows of the reference obligations. Reference obligation prices derived internally as described above were used in the determination of CDS fair values related to transactions representing 9% of CDS gross par outstanding and 6% of the CDS derivative liability as of December 31, 2010.

Ambac's CDS fair value calculations are adjusted for increases in our estimates of expected loss on the reference obligations and observable changes in financial guarantee market pricing. If no adjustment is considered necessary, Ambac maintains the same percentage of the credit spread (over LIBOR) demanded in the market for the reference obligation as existed at the inception of the CDS. Therefore, absent changes in expected loss on the reference obligations or financial guarantee CDS market pricing, the financial guarantee CDS fee used for a particular contract in Ambac's fair value calculations represent a consistent percentage, period to period, of the credit spread determinable from the reference obligation value at the balance sheet date. This results in a CDS fair value balance that fluctuates in proportion with the reference obligation value.

The amount of expected loss on a reference obligation is a function of the probability that the obligation will default and severity of loss in the event of default. Ambac's CDS transactions were all originally underwritten with extremely low expected losses. Both the reference obligation spreads and Ambac's CDS fees at the inception of these transactions reflect these low expected losses. When reference obligations experience credit deterioration, there is an increase in the probability of default on the obligation and, therefore, an increase in expected loss. Ambac reflects the effects of changes in expected loss on the fair value of its CDS contracts by increasing the percentage of the reference obligation spread (over LIBOR) which would be captured as a CDS fee (relative change ratio) at the valuation date, resulting in a higher mark-to-market loss on our CDS relative to any price decline on the reference obligation. The fundamental assumption is that financial guarantee CDS fees

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will increase relative to reference obligation spreads as the underlying credit quality of the reference obligation deteriorates and approaches payment default. For example, if the credit spread of an underlying reference obligation was 80 basis points at the inception of a transaction and Ambac received a 20 basis point fee for issuing a CDS on that obligation, the "relative change ratio", which represents the CDS fee to cash market spread Ambac would utilize in its valuation calculation, would be 25%. If the reference obligation spread increased to 100 basis points in the current reporting period, absent any observable changes in financial guarantee CDS market pricing or credit deterioration, Ambac's current period CDS fee would be computed by multiplying the current reference obligation spread of 100 basis points by the relative change ratio of 25%, resulting in a 25 basis point fee. Thus, the model indicates we would need to receive an additional 5 basis points (25 basis points currently less the 20 basis points contractually received) for issuing a CDS in the current reporting period for this reference obligation. We would then discount the product of the notional amount of the CDS and the 5 basis point hypothetical CDS fee increase, over the weighted average life of the reference obligation to compute the current period mark-to-market loss. Using the same example, if the reference obligation spread increased to 100 basis points and there was credit deterioration as evidenced by an internal rating downgrade which increased the relative change ratio from 25% to 35%, we would estimate a 15 basis point hypothetical CDS fee increase in our model (35% of 100 basis points reference obligation spread, or 35 basis points currently, less the 20 basis points contractually received). Therefore, we would record a higher mark-to-market loss based on the computations described above absent any observable changes in financial guarantee CDS market pricing.

We do not adjust the relative change ratio until an actual internal rating downgrade has occurred unless we observe new pricing on financial guarantee CDS contracts. However, because we have active surveillance procedures in place for our entire CDS portfolio, particularly for transactions at or near a below investment grade threshold, we believe it is unlikely that an internal downgrade would lag the actual credit deterioration of a transaction for any meaningful time period. The factors used to increase the percentage of reference obligation spread captured in the CDS fee (or relative change ratio) are based on rating agency probability of default percentages determined by management to be appropriate for the relevant bond type. That is, the probability of default associated with the respective tenor and internal rating of each CDS transaction is utilized in the computation of the relative change ratio in our CDS valuation model. The new relative change ratio in the event of an internal downgrade of the reference obligation is calculated as the weighted average of: (i) a given transaction's inception relative change ratio and (ii) a ratio of 100%. The weight given to the inception relative change ratio is 100% minus the probability of default (i.e. the probability of non-default) and the weight given to using a 100% relative change ratio is the probability of default. For example, assume a transaction having an inception relative change ratio of 33% is downgraded to B- during the period, at which time it has an estimated remaining life of 8 years. If the estimated probability of default for an 8 year, B- rated credit of this type is 60% then the revised relative change ratio will be 73.2%. The revised relative change ratio can be calculated as 33% x (100%-60%) + 100% x 60% = 73.2%.

As noted above, reference obligation spreads incorporate market perceptions of default probability and loss severity, as well as liquidity risk and other factors. Loss severities are generally correlated to default probabilities during periods of economic stress. By increasing the relative change ratio in our calculations proportionally to default probabilities, Ambac incorporates into its CDS fair value the higher expected loss on the reference obligation (probability of default x loss severity), by increasing the portion of reference obligation spread that should be paid to the CDS provider.

Ambac incorporates its own credit risk into the valuation of its CDS liabilities by applying a CVA to the calculations described above. Through March 31, 2010, the Ambac CVA was calculated by adjusting the discount rate used in the CDS present value calculations. Specifically, the discount rate used for the present value

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calculations described above was LIBOR plus Ambac's credit spread as observed from quotes of the cost to purchase credit protection on Ambac Assurance. The widening of Ambac's own credit spread cannot result in our recognition of an asset on a CDS contract. Under our methodology, determination of the CDS fair value requires estimating hypothetical financial guarantee CDS fees for a given credit at the valuation date and estimating the present value of those fees. Our approach begins with pricing in the risk of default of the reference obligation using that obligation's credit spread. The widening of the reference obligation spread results in a mark-to-market loss to Ambac, as the credit protection seller, and a gain to the credit protection buyer because the cost of credit protection on the reference obligation (ignoring CDS counterparty credit risk) will be greater than the amount of the actual contractual CDS fees. To factor in the risk of Ambac's non-performance as viewed by the market, through March 31, 2010 we adjusted the discount rate used to calculate the present value of hypothetical future CDS fees by adding the cost of credit default swap protection on Ambac Assurance to the LIBOR curve as of the valuation date. By incorporating the market cost of credit protection on Ambac into the discount rate, the fair value of Ambac's liability (or the asset from the perspective of the credit protection buyer) will be decreased by an amount that reflects the market's pricing of the risk that Ambac will not have the ability to pay. Late in March 2010, Ambac Assurance credit default swap pricing became unobservable following ISDA's declaration of an event of default on such contracts. Therefore the Ambac CVA at December 31, 2010 cannot utilize the same market inputs as had been used in past periods. Use of an Ambac credit adjusted discount rate for longer term transactions resulted in a higher CVA than for shorter term transaction due to compounding. As of December 31, 2010, the Ambac CVA is a percentage applied to the estimated CDS liability fair value calculated as described above, but using only LIBOR in the present value calculations. At December 31, 2010, the Ambac CVA is internally estimated using relevant data points, including the final settlement value of Ambac Assurance credit default swaps (determined through auction in June 2010) and quoted prices of securities guaranteed by Ambac Assurance, which indicate the market's view of the recovery rate on Ambac Assurance's insurance obligations. The estimated recovery rate of 20% results in an Ambac CVA of 80%. In instances where narrower reference obligation spreads result in a CDS asset to Ambac, or when Ambac has a CDS asset arising from reinsured CDS exposure, those hypothetical future CDS fees are discounted at a rate which does not incorporate Ambac's own spread but rather incorporates our counterparty's credit spread (i.e. the discount rate used to value purchased credit derivative protection is LIBOR plus the current credit spread of the protection provider).

In addition, when there are sufficient numbers of new observable transactions to indicate a general change in market pricing trends for CDS on a given bond type, management will adjust its assumptions about the percentage of reference obligation spreads captured as CDS fees to match the current market. No such adjustments were made for the years ended December 31, 2010 and 2009. Ambac is not transacting CDS business currently and other guarantors have stated they have exited this product. Although relevant new transactions are not occurring in the financial guarantee marketplace, we have entered into negotiated settlements of CDS contracts, including CDS terminations in connection with the September 2010 Settlement Agreement as described in Note 1. These settlements have primarily related to our written CDS on CDO of ABS transactions, all of which are terminated as of June 30, 2010. Because of the significant differences between the CDO of ABS transactions compared to the other CDS remaining in the portfolio, including the generally lower credit quality, we do not believe the settlements of these transactions provide information that warrants adjustment to the fair value model of CDS as of December 31, 2010.

Key variables which impact the "Realized gains and losses and other settlements" component of "Net change in fair value of credit derivatives" in the Consolidated Statements of Operations are the most readily observable variables since they are based solely on the CDS contractual terms and cash settlements. Those variables include (i) premiums received and accrued on written CDS contracts, (ii) premiums paid or accrued on purchased contracts, (iii) losses paid and payable on written credit derivative contracts and (iv) paid losses

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recovered and recoverable on purchased credit derivative contracts for the appropriate accounting period. Losses paid and payable and losses recovered and receivable reported in "Realized gains and losses and other settlements" include those arising after a credit event that requires a payment under the contract terms has occurred or in connection with a negotiated termination of a contract. The remaining key variables described above impact the "Unrealized gains (losses)" component of "Net change in fair value of credit derivatives." The net notional outstanding of Ambac's CDS contracts is $18,766,354 and $43,276,321 at December 31, 2010 and December 31, 2009, respectively.

Credit derivative liabilities at December 31, 2010 had a combined fair value of $221,684 and related to underlying reference obligations that are classified as either CLOs or Other. Information about the above described model inputs used to determine the fair value of each class of credit derivatives as of December 31, 2010 is summarized below:

	CLOs	Other[1]
Notional outstanding	$ 11,592,697	$ 4,996,193
Weighted average reference obligation price	91.2	85.2
Weighted average life (WAL) in years	3.4	4.1
Weighted average credit rating	AA-	A+
Weighted average relative change ratio	34.4%	38%
CVA percentage	80%	80%
Fair value of derivative liabilities	$ 70,467	$ 72,692

(1) Excludes contracts for which fair values are based on credit derivative quotes rather than reference obligation quotes. Such contracts have a combined notional outstanding of $2,177,464, WAL of 5.0 years and liability fair value of $78,524. Other inputs to the valuation of these transactions at December 31, 2010 include weighted average quotes of 18% of notional, weighted average rating of A+ and Ambac CVA percentage of 80%.

Financial Guarantees:

Fair value of net financial guarantees written represents our estimate of the cost to Ambac to completely transfer its insurance obligation to another financial guarantor of comparable credit worthiness. In theory, this amount should be the same amount that another financial guarantor of comparable credit worthiness would hypothetically charge in the market place, on a present value basis, to provide the same protection as of the balance sheet date.

This fair value estimate of financial guarantees is presented in the table immediately following the first paragraph of this Note 16 on a net basis and includes direct and assumed contracts written, which represent our liability, net of ceded reinsurance contracts, which represent our asset. The fair value estimate of direct and assumed contracts written is based on the sum of the present values of (i) unearned premium reserves; and (ii) loss and loss expense reserves, including claims presented and not paid as a result of the claim moratorium imposed by OCI on March 24, 2010. The fair value estimate of ceded reinsurance contracts is based on the sum of the present values of (i) deferred ceded premiums net of ceding commissions; and (ii) reinsurance recoverables on paid and unpaid losses.

Under our current financial guarantee model, the key variables are par amounts outstanding (including future periods for the calculation of future installment premiums), expected term, discount rate, and expected net loss and loss expense payments. Net par outstanding is monitored by Ambac's Surveillance Group. With respect

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to the discount rate, ASC Topic 820 requires that the nonperformance risk of a financial liability be included in the estimation of fair value. This nonperformance risk would include considering Ambac's own credit risk in the fair value of financial guarantees we have issued, thus the estimated fair value for direct contracts written was discounted at rate that reflects Ambac's credit risk. At December 31, 2010, the Ambac CVA is internally estimated using relevant data points, including the final settlement value of Ambac Assurance credit default swaps (determined through auction in June 2010) and quoted prices of securities guaranteed by Ambac Assurance, which indicate the market's view of the recovery rate on Ambac Assurance's insurance obligations. The estimated recovery rate of 20% results in an Ambac CVA of 80%. The credit spread used to estimate the nonperformance risk component of the fair value of financial guarantees as of December 31, 2009 was 4,905 basis points. Refer to the Loss Reserves section located in Note 2 for additional information on factors which influence our estimate of loss and loss expenses. The estimated fair value of ceded reinsurance contracts factors in any adjustments related to the counterparty credit risk we have with reinsurers.

There are a number of factors that limit our ability to accurately estimate the fair value of our financial guarantees. The first limitation is the lack of observable pricing data points as a result of Ambac no longer writing new financial guarantee business. Additionally, although the fair value accounting guidance for liabilities requires a company to consider the cost to completely transfer its obligation to another party of comparable credit worthiness, our primary insurance obligation is irrevocable and thus there is not established active market for transferring such obligations. Variables which are not incorporated in our current fair value estimate of financial guarantees include the credit spreads of the underlying insured obligations, the underlying ratings of those insured obligations and assumptions about current financial guarantee premium levels relative to the underlying insured obligations' credit spreads.

Liabilities Subject to Compromise:

The carrying amount of Liabilities Subject to Compromise in the first table of Note 16 includes the carrying value of long-term debt. The fair value of Ambac's debt included in Liabilities Subject to Compromise as of December 31, 2010 is based on quoted market prices. As described in Note 1, Ambac's Bankruptcy Filing constituted an event of default with respect to these debt securities.

Long-term Debt:

The fair value of surplus notes issued by Ambac Assurance and classified as long-term debt is internally estimated considering numerous factors, including market transactions for other Ambac Assurance obligations, discounted projected cash flows of Ambac Assurance and projected cash payments on the surplus notes discounted at a rate adjusted to reflect the market's view of Ambac Assurance's credit quality. The fair value of Ambac's debentures included in Long-term debt as of December 31, 2009 is based on quoted market prices.

Other Financial Assets and Liabilities:

The fair values of Ambac's equity interest in Ambac sponsored special purpose entities (included in Other assets), Loans and Obligations under investment, repurchase and payment agreements are estimated based upon internal valuation models that discount expected cash flows using a discount rates consistent with the credit quality of the obligor after considering collateralization.

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Variable Interest Entity Assets and Liabilities:

The assets and liabilities of VIEs consolidated under ASC Topic 810 consist primarily of fixed income securities, loans receivable, derivative instruments and debt instruments and are generally carried at fair value. These consolidated VIEs are securitization entities which have liabilities and/or assets guaranteed by Ambac. The fair values of VIE debt instruments are determined using the same methodologies used to value Ambac's fixed income securities in its investment portfolio as described above. VIE debt fair value is based on market prices received from dealer quotes or alternative pricing sources with reasonable levels of price transparency. Such quotes are considered Level 2 and generally consider a variety of factors, including recent trades of the same and similar securities. For those VIE debt instruments where quotes were not available, the debt instrument fair values are considered Level 3 and are based on internal discounted cash flow models. VIE debt instruments considered Level 3 include fixed rate, floating rate and zero coupon notes secured by various asset types, primarily European ABS. Information about the valuation inputs for the various VIE debt categories classified as Level 3 is as follows:

European ABS transactions: Fair values were calculated by discounting contractual payments to maturity. The discount rates used were based on the rates implied from the third party quoted values (Level 2) for comparable notes from the same securitization. Significant inputs for the valuation at December 31, 2010 include the following weighted averages:

a. Coupon rate: 4.21 %

b. Maturity: 17.13 years

c. Discount rate: 7.11 %

Other classes: Other classes include European Public Finance Initiatives, utilities, transportation and asset lease financing transactions. Fair values were calculated by discounting contractual payments to maturity. The discount rates used were derived from the third party quoted values (Level 2) for comparable notes from the same securitization when available. When no quotes were received on notes in a given structure, rates were derived from generic spreads for similar securities. Significant inputs for the valuation at December 31, 2010 include the following weighted averages:

a. Coupon rate: 7.73 %

b. Maturity: 6.51 years

c. Discount rate: 5.80 %

VIE derivative asset and liability fair values are determined using valuation models. When specific derivative contractual terms are available and may be valued primarily by reference to interest rates, exchange rates and yield curves that are observable and regularly quoted the derivatives are valued using vendor-developed models. Other derivatives within the VIEs that include significant unobservable valuation inputs are valued using internally developed models. All VIE derivatives at December 31, 2010 and December 31, 2009 use vendor-developed models and do not use significant unobservable inputs.

The fair value of VIE assets are obtained from market quotes when available. Typically the asset fair values are not readily available from market quotes and are estimated internally. The consolidated VIEs are securitization entities in which net cash flows from assets and derivatives (after adjusting for financial guarantor cash flows and other expenses) will be paid out to note holders or equity interests. Our valuation of VIE assets (fixed income securities or loans), therefore, are derived from the fair value of notes and derivatives, as described above, adjusted for the fair value of cash flows from Ambac's financial guarantee. The fair value of financial

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guarantee cash flows include: (i) estimated future premiums discounted at a rate consistent with that implicit in the fair value of the VIE's liabilities and (ii) internal estimates of future loss payments by Ambac discounted at a rate that includes Ambac's own credit risk. Estimated future premium payments to be paid by the VIEs were discounted at a weighted average rate of 6.3%. The value of future loss payments to be paid by Ambac to the VIEs equals 20% of the loss reserve value computed for financial guarantee accounting under ASC Topic 944, with the 80% haircut reflecting the Ambac credit adjustment.

The following tables present the changes in the Level 3 fair value category for the years ended December 31, 2010 and 2009. Ambac classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

Level-3 financial assets and liabilities accounted for at fair value

				VIE Assets and Liabilities				
2010	**Investments**	**Other Assets**	**Derivatives**	**Investments**	**Loans**	**Derivatives**	**Long-term debt**	**Total**
Balance, beginning of period	$ 189,600	$ 18,843	$ (2,998,447)	$ 160,518	$ 2,428,352	—	$ (388,003)	$ (589,137)
Additions of VIEs for ASC 2009-17	—	—	—	3,817,065	17,541,600	(153,369)	(6,699,121)	14,506,175
Total gains/(losses) realized and unrealized:								
Included in earnings	(222)	(934)	(1,886)	767,693	717,852	(653)	(1,430,729)	51,121
Included in other comprehensive income	(1,353)	—	—	(7,377)	(469,007)	—	23,033	(454,704)
Purchases, issuances and settlements	(4,030)	—	2,922,507	—	(772,061)	—	62,145	2,208,561
Transfers in Level 3	15,177	—	(118,107)	—	—	—	(588,083)	(691,013)
Transfers out of Level 3	—	—	—	—	—	—	2,757,245	2,757,245
Deconsolidation of VIEs	—	—	—	(2,833,538)	(3,645,818)	158,533	4,407,147	(1,913,676)
Balance, end of period	$ 199,172	$ 17,909	$ (195,933)	$ 1,904,361	$ 15,800,918	$ 4,511	$ (1,856,366)	$ 15,874,572

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				VIE Assets and Liabilities				
2009	**Investments**	**Other Assets**	**Derivatives**	**Investments**	**Loans**	**Derivatives**	**Long-term debt**	**Total**
Balance, beginning of period	$ 83,453	$ 14,290	$ (8,031,410)	—	—	—	—	$ (7,933,667)
Additions of VIEs for ASC 2009-17	—	—	—	126,537	2,417,584	—	(381,274)	2,162,847
Total gains/(losses) realized and unrealized:								
Included in earnings	64	4,553	3,759,321	33,981	10,768	—	(6,729)	3,801,958
Included in other comprehensive income	23,176	—	—	—	—	—	—	23,176
Purchases, issuances and settlements	(6,647)	—	1,305,157	—	—	—	—	1,298,510
Transfers in Level 3	120,253	—	(31,515)	—	—	—	—	58,039
Transfers out of Level 3	(30,699)	—	—	—	—	—	—	—
Deconsolidation of VIEs	—	—	—	—	—	—	—	—
Balance, end of period	$ 189,600	$ 18,843	$ (2,998,447)	$ 160,518	$ 2,428,352	—	$ (388,003)	$ (589,137)

Invested assets and VIE long-term debt are transferred into Level 3 when internal valuation models that include significant unobservable inputs are used to estimate fair value. All such securities that have internally modeled fair values have been classified as Level 3 as of December 31, 2010 and December 31, 2009. Derivative instruments are transferred into Level 3 when the use of unobservable inputs become significant to the overall valuation. During 2009 and 2010, transfers of derivatives to Level 3 related to the inclusion of fair value adjustments to reflect estimated replacement or exit costs, as described under "*Derivative Instruments*" above, which are not reflected in the net present value of the projected contractual cash flows. All transfers into and out of Level 3 represent transfers between Level 3 and Level 2. There were no transfers in or out of Level 1 for the periods presented. All Level 1, 2, and 3 transfers are recognized at the beginning of each accounting period.

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Gains and losses (realized and unrealized) relating to Level 3 assets and liabilities included in earnings for years ended December 31, 2010 and 2009 are reported as follows:

	Net investment income	Realized gains or (losses) and other settlements on credit derivative contracts	Unrealized gains or (losses) on credit derivative contracts	Derivative products revenues	Income (loss) on variable interest entity activities	Other income
2010						
Total gains or losses included in earnings for the period	$ (222)	$ (2,757,624)	$ 2,817,807	$ (62,070)	$ 54,163	$ (934)
Gains or losses relating to the assets and liabilities still held at the reporting date	(222)	15,698	(461,892)	48,923	627,207	(934)
2009						
Total gains or losses included in earnings for the period	$ 64	$ (1,360,461)	$ 5,173,985	$ (54,203)	$ 38,020	$ 4,553
Gains or losses relating to the assets and liabilities still held at the reporting date	64	36,378	2,641,499	(38,619)	38,020	4,553

17 INSURANCE REGULATORY RESTRICTIONS

Ambac Assurance (exclusive of the Segregated Account which is under the control of OCI via the Segregated Account Rehabilitation Plan) and Everspan are subject to the insurance laws and regulations of each jurisdiction in which it is licensed, some of which are described below. Failure to comply with applicable insurance laws and regulations (including, without limitation, minimum surplus requirements, aggregate risk limits and single risk limits) could expose Ambac Assurance to fines, the loss of insurance licenses in certain jurisdictions, the imposition of orders by regulators with respect to the conduct of business by Ambac Assurance and/or the inability of Ambac Assurance to dividend monies to Ambac, all of which could have an adverse impact on our business results and prospects.

New York's comprehensive financial guarantee insurance law defines the scope of permitted financial guarantee insurance and governs the conduct of business of all financial guarantors licensed to do business in New York, including Ambac Assurance. The New York financial guarantee insurance law also establishes single risk and aggregate limits with respect to insured obligations insured by financial guarantee insurers. Such single risk limits are specific to the type of insured obligation (for example, municipal or asset-backed). Under the aggregate limits, policyholders' surplus and contingency reserves must at least equal a percentage of aggregate net financial guarantee liability that is equal to the sum of various percentages of aggregate net liability for various categories of specified obligations. Wisconsin laws and regulations applicable to financial guarantors, as well as the laws of several other states, are less comprehensive than New York law and relate primarily to single and aggregate risk limits.

As a result of decreased statutory capital resulting from the significant losses experienced by Ambac Assurance, Ambac Assurance is not in compliance with its regulatory single and aggregate risk limits. Through

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run-off of the portfolio, Ambac Assurance will seek to reduce its exposure to no more than the permitted amounts, but may not be able to due so. Everspan is in compliance with all of such limits.

Ambac Assurance's ability to pay dividends is generally restricted by law and subject to approval by OCI. Wisconsin insurance law restricts the payment of dividends in any 12-month period without regulatory approval to the lesser of (a) 10% of policyholders' surplus as of the preceding December 31, and (b) the greater of (i) statutory net income (loss) for the calendar year preceding the date of dividend, minus realized capital gains for that calendar year or (ii) the aggregate of statutory net income (loss) for three calendar years preceding the date of the dividend, minus realized capital gains for those calendar years and minus dividends paid or credited within the first two of the three preceding calendar years. In connection with the termination of reinsurance contracts, OCI requires adjustments to the dividend calculation for any surplus or net income gains recognized. Additionally, no quarterly dividend may exceed the dividend paid in the corresponding quarter of the preceding year by more than 15% without notifying OCI 30 days in advance of payment. Based upon these restrictions, at December 31, 2010, Ambac Assurance will not be able to pay dividends during 2011, without regulatory approval. Ambac Assurance did not pay cash dividends on its common stock in 2010 and 2009.

Ambac Assurance's statutory financial statements are prepared on the basis of accounting practices prescribed or permitted by OCI. 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.

Statutory capital and surplus was $1,026,920 (unaudited) and $801,869 at December 31, 2010 and 2009, respectively. Qualified statutory capital was $1,539,524 (unaudited) and $1,154,037 at December 31, 2010 and 2009, respectively. Statutory net loss for Ambac Assurance was $1,471,903 (unaudited) $2,479,612 and $4,034,666 for 2010, 2009 and 2008, respectively. Statutory capital and surplus differs from stockholders' equity determined under GAAP principally due to statutory accounting rules that treat loss reserves, consolidation of subsidiaries, premiums earned, policy acquisition costs and deferred income taxes differently.

OCI has prescribed an accounting practice that differs from NAIC SAP. Paragraph 7 of Statement of Statutory Accounting Principles No. 60 "Financial Guaranty Insurance" ("SSAP 60") allows for a deduction from loss reserves for the time value of money by application of a discount rate equal to the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve. The discount rate shall be adjusted at the end of each calendar year. Additionally, in accordance with paragraph 7 of Statutory Accounting Principles No. 5 "Liabilities, Contingencies and Impairments of Assets", Ambac Assurance records probable losses on its subsidiaries credit derivative contracts, using a discount rate equal to the average rate of return on its admitted assets. The Company's average rates of return on its admitted assets at December 31, 2010 and December 31, 2009 were 7.06% and 6.74%, respectively. OCI has directed the Company to utilize a prescribed discount rate of 5.10% for the purpose of discounting both its loss reserves and its estimated impairment losses on subsidiary guarantees. Statutory surplus at December 31, 2010 and December 31, 2009 was lower by $35,233 and $1,515,691, respectively, than if the Company had reported such amounts in accordance with NAIC SAP.

OCI has prescribed an additional accounting practice that differs from NAIC SAP. Paragraph 4 of Statement of Statutory Accounting Principles No. 41 "Surplus Notes" ("SSAP 41") states that proceeds received by the issuer of surplus notes must be in the form of cash or other admitted assets having readily determinable values

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and liquidity satisfactory to the commissioner of the state of domicile. Under the statutory accounting principles as generally applied, surplus notes issued in conjunction with commutations or the settlement of claims would be valued at zero upon issuance pursuant to paragraph 4, SSAP 41. OCI has directed the Company to record surplus notes issued in connection with commutations or the settlement of claims at full par value upon issuance as in these instances the surplus notes do not represent a contribution of capital, but rather a distribution of value from the common and preferred shareholders of the Company. The surplus notes issued in connection with commutations or settlement of claims has a claim against surplus senior to the preferred and common shareholders. Statutory surplus is not impacted as a result of the prescribed practice as it is a reclassification from unassigned funds to surplus notes.

OCI has extended the preceding prescribed practice related to surplus notes to the evaluation of other-than-temporary impairments for Ambac Assurance guaranteed securities held in the investment portfolio. Paragraph 35 of Statement of Statutory Accounting Principles No. 43R "Loan-backed and Structured Securities" states that when an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate. Under NAIC SAP, the present value of cash flows expected to be collected should include the fair value of surplus notes received from Ambac Assurance, as required under the Segregated Account Rehabilitation Plan. OCI has prescribed an accounting practice that differs from NAIC and has directed the Company to utilize par value rather than fair value of these surplus notes in this computation. Statutory surplus at December 31, 2010 is greater by $76,709 than if the present value of the cash flows expected to be collected included the surplus notes at fair value in accordance with NAIC SAP.

Wisconsin accounting practices for changes to contingency reserves differ from NAIC SAP. Under NAIC SAP, contributions to and releases from the contingency reserve are recorded via a direct charge or credit to surplus. Under section 3.08(7)(b) of the Wisconsin Administrative Code, contributions to and releases from the contingency reserve are to be recorded through underwriting income. The Company received permission from OCI to record contributions to and releases from the contingency reserve and the related tax and loss bond impact, in accordance with NAIC SAP. Statutory surplus is the same using each of these accounting practices.

18 SEGMENT INFORMATION

Ambac has two reportable segments, as follows: (1) Financial Guarantee, which provided financial guarantees (including credit derivatives) for public finance, structured finance and other obligations; and (2) Financial Services, which provided investment agreements, funding conduits, interest rate, total return and currency swaps, principally to clients of the financial guarantee business, which includes municipalities and other public entities, health care organizations, investor-owned utilities and asset-backed issuers. Ambac's reportable segments were strategic business units that offer different products and services. They are managed separately because each business required different marketing strategies, personnel skill sets and technology.

Ambac Assurance guarantees the swap and investment agreement obligations of its Financial Services affiliates. Additionally, Ambac Assurance provides loans to the Financial Services businesses. Inter-segment revenues include the premiums and investment income earned under those agreements and dividends received from its Financial Services subsidiaries. Such premiums are determined as if they were premiums paid by third parties, that is, at current market prices.

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Information provided below for "Corporate and Other" relates to (i) investment advisory, consulting and research services to the structured credit markets and (ii) corporate activities, including interest expense on debentures. Corporate and other revenue from unaffiliated customers consists primarily of income from investments. Inter-segment revenues consist of dividends received.

The following tables are a summary of financial information by reportable segment as of and for the years ended December 31, 2010, 2009 and 2008:

	Financial Guarantee	Financial Services	Corporate and Other	Intersegment Eliminations	Total Consolidated
2010:					
Revenues:					
Unaffiliated customers	$ 439,225	($ 16,936)	$ 11,846	$ —	$ 434,135
Intersegment	(133,761)	134,133	4,821	(5,193)	—
Total revenues	$ 305,464	$ 117,197	$ 16,667	($ 5,193)	$ 434,135
Income before income taxes and reorganization items:					
Unaffiliated customers	($ 540,767)	($ 47,520)	($ 132,734)	$ —	($ 721,021)
Intersegment	(142,205)	140,009	4,209	(2,013)	—
Total income before income taxes and reorganization items	($ 682,972)	$ 92,489	($ 128,525)	($ 2,013)	($ 721,021)
Total assets	$ 27,463,423	$ 1,508,770	$ 74,920	$ —	$ 29,047,113
2009:					
Revenues:					
Unaffiliated customers	$ 4,072,294	($ 206,007)	$ 34,154	$ —	$ 3,900,441
Intersegment	50,120	(49,297)	359	(1,182)	—
Total revenues	$ 4,122,414	($ 255,304)	$ 34,513	($ 1,182)	$ 3,900,441
Income before income taxes and reorganization items:					
Unaffiliated customers	$ 1,081,263	($ 252,726)	($ 103,632)	$ —	$ 724,905
Intersegment	42,090	(45,032)	2,942	—	—
Total income before income taxes and reorganization items	$ 1,123,353	($ 297,758)	($ 100,690)	$ —	$ 724,905
Total assets	$ 16,886,982	$ 1,949,419	$ 49,966	$ —	$ 18,886,367
2008:					
Revenues:					
Unaffiliated customers	($ 2,510,574)	($ 260,020)	$ 3,309	$ —	($ 2,767,285)
Intersegment	22,608	(23,919)	219,766	(218,455)	—
Total revenues	($ 2,487,966)	($ 283,939)	$ 223,075	($ 218,455)	($ 2,767,285)
Income before income taxes and reorganization items:					
Unaffiliated customers	($ 4,953,930)	($ 507,744)	($ 156,669)	$ —	($ 5,618,343)
Intersegment	37,160	(32,974)	214,374	(218,560)	—
Total income before income taxes and reorganization items	($ 4,916,770)	($ 540,718)	$ 57,705	($ 218,560)	($ 5,618,343)
Total assets	$ 10,971,320	$ 6,121,415	$ 166,938	$ —	$ 17,259,673

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The following tables summarize gross premiums written, net premiums earned and the net change in fair value of credit derivatives included in the Financial Guarantee segment, by location of risk for the years ended December 31, 2010, 2009 and 2008:

	Gross Premiums Written	Net Premiums Earned	Net change in fair value of credit derivatives
2010			
United States	($ 362,902)	$ 409,370	($ 60,609)
United Kingdom	(18,003)	72,472	16,301
Other international	(95,187)	64,133	104,491
Total	($ 476,092)	$ 545,975	$ 60,183
2009			
United States	($ 300,001)	$ 568,935	$ 3,454,919
United Kingdom	(59,540)	134,824	14,082
Other international	(189,305)	93,601	343,926
Total	($ 548,846)	$ 797,360	$ 3,812,927
2008			
United States	$ 332,605	$ 842,628	($ 3,625,550)
United Kingdom	79,315	69,773	(21,600)
Other international	124,955	110,356	(383,972)
Total	$ 536,875	$ 1,022,757	($ 4,031,122)

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19 QUARTERLY FINANCIAL INFORMATION (unaudited)

	First	Second	Third	Fourth	Full Year
2010:					
Gross premiums written	($ 149,400)	($ 41,735)	$ 53,200	($ 338,157)	($ 476,092)
Net premiums written	(130,784)	(43,413)	98,783	(290,315)	(365,729)
Net premiums earned	125,231	167,005	143,085	110,654	545,975
Financial guarantee net investment income	117,570	69,028	69,840	67,604	324,042
Financial guarantee total other-than-temporary impairment losses	(31,349)	(7,487)	(6,584)	(11,304)	(56,724)
Financial guarantee net realized investment gains	55,139	18,281	2,053	932	76,405
Net change in fair value of credit derivatives	(167,139)	202,181	9,412	15,729	60,183
(Loss) income on variable interest entities	(492,704)	(38,546)	26,377	(111,815)	(616,688)
Financial services investment income	9,268	8,861	8,425	7,575	34,129
Financial services other revenue	(60,966)	(82,513)	(78,368)	100,987	(120,860)
Financial services net other-than-temporary impairment losses recognized in earnings	—	(3,079)	—	—	(3,079)
Financial services net realized investment gains	1,410	65,832	464	5,168	72,874
Total revenues	(499,139)	381,170	361,156	190,948	434,135
Losses and loss expenses	89,152	323,326	165,396	141,488	719,362
Financial guarantee underwriting and operating expenses	50,496	58,931	41,200	47,796	198,423
Financial guarantee interest expense	—	6,886	27,492	27,829	62,207
Financial services interest expense from investment and payment agreements	5,434	4,357	3,951	3,102	16,844
Financial services other expenses	3,627	3,124	3,460	3,529	13,740
Corporate interest expenses	30,159	29,597	29,878	12,644	102,278
Reorganization items	—	—	—	31,980	31,980
(Loss) income before income taxes	(689,955)	(57,696)	76,084	(81,434)	(753,001)
Net (loss) income attributable to Ambac Financial Group, Inc.	(690,051)	(57,559)	76,006	(81,595)	(753,199)
Net (loss) income per share:					
Basic	($ 2.39)	($ 0.20)	$ 0.25	($ 0.27)	($ 2.56)
Diluted	($ 2.39)	($ 0.20)	$ 0.25	($ 0.27)	($ 2.56)
2009:					
Gross premiums written	($ 39,251)	($ 118,420)	($ 231,213)	($ 159,962)	($ 548,846)
Net premiums written	(10,216)	40,091	158,466	(127,164)	61,177
Net premiums earned	196,812	177,732	238,401	184,415	797,360
Financial guarantee net investment income	100,875	125,506	137,645	118,658	482,684
Financial guarantee total other-than-temporary impairment losses	(744,741)	(675,394)	(32,529)	(118,054)	(1,570,718)
Financial guarantee net realized investment (losses) gains	(1,551)	7,710	86,916	38,585	131,660
Net change in fair value of credit derivatives	1,545,850	963	2,132,904	133,210	3,812,927
Income (loss) on variable interest entities	11	33	41,096	(33,686)	7,454
Financial services investment income	20,884	19,004	18,454	12,404	70,746
Financial services other revenue	(24,419)	(14,638)	(222,455)	84,143	(177,369)
Financial services net other-than-temporary impairment losses recognized in earnings	(85,490)	(186,708)	(11,660)	—	(283,858)
Financial services net realized investment gains (losses)	116,546	(2,310)	28,109	42,129	184,474
Total revenues	1,126,749	(476,881)	2,686,826	563,747	3,900,441
Losses and loss expenses	739,830	1,230,847	459,213	385,423	2,815,313
Financial guarantee underwriting and operating expenses	56,612	48,842	28,012	42,252	175,718
Financial services interest expense from investment and payment agreements	12,789	8,311	6,433	6,598	34,131
Financial services other expenses	3,951	3,541	3,316	1,780	12,588
Corporate interest expenses	29,846	29,837	29,918	30,025	119,626
Net income (loss) before income taxes	279,700	(1,794,922)	2,153,959	86,168	724,905
Net (loss) income attributable to Ambac Financial Group, Inc.	(392,187)	(2,368,794)	2,188,257	558,111	(14,613)
Net (loss) income per share:					
Basic	($ 1.36)	($ 8.24)	$ 7.58	$ 1.93	($ 0.05)
Diluted	($ 1.36)	($ 8.24)	$ 7.58	$ 1.93	($ 0.05)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

a. Evaluation of Disclosure Controls and Procedures Ambac's management, with the participation of Ambac's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Ambac's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report.

Disclosure controls and procedures are the controls and other procedures of Ambac that are designed to ensure that information required to be disclosed by Ambac in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to Ambac's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

During the evaluation of disclosure controls and procedures as of December 31, 2010, a material weakness in internal control over financial reporting relating to the accuracy of inputs to a non-RMBS loss reserve model was identified. As a result of this material weakness described more fully below, Ambac's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2010, Ambac's disclosure controls and procedures were ineffective.

Notwithstanding the existence of this material weakness in internal control over financial reporting, Ambac believes that the consolidated financial statements in this Form 10-K fairly present, in all material respects, Ambac's consolidated financial condition, and consolidated results of its operations and cash flows as of the dates, and for the periods presented, in conformity with U.S. generally accepted accounting principles (GAAP).

b. Management's Report on Internal Control Over Financial Reporting Management of Ambac is responsible for establishing and maintaining adequate internal control over financial reporting. Ambac's internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer and effected by Ambac's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Ambac's consolidated financial statements for external reporting purposes in accordance with GAAP. Ambac's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of Ambac; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of Ambac; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Ambac's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2010, management conducted an assessment of the effectiveness of Ambac's internal control over financial reporting based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Ambac management has determined that, as of December 31, 2010, the following material weakness existed in our internal control over financial reporting. We did not maintain effective controls over the accuracy of inputs to a non-RMBS loss reserve model. When utilizing models, our standard control procedures include a review of inputs to and outputs from such models to ensure that the models are processing data as expected. In this case, however, one of the model inputs was not reviewed by Ambac management for appropriateness, which led to an incorrect calculation in our initial loss reserve estimate. This material error was detected by our independent registered public accounting firm and the model was re-run with the correct inputs. Although management has corrected these input errors prior to stating our loss reserves, this error was not detected by management's own internal control process.

As a result of the material weakness described above, Ambac management has concluded that, as of December 31, 2010, Ambac's internal control over financial reporting was not effective based on the criteria in *Internal Control – Integrated Framework* issued by the COSO.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, and such report is included in Part II. Item 8 of this Form 10-K.

c. Remediation of Material Weakness in Internal Control Over Financial Reporting Ambac's management has undertaken a review of controls and procedures over model utilization, particularly those models used for loss reserving, and expects to implement additional controls to address the material weakness discussed above.

Notwithstanding the evaluation and initiation of these remediation actions, the identified material weakness in our internal control over financial reporting will not be considered remediated until the new controls are fully implemented, in operation for a sufficient period of time, tested and concluded by management to be designed and operating effectively.

d. Changes in Internal Control Over Financial Reporting There were no changes in Ambac's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during Ambac's fiscal quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, Ambac's internal control over financial reporting.

Item 9B. Other Information.

None

Part III

Item 10. Directors and Executive Officers of the Registrant.

Information relating to the Registrant's executive officers and directors, including its Audit Committee and audit committee financial experts will be in the Registrant's definitive Proxy Statement for its 2010 Annual Meeting of Shareholders or an Amendment to this Form 10-K, either of which will be filed within 120 days of the end of our fiscal year ended December 31, 2010 (the "2011 Proxy Information") and is incorporated herein by reference. Information relating to the Registrant's Code of Business Conduct is included in Part I, Item 1 of this Form 10-K.

Item 11. Executive Compensation.

Information relating to the Registrant's executive officer and director compensation will be in the 2011 Proxy Information and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information relating to security ownership of certain beneficial owners of the Registrant's common stock and information relating to the security ownership of the Registrant's management will be in the 2011 Proxy Information t and is incorporated herein by reference.

Information relating to compensation plans under which equity securities of the Registrant are authorized for issuance will be in the 2011 Proxy Information and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Information relating to certain relationships and related transactions will be included in the 2011 Proxy Information and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

Information relating to principal accountant fees and services will be included in the 2011 Proxy Information and is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as a part of this report:

1. Financial Statements

The consolidated financial statements included in Item 8 above are filed as part of this Annual Report on Form 10-K.

2. Financial Statement Schedules

The financial statement schedules filed herein, which are the only schedules required to be filed, are as follows:

3. Exhibits

The following items are annexed as exhibits:

Exhibit Number	Description
3.01	Conformed Amended and Restated Certificate of Incorporation of Ambac Financial Group filed with the Secretary of State of the State of Delaware on July 11, 1997. (Filed as Exhibit 4.05 to Ambac Financial Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 and incorporated herein by reference.)
3.02	Conformed Copy of the Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Ambac Financial Group, Inc. filed with the Secretary of State of the State of Delaware on May 13, 1998. (Filed as Exhibit 4.04 to the Ambac Financial Group Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference.)
3.03	Conformed Copy of Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Ambac Financial Group, Inc. filed with the Secretary of State of the State of Delaware on May 28, 2004. (Filed as Exhibit 3.03 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.)
3.04	Conformed Copy of the Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Ambac Financial Group, Inc. filed with the Secretary of State of Delaware on June 20, 2008 (Filed as Exhibit 4.04 to Ambac Financial Group, Inc.'s Registration Statement on Form S-8 (Reg. No. 333-152479).)
3.05	By-laws of Ambac Financial Group, as amended through October 21, 2008 (filed as Exhibit 3.04 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed October 27, 2008 and incorporated herein by reference.)
3.06	Certificate of Designations of Series A Mandatory Convertible Participating Preferred Stock of Ambac Financial Group, Inc. (Filed as Exhibit 3.5 to Ambac Financial Group, Inc.'s Form 8-A/A relating to the Corporate Units dated March 12, 2008 and incorporated herein by reference.)
4.01	Definitive Engraved Stock Certificate representing shares of Common Stock. (Filed as Exhibit 4.01 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
4.02	Indenture, dated as of August 1, 1991, between Ambac Financial Group, Inc. and The Bank of New York (as Successor Trustee to The Chase Manhattan Bank (National Association)). (Filed as Exhibit 4.01 to Ambac Financial Group, Inc.'s Registration Statement on Form S-3 (Reg. No. 33-59290) and incorporated herein by reference.)
4.03	Indenture dated as of August 24, 2001 between Ambac Financial Group, Inc. and The Bank of New York (as Successor Trustee to the Chase Manhattan Bank). (Filed as Exhibit 4.1 to Ambac Financial Group, Inc.'s Amendment No. 2 to Registration Statement on Form S-3 (Reg. No. 333-57206) and incorporated herein by reference.)
4.04	Indenture dated as of April 22, 2003 between Ambac Financial Group, Inc. and The Bank of New York (as Successor Trustee to JP Morgan Chase Bank). (Filed as Exhibit 4.1 to Ambac Financial Group, Inc.'s Registration Statement on Form S-3 (Reg. No. 333-104758) and incorporated herein by reference.)
4.05	Indenture dated as of February 15, 2006 between Ambac Financial Group, Inc. and the Bank of New York as Trustee. (Filed as Exhibit 4.1 to Ambac Financial Group Inc.'s Shelf Registration on Form S-3 dated February 16, 2006 and incorporated herein by reference.)

Exhibit Number	Description
4.06	Junior Subordinated Indenture dated as of February 12, 2007 between Ambac Financial Group, Inc. and the Bank of New York as Trustee. (Filed as Exhibit 4.11 to Ambac Financial Group, Inc.'s Current Report on Form 8-K dated February 12, 2007 and incorporated herein by reference.)
4.07	First Supplemental Indenture dated as of February 7, 2007 between Ambac Financial Group, Inc. and the Bank of New York as Trustee. (Filed as Exhibit 1.01 to Ambac Financial Group, Inc.'s Current Report on Form 8-K dated February 12, 2007 and incorporated herein by reference.)
4.08	Supplemental Indenture, dated as of March 12, 2008, by and between Ambac Financial Group, Inc. and The Bank of New York, as Trustee. (Filed as Exhibit 4.1 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed March 12, 2008.)
4.09	Remarketing Agreement, dated as of March 12, 2008, by and among Ambac Financial Group, Inc., Credit Suisse Securities (USA) LLC, Citigroup Global Markets Inc., Banc of America Securities LLC, UBS Securities LLC and The Bank of New York, as purchase contract agent and attorney-in-fact of the holders of purchase contracts. (Filed as Exhibit 4.2 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed March 12, 2008.)
4.10	Purchase Contract Agreement, dated as of March 12, 2008, by and between Ambac Financial Group, Inc., and The Bank of New York, as purchase contract agent. (Filed as Exhibit 4.3 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed March 12, 2008.)
4.11	Pledge Agreement, dated as of March 12, 2008, by and among Ambac Financial Group, Inc., The Bank of New York, as collateral agent, custodial agent and securities intermediary, and The Bank of New York, as purchase contract agent. (Filed as Exhibit 4.4 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed March 12, 2008.)
4.12	Form of 9.38% Debenture due August 1, 2011. (Filed as Exhibit 4.02 to the Registration Statement on Form S-1 (Reg. No. 33-40385) and incorporated herein by reference.)
4.13	Form of 7.50% Debenture due May 1, 2023. (Filed as Exhibit 4.06 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference.)
4.14	Form of 5.95% Debenture due February 28, 2103 (Filed as Exhibit 2 to Ambac Financial Group, Inc.'s Registration Statement on Form 8-A dated February 26, 2003 and incorporated herein by reference.)
4.15	Form of 5.875% Debentures due March 24, 2103. (Filed as Exhibit 2 to Ambac Financial Group, Inc.'s Registration Statement on Form 8-A dated March 26, 2003 and incorporated herein by reference)
4.16	Form of 5.95% Debentures due December 5, 2035. (Filed as Exhibit 4.13 to Ambac Financial Group, Inc.'s Current Report on From 8-K dated November 29, 2005 and incorporated herein by reference.)
4.17	Form of 6.15% Directly Issued Subordinated Capital Securities due February 7, 2087. (Filed as Exhibit 4.13 to Ambac Financial Group Inc.'s Current Report on Form 8-K dated February 12, 2007 and incorporated herein by reference.)
4.18	Replacement Capital Covenant dated as of February 12, 2007 by Ambac Financial Group, Inc. and in favor of and for the benefit of each Covered Debt Holder. (Filed as Exhibit 4.14 to Ambac Financial Group, Inc.'s Current Report on Form 8-K dated February 12, 2007 and incorporated herein by reference.
4.19	Tax Benefit Preservation Plan, dated as of February 2, 2010, between Ambac Financial Group, Inc. and Mellon Investor Services LLC, as Rights Agent. (Filed as Exhibit 4.1 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed February 3, 2010 and incorporated herein by reference.)

Exhibit Number	Description
10.01*	Agreement dated as of December 31, 2009 by and between Ambac Financial Group, Inc. and Robert Shoback. (Filed as Exhibit 10.02 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.)
10.02*	Agreement dated as of March 5, 2010 by and between Ambac Financial Group, Inc. and Sean Leonard. (Filed as Exhibit 10.03 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.)
10.03	Employment Agreement dated as of June 24, 2009 between ABK Investment Advisors, Inc. (now known as RangeMark Investment Management, Inc.) and Robert S. Smith. (Filed as Exhibit 10.20 to Ambac Financial Group Inc.'s Quarterly Report on Form 10-Q for quarter ended June 30, 2009 and incorporated herein by reference.)
10.04*+	Directors' Compensation Table (effective as of February 1, 2011).
10.05*	Ambac Financial Group, Inc. 1997 Equity Plan, amended as of June 3, 2008. (Filed as Exhibit 4.07 to Ambac Financial Group, Inc.'s Registration Statement on Form S-8 (Reg. No. 333-152479) and incorporated herein by reference.)
10.06*	Form of Restricted Stock Unit Award. (Filed as Exhibit 10.05 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 and incorporated herein by reference.)
10.07*	Form of Stock Option Award. (Filed as Exhibit 10.06 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 and incorporated herein by reference.)
10.08*	Form of Notice of Award of Directors' Phantom Stock Units. (Filed as Exhibit 10.07 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.)
10.09	Ambac Financial Group, Inc. 1997 Non-Employee Directors Equity Plan. (As amended through January 27, 2009.) (Filed as Exhibit 10.08 to Ambac Financial Group Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.)
10.10*	Form of Notice of Award of Directors' Five Year Restricted Stock Units. (Filed as Exhibit 10.12 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.)
10.11*	Form of Notice of Award of Directors' Annual Stock Units. (Filed as Exhibit 10.13 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference.)
10.12*	Ambac Financial Group, Inc. 1997 Executive Incentive Plan, amended as of January 30, 2007. (Filed as Exhibit 10.43 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference.)
10.13+	Ambac Financial Group, Inc. Deferred Compensation Plan for Outside Directors, effective as of December 1, 1993 as amended through December 22, 2010.
10.14*	Ambac Financial Group, Inc. 1997 Equity Plan Senior Officer Deferred Compensation Sub-Plan of the 1997 Equity Plan effective as of October 26, 1999. (Filed as Exhibit 10.47 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2007 and incorporated herein by reference.)
10.15*	Form of Amended and Restated Management Retention Agreement for Executive Officers. (Filed as Exhibit 10.08 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 and incorporated herein by reference.)

Exhibit Number	Description
10.16*	Form of Retention Agreement (Filed as Exhibit 10.17 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010.)
10.17	Ambac Financial Group, Inc Severance Pay Plan (Applicable to termination on or after January 1, 2010) (Filed as Exhibit 10.26 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).
10.18	Lease Agreement, dated as of January 1, 1992 between South Ferry Building Company and Ambac Assurance Corporation. (Filed as Exhibit 10.36 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1992 and incorporated herein by reference.)
10.19	Amendment to Lease Agreement dated August 1, 1997 between South Ferry Building Company and Ambac Assurance Corporation. (Filed as Exhibit 10.20 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
10.20	Amendment to Lease Agreement dated December 23, 2002 between South Ferry Building Company and Ambac Assurance Corporation. (Filed as Exhibit 10.20 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference.)
10.21	Tax Settlement Agreement, dated as of March 30, 1993, among Citicorp, Citibank, N.A., Citicorp Financial Guarantee Holdings, Inc., Ambac Financial Group, Inc., Ambac Assurance Corporation, American Municipal Bond Holding Company and Health Care Investment Analysts, Inc. (Filed as Exhibit 10.02 to Ambac Financial Group, Inc.'s Registration Statement on Form S-3 (Registration No. 33-59290) and incorporated herein by reference.)
10.22	Management Services Agreement, dated as of March 24, 2010, by and between the Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation. (Filed as Exhibit 10.22 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.)
10.23	Cooperation Agreement, dated as of March 24, 2010, by and between the Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation. (Filed as Exhibit 10.23 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.)
10.24	Aggregate Excess of Loss Reinsurance Agreement, dated as of March 24, 2010, by and between the Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation. (Filed as Exhibit 10.24 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.)
10.25	Secured Note, dated as of March 24, 2010, from Ambac Assurance Corporation to the Segregated Account of Ambac Assurance Corporation. (Filed as Exhibit 10.25 to Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by reference.)
10.26	Tax Sharing agreement, dated as of July 18, 1991 by and among Ambac Financial Group, Inc. and certain of its affiliates. (Filed as Exhibit 10.1 to Ambac Financial Group, Inc.'s Quarterly Report of Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference.)
10.27	Amendment No. 1 to Tax Sharing Agreement, dated as of October 1, 1997, by and among Ambac Financial Group, Inc. and certain of its affiliates. (Filed as Exhibit 10.2 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference.)
10.28	Amendment No. 2 to Tax Sharing Agreement, dated as of November 19, 2009, by and among Ambac Financial Group, Inc. and certain of its affiliates. (Filed as Exhibit 10.4 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference.)

Exhibit Number	Description
10.29	Amendment No. 3 to Tax Sharing Agreement, dated as of June 7, 2010, by and among Ambac Financial Group, Inc. and certain of its affiliates. (Filed as Exhibit 10.4 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed June 8, 2010 and incorporated herein by reference.)
10.30	Settlement Agreement, dated as of June 30, 2010, by and among Ambac Assurance Corporation, Ambac Credit Products LLC, Ambac Financial Group, Inc. and the parties listed on Schedule A thereto (Filed as Exhibit 10.1 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 and incorporated herein by reference.)
10.31	Form of Commutation Agreement. (Filed as Exhibit 10.2 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed June 8, 2010 and incorporated herein by reference.)
10.32	Fiscal Agency Agreement, dated as of June 7, 2010, by and between Ambac Assurance Corporation and The Bank of New York Mellon, as fiscal agent. (Filed as Exhibit 10.2 to Ambac Financial Group, Inc.'s Current Report on Form 8-K filed June 8, 2010 and incorporated herein by reference.)
10.33+	Settlement, Discontinuance and Release Agreement, dated as of March 1, 2011, by and among One State Street, LLC, Ambac Financial Group, Inc., Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation.
10.34+	Lease, dated as of March 1, 2011, by and between One State Street, LLC and Ambac Assurance Corporation.
12.01+	Statement re computation of ratios.
21.01+	List of Subsidiaries of Ambac Financial Group, Inc.
23.01+	Consent of Independent Registered Public Accounting Firm.
24.01+	Power of Attorney for officers and directors of Ambac Financial Group, Inc. (included on the signature page of this report.)
31.1+	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) Promulgated under the Securities Exchange Act of 1934, as amended.
31.2+	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) Promulgated under the Securities Exchange Act of 1934, as amended.
32.1++	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2++	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Plan of Operations of the Segregated Account of Ambac Assurance Corporation (Filed as Exhibit 99.1 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and incorporated herein by reference.)
99.2+	Plan of Rehabilitation of the Segregated Account of Ambac Assurance Corporation.
99.3	Interim order pursuant to Sections 105(a), 362, and 541 of the bankruptcy code establishing procedures for certain transfers of equity interests in and claims against the debtor and scheduling a final hearing. (Filed as Exhibit 99.1 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 and incorporated herein by reference.)
99.4	Interim order pursuant to Sections 105(a), 362, 363, and 364 of the bankruptcy code and bankruptcy rules 6003 and 6004 (i) authorizing debtor to continue using existing cash management system and bank accounts and honor related prepetition obligations, (ii) extending debtor's time to comply with section 345(b) of the bankruptcy code, and (iii) scheduling a final hearing. (Filed as Exhibit 99.2 to Ambac Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 and incorporated herein by reference.)

\+ Filed herewith.
++ Furnished herewith

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
SCHEDULE I - SUMMARY OF INVESTMENTS
Other Than Investments in Related Parties
December 31, 2010
(Dollar Amounts in Thousands)

Type of Investment	Amortized Cost	Estimated Fair Value	Amount at which shown in the balance sheet
U.S. government obligations	$ 266,841	$ 272,275	$ 272,275
U.S. agency obligations	81,696	88,294	88,294
Municipal obligations	2,161,627	2,204,106	2,204,106
Residential mortgage-backed securities	1,246,793	1,506,809	1,506,809
Collateralized debt obligations	40,997	32,256	32,256
Other asset-backed securities	1,019,894	1,004,311	1,004,311
Corporate obligations	897,670	917,908	917,908
Foreign obligations	113,127	118,455	118,455
Short-term	708,797	708,797	708,797
Other	100	100	100
Total	$ 6,537,542	$ 6,853,311	$ 6,853,311

AMBAC FINANCIAL GROUP, INC.
DEBTOR-IN-POSSESSION
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (*PARENT COMPANY ONLY*)
Condensed Balance Sheets
December 31, 2010
(Dollar Amounts in Thousands Except Share Data)

	2010
ASSETS	
Assets:	
Investments:	
Fixed Income securities, at fair value (amortized cost of $22,500 in 2010)	$ 22,500
Short-term investments, at cost (approximates fair value)	40,917
Total Investments	63,417
Cash	74
Restricted cash	2,500
Investments in non-debtor subsidiaries	(378,566)
Other assets	10,522
Total assets	$ (302,053)
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Liabilities subject to compromise	$ 1,696,888
Accounts payable and other liabilities	9,595
Total liabilities	1,706,483
Stockholders' equity:	
Preferred stock, par value $0.01 per share; authorized shares—4,000,000; issued and outstanding shares—none	—
Common Stock, par value $0.01 per share; authorized shares—650,000,000 at December 31, 2010 and 2009; issued shares—308,016,764 at December 31, 2010 and 294,378,282 at December 31, 2009	3,080
Additional paid-in capital	2,187,485
Accumulated other comprehensive income	291,774
Accumulated deficit	(4,042,335)
Common Stock held in treasury at cost, 5,893,054 shares at December 31, 2010 and 6,780,093 shares at December 31, 2009	(448,540)
Total stockholders' deficit	(2,008,536)
Total liabilities and stockholders' deficit	$ (302,053)

AMBAC FINANCIAL GROUP, INC.
DEBTOR-IN-POSSESSION
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (*PARENT COMPANY ONLY*)
Condensed Statements of Operations
For the Year Ended December 31, 2010
(Dollar Amounts in Thousands)

	2010
Revenues:	
Dividend income	$ 2,013
Interest and other income	404
Net realized gains	10,172
Total revenues	12,589
Expenses:	
Interest expense	102,280
Operating expenses	33,723
Total expenses	136,003
Loss before reorganization items, income taxes and equity in undistributed net income (loss) of non-debtor subsidiaries	(123,414)
Reorganization items	31,980
Loss before income taxes and equity in undistributed net loss of non-debtor subsidiaries	(155,394)
Federal income tax benefit	(118,831)
Loss before equity in undistributed net loss of non-debtor subsidiaries	(36,563)
Equity in undistributed net loss of non-debtor subsidiaries	(716,636)
Net loss	$ (753,199)

Table of Contents

AMBAC FINANCIAL GROUP, INC.
DEBTOR-IN-POSSESSION
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (*PARENT COMPANY ONLY*)
Condensed Statements of Stockholders' Equity
For the Year Ended December 31, 2010
(Dollar Amounts in Thousands)

			Ambac Financial Group, Inc.					
	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Preferred Stock	Common Stock	Paid-in Capital	Common Stock Held in Treasury, at Cost
Balance at January 1, 2010	($2,287,785)	$ —	($3,878,015)	($ 24,827)	$ —	$ 2,944	$2,172,656	($ 560,543)
Comprehensive loss:								
Net loss	(753,199)	(753,199)	(753,199)					
Other comprehensive loss:								
Unrealized gains on performing securities, net of deferred income taxes of $10,495[1]	332,251	332,251		332,251				
Gain on derivative hedges, net of deferred income taxes of $755	1,403	1,403		1,403				
Gain on foreign currency translation, net of deferred income taxes of $1,528	(18,336)	(18,336)		(18,336)				
Other comprehensive gain	315,318	315,318						
Total comprehensive loss	(437,881)	(437,881)						
Adjustment to initially apply ASU 2009-17	705,046		702,042	3,004				
Dividends declared—subsidiary shares to noncontrolling interest	(817)		(817)					
Issuance of stock	9,618					136	9,482	
Stock-based compensation	(108,720)		(112,346)	(1,721)			5,347	
Cost of shares acquired	(342)							(342)
Shares issued under equity plans	112,345							112,345
Balance at December 31, 2010	($2,008,536)		($4,042,335)	$ 291,774	$ —	$ 3,080	$2,187,485	($ 448,540)

(1) Disclosure of reclassification amount:

	2010
Unrealized holding gains arising during period	$ 397,082
Less: reclassification adjustment for net gains	64,831
Net unrealized gains on securities	$ 332,251

AMBAC FINANCIAL GROUP, INC.
DEBTOR-IN-POSSESSION
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (*PARENT COMPANY ONLY*)
Condensed Statements of Cash Flows
For the Year Ended December 31, 2010
(Dollar Amounts in Thousands)

	2010
Cash flows from operating activities:	
Net loss	$ (753,199)
Adjustments to reconcile net loss to net cash used in operating activities:	
Equity in undistributed net loss of non-debtor subsidiaries	716,636
Reorganization items	31,980
Net realized gains	(10,172)
Increase in current income taxes payable/receivable	29,268
Decrease in deferred income taxes payable/receivable	(147,047)
Increase in other assets	(2,755)
Transfers to restricted cash	2,500
Other, net	22,782
Net cash used in operating activities	(110,007)
Cash flows from investing activities:	
Proceeds from matured bonds	1,985
Change in short-term investments	70,909
Return of capital and dividends from non-debtor subsidiary	36,500
Other, net	521
Net cash provided by investing activities	109,915
Net cash flow	(92)
Cash at January 1	166
Cash at December 31	$ 74
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest expense on debt	$ 61,568

Supplemental disclosure of noncash financing activities:
The company issued common stock upon the extinguishment of $20,311 in long-term debt.

AMBAC FINANCIAL GROUP, INC.
DEBTOR-IN-POSSESSION
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (*PARENT COMPANY ONLY*)
Note to Condensed Financial Information

The condensed financial information of Ambac Financial Group, Inc. for the year ended December 31, 2010 should be read in conjunction with the consolidated financial statements of Ambac Financial Group, Inc. and Subsidiaries and the notes thereto. Investments in subsidiaries are accounted for using the equity method of accounting.

On November 8, 2010 (the "Petition Date"), Ambac filed a voluntary petition for relief under Chapter 11 ("Bankruptcy Filing") of the Bankruptcy Code in the Bankruptcy Court. The Company will continue to operate in the ordinary course of business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

Entities operating in bankruptcy and expecting to reorganize under Chapter 11 of the Bankruptcy Code are subject to the additional accounting and financial reporting guidance in ASC Topic 852 "*Reorganizations*". While ASC Topic 852 provides specific guidance for certain matters, other portions of US GAAP continue to apply so long as the guidance does not conflict with ASC Topic 852. This accounting literature provides guidance for periods subsequent to a Chapter 11 filing, among other things, the presentation of liabilities that are and are not subject to compromise by the Bankruptcy Court proceedings, as well as the treatment of interest expense and presentation of costs associated with the proceedings.

In accordance with ASC Topic 852, debt discounts or premiums as well as debt issuance costs should be viewed as valuations of the related debt. When the debt has become an allowed claim and the allowed claim differs from the carrying amount of the debt, the recorded amount should be adjusted to the expected amount of the allowable claim. We have written-off premiums and discounts as well as debt issuance cost associated with unsecured debts that are subject to compromise at December 31, 2010. See below for Reorganization Items. For the purpose of presenting an entity's financial condition during a Chapter 11 reorganization, the financial statements for periods including and after filing the Chapter 11 petition shall distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business.

All of the Debtor's pre-petition debt is now in default due to the Bankruptcy Filing. As described below, the accompanying financial statements present the Debtor's pre-petition debt within Liabilities subject to compromise. In accordance with ASC Topic 852, following the Petition Date, we discontinued recording interest expense on debt classified as Liabilities subject to compromise, which amounted to $16,431. The stated contractual interest on debt classified as Liabilities subject to compromise amounted to $113,552 for the year ended December 31, 2010.

Liabilities Subject to Compromise

As required by ASC Topic 852, the amount of the Liabilities subject to compromise represents our estimate of known or potential pre-petition claims to be addressed in connection with the Bankruptcy. Such claims are subject to future adjustments. Adjustments may result from, among other things, negotiations with creditors, rejection of executory contracts and unexpired leases and orders of the Bankruptcy Court. The Liabilities subject to compromise in the Condensed Balance Sheet consists of the following at December 31, 2010:

Accrued interest payable	$	68,091
Accounts payable		4,951
Senior unsecured notes		1,222,189
Directly-issued Subordinated capital securities		400,000
Payable to non-debtor subsidiaries		1,657
Debtor's Liabilities subject to compromise	$	1,696,888

Reorganization Items

Professional advisory fees and other costs directly associated with our reorganization are reported separately as reorganization items pursuant to ASC Topic 852. Reorganization items also include adjustments to reflect the carrying value of certain pre-petition liabilities at their estimated allowable claim amounts. The debt valuation adjustments represent one-time charges. The reorganization items in the Condensed Statement of Operations for year ended December 31, 2010 consisted of the following items:

Professional fees	$	5,536
Debt valuation adjustments		26,444
Total reorganization items	$	31,980

Subsequent Event:

On March 1, 2011, Ambac entered into an agreement with the landlord to terminate the 1992 Lease for the office space at One State Street Plaza originally scheduled to expired in 2019 ("Settlement Agreement"). Among other things, the effective date of the Settlement Agreement is subject to the following: (i) the approval of the Settlement Agreement by the Rehabilitator, the Rehabilitation Court and the Board of Directors of Ambac and Ambac Assurance, the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the Bankruptcy Court and (ii) the approval of the new lease between Ambac Assurance and the landlord by the OCI and Board of Directors of Ambac Assurance. Ambac is expected to enter into a license agreement with Ambac Assurance to allow for Ambac to continue operating at One State Street Plaza.

Upon the effective date of the Settlement Agreement, among other things, the landlord shall be granted an allowed general unsecured claim in the Bankruptcy Court in the amount of approximately $14,302. Refer to the Subsequent Event section located in Note 1 to the Consolidated Financial Statements for more information.

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
SCHEDULE IV – REINSURANCE
December 31, 2010, 2009 and 2008
(Dollar Amounts in Thousands)

Insurance Premiums Written	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
Year ended December 31, 2008	$ 536,875	$ 53,162	$ 17,736	$ 483,713	3.67%
Year ended December 31, 2009	($ 548,846)	($ 610,023)	($ 110,333)	$ 61,177	n.m.
Year ended December 31, 2010	($ 476,092)	($ 110,363)	$ 178	($ 365,729)	n.m.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMBAC FINANCIAL GROUP, INC.
(Registrant)

Dated: March 16, 2011

By: /S/ DAVID TRICK
Name: **David Trick**
Title: **Senior Managing Director, Chief Financial Officer and Treasurer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ DAVID W. WALLIS	President and Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2011
/S/ MICHAEL A. CALLEN	Director	March 16, 2011
/S/ DAVID TRICK	Senior Managing Director and Chief Financial Officer (Principal Financial Officer)	March 16, 2011
/S/ ROBERT B. EISMAN	Senior Managing Director and Chief Accounting Officer (Principal Accounting Officer)	March 16, 2011
/S/ JILL M. CONSIDINE	Director	March 16, 2011
/S/ PAUL DEROSA	Director	March 16, 2011
/S/ PHILIP N. DUFF	Director	March 16, 2011
/S/ THOMAS C. THEOBALD	Director	March 16, 2011
/S/ LAURA S. UNGER	Director	March 16, 2011
/S/ HENRY D.G. WALLACE	Director	March 16, 2011

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INDEX TO EXHIBITS

Exhibit Number	Description
10.04*	Directors' Compensation Table (effective as of February 1, 2011).
10.13*	Ambac Financial Group, Inc. Deferred Compensation Plan for Outside Directors, effective as of December 1, 1993 as amended through December 22, 2010.
10.33	Settlement, Discontinuance and Release Agreement, dated as of March 1, 2011, by and among One State Street, LLC, Ambac Financial Group, Inc., Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation.
10.34	Lease, dated as of March 1, 2011, by and between One State Street, LLC and Ambac Assurance Corporation.
12.01	Statement re computation of ratios.
21.01	List of Subsidiaries of Ambac Financial Group, Inc.
23.01	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) Promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) Promulgated under the Securities Exchange Act of 1934, as amended.
32.1++	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2++	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Plan of Rehabilitation of the Segregated Account of Ambac Assurance Corporation.

* Management contract or compensatory plan, contract or arrangement required to be filed as an exhibit pursuant to item 15(c) of Form 10-K.

++ Furnished herewith.

AMBAC FINANCIAL GROUP, INC.
2011 DIRECTORS' COMPENSATION TABLE
(EFFECTIVE AS OF FEBRUARY 1, 2011)

TYPE OF FEE	AMOUNT	MANNER OF PAYMENT
Annual Fees/Awards		
• Annual fee for serving as a director of Ambac Financial Group, Inc. *(Parent)* and Ambac Assurance Corporation (*Subsidiary*)	**$ 90,000**	Payable monthly in arrears in cash
• Annual fee for chairing the Audit and Risk Assessment Committee of Ambac Financial Group, Inc.	**$ 20,000**	Payable monthly in arrears in cash
• Annual fee for chairing the Compensation Committee of Ambac Financial Group, Inc.	**$ 10,000**	Payable monthly in arrears in cash
• Annual fee for chairing the Governance Committee of Ambac Financial Group, Inc.	**$ 10,000**	Payable monthly in arrears in cash
• Annual fee for serving as Presiding Director of Ambac Financial Group, Inc.	**$ 25,000**	Payable monthly in arrears in cash
Non-Executive Chairman Retainer Fee		
• Annual fee for serving as Chairman of the Board of Ambac Financial Group and Ambac Assurance Corporation	**$ 150,000**	Payable monthly in arrears in cash
Meeting Fees		
• Annual or special meeting of Ambac Financial Group, Inc. stockholders	**$ 2,500**	Payable monthly in arrears in cash
• Ambac Financial Group, Inc. Board meeting	**$ 2,500**	Payable monthly in arrears in cash
• Ambac Assurance Corporation Board meeting	**$ 2,500**	Payable monthly in arrears in cash
• Standing or special committee meeting held in conjunction with a stockholder or board meeting	**$ 1,500**	Payable monthly in arrears in cash
• Standing or special committee meeting not held in conjunction with a stockholder or board meeting	**$ 1,500**	Payable monthly in arrears in cash
Travel and Related Expenses		
• Travel and related expenses incurred in attending a stockholder, board or committee meeting	**100% of expenses incurred**	Payable in cash promptly upon submission of receipts to the Ambac Financial Group, Inc. and Ambac Assurance Corporation

OTHER BENEFITS	DESCRIPTION
• Health and welfare	Each non-employee director is permitted to enroll (*without paying any premium*) in the Ambac Assurance Corporation medical and dental plan and is eligible to receive a $50,000 term life insurance policy (*without paying any premium*)

Exhibit 10.13

AMBAC FINANCIAL GROUP, INC.

DEFERRED COMPENSATION PLAN FOR OUTSIDE DIRECTORS

Effective as of December 1, 1993,
As Amended through December 22, 2010

AMBAC FINANCIAL GROUP, INC.

DEFERRED COMPENSATION PLAN FOR OUTSIDE DIRECTORS

1. Definitions

"*Account*" and "*Deferred Compensation Account*" are used interchangeably and mean the bookkeeping record established for each Participant. A Deferred Compensation Account is established only for purposes of measuring a Deferred Benefit and not to segregate assets or to identify assets that may be used to pay a Deferred Benefit.

"*Account Value*" means the amount reflected on the books and records of the Company as the value of a Participant's Deferred Compensation Account at any date of determination, as determined in accordance with this Plan.

"*Affiliate*" means any corporation that is in the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Company and any trade or business that is under common control with the Company (within the meaning of Section 414(c) of the Code) determined in accordance with the default provision set forth in Treasury Regulation §1.409A-1(h)(3).

"*Annual Fees*" means the cash portion of (i) any annual fee payable to an Outside Director for service on the Board, (ii) any other fee determined on an annual basis and payable for service on (as distinguished from attendance at meetings of), or for acting as chairperson of, any committee of, or as Presiding Director of the Board and (iii) any similar annual fee payable in respect of service on the board of directors of any Subsidiary or any committee of any such board of directors.

"*Beneficiary*" or "*Beneficiaries*" means a person or other entity designated by a Participant on a Beneficiary Designation Form to receive Deferred Benefit payments in the event of the Participant's death.

"*Beneficiary Designation Form*" means a document, in form approved by the Committee, to be used by Participants to name their respective Beneficiaries.

"*Board*" means the Board of Directors of the Company.

"*Cash Deferral Option*" means a Performance Option under which the Deferred Amount credited to a Participant's Deferred Compensation Account is carried as a cash balance to which interest equivalents are credited from time to time as provided in Section 6(c)(i).

"*Code*" means the Internal Revenue Code of 1986, as amended, and all applicable rulings and regulations thereunder.

"*Committee*" means the Governance Committee of the Board or any successor committee thereto.

"*Common Stock*" means the Company's common stock, par value $0.01 per share.

"*Company*" means Ambac Financial Group, Inc., a Delaware corporation.

"*Conversion Date*" has the meaning assigned to such term in Section 6(e).

"*Deemed Capital Gain Tax Charge*" has the meaning assigned to such term in Section 6(c).

"*Deferral Election*" means the election of a Participant, made in accordance with the terms and conditions of the Plan, to defer all or a portion of his/her Directors Fees for a Deferral Year.

"*Deferral Election Form*" means a document, in form approved by the Committee, pursuant to which a Participant makes a Deferral Election.

"*Deferral Year*" means the calendar year, starting with calendar year 1994. If an individual becomes eligible to participate in the Plan after the commencement of a Deferral Year, the Deferral Year for the individual shall be the remainder of such Deferral Year starting from the first day after the individual submits a Deferral Election for such Deferral Year. (By way of illustration, if an individual first becomes eligible to participate in the Plan on May 1, 2008 and submits a Deferral Election on May 15, 2008, the initial Deferral Year for such individual will be the period May 18, 2008 through December 31, 2008.)

"*Deferred Amount*" means the amount of Directors Fees, deferred by a Participant pursuant to a Deferral Election.

"*Deferred Benefit*" means the amount that will be paid on a deferred basis under the Plan to a Participant who has made a Deferral Election. A Participant's Deferred Benefit will equal the Account Value of his or her Deferred Compensation Account, calculated as provided herein.

"*Director Fees*" means the aggregate of a Participant's Annual Fees and Meeting Fees.

"*Election Date*" means December 31 of the year preceding the beginning of the Deferral Year, *provided, however*, that if an individual becomes an Outside Director for the first time during a Deferral Year and does not have any rights or interests under any other deferred compensation plan, program or arrangement of the Company that are

required to be aggregated with rights under this Plan for purposes of Section 409A, that Outside Director's Election Date for such Deferral Year is the thirtieth (30th) day following the date he/she becomes an Outside Director.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*Fair Market Value*" of a share of Common Stock means the closing price of a share of Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, or such other national securities exchange as may be designated by the Committee, or in the event that the Common Stock is not listed for trading on a national securities exchange but is quoted on an automated quotation system, on such automated quotation system, in any such case on the valuation date (or if there were no sales on the valuation date, the closing price as reported on such composite tape or automated quotation system for the most recent day during which a sale occurred).

"*Meeting Fees*" means (i) any meeting fee payable in respect of attendance at or participation in meetings of the Board or any committee of the Board or any meeting of the stockholders of the Company and (ii) any similar meeting fee payable in respect of service on the board of directors of any Subsidiary or any committee of any such board of directors.

"*Outside Director*" means a duly-elected member of the Board who is not an employee of the Company or any Subsidiary.

"*Participant*" means an Outside Director who participates in the Plan pursuant to Section 4.

"*Performance Option*" means the performance options made available from time to time for selection by Participants to measure the return (positive or negative) to be attributed to Deferred Amounts.

"*Phantom Stock Option*" means a Performance Option under which a Deferred Amount is credited to a Participant's Deferred Compensation Account as a number of Phantom Stock Units.

"*Phantom Stock Unit*" means a bookkeeping unit representing one share of Common Stock.

"*Section 409A*" means Section 409A of Code and the applicable rulings and regulations promulgated thereunder.

"*Subsidiary*" means any corporation 50 percent or more of the voting stock of which is owned directly or indirectly by the Company.

2. Purpose

The purpose of the Plan is to provide the Company's Outside Directors an opportunity to defer payment of all or part of their Directors Fees in accordance with the terms and conditions set forth herein.

3. Administration

(a) *Authority*. The Committee will be responsible for administering the Plan. The Committee will have authority to adopt such rules as it may deem appropriate to carry out the purposes of the Plan, and shall have authority to interpret and construe the provisions of the Plan and any agreements under the Plan and to make determinations pursuant to any Plan provision. Each interpretation, determination or other action made or taken by the Committee pursuant to the Plan shall be final and binding on all persons. No member of the Committee shall be liable for any action or determination made in good faith, and the members of the Committee shall be entitled to indemnification and reimbursement in the manner provided in the Company's Amended and Restated Certificate of Incorporation as it may be amended from time to time.

(b) *Delegation*. The Committee may designate a committee composed of one or more members of the Board to carry out its responsibilities under such conditions as it may set.

4. Eligibility

(a) *Directors*. Any Outside Director may participate in the Plan.

(b) *Becoming a Participant*. An Outside Director becomes a Participant for any Deferral Year by filing a Deferral Election Form according to Section 5 of the Plan.

5. Deferral Elections

(a) *General Provisions.* A Participant may elect to defer all or a specified percentage (in multiples of 10 percent) of Directors Fees for a Deferral Year, in the manner provided in this Section 5. A Participant's Deferred Benefit is at all times nonforfeitable. Notwithstanding the foregoing, effective December 22, 2010, no further deferral elections will be permitted under the Plan.

(b) *Procedures for Making a Deferral Election*. Before the Election Date applicable to a Deferral Year, each Outside Director will be provided with a Deferral Election Form and a Beneficiary Designation Form. In order for an Outside Director to participate in the Plan for a given Deferral Year, the Outside Director must complete and deliver a Deferral Election Form to the Secretary of the Board or the Chief Administrative

Officer of the Company on or prior to the close of business on the applicable Election Date, using the procedures established by the Company (which may include or require electronic submission of forms). An Outside Director electing to participate in the Plan for a given Deferral Year shall indicate on his/her Deferral Election Form:

(i) the percentage of Director Fees for the applicable Deferral Year to be deferred;

(ii) the allocation of the Deferred Amount among the several Performance Options then available to Participants, in accordance with the terms and conditions of Section 6(b);

(iii) the Participant's election either to have distribution of his/her Deferred Benefit commence following termination of service as a member of the Board or to have such distribution commence as of a date specified on such Form, *provided, however*, that any such election concerning the commencement of distribution of a Participant's Deferred Benefit shall be subject to the terms and conditions of Section 6(e); and

(iv) the Participant's election either to have distribution of his/her Deferred Benefit paid in a single lump sum or in a series of annual or quarterly installments, *provided, however*, that if the Participant elects to have his/her Deferred Benefit paid in a series of installments, the Participant shall also specify the period, not to exceed five years, over which such installments shall be paid.

Deferral Elections may be amended or revoked by modifying or canceling the applicable Deferral Election Form and delivering such modification or cancellation to the Secretary of the Board or the Chief Administrative Officer of the Company by the close of business on the applicable Election Date. As of the close of business on the applicable Election Date, all Deferral Elections shall be irrevocable.

(c) *Effect of No Deferral Election.* An Outside Director who does not submit a completed and signed Deferral Election Form to the Secretary of the Board or the Chief Administrative Officer of the Company before the relevant Election Date is not a Participant for the Deferral Year and may not defer his/her Directors Fee for the Deferral Year.

(d) *Revocation of Deferral Election.*

(i) A Participant may revoke a Deferral Election applicable to a Deferral Year, but only pursuant to the procedure described in subsection (ii) below. Any purported revocation that does not comply with subsection (ii) below will not be given effect.

(ii) To be effective, a revocation must be in writing and signed by the Participant, must express the Participant's intention to revoke his Deferral Election

applicable to that Deferral Year, and must be delivered to the Secretary of the Board or the Chief Administrative Officer of the Company before the close of business on the Election Date applicable to such Deferral Year. For example, to revoke a Deferral Election relating to calendar year 2008, a written revocation of such Deferral Election must be delivered before the close of business on December 31, 2007.

6. **Deferred Compensation Accounts; Distributions**

(a) *Deferred Compensation Accounts*.

(i) *Establishment of Accounts*. A Participant's deferrals will be credited to a Deferred Compensation Account set up for that Participant. Each Deferred Compensation Account will be credited with Deferred Amounts, as provided in Section 6(b), and credited (or charged) with earnings (or loss) as provided in Section 6(c).

(ii) *Crediting of Deferred Amounts*. A Participant's deferrals will be credited on a quarterly basis to the Participant's Deferred Compensation Account as follows: (x) for periods up to and including the third quarter of 2008, Deferred Compensation Accounts will be credited as of the dividend payment date following the relevant calendar quarter, and (y) for periods beginning with the fourth quarter of 2008, Deferred Compensation Accounts will be credited as of the first business day following the end of the relevant calendar quarter (except that with respect to the fourth quarter of 2008, Deferred Compensation Accounts will be credited as of the first business day of the second quarter of 2008), with the amount to be credited equal in all cases to (A) 25% of the relevant Participant's Annual Fees deferred for the Deferral Year in which such quarter occurs and (B) 100% of deferred Meeting Fees earned during such quarter.

(b) *Allocations Among Performance Options*. A Participant shall have the right to allocate the Deferred Amount for any Deferral Year, in minimum allocations of at least 10%, among one or more Performance Options made available from time to time under the Plan. The Performance Options generally available to Participants shall include:

(i) A Cash Deferral Option;

(ii) A Phantom Stock Option; and

(iii) Such other Performance Options as the Committee may make available to Participants from time to time. Deemed allocations among the available Performance Options shall be made exclusively for the purpose of determining the Account Value from time to time, and the Company will have no obligation to invest amounts corresponding to Deferred Amounts in investment vehicles corresponding to the Performance Options selected by the Participant.

Participants may change the deemed allocation of their Account Value among the Performance Options then available under the Plan in accordance with procedures established by the Committee from time to time; *provided, however*, that, unless otherwise determined by the Committee, no such reallocation shall be made more frequently than quarterly; and *provided further* that no such reallocation may result in less than 10% of the Account Value being deemed allocated to any single Performance Option.

(c) *Determination of Account Value*.

The Company will from time to time calculate the Account Value based on the Participant's Deferred Amounts and his/her then-effective elections with respect to deemed allocation of the Account among the available Performance Options. Such calculation will be based on the best information available to the Company as of the date of determination, which information may include estimates. In addition, the following shall apply:

(i) Amounts allocated to the Cash Deferral Option (including amounts resulting from the conversion of Phantom Stock Units as provided in Section 6(c)(ii)), will be credited with interest equivalents as of the first business day of each calendar quarter based upon the average daily balance credited to such Cash Option (which balance shall include any earnings on amounts so credited pursuant to this Section 6(c)(i)) during the preceding quarter). Interest equivalents will be calculated using the 90-day commercial paper composite rate published by the Federal Reserve Bank as of the last business day of such preceding calendar quarter, or such other rate as the Committee may designate from time to time by resolution.

(ii) The number of Phantom Stock Units credited to a Participant's Deferred Compensation Account (including fractions of Phantom Stock Units) will be determined by dividing (A) the amount of Director Fees deferred by (B) the Fair Market Value of a share of Common Stock on the date of crediting.

(iii) If the Company pays any cash or other dividend or makes any other distribution in respect of the Common Stock, each Phantom Stock Unit credited to the Deferred Compensation Account of a Participant will be credited with an additional number of Phantom Stock Units (including fractions thereof) determined by dividing (A) the amount of cash, or the value (as determined by the Committee) of any securities or other property, paid or distributed in respect of one outstanding share of Common Stock by (B) the Fair Market Value of a share of Common Stock on the date of such payment or distribution. Such credit shall be made effective as of the date of the dividend or other distribution in respect of the Common Stock.

(iv) In determining the value attributable to that portion of a Participant's Deferred Compensation Account allocated to Performance Options other than the Cash Deferral Option and the Phantom Share Option, the Company will track the rate of return (positive or negative) over the relevant measurement

period of the investment fund, index or other vehicle by reference to which the Performance Option is defined.

(v) Upon any reallocation of all or any portion of a Participant's Deferred Compensation Account from one Performance Option to any other Performance Option, the Company may charge such Account with an amount not to exceed 5% of the amount so reallocated. The amount of the charge shall be determined by the Company in its discretion and may vary depending on the Performance Options from which and into which the Account is being reallocated.

(vi) In addition, the returns attributable to a Deferred Compensation Account shall be subject to the following adjustments:

(A) Returns attributable to any Performance Option *other than* the Phantom Stock Option shall be reduced to reflect the amount that a corporate taxpayer in the highest tax bracket for federal corporate tax purposes would pay on the interests, dividends, distribution or similar items of income that it would receive if it had invested in the commercial paper, investment fund, index or other vehicle by reference to which the Performance Option is defined for the period of time, and in the same amounts, that the relevant Deferred Compensation Account was deemed allocated to such Performance Option.

(B) Upon any change in the deemed allocation of a Participant's Deferred Compensation Account among the Performance Options then available, the Account shall be charged with the amount (if any) (the "*Deemed Capital Gain Tax Charge*") of capital gains tax that a corporate taxpayer in the highest bracket for federal corporate tax purposes would pay upon the amount of gain it would recognize had it invested in the investment fund, index or other vehicle by reference to which the Performance Option is defined for the period of time, and in the same amounts, that the relevant Deferred Compensation Account was deemed allocated to such Performance Option. No credit shall be made to an Account for any loss that would be recognized by a corporate taxpayer that had invested in such Performance Option for such period and in such amount.

The amount of the adjustments described in this subparagraph (vi) shall be determined by the Company in its discretion. The Company shall use its best efforts to apply adjustments on a consistent basis to all Participants who invest in any particular Performance Option.

(d) *Manner of Payment of Deferred Benefit*. All payments of Deferred Benefits under the Plan will be in cash. The Company shall pay a Participant's Deferred Benefit for a given Deferral Year either in a single lump sum or in a series of installments, as elected by the Participant pursuant to Section 5(b). If a Participant has elected

installment payments, the amount of each installment shall be determined by dividing the balance credited to the Participant's Account in respect of the relevant Deferral Year by the number of installments remaining to be made (including the installment with respect to which the calculation is made). The unpaid portion of a Participant's Deferred Benefit shall continue to be credited with earnings as provided in Section 6(c) until paid.

(e) *Commencement of Payment of Deferred Benefit*. For purposes of the Plan a "*Conversion Date*" means the earliest to occur of:

(i) termination of service as a member of the Board or such later date as constitutes the Participant's separation from service as a director or independent contractor with the Company and its Affiliates for purposes of Section 409A determined using the default provisions set forth in Treasury Regulation §1.409A(1)(h) or the successor regulation thereto;

(ii) the date specified in the Deferral Election Form executed by the Participant; or

(iii) the Participant's death.

Except as provided in Section 6(f), a Participant's Deferred Benefit shall be paid (if payable in a lump sum), or commence to be paid (if payable in a series of installments), to the Participant as soon as practicable (but in no event more than 30 days) after the Conversion Date based on the Account Value determined in accordance with Section 6(a) as of the Conversion Date specified in clause (i), (ii) or (iii) above, as applicable. If there are any Annual Fees or Meeting Fees that are subject to a Deferral Election and which, as of the Conversion Date related to the Deferral Election, have been earned by the Participant but not yet been credited to the Participant's Deferred Compensation Account, such Annual Fees or Meeting Fees will be paid to the Participant simultaneously with the payment (or the first installment payment) of the Participant's Deferred Benefit.

Notwithstanding the preceding sentence, if as of the Conversion Date, the Participant is a Specified Employee (as defined below) and the Participant has elected to have distribution of his/her Deferred Benefit commence following termination of service as a member of the Board, then the following shall apply:

1) No payments of the Participant's Deferred Benefit shall be made during the six months following the Conversion Date (except in the case of the Participant's earlier death); and

2) On the first business day of the first month following the month in which occurs the six-month anniversary of the Conversion Date or, if earlier, the Participant's death, the Company shall make a one-time, lump-sum cash payment to the Participant (or his/her beneficiary or estate as applicable) in an amount equal to the amounts otherwise payable to the Participant during the period described in clause 1 above, plus interest on such amount at the applicable federal rate for

instruments of less than one year.

For purposes of this Agreement, "*Specified Employee*" shall mean each officer of the Company and its affiliates, up to a maximum of fifty, having annual compensation in excess of $145,000 (as adjusted), a five percent owner of the Company and a one percent owner of the Company having annual compensation in from the Company and its affiliates in excess of $150,000, in each case determined pursuant to Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the regulations thereunder and disregarding Section 416(i)(5) of the Code) any time during the 12-month period ending on December 31st of a calendar year (based on taxable wages as reported in Box 1 of Form W-2 for the 12-month period ending on December 31st of such calendar year plus amounts that would be included in wages for such 12-month period but for pre-tax deferrals to a tax-favored retirement plan or cafeteria plan or for qualified transportation benefits) who performed services for the Company and its affiliates at any time during the 12-month period ending on December 31st of such calendar year. A Participant shall be treated as a "Specified Employee" for the 12-month period beginning on March 1st of the calendar year following the calendar year for which the determination pursuant to this definition is made.

(f) *Death*. In the event of a Participant's death, the Participant's entire Deferred Benefit (including any unpaid portion thereof corresponding to installments not yet paid at the time of death), to the extent not distributed earlier pursuant to Section 6(e), will be distributed in a lump sum to the Participant's Beneficiary or Beneficiaries (or, in the absence of any Beneficiary, to the Participant's estate) on a date, selected by the Committee, no more than 90 days after the Participant's date of death.

(g) *Statements*. The Company will furnish each Participant with a statement setting forth the value of the Participant's Deferred Compensation Account as of the end of each calendar year and all credits to and payments from the Deferred Compensation Account during such year. Such statement will be furnished no later than 60 days after the end of each calendar year.

7. Designation of Beneficiary

(a) *Beneficiary Designations*. Each Participant may designate a Beneficiary to receive any Deferred Benefit due under the Plan upon the Participant's death by executing a Beneficiary Designation Form. A Beneficiary designation is not binding on the Company until the Secretary of the Board or the Chief Administrative Officer of the Company receives the Beneficiary Designation Form. If no designation is made or no designated Beneficiary is alive (or in the case of an entity designated as a Beneficiary, in existence) at the time of the Participant's death, payments due under the Plan will be made to the Participant's estate.

(b) *Change of Beneficiary Designation*. A Participant may change an earlier Beneficiary designation by executing a later Beneficiary Designation Form. The execution of a Beneficiary Designation Form revokes and rescinds any prior Beneficiary

Designation Form.

8. Amendments

(a) *General Power of Committee*. Subject to Section 8(b), the Plan may be altered, amended, suspended, or terminated at any time by the Committee in its sole discretion.

(b) *When Participants' Consents Required.* Except for a termination of the Plan caused by the Committee's determination that the laws upon which the Plan is based have changed in a manner that negates the Plan's objectives, the Committee may not alter, amend, suspend, or terminate the Plan without the consent of any Participant to the extent that such action would result in the distribution to such Participant of amounts then credited to his/her Deferred Compensation Account in any manner other than as provided in the Plan or could reasonably be expected to result in the immediate taxation to such Participant of Deferred Benefits or to subject a Participant to interest or additional tax under Section 409A.

9. Company's Obligation

This Plan is unfunded. A Deferred Compensation Account represents at all times an unfunded and unsecured contractual obligation of the Company. Each Participant or Beneficiary will be an unsecured creditor of the Company. Amounts payable under the Plan will be satisfied solely out of the general assets of the Company subject to the claims of the Company's creditors. No Participant, Beneficiary or any other person shall have any interest in any fund or in any specific asset of the Company by reason of any amount credited to him/her hereunder, nor shall any Participant, Beneficiary or any other person have any right to receive any distribution under the Plan except as, and to the extent, expressly provided in the Plan. The Company will not segregate any funds or assets for Deferred Benefits or issue any notes or security for the payment of any Deferred Benefits. Any reserve or other asset that the Company may establish or acquire to assure itself of the funds to provide benefits under the Plan shall not serve in any way as security to any Participant, Beneficiary or other person for the performance of the Company under the Plan.

10. No Control by Participant

A Participant shall have no control over his Deferred Compensation Account except for (i) designating initial allocation among Performance Options and subsequently revising such allocation, in all cases to the extent permitted by the Plan, (ii) designating the date and form of distribution of benefits on his Deferral Election Form (which designation shall be subject to the terms and conditions of the Plan, including without limitation Section 6) and (iii) designating his or her Beneficiary on a Beneficiary Designation Form.

11. Restrictions on Transfer

The Company shall pay all amounts payable under the Plan only to the Participant or Beneficiary designated under the Plan to receive such amounts. Neither a Participant nor his Beneficiary shall have any right to anticipate, alienate, sell, transfer, assign, pledge, encumber or change any benefits to which he may become entitled under the Plan, and any attempt to do so shall be void. A Deferred Benefit shall not be subject to attachment, execution by levy, garnishment, or other legal or equitable process for a Participant's or Beneficiary's debts or other obligations.

13. Waivers

The waiver of a breach of any provision in the Plan shall not operate as and may not be construed as a waiver of any later breach.

14. Governing Law

The Plan shall be construed in accordance with and governed by the laws of the State of New York.

15. Effective Date

The Plan became as of December 1, 1993 and Deferral Elections could be made beginning with Eligible Compensation earned during the year beginning January 1, 1994.

16. Construction

The headings in the Plan have been inserted for convenience of reference only and are to be ignored in any construction of the Plan's provisions. If a provision of the Plan is not valid or enforceable, that fact shall in no way affect the validity or enforceability of any other Provision. Use of one gender includes the other, and the singular and plural

include each other. The provisions of the Plan are binding on the Company and its respective successors or assigns, and on the Participants, their Beneficiaries, heirs, and personal representatives.

17. Tax Withholding

The Company shall have the right, in connection with any Deferral Election, (i) to require the Participant to remit to the Company an amount sufficient to satisfy any Federal, state or local tax withholding requirements, (ii) to withhold an amount necessary to satisfy such requirements from other cash compensation owed to the Participant or (iii) to reduce the amount of Director Fees deferred pursuant to the Plan in order to ensure that all such requirements are satisfied. The Company shall also have the right to deduct from all cash payments made pursuant to the Plan any Federal, state or local taxes required to be withheld with respect to such payments.

18. No Right to Reelection

Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any of its members for reelection by the Company's stockholders, nor confer upon any Outside Director the right to remain a member of the Board for any period of time, or at any particular rate of compensation.

19. No Stockholder Rights

The crediting of Phantom Stock Units to a Participant's Deferred Compensation Account shall not confer on the Participant any rights as a stockholder of the Company, nor shall such Units confer on any Participant any right to receive stock of the Company in settlement thereof.

20. Adjustment of and Changes in Shares

In the event of any merger, consolidation, recapitalization, reclassification, stock dividend, special cash dividend or other change in corporate structure affecting the Common Stock, the Committee shall make such adjustments, if any, as it deems appropriate in the number of Phantom Stock Units credited to a Participant's Deferred Compensation Account. The foregoing adjustments shall be decided by the Committee in its discretion.

21. About the Plan

The Deferred Compensation Plan for Outside Directors and Senior Officers was established as of December 1, 1993 by Ambac Inc. In 1997 Ambac Inc. became Ambac Financial Group, Inc. The Plan was amended on October 28, 1998 in order to offer its participants more investment options.

The Plan was amended and restated, effective October 26, 1999 to provide that this Plan be available only to Outside Directors. Senior Officers no longer participate in this Plan as a new deferred plan has been adopted for them.

The Plan was amended and restated, effective October 22, 2007 to take account of Section 409A so that participation in the Plan will not cause an Outside Director to recognize income for United States federal income tax purposes prior to the time of payment of his/her Deferred Benefit or to incur interest or additional tax under Section 409A. Additional amendments to the Plan were approved by the Board on May 6, 2008.

Exhibit 10.33

EXECUTION COPY

SETTLEMENT, DISCONTINUANCE AND RELEASE AGREEMENT

THIS **SETTLEMENT, DISCONTINUANCE AND RELEASE AGREEMENT** (this "Agreement") is made as of March 1, 2011 by and among ONE STATE STREET, LLC ("OSS"), AMBAC FINANCIAL GROUP, INC., a Delaware corporation, as debtor in possession ("AFG"), AMBAC ASSURANCE CORPORATION, a Wisconsin insurance company ("Ambac"), and the SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION (the "Segregated Account"; and together with AFG and Ambac, collectively the "Ambac Parties" and each individually an "Ambac Party"). OSS and the Ambac Parties are also referred to herein each as a "Party" and collectively as the "Parties."

RECITALS

A. OSS (as assignee of South Ferry Building Company) and AFG (as assignee of Ambac) are parties to that certain Lease dated as of January 1, 1992 (as amended or modified, the "Headquarters Lease") with respect to the premises currently occupied by Ambac and AFG personnel at One State Street, New York, New York (the "Existing Premises"), and OSS has asserted, and Ambac has denied, that Ambac is a primary obligor under the Headquarters Lease (the "Contingent Disputed Liabilities").

B. On March 24, 2010, Ambac established the Segregated Account under Wisconsin insurance law and the Circuit Court of Dane County, Wisconsin (the "Rehabilitation Court") entered an Order for Rehabilitation (the "Rehabilitation Order") which, *inter alia*, (i) placed the Segregated Account into rehabilitation (the "Rehabilitation Proceeding") and (ii) authorized the Wisconsin Commissioner of Insurance, as Rehabilitator (the "Rehabilitator"), to administer the Segregated Account, pursuant to the Wisconsin Insurers Rehabilitation and Liquidation Act (Chapter 645 of the Wisconsin Statutes).

C. The liabilities of Ambac allocated to the Segregated Account include the Contingent Disputed Liabilities.

D. On March 24, 2010, the Rehabilitation Court entered an Order for Temporary Injunctive Relief (the "TRO") which, among other things, provided that the Rehabilitation Court would have exclusive jurisdiction over, among other things, matters relating to the Rehabilitation Proceeding and the Segregated Account, including any Contingent Disputed Liabilities.

E. On November 8, 2010 (the "Petition Date"), AFG filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the "Bankruptcy Code"), which case (the "Bankruptcy Case") is currently pending in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court").

F. OSS has challenged in the Rehabilitation Court the allocation of the Contingent Disputed Liabilities to the Segregated Account, the effectiveness as to it of the TRO, and the jurisdiction of the Rehabilitation Court over it and the Contingent Disputed Liabilities, and has objected to the confirmation of the Plan of Rehabilitation of the Segregated Account filed by the Rehabilitator on October 8, 2010 (as amended or otherwise modified through the date hereof, the "Plan of Rehabilitation") with the Rehabilitation Court (case no. 10 CV 1576), and Ambac, the Wisconsin Office of the Commissioner of Insurance ("OCI") and the Rehabilitator have opposed the challenges and objections from OSS. Certain of such challenges and objections are subject to a Stipulation among counsel for Ambac, OCI, the Rehabilitator and OSS dated December 9, 2010 and filed with the Wisconsin Court of Appeals on such date.

G. The Parties desire to resolve their differences without further resort to litigation and without admission of any fault, liability or determination as to proper court jurisdiction with respect to the above-referenced matters and, as a result of the Parties' good faith and arm's length negotiations, have agreed to the settlement set forth herein.

AGREEMENT

In consideration of the foregoing, the Parties agree as follows:

1. General Releases and Other Agreements

(a) As of the Effective Date (as defined below), but subject to subsection 1(d) below, OSS, for good and valuable consideration, the sufficiency of which is hereby acknowledged, hereby forever releases each of the Ambac Parties and each of the respective parents, subsidiaries, officers, directors, employees, attorneys, successors, transferees, assigns, subrogees, representatives and agents of the Ambac Parties, whether or not such party is subject to the Bankruptcy Case or Rehabilitation Proceeding (collectively, the "Released Ambac Parties" and each individually a "Released Ambac Party"), from any and all claims and including, without limitation, as defined in section 101(5) of the Bankruptcy Code, defaults, obligations, rights, damages, causes of action, demands, suits, judgments, remedies, setoffs, recoupments, defenses, debts, and liabilities of any kind or nature whatsoever, under any legal theory, including under contract, tort, or otherwise, whether at law, in equity, or otherwise, whether known or unknown, matured or unmatured, fixed or contingent, liquidated or unliquidated, disputed or undisputed, asserted or unasserted, suspected or unsuspected, foreseen or unforeseen, direct or indirect, choate or inchoate, now existing or hereafter arising (each a "Claim" or collectively, "Claims") that OSS may now have, have ever had or may in the future have, against a Released Ambac Party, as a result of any transactions or proceedings occurring, actions taken or omissions to act occurring on or prior to the Effective Date involving a Released Ambac Party, including, but not limited to, under or in relation to the Headquarters Lease, the Rehabilitation Proceeding or the Bankruptcy Case, but excluding the (x) Committee Claim (as defined in Section 2 hereof), the OSS Administrative Claim (as defined in Section 2 hereof), the Allowed Claim (as defined in Section 4 hereof) and any Claims against AFG under the Headquarters Lease for contribution and indemnification arising out of third-party claims against OSS, but solely to the extent such Claims for contribution and indemnification (i) arise before the Petition Date and are recoverable solely from the proceeds of insurance and not from AFG or (ii) arise after the Petition Date and before the Effective Date and would have constituted allowed claims in the Bankruptcy Case if AFG had rejected the Headquarters Lease (such Claims for contribution and indemnification being referred to as "Indemnified OSS Claims").

(b) As of the Effective Date, but subject to subsection 1(d) below, the Ambac Parties, for good and valuable consideration, the sufficiency of which is hereby acknowledged, hereby forever release OSS and each of its parents, subsidiaries, officers, directors, employees, attorneys, successors, transferees, assigns, subrogees, representatives and agents (collectively, the "Released OSS Parties" and each individually a "Released OSS Party"), from any and all Claims, that an Ambac Party may now have, have ever had or may in the future have, against a Released OSS Party as a result of any transactions or proceedings occurring, actions taken or omissions to act occurring on or prior to the Effective Date involving a Released OSS Party, including, but not limited to, under or in relation to the Headquarters Lease, the Rehabilitation Proceeding or the Bankruptcy Case, but excluding any Claims against OSS or any other Person for contribution and indemnification arising from or in connection with any Indemnified OSS Claims.

(c) The Parties intend that the obligations incurred under this Agreement, consideration for which is expressly acknowledged, will be in full and final disposition of any and all manner of actions,

arbitrations, causes of action, claims, counterclaims, cross-claims, demands, or suits which have been or could have been asserted by OSS, on the one hand, or the Ambac Parties, on the other hand, against one another in connection with the Rehabilitation Proceeding or the Bankruptcy Case, including, without limitation, all claims asserted by OSS challenging or objecting to the TRO, the Rehabilitation Proceeding, the jurisdiction of the Rehabilitation Court, the Segregated Account, the allocation of the Contingent Disputed Liabilities to the Segregated Account or the Plan of Rehabilitation, all of which are hereby released upon the Effective Date.

(d) Notwithstanding the foregoing, it is explicitly agreed and understood that the Parties are not releasing, acquitting, discharging or waiving any Claim of any nature whatsoever that such Party ever had, now has or can, shall or may have, by reason of any breach or violation of, or failure to comply with, any obligations under, issued under or incurred pursuant to, or actions required by, this Agreement, including, without limitation, (i) Claims arising or obligations incurred under a new lease to be entered into pursuant to this Agreement by Ambac and OSS with respect to the Existing Premises, other than floors 19 and 20, in the form annexed hereto as Exhibit A (the "New Headquarters Lease"), (ii) the Allowed Claim, (iii) the Committee Claim, (iv) the OSS Administrative Claim, (v) the OSS General Claim, (vi) the Indemnified OSS Claims and (vii) the OSS Junior Surplus Notes (as defined in Section 5 hereof).

(e) No Party will provide material assistance in pursuit of or pursue indirectly through any trustee or similar agent any Claims that such Party has released pursuant to the terms and conditions of this Agreement.

(f) The Parties agree promptly after the Effective Date to make such filings and take such further actions in the Rehabilitation Proceeding, the Bankruptcy Case and otherwise, including, without limitation, such filings and actions as are necessary or advisable to dismiss any appeals pending in Wisconsin of orders of the Rehabilitation Court, as are reasonably necessary or advisable to effectuate the intent and purpose of this Section 1, including, without limitation, subsection (c) hereof.

2. No Claims in Bankruptcy Case With the exceptions of the Allowed Claim, any claim for out-of-pocket expenses (other than attorneys' fees and expenses) that OSS is entitled to recover as a member of the Official Committee of Unsecured Creditors appointed in the Bankruptcy Case (the "Committee Claim") and any administrative claim for unpaid rent for the Existing Premises under the Existing Lease between the Petition Date and the Effective Date (the "OSS Administrative Claim," it being acknowledged by OSS that as of the date hereof such amount is zero and that such amount will continue to be zero as long as an Ambac Party continues to pay rent accruing under the Headquarters Lease until the Effective Date), upon the Effective Date, all Claims (whether secured, unsecured, scheduled, priority, non-priority or administrative) filed or asserted in the Bankruptcy Case by or on behalf of any of the OSS Released Parties shall be voluntarily withdrawn in their entirety. No such Claims shall thereafter be filed or asserted by or on behalf of any of the OSS Released Parties.

3. The Headquarters Lease Without limiting to any extent the scope of the general releases and other agreements herein, including under Sections 4 and 5 below, each Party agrees that upon the Effective Date, the Headquarters Lease shall be terminated in full and be of no further force or effect, and no Party shall owe any amounts or have any termination or payment obligations or any other obligations in respect of such agreement; provided that all contribution and indemnification claims of the Parties in respect of the Headquarters Lease relating to or in connection with Indemnified OSS Claims shall survive and not be terminated pursuant to this Section 3.

4. Allowed Claim of OSS in the Bankruptcy Case

(a) Upon the Effective Date, OSS shall be granted an allowed general unsecured claim (an "Allowed Claim") in the Bankruptcy Case in the amount of $14,302,367, being the lesser of:

(i) (x) the aggregate amount of all fixed lease payments, additional rent (including, without limitation, all Additional Charges, Tax Payments and Operating Payments (as such terms are defined in the Headquarters Lease)), and any other sums payable pursuant to the Headquarters Lease, which in each case, but for the termination of the Headquarters Lease pursuant to Section 3 hereof, would be due and payable to OSS from the Effective Date through and including September 30, 2019 under the terms of such lease (the "Remaining Headquarters Lease Rental"), plus (y) all unpaid rent and any other amounts that were due and owing under the Headquarters Lease as of the Petition Date, less (z) the aggregate amount of all fixed lease payments, additional rent (including, without limitation, all Additional Charges, Tax Payments and Operating Payments (as such terms are defined in the New Headquarters Lease)), and any other sums payable pursuant to the New Headquarters Lease, in each case due and payable to OSS under the terms of the New Headquarters Lease during the period (the "Initial Term") commencing on the Effective Date and ending on December 31, 2015 of the New Headquarters Lease (the "Remaining New Headquarters Lease Rental"), and

(ii) the amount permitted under 11 U.S.C. Sec. 502(b)(6), it being understood and agreed that the parties have calculated the maximum amount of the Allowed Claim under 11 U.S.C. Sec 502(b)(6) as equal to $14,302,367.

5. Allowed General Claim of OSS in the Rehabilitation Proceeding

(a) Upon the Effective Date, OSS shall be granted a Permitted General Claim (as defined in the Plan of Rehabilitation) against the Segregated Account (the "OSS General Claim") in the amount of $36,664,952, consisting of: (i) the Remaining Headquarters Lease Rental for floors 15-19, less (ii) the Remaining New Headquarters Lease Rental, in the case of both (i) and (ii), discounted to present value using a rate of 7% per annum from the due date of payment.

(b) Upon the Effective Date, the Segregated Account agrees it shall issue two junior surplus notes to OSS (the "OSS Junior Surplus Notes") in the aggregate principal amount of, and in full satisfaction and payment of, the OSS General Claim, which notes, subject to subsection (c) hereof, will be on terms and conditions consistent with the terms and conditions of the form of junior surplus note attached to the Plan of Rehabilitation as Exhibit D. One of such notes (the "Non-Reducing Surplus Note") shall be in the initial principal amount of $ 11,690,491 and the other of such notes (the "Reducing Surplus Note") shall be in the initial principal amount of $24,974,461.

(c) To the extent that rent is paid pursuant to the New Headquarters Lease from and after the end of the Initial Term (the "Extension Term Rent Payments"), the principal amount of the Reducing Surplus Note shall be reduced automatically by an amount equal to any Extension Term Rent Payments discounted from the date of payment thereof to the Effective Date at the rate of 7% per annum (the sum of all such Extension Term Rent Payments, as discounted in accordance with this Section 5(c), being the "Extension Term Reduction Amount"). The principal amount of the Reducing Surplus Note shall be further reduced automatically by 83.33% of the "value" of any distribution that OSS receives on account of the Allowed Claim from time to time from the AFG estate pursuant to the Bankruptcy Case (the sum of such percentage of the value of all such distributions being the "Bankruptcy Distribution Reduction Amount"). For purposes of this subsection (c), the "value" of any distribution shall equal the sum of (a) any cash distributed to OSS and (b) if publicly-traded stock, that is (x) non-restricted stock is distributed to OSS, the average publicly-reported value of such non-restricted stock as of thirty (30), forty-five (45)

and sixty (60) days following the date of distribution thereof to OSS or (y) restricted stock is distributed to OSS, the value of such restricted stock based on the determination of an independent valuation firm reasonably acceptable to all parties, in each case as of thirty (30), forty-five (45) and sixty (60) days following the date of distribution thereof to OSS.

(d) The initial principal amount of the Reducing Surplus Note is based on a maximum Extension Term Reduction Amount of $13,056,298 (the "Extension Term Reduction Allocation") and a maximum Bankruptcy Distribution Reduction Amount of $11,918,162 (the "Bankruptcy Distribution Reduction Allocation"). The Extension Term Reduction Allocation and the Bankruptcy Distribution Reduction Allocation shall be subject to adjustment as set forth in this Section 5(d) and Section 6(d) consistent with the methodology and calculations set forth on Exhibit C hereto. The Segregated Account agrees that the Extension Term Reduction Allocation and the Bankruptcy Distribution Reduction Allocation shall be reduced by the Extension Term Excess Amount (as defined below) and the Bankruptcy Distribution Excess Amount (as defined below), respectively, following specific written requests therefor from OSS, which requests may be made solely following each of (i) the date the amount of space of the Existing Premises, if any, to be leased by AAC after the Initial Term is determined in accordance with the New Headquarters Lease and such determination causes the Extension Term Reduction Allocation to exceed the maximum potential Extension Term Reduction Amount (such excess amount, as agreed between OSS and the Segregated Account, arising at any time for any reason, being the "Extension Term Excess Amount"), (ii) the date on which the AFG Plan (as defined below) is fully consummated, the amount, if any, by which the Bankruptcy Distribution Reduction Allocation exceeds the maximum potential Bankruptcy Distribution Reduction Amount (such excess amount, as agreed between OSS and the Segregated Account, being the "Bankruptcy Distribution Excess Amount"), and (iii) any other date on which there shall exist an Extension Term Excess Amount and/or the Bankruptcy Distribution Excess Amount which has not been reflected in an adjustment pursuant to this Section 5(d), all of which adjustments pursuant to (i), (ii) and (iii) above shall not occur more than once in the aggregate in any consecutive twelve-month period. The Segregated Account further agrees to enter into amendments to each of the Reducing Surplus Note and the Non-Reducing Surplus Note to increase the outstanding principal amount of the Non-Reducing Surplus Note and to decrease the outstanding principal amount of the Reducing Surplus Note, in each case by the Extension Term Excess Amount and/or the Bankruptcy Distribution Excess Amount, as the case may be. The Segregated Account further agrees, following a specific written request therefor from OSS, (i) to enter into an amendment to the Reducing Surplus Note to eliminate the provision therein requiring reduction in the principal amount thereof to reflect distributions from the AFG estate, as contemplated in preceding Section 5(c), provided that as of the date of both such request and amendment, the Distribution Completion Date shall have occurred, and (ii) to exchange the Reducing Surplus Note for an OSS Junior Surplus Note in the same outstanding principal amount as of such date of exchange as the Reducing Surplus Note and in the same form as the Non-Reducing Surplus Note provided that as of the date of both such request and exchange: (x) the Distribution Completion Date shall have occurred and (y) there shall be no further Extension Term Rent Payments due or payable under the New Headquarters Lease. For purposes of this Section 5(d), the term "Distribution Completion Date" shall mean the earliest date on which all of the following shall have occurred: (A) the plan of reorganization or liquidation of the AFG estate pursuant to the Bankruptcy Case (the "AFG Plan") shall have been fully consummated, (B) no further distributions shall be payable under the AFG Plan and (C) all distributions under the AFG Plan in reduction of the principal amount of the Reducing Surplus Note pursuant to Section 5(c) shall have been fully accounted for.

(e) Ambac and the Segregated Account agree to provide written notice to OSS of: (i) any Alternative Resolution that proposes to resolve a Claim that is, or could reasonably be viewed as, a General Claim by (a) re-classifying such Claim, in whole or in material part, as an Administrative Claim or as a Policy Claim, or (b) providing, in whole or in part, for the payment of cash or issuance of Surplus Notes, or any other form of consideration that is to be paid prior to the OSS Junior Surplus Notes; and (ii)

any alteration, amendment, or modification of the Plan of Rehabilitation that proposes the creation of any class of Claims, other than Policy Claims and Administrative Claims as currently defined in the Plan of Rehabilitation, with priority over General Claims, except that in the case of either (i) or (ii), notice need not be provided relative to any Alternative Resolution or amendment to the Plan of Rehabilitation relating to (A) Claims made by the federal government of the United States or (B) Claims that are being satisfied by the payment of cash or issuance of Surplus Notes or other form of consideration in an amount equal to $1,000,000 or less. In any such event, OSS shall be provided at least five (5) Business Days after receipt of written notice in which to file an objection with the Rehabilitation Court (each an "Alternative Resolution Objection"). For the avoidance of doubt, the releases contained in Section 1 hereof shall not preclude or impair OSS from filing or prosecuting an Alternative Resolution Objection. All capitalized terms used but not defined in this Section 5(e) and which are defined in the Plan of Rehabilitation shall have the meaning given thereto by the Plan of Rehabilitation.

(f) In the event that, following the execution and delivery of this Agreement and consummation of the transactions contemplated herein, including, without limitation, the effectiveness of this Agreement and the New Headquarters Lease and the mutual releases of the Parties hereto, a court of competent jurisdiction determines pursuant to a final non-appealable order that the OSS Junior Surplus Notes or the Segregated Account are invalid and Ambac has neither succeeded to or assumed liability for such OSS Junior Surplus Notes nor issued new junior surplus notes with a similar priority under Wis. Stat. Section 645.68, then OSS's claim against Ambac and the Segregated Account in the amount of the OSS General Claim (less any reduction in the principal amount of the Reducing Surplus Note pursuant to Section 5(c) hereof which occurred or would have occurred thereafter), and all rights and remedies of Ambac and the Segregated Account in respect of such claim, including, without limitation, the right to dispute and deny the existence of such claim, shall be reinstated in full as if such OSS Junior Surplus Notes had not been issued, *provided*, that nothing in this Section 5(f) shall affect the rights and obligations of Ambac or OSS under the New Headquarters Lease.

(g) Ambac agrees that it shall not allocate its liabilities under the New Headquarters Lease to any segregated account established pursuant to Section 611.24 of the Wisconsin Statutes, including, without limitation, the Segregated Account, but that if such allocation occurs and such segregated account is subject to a proceeding under Chapter 645 of the Wisconsin Statutes, then OSS shall have no rights or remedies as a result thereof provided the liability so allocated is treated as an "administration cost" under Section 645.68(1) of the Wisconsin Statutes.

(h) For the avoidance of doubt, the covenants in Sections 5(c) through 5(g) *inclusive* shall be effective upon and subject to occurrence of the Effective Date.

6. Conditions to Effectiveness; Effective Date; Cooperation

(a) As used in this Agreement, the term Effective Date shall be the date on which all of the following shall have occurred: (i) this Agreement shall have been approved by the Rehabilitator, the Rehabilitation Court and the Board of Directors of AFG (and AFG agrees to promptly notify OSS of such board approval), and this Agreement and the New Headquarters Lease shall have been approved by OCI and the Board of Directors of AAC (and AAC agrees to promptly notify OSS of such board approval), (ii) this Agreement shall have been approved by an order of the Bankruptcy Court, unless any objection to such order shall have been properly made and overruled, in which case the time for filing a notice of appeal from such order shall have lapsed without any stay in effect or notice of appeal having been filed, or if any notice of appeal has been filed, such appeal has been finally adjudicated and denied or dismissed, (iii) Ambac shall have vacated floors 19 and 20 of the Existing Premises and delivered them broom clean, reasonable wear and tear excepted, to OSS (except for any furniture left on such floors as set forth in Section 6(c) below) and (iv) any approval required from the holder of the mortgage on the Existing

Premises (the "Mortgagee") shall have been obtained and the Mortgagee shall have executed and delivered an NDA Form (as defined in the New Headquarters Lease) as contemplated by the New Headquarters Lease (the "Mortgagee Approval Condition"); provided, however, that (x) OSS shall not be obligated to close the transactions contemplated herein to be consummated on the Effective Date (and shall give prompt written notice of its determination not to so close) if, as of such date, AFG shall not have paid rent under the Headquarters Lease with respect to the period commencing on the date hereof and ending on the day immediately preceding the Effective Date, and (y) no Party shall have any further obligations to any other Party under this Agreement, and this Agreement shall be null and void, if the Effective Date shall not have occurred by June 30, 2011, subject in the case of either part (x) or (y) to any claims of any Party for breach by any other Party of covenants, agreements or representations and warranties made or to be performed or observed prior to the Effective Date, which claims shall survive. In the event that all conditions required for the Effective Date have occurred other than the Mortgagee Approval Condition, OSS shall provide Ambac with a credit against Ambac's obligations under the New Headquarters Lease in the amount of (x) the aggregate amount of all fixed lease payments and additional rent payments under the Headquarters Lease that are paid for the period between the date upon which all conditions to the Effective Date other than the Mortgagee Approval Condition have been satisfied and the date on which the Mortgagee Approval Condition is satisfied (the "Credit Period"), less (y) the aggregate amount of all fixed lease payments and additional rent payments that would have been payable pursuant to the New Headquarters Lease for the Credit Period but for the fact that the Mortgagee Approval Condition had not been satisfied.

(b) Each of the Parties covenants and agrees to use its commercially reasonable best efforts to cooperate with each other in order to obtain, as soon as practicable following the date hereof, approvals of OCI, the Rehabilitator, the Bankruptcy Court and the Mortgagee to the terms of this Agreement and to defend against any appeals of any order approving this Agreement. Each of the Parties agrees that the effectiveness of the New Headquarters Lease may in accordance with its terms be subject to the occurrence of the Effective Date.

(c) AFG agrees that following the Effective Date all furniture located on floors 19 and 20 of the Existing Premises, other than the furniture identified on Exhibit B hereto, will remain in place on such floors. AFG further agrees that in removing the furniture identified on Exhibit B hereto it shall leave floors 19 and 20 in broom clean condition, reasonable wear and tear excepted, it being understood and agreed that AFG shall have no obligation to remove Specialty Alterations (as defined in the New Headquarters Lease) or otherwise restore the Existing Premises (provided this Section 6(c) shall not affect any restoration obligations of AAC under the New Headquarters Lease).

(d) The Parties confirm that the Allowed Claim, the OSS General Claim, the initial principal amount of the Non-Reducing Surplus Note, and the initial principal amount of the Reducing Surplus Note (consisting of the Extension Term Reduction Allocation and the Bankruptcy Distribution Reduction Allocation), have been calculated assuming the Effective Date occurs on March 1, 2011, and agree that if the Effective Date occurs after March 1, 2011, such amounts shall be subject to such adjustment as shall be required to reflect the Remaining Headquarters Lease Rental (or portion thereof, as the case may be) and the Remaining New Headquarters Lease Rental, in each case as of such later Effective Date, consistent with the methodology and calculations set forth on Exhibit C hereto.

7. Representations and Warranties of the Parties

Each of the Ambac Parties (other than, in respect of subsection (i) below, the Segregated Account), jointly and severally, represents and warrants to OSS, and OSS represents and warrants to the Ambac Parties, in each case as follows, but subject, in the case of AFG and AAC, to approvals of their respective Boards of Directors as described in Section 6(a)(i):

(i) such Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all necessary power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby to be consummated by it, including, without limitation, the New Headquarters Lease (the "Transactions");

(ii) the execution, delivery and performance by such Party of its obligations hereunder and consummation by such Party of the Transactions have been duly authorized by all necessary actions on the part of such Party, and as of the Effective Date, all required regulatory approvals have been obtained;

(iii) this Agreement constitutes a legal, valid and binding obligation of such Party enforceable against such Party in accordance with its terms; and

(iv) the execution, delivery and performance by such Party of its obligations hereunder do not and will not, (x) violate, conflict with or result in the breach of any provision of the organizational documents of such Party, (y) conflict with or violate any applicable law or order of any governmental authority currently in effect with respect to such Party or any of its properties or assets, or (z) subject to the satisfaction of the Mortgagee Approval Condition, conflict with, or result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of, any note, bond, mortgage or indenture, contract, agreement, lease, sublease, license, permit, franchise or other instrument or arrangement to which such Party is a Party or by which such Party is bound.

8. Counterparts This Agreement may be executed in several counterparts (including by facsimile transmission or electronic transmission of a portable document format file), each of which shall be an original and all which together shall constitute a single agreement.

9. Amendments No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including writing evidenced by facsimile transmission or electronic transmission of a portable document format file) and executed by each of the Parties.

10. Severability If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced under any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect for so long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to either Party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner so that the Transactions are consummated as originally contemplated to the greatest extent possible.

11. Entire Agreement. This Agreement sets forth the entire understanding and agreement between the Parties as to the matters covered herein and supersedes and replaces any prior understanding, agreement or statement of intent, in each case, written or oral.

12. Binding Nature. The terms and provisions of this Agreement shall be binding in all respects on, and shall inure to the benefit of, the Parties, their estates and their respective successors and assigns, including any trustee, receiver, conservator, rehabilitator, liquidator, or superintendent relating to the reorganization, rehabilitation, liquidation, conservation or dissolution of any of the Parties.

13. Joint Drafting. This Agreement is the product of negotiations between the Parties and any rule of construction that ambiguities are to be resolved against the drafting Party shall not apply in the interpretation of this Agreement.

14. No Admissions. This Agreement reflects a compromise of disputed claims and shall not be construed as an admission against any Party's interest and shall not be used as or deemed to be evidence of any liability by any Party in any proceeding before the Bankruptcy Court, the Rehabilitation Court or any other court, except in a proceeding to enforce the terms of this Agreement.

15. Waiver of Trial by Jury. Each Party irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the transactions contemplated hereby or the actions of the Parties in the negotiation, performance or enforcement in respect of any of the foregoing.

16. Jurisdiction; Governing Law. In the event that there is a dispute between the Parties arising under this Agreement, the Parties (i) agree that the exclusive forum to seek remedy or assert any claims shall be the Circuit Court of the State of Wisconsin located in the County of Dane, and (ii) hereby expressly submit to the personal jurisdiction and venue of such courts for the purposes thereof and expressly waive any claim of lack of personal jurisdiction and improper venue and any claim that such courts are an inconvenient forum. The Parties further agree that, to the extent the Rehabilitation Proceeding is pending, the exclusive forum to seek any such remedy or assert any such claims shall be the Rehabilitation Proceeding. Each Party hereby irrevocably consents to the service of process of any of the aforementioned court in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the address of the Parties set forth below their signatures, such service to become effective ten (10) days after such mailing. This Agreement shall be governed by, and construed and enforced in accordance with the laws of the State of Wisconsin applicable to contracts to be performed entirely within such jurisdiction. Nothing contained in this Section 16 shall be construed to limit or otherwise affect (i) the governing law and jurisdiction provisions of the New Headquarters Lease with respect to any dispute that may arise under the terms of the New Headquarters Lease or (ii) the law governing or jurisdiction regarding the Committee Claim, the OSS Administrative Claim or the Allowed Claim.

17. Confidentiality. Each of the Parties hereto shall maintain and shall cause each of its officers, directors, employees, advisors and other representatives (collectively, its "Representatives") to maintain the confidentiality of this Agreement and its substance herein, except that each such Party and its Representatives may disclose such information (i) to any governmental, judicial or regulatory authorities or agencies with authority over such party or otherwise in connection with the approvals required pursuant to Section 6 hereof, (ii) to extent required by applicable law, rule or regulation, (iii) in connection with any action to enforce this Agreement or any provision of this Agreement, (iv) in the case of AFG, to its Official Committee of Unsecured Creditors appointed in the Bankruptcy Case and counsel therefor, and (v) to any current or future or actual or potential mortgagee, lender, purchaser, investor, partner, member, successor, or permitted transferee or assign, provided such party shall be advised of and

instructed to comply with the confidentiality provisions hereof (except to the extent such information shall already be in the public domain as contemplated in part (vi) hereof) and (vi) to the extent such information shall be in the public domain without breach by any Party of its obligations hereunder.

[Rest of page intentionally left blank; signatures to follow]

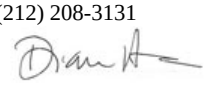
IN WITNESS WHEREOF, OSS and the Ambac Parties each caused this Agreement to be signed in its name by its duly authorized representative, as of the date first above written.

ONE STATE STREET, LLC
One State Street Plaza
New York, New York 10004
Attention: Eli Levitin
Email: eli@wolfsongroup.com
Facsimile: (212) 363-8459

By: 

Name: Abraham Wolfson
Title: Authorized Representative

SEGREGATED ACCOUNT OF AMBAC
ASSURANCE CORPORATION
By Ambac Assurance Corporation, as Management Services Provider for the Segregated Account of Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: Diana N. Adams, Senior Managing Director
Email: dadams@ambac.com
Facsimile: (212) 208-3131

By: 

Name: Diana Adams
Title: Senior Managing Director

AMBAC FINANCIAL GROUP, INC.
One State Street Plaza
New York, New York 10004
Attention: Diana N. Adams, Senior Managing Director
Email: dadams@ambac.com
Facsimile: (212) 208-3131

By: 

Name: Diana Adams
Title: Senior Managing Director

AMBAC ASSURANCE CORPORATION
One State Street Plaza
New York, New York 10004
Attention: Diana N. Adams, Senior Managing Director
Email: dadams@ambac.com
Facsimile: (212) 208-3131

By: 

Name: Diana Adams
Title: Senior Managing Director and Chief Administrative Officer

EXHIBIT A

FORM OF NEW HEADQUARTERS LEASE

LEASE

between

ONE STATE STREET, LLC

Landlord

and

AMBAC ASSURANCE CORPORATION

Tenant

As of
March 1, 2011

PREMISES:
Entire 15th Floor
Entire 16th Floor
Entire 17th Floor
Entire 18th Floor

One State Street Plaza
New York, New York

TABLE OF CONTENTS

LEASE, dated as of March 1, 2011, between ONE STATE STREET, LLC, a New York limited liability company, having an office at One State Street Plaza, New York, New York 10004 (herein called "Landlord"), and AMBAC ASSURANCE CORPORATION, a corporation established under the laws of the State of Wisconsin, having an office at One State Street Plaza, New York, New York 10004 (herein called "Tenant").

Landlord and Tenant do hereby covenant and agree as follows:

ARTICLE 1

Term and Fixed Rent

1.01. Landlord hereby leases to Tenant, and Tenant hereby hires from Landlord, upon and subject to the terms, covenants, provisions and conditions of this Lease, the premises described in Section 1.02 in the building (herein called the "Building") known as One State Street Plaza in the City, County and State of New York. The Building is located on a portion of the land (herein called the "Land") described in Exhibit A annexed hereto and made a part hereof.

1.02. The premises (herein called the "Premises") leased to Tenant are the entire fifteenth (15th), sixteenth (16th), seventeenth (17th) and eighteenth (18th) floors of the Building, substantially as shown hatched on the floor plans annexed hereto as Exhibit B and made a part hereof. The parties hereto hereby agree that for purposes of this Lease the Premises shall be deemed to contain 103,484 rentable square feet.

1.03. The term ("Term") of this Lease (a) shall commence on the Effective Date (as defined in Section 1.05 hereof) and (b) shall end on December 31, 2015 (herein called the "Expiration Date") or on such earlier date upon which the term of this Lease shall expire or be cancelled or terminated pursuant to any of the conditions or covenants of this Lease or pursuant to law.

1.04. The rents shall be and consist of:

(a) For the period commencing on the Effective Date and ending on the Expiration Date: Four Million One Hundred Thirty Nine Thousand Three Hundred and Sixty ($4,139,360) Dollars per annum ($344,946.67 per month) ("**Fixed Rent**").

Tenant shall receive a credit against its obligation to pay Fixed Rent and Additional Charges hereunder in accordance with, and to the extent available under, Section 6 of the Settlement Agreement (as hereinafter defined). Subject to the foregoing, Fixed Rent shall be payable commencing on the Effective Date and thereafter in equal monthly installments in advance on the first day of each and every calendar month during the term of this Lease, and

(b) additional rent (herein called "Additional Charges") consisting of Tax Payments (hereinafter defined), Operating Payments (hereinafter defined), the Additional Charges set forth in Articles 14 and 15 and all other sums

of money as shall become due from and payable by Tenant to Landlord hereunder from and after the Effective Date;

all to be paid in lawful money of the United States to Landlord at its office, or such other place, or to Landlord's agent and at such other place, as landlord shall designate by notice to Tenant.

1.05.

(a) This Lease shall become effective on the Effective Date (such term to have the meaning given thereto in Section 6 of that certain Settlement, Discontinuance and Release Agreement dated as of March 1, 2011, among Landlord, Ambac Financial Group Inc., Tenant and the Segregated Account of Ambac Assurance Corporation (the "Settlement Agreement")).

(b) As set forth in the Settlement Agreement, the Lease dated January 1, 1992 between Landlord and Ambac Financial Group, Inc., as assignee of Tenant, as amended (the "1992 Lease"), shall terminate simultaneously with the Effective Date.

1.06. Tenant covenants and agrees to pay Fixed Rent and Additional Charges promptly when due and without any abatement, deduction or setoff for any reason whatsoever, except as may be expressly provided in this Lease. Fixed Rent and Additional Charges shall be paid by good and sufficient check (subject to collection) drawn on a New York City bank which is a member of the New York Clearing House Association or a successor thereto.

1.07. If the Effective Date occurs on a day other than the first day of a calendar month, the Fixed Rent and all Additional Charges payable on a monthly basis (including, without limitation, Tax Payments and Operating Payments) shall be prorated based upon the number of days remaining in the calendar month in which the same occur.

1.08. No payment by Tenant or receipt or acceptance by Landlord of a lesser amount than the correct Fixed Rent or Additional Charges shall be deemed to be other than a payment on account, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance or pursue any other remedy in this Lease or at law provided. No payment by Landlord or receipt or acceptance by Tenant of a lesser amount than that stipulated to be paid hereunder shall be deemed to be other than a payment on account nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfaction, and Tenant may accept such check or payment without prejudice to Tenants right to recover the balance or pursue any other remedy in this Lease or at law provided.

1.09. Any apportionments or prorations for partial calendar years that are necessary to be made under this Lease with respect to Additional Charges that are neither payable on a monthly basis nor payable strictly based on usage (such as the Additional

Charges for Tenant's submetered electricity set forth in Article 14) shall be made on a per diem basis computed on the basis of a 365-day year.

1.10. If any of the Fixed Rent or Additional Charges payable under the terms and provisions of this Lease shall be or become uncollectible, reduced or required to be refunded because of any act or law enacted by a governmental authority, Tenant shall enter into such agreement(s) and take such other steps (without any expense to Tenant over and above Tenant's financial obligations under this Lease with respect to the Fixed Rent and the Additional Charges) as Landlord may reasonably request and as may be legally permissible to permit Landlord to collect the maximum rents which from time to time during the continuance of such legal rent restriction may be legally permissible (but not in excess of the amounts reserved therefor under this Lease). Upon the termination of such legal rent restriction, (a) the Fixed Rent and/or Additional Charges shall become and thereafter be payable in accordance with the amounts reserved herein for the periods following such termination, and (b) Tenant shall pay to Landlord promptly upon being billed, to the maximum extent legally permissible, an amount equal to (i) the Fixed Rent and/or Additional Charges which would have been paid pursuant to this Lease but for such legal rent restriction less (ii) the rents paid by Tenant during the period such legal rent restriction was in effect. Notwithstanding the foregoing, the provisions of the preceding sentence shall not be enforceable except with respect to any such legal rent restriction terminating on or before the first anniversary of the expiration of the term of this Lease and provided Landlord furnishes Tenant with a bill for any additional amounts payable in accordance with the preceding sentence no later than such first anniversary date.

1.11. Additional Charges shall be deemed to be rent and if Tenant shall fail to pay the Additional Charges which failure continues beyond all notice and grace periods provided herein, Landlord shall be entitled to all rights and remedies provided herein or by law for a default in the payment of Additional Charges as for a default in the payment of Fixed Rent.

ARTICLE 2

Delivery and Use of Premises

2.01. Tenant is the current occupant of the Premises and shall accept Premises in its "as is" condition on the Effective Date and Landlord shall not be required to perform any work, install any fixtures or equipment or render any services to make the Premises ready or suitable for Tenant's use or occupancy, except for Landlord's obligation to perform certain work ("Landlord's Work") pursuant to Article 38 hereof.

2.02. The Premises shall be used and occupied only for executive and general offices and other lawful purposes incidental or ancillary to such use.

2.03. If any governmental license or permit (other than any governmental license or permit relating to the entire Building) shall be required for the proper and lawful conduct of Tenant's business (for a special use other than merely for general and executive offices) in the Premises or any part thereof, Tenant, at its expense, shall duly procure and

thereafter maintain such license or permit and submit the same to Landlord for inspection. Tenant shall at all times maintain each such license or permit in full force and effect, to the extent such license or permit remains necessary. Additionally, should Alterations (hereinafter defined) or Tenant's use of the Premises (for a special use other than merely for general and executive offices) require any modification or amendment of any Certificate of Occupancy for the Building, Tenant shall, at its expense, take all actions necessary in order to procure any such modification or amendment and shall reimburse Landlord (as Additional Charges) for all actual and reasonable costs and expenses Landlord incurs in effecting said modifications or amendments. The foregoing provisions are not intended to be deemed Landlord's consent to any Alterations or to a use of the Premises not otherwise permitted hereunder nor to require Landlord to effect such modifications or amendments of any Certificate of Occupancy.

2.04. Tenant shall not at any time use or occupy the Premises or the Building, or suffer or permit anyone to use or occupy the Premises, or do anything in the Premises or the Building, or suffer or permit anything to be done in, brought into or kept on the Premises, which in any manner: (a) violates the Certificate of Occupancy for the Premises or for the Building; (b) is a violation of the laws and requirements of any public authorities or the requirements of insurance bodies; (c) subject to subsection 11.02(c) hereof, impairs the proper maintenance, operation and repair of the Building and/or its equipment, facilities or systems; (d) annoys other tenants or occupants of the Building in an unreasonable fashion; (e) constitutes a nuisance, public or private; (f) makes unobtainable from reputable insurance companies authorized to do business in New York State all-risk property insurance, or liability, elevator, boiler or other insurance at standard rates customarily carried by landlords of similar buildings; or (g) discharges objectionable fumes, vapors or odors into the Building's flues or vents or otherwise.

2.05. Tenant shall not use, or suffer or permit anyone to use, the Premises, or any part thereof, for (a) a restaurant and/or bar and/or the sale of confectionery and/or soda and/or beverages and/or sandwiches and/or ice cream and/or baked goods, (b) the business of photographic reproductions and/or offset printing, (c) an employment or travel agency, (d) a school or classroom (with the exception of any seminars or training sessions given in the Premises for the benefit of Tenant's employees or clients), (e) medical or psychiatric offices (except that Tenant may use part of the Premises for any of the uses described in clauses (a) through (e) of this Section 2.05 in connection with its own business and/or activities provided such usage shall be only for the benefit of the employees or officers of Tenant), (f) conduct of an auction, (g) gambling activities or (h) the conduct of obscene, pornographic or similar disreputable activities.

2.06. Provided the same shall be performed in a manner that complies with all applicable laws and requirements of any public authorities and with all the provisions of this Lease, Tenant shall have the right to install in the Premises, at Tenant's sole cost and expense, one or more kitchenettes, dryer units and pantries containing, inter alia, microwave ovens, refrigerators, electric stoves, dishwashers, sinks, coffee stations, cabinetry, vending machines and other similar items for the purpose of preparing food provided that: (i) the use thereof shall be confined to Tenant's officers and employees and business invitees (i.e., persons having a business relationship with Tenant and who are invited by Tenant into the

Premises for a bona fide business purpose other than the mere use of such facilities); (ii) the operation thereof shall not involve the installation of any flues or other ventilation equipment or facilities, and shall not cause any food or other odors to emanate from the Premises to other parts of the Building; (iii) the use of the foregoing facilities shall not involve or require Landlord to furnish any additional cleaning or air-conditioning service; (iv) Tenant shall from time to time engage such extermination services as shall be necessary to maintain the Premises free of rats, mice, roaches and other insects or vermin; and (v) such installation is performed in a manner complying with all of the relevant provisions of Article 11 hereof.

2.07. Tenant shall have the right to permit its "affiliates", as hereinafter defined, to use and occupy the Premises pursuant to Article 2 hereof. Tenant's "affiliates" shall mean any corporation, partnership or other business entity which is controlled by, controls, or is under common control with, Tenant, and the term "control", as used with respect to any corporation, partnership or other business entity, shall mean the possession of the power to direct or cause the direction of the management and policies of such corporation, partnership or other business entity. Except to extent permitted in Article 7 hereof, the permission granted in this Section 2.07 shall automatically terminate upon Tenant's transfer or cessation of control over any such affiliate occupying the Premises.

ARTICLE 3

Adjustment of Rent

3.01. In addition to the Fixed Rent hereinbefore reserved, Tenant covenants and agrees to pay to Landlord as Additional Charges for the term of this Lease commencing on the Effective Date, sums computed in accordance with the following provisions:

(a) "Wage Rate" shall mean, as of the times referred to in the last paragraph of this Section 3.01, one-half of the combined total of the hourly wage rate (including mandatory overtime) computed on the basis of the standard work week as set forth in the Agreement (as such term is hereinafter defined) plus all other sums required to be paid to or for the benefit of (i) porters, and (ii) cleaners engaged in the general maintenance and operation of office buildings most nearly comparable to the classification now applicable to porters and cleaners in the current collective bargaining agreement (hereinafter the "Agreement") between Realty Advisory Board on Labor Relations, Inc. (or any successor thereto) and Local 323 and Local 32J of the Building Service Employees International Union AFL-CIO (or any successor thereto), which classification is currently termed "others' in said Agreement. The Wage Rate shall not include fringe benefits. Annexed hereto as Exhibit K is an example demonstrating the method by which Landlord has calculated the Wage Rate for the calendar year 2011 as of the date hereof. If such Agreement is not entered into or such parties or their successors shall cease to bargain collectively, then the Wage Rate shall be one-half the combined total of the hourly wage rate (including mandatory overtime) and other sums as aforesaid payable to or for the benefit of porters and cleaners engaged in the maintenance and operation of the Building and payable by either Landlord or the contractor furnishing such services, but not in excess of the hourly minimum rate of wages and other sums as aforesaid for porters and cleaners engaged in the general maintenance and operation of buildings of the same type as the Building. The Wage Rate

is intended to-be an index in the nature of a cost of living index, and is not intended to reflect the actual cost of wages or expenses for the Building.

(b) "Base Wage Rate" shall mean the Wage Rate in effect on December 31, 2011.

(c) For purposes of this Article 3 the number of square feet of rentable area contained in the Premises is hereby fixed (by mutual agreement) at 103,484 square feet and the number of square feet of rentable area contained on each individual floor comprising the Premises is hereby fixed (by mutual agreement) at 25,871 square feet.

If the Wage Rate shall be changed at any time during the term of this Lease and shall be greater than the Base Wage Rate, Tenant shall pay to Landlord as additional rent an annual sum equal to 75% of the product obtained by multiplying (i) the number of cents (including any fraction of a cent) by which the Wage Rate exceeds the Base Wage Rate by (ii) 103,484. The amounts (herein called "Operating Payments") payable pursuant to this Section 3.01(c) shall be payable in equal monthly installments commencing with the first monthly installment of Fixed Rent falling due hereunder after Tenant receives notice from Landlord of the effective date of such change in the Wage Rate and continuing thereafter until a new adjustment in the Additional Charges shall be established and become effective in accordance with the provisions of this paragraph, excepting that notwithstanding any change in the Wage Rate downwards the Fixed Rent shall not be reduced. In the event any change in the Wage Rate shall be made retroactive, Tenant shall pay Landlord the amount of such retroactive adjustment within thirty (30) days after being billed therefor. Notwithstanding the foregoing, Landlord shall have the right to change Tenant's Operating Payments not more frequently than once in each calendar year. If, on the date on which Landlord notifies Tenant of its Operating Payments for the current calendar year, an increase in the Wage Rate shall be scheduled to occur during the calendar year in question, Landlord may, in its notice, include a bump-up in Operating Payments to occur later in the calendar year to reflect such scheduled increase. If there shall be more than one scheduled increase or if one or more unscheduled increase(s) in the Wage Rate shall occur during any calendar year, Landlord may, in its statement for the succeeding calendar year, include a retroactive adjustment for such increase(s).

3.02. Tenant further covenants and agrees to pay to Landlord as Additional Charges, sums computed as follows:

(a) "Taxes" shall mean all real estate taxes, assessments, governmental levies, county taxes or any other governmental charge, general or special, ordinary or extraordinary, unforeseen as well as foreseen, of any kind or nature whatsoever, which are or may be assessed or imposed upon the Land, the existing leasehold of air rights or Landlord's share thereof, the Building and the sidewalks, plazas or streets in front of or adjacent thereto, exclusive of penalties and interest. The term "Taxes" shall also include any tax, excise or fee levied against Landlord and/or the Land and/or the Building, under the laws of the United States, the State of New York or any political subdivision thereof or by the City of New York, as a substitute or addition in whole or in part for taxes presently or hereafter imposed on the Landlord and/or the Land and/or the Building or resulting from or due to any change in the method of taxation; provided that any such additional or substitute tax is imposed exclusively upon owners or lessees of real property

interests or buildings (including, without limitation, those which are classified as Class A office buildings) and only to the extent that such tax would be payable if the Land and the Building were the only assets of Landlord and the rental income derived therefrom were the only income of Landlord. In no event shall Taxes include taxes of general applicability such as income, franchise, corporate, estate, inheritance, succession, capital stock, transfer or similar tax levied on Landlord. The term "Land" where used in this Lease shall, unless the context otherwise indicates, include the existing air rights leased from the adjoining property as of the date hereof but shall exclude any and all air rights which may hereafter be transferred to the Land or the Building from any other property. With respect to any Tax Year occurring within the term of this Lease, all reasonable or customary expenses, including reasonable legal fees, reasonable experts' and other reasonable witnesses' fees, incurred in contesting the validity or amount of any Taxes or in obtaining a refund of Taxes, shall be considered as part of the Taxes for such Tax Year. To the extent any tax or any other similar payment that is a component of "Taxes" under this Lease is due and payable by Landlord to the taxing authority in installments over a period of time that consists of portions of more than one (1) Tax Year, for purposes of calculating Tenant's Tax Payment under this Lease, an allocation shall be made with regard to the installment payments for the respective Tax Years in question on the basis of the last date that Landlord is permitted by the applicable tax laws to pay such various installment payments.

(b) "Tax Year" shall mean each consecutive period of twelve (12) months, commencing on the first day of July of each such period and ending twelve (12) months thereafter in which occurs any part of the term of this Lease, or such other period of twelve (12) months occurring during the term of this Lease as hereafter may be duly adopted as the fiscal year for real estate tax purposes of the City of New York.

(c) "Tenant's Proportionate Share" shall be deemed to be 13.6232%.

(d) "Basic Tax" shall mean the average Taxes for the 2010/11 and 2011/12 fiscal years.

3.03. If the Taxes for any Tax Year shall be greater than the Basic Tax, then Tenant shall pay to Landlord as Additional Charges an amount (herein called "Tenant's Tax Payment") equal to Tenant's Proportionate Share of the increase over the Basic Tax.

3.04. (a) Any such Tenant's Tax Payment payable by reason of the provisions of this Article 3 shall be payable in the same number of installments that Landlord is required by applicable laws and requirements of any public authorities to make such payments not less than ten (10) days prior to the date the corresponding payment or installment of such Taxes is required to be paid by Landlord to the appropriate taxing authority; provided Tenant shall have received a statement from Landlord at least thirty (30) days prior to the date each such installment of Tenant's Tax Payment is due. Landlord shall, together with any statement sent to Tenant setting forth Tenant's Tax Payment to be made with respect to the approaching new Tax Year, furnish Tenant with a copy of the tax bill received by Landlord from the municipality for such new Tax Year or if such new tax bill has not been received, the data and information on which the Tenant's Tax Payment has been based. If Landlord shall fail to so enclose the appropriate tax bill with such statement or, if such tax bill has not been received, such alternative information on which Landlord's statement is based, Tenant, after

its receipt of such statement, shall notify Landlord in writing of the same. If Landlord shall fail to send to Tenant either the applicable new tax bill, if the same is available to Landlord, or such other data and information reasonably evidencing the calculation of the amount of the Tenant's Tax Payment set forth in Landlord's statement within fifteen (15) days after Landlord's receipt of such notice from Tenant, then, notwithstanding anything contained in the prior sentence to the contrary, Tenant may defer Tenant's Tax Payment for such new Tax Year until ten (10) Business Days following the date upon which Tenant receives such new tax bill or the aforementioned other data and information. If the statement for Tenant's Tax Payment shall have been based upon such alternative data and information, Landlord shall send a copy of the tax bill to Tenant promptly after Landlord receives the same from the taxing authority.

(b) Landlord's failure to render a statement to Tenant setting forth Tenant's Tax Payment with respect to any Tax Year shall not prejudice Landlord's right to thereafter render a statement with respect thereto or with respect to any subsequent Tax Year; Provided, however, that in the event Landlord fails to deliver a statement to Tenant with respect to any Tenant's Tax Payment for a period of more than two (2) years after the end of the Tax Year to which such statement would have related, Landlord shall be deemed to have waived the right to collect the Tenant's Tax Payment as to which such statement would have related.

3.05.(a) In the event Landlord shall receive a reduction of Taxes for any Tax Year for which Tenant shall have paid any Additional Charges under the provisions of this Article 3, the proceeds of such reduction shall be applied and allocated to the periods for which the reduction was obtained and proper adjustment shall be made between Landlord and Tenant. In no event, however, shall such adjustment exceed Tenant's Tax Payment amounts paid by Tenant to Landlord for the period to which such refund relates. Landlord's obligation to pay to Tenant such refund shall survive the expiration or earlier termination of the term of this Lease.

(b) Any payments or refunds due hereunder for any period of less than a full Tax Year at the end of the term of this Lease, shall be equitably prorated to reflect the same.

(c) If the Taxes comprising the Basic Tax are reduced as a result of an appropriate proceeding or otherwise, the Taxes as so reduced shall, for all purposes be deemed to be the Basic Tax and Landlord shall give notice to Tenant of the amount by which the Tax Payments previously made were less than the Tax Payments required to be made under this Article 3, and Tenant shall pay the amount of the deficiency within thirty (30) days after demand therefor.

(d) The two (2) year limitation with respect to the Tenant's Tax Payments set forth in subsection 3.04(b) hereof shall not apply with respect to any amounts due the Landlord pursuant to subsection 3.05(c) above or limit in any way Tenant's rights to the amounts described in subsection 3.05(a) hereof.

(e) Notwithstanding anything contained herein to the contrary, in the event Landlord receives any refund or abatement of Taxes pursuant to the Lower Manhattan Commercial Revitalization Program, or any other similar tax reduction, rebate or incentive which

is attributable to and passed through to a particular tenant(s) in the Building (whether related to the Premises under the Lease or otherwise and whether related to Tenant or another tenant in the Building), (i) Tenant shall not be entitled to any payment or credit under the Lease in connection with such refund or abatement (except to the extent such abatement is for the benefit of, and required by law to be paid to, Tenant) and (ii) for purposes of computing Taxes for any Tax Year pursuant to Section 3.02 of this Lease, there shall not be deducted from Taxes all or any portion of such refund or abatement.

3.06. (a) If in lieu of the rent or occupancy tax currently in effect by which an occupancy tax is payable directly by a commercial tenant to the taxing authority, a modified occupancy or rent tax is enacted which is the obligation of the Landlord in the first instance, Tenant shall pay to Landlord with respect to such modified occupancy tax or rent tax any portion thereof allocable to the Premises as Additional Charges hereunder within thirty (30) days of Landlord's rendition of a bill therefor.

(b) At Tenant's request, given no later than thirty (30) days prior to the last permissible day such a proceeding may be commenced, Landlord shall, with respect to any Tax Year so requested by Tenant, bring an application or proceeding (hereinafter the "Proceedings") seeking a reduction in Taxes for such Tax Year unless Landlord shall provide Tenant with a reasonable explanation as to why Landlord believes it is ill-advised for Landlord to initiate such Proceedings. If such Proceedings are commenced with respect to or affecting the Basic Tax, Landlord agrees that Landlord shall not acquiesce to any settlement or withdrawal of such Proceedings if such settlement or withdrawal shall have the effect of a disproportionate reduction in the calculation of the Basic Tax as compared with the amount(s) of the Taxes for any other Tax Year that was a subject of or is directly affected by such Proceedings, unless there is reasonable explanation for such disproportionate effect.

3.07. Tenant, upon reasonable notice given within one (1) year after the receipt of any statement from Landlord hereunder for the payment of Tenant's Tax Payments or Operating Payments, may elect to have Tenant's designated certified public accountant (which may be an employee of Tenant and which is hereinafter called "Tenant's Accountant") examine such of Landlord's books and records (collectively "Records") as are relevant to Landlord's statement in question and Landlord agrees to provide reasonable access to such books and records (including the right at Tenant's sole expense to copy the same) at the place where they are regularly maintained in New York City. In making such examination, Tenant agrees, and shall cause Tenant's Accountant to agree, to keep confidential any and all information contained in such Records. If a dispute shall persist despite Tenants examination of the Records, then, pending the resolution of such dispute, Tenant shall make all payments due under this Article 3 in the amounts as set forth in Landlord's statement(s) and upon resolution of such dispute, appropriate adjustment shall be made if needed. If Tenant is determined to have been correct, such adjustment shall include an amount for interest to the Tenant at the then so-called "Prime Rate" established by Bank of America, or its successor, from time to time with respect to the amount overpaid by Tenant calculated from the date such overpayment was made. Any statement from Landlord for the payment of Tenant's Tax Payments or Operating Payments shall, if not disputed by

Tenant or revised or corrected by Landlord within one (1) year after delivery thereof, be deemed final and conclusive upon the parties hereunder.

3.08. Notwithstanding anything to the contrary contained herein, if at any time during the term of this Lease, the so called "target" assessed valuation of the Land and Building shall be increased following a Building Sale (as hereinafter defined) or Building Financing (as hereinafter defined) (a Building Sale and/or a Building Financing being hereinafter referred to as an "Event") either during the Tax Year in which the Event occurred, or during the two (2) Tax Years subsequent thereto, which such "target" increase shall result in an increase in the assessed valuation for the Land and the Building over the assessed valuation of the same for the previous Tax Year in a percentage that is 3% or more greater than the Average Percentage Change during the Tax Years in question, then, effective as of the first day of the Tax Year in which occurs such 3% or more percentage change (such Tax Year being hereinafter referred to as the "First Transitional Tax Year") and throughout the "phase-in" period of such "target" assessed valuation increase, an alternate amount of Taxes (the "Alternate Taxes") shall be calculated for both the First Transitional Tax Year and for each Tax Year thereafter during the phase-in period of such "target-assessed valuation increase. Such Alternate Taxes shall be determined by multiplying the tax rate(s) in effect with respect to the Land and Building in the applicable Tax Year by the sum of: (i) the assessed valuation of the Land and Building in the Tax Year prior to the First Transitional Tax Year (hereinafter called the Prior Assessment") and (ii) the product of the Prior Assessment multiplied by the Average Percentage Change (as hereinafter defined) in the Alternative Assessed Valuation (as hereinafter defined) (such sum being hereinafter referred to as the "Unaffected Portion").

Commencing with the first Tax Year to occur following the completion of the phase-in period with respect to any "target" assessed valuation increase that gives rise to the calculation of the Alternate Taxes as described above, Tenant shall resume making Tenant's Tax Payments in the manner as described in Section 3.03 hereof, except that with respect to each Tax Year thereafter during the term, the "Basic Tax" shall be increased to an amount (hereinafter called the "Adjusted Basic Tax") that is the sum of: (A) the Taxes for the fiscal year of July 1, 2011 to June 30, 2012, as finally determined plus (B) the product obtained when multiplying (x) the difference between (i) the "target" assessed valuation amount in question (the "phase-in' period for which having just been completed) less (ii) the Unaffected Portion of such "target" assessed valuation amount (as the same is hereinabove defined) by (y) the tax rate in effect during the fiscal year July 1, 2011 to June 30, 2012 plus or minus (C) the amount of any previous adjustment made to the Basic Tax pursuant to this paragraph. If in any Tax Year subsequent to the determination of the Adjusted Basic Tax pursuant to the previous sentence, the assessed valuation for tax Purposes of the Land and the Building shall for any reason be reduced below the amount used to determine the Taxes for the Tax Year immediately following the completion of the phase-in" period of any "target" assessed valuation increase described herein, then the Adjusted Basic Tax as determined in the previous sentence shall be reduced, to an amount that is the greater of: (A) the product obtained when multiplying (x) the lowest assessed valuation of the Land and the Building amount to date used or being used by the taxing authority to calculate the Taxes for any Tax Year occurring following the completion of the "phase-in' period for any "target" assessed valuation increase described in this Section 3.08 by (y) the tax rate for the fiscal year July 1,

2011 to June 30, 2012 or (3) the Taxes for the fiscal year July 1, 2011 to June 30, 2012, as finally determined.

A "Building Sale" as applied to the Building, or a "Sale" as applied to a Substitute or Alternate Building (as hereinafter defined), shall mean the sale, conveyance or other transfer of the Land or the Building or of the Substitute Building or Alternate Building and/or a ground lease of the Land and/or a ground lease of the land on which any such Substitute or Alternate Building is situated, as the case may be, as said terms "sale, conveyance or other transfer" are defined under Article 31-3 of the New York State Tax Law and its related regulations or under Chapter 21 of Title 11 of The New York City Administrative Code and its related regulations as the same may be modified from time to time.

A "Building Financing" as applied to the Building, shall mean a financing of the Land and/or the Building and/or a ground lease of the Land or of the Land or the Building and/or the lessee's interest in the ground lease of the Land, as the case may be, secured in each case by a mortgage thereon which is recorded and which mortgage shall secure indebtedness in the amount of at least $170,000,000.00, specifically excluding any existing mortgage on the Building as of the date hereof to the extent such mortgage is extended or increased by an amount not exceeding in the aggregate ten (10%) percent thereof. "Substitute or Alternate Building Financing" as applied to a Substitute or Alternate Building, shall mean a financing of the Substitute Building or Alternate Building and/or the land on which the same is situated and/or a ground lease of the land on which such Substitute or Alternate Buildings are situated and/or the lessee's interest in the ground lease of the land on which such Substitute or Alternate Buildings are situated, as the case may be, secured in each case by a mortgage thereon which is recorded in an amount that is greater than the previous mortgage recorded against such Substitute or Alternate Building.

As used in this Section 3.08, unless otherwise expressly provided, Assessed Valuation' or assessed valuation" shall mean the lower of the total actual (i.e., "target") assessed valuation and the total transitional assessed valuation for the Land and/or the Building, or for the Substitute Building or for the Alternate Building together with the land on which such Substitute or Alternate Buildings are situated, as the case may be, as designated by the Department of Finance of the City of New York. For purposes of this Article, assessed valuation in all cases shall not take into consideration any exemption and/or abatement and shall include both the applicable building and the parcel of land on which the same is located.

Average Percentage Change shall mean the amount, expressed as a percentage, obtained by (a) first, dividing the difference between the Alternative Assessed Valuation and the Base Alternative Assessed Valuation (hereinafter defined) by the Base Alternative Assessed Valuation, for each of the Substitute Buildings and (b) second, eliminating both the highest and lowest resultant percentages (without regard to whether they are positive or negative) and averaging the remaining percentages. The "Base Alternative Assessed valuation" shall mean, with respect to a Substitute Building, the assessed valuation for such Substitute Building in the Tax Year prior to the First Transitional Tax Year.

The "Alternative Assessed Valuation' shall mean, with respect to a Substitute Building, the total assessed valuation of such Substitute Building in the Tax Year in question, as the same may be increased or decreased from time to time other than as the result of a Sale, an increase or

decrease in building size or a Substitute Building Financing. If the assessed valuation of any of the Substitute Buildings shall be increased as the result of a Sale (or decreased as the result of a casualty, other destruction or taking), or increased or decreased as a result of an increase or decrease in building size or Substitute Building Financing (such Sale, change in Building Size or Substitute Building Financing is hereinafter referred to as the "Substitute Event"), then, effective as of the effective date of such increase (or decrease), an Alternate Building or Buildings selected by Landlord and approved by Tenant, which approval shall not be unreasonably withheld or delayed shall be substituted for such Substitute Building or Substitute Buildings. If at any time the total number of Substitute Buildings shall be less than ten (10) or the total number of Alternate Buildings shall be less than six (6), Landlord and Tenant shall designate a sufficient number of Substitute Buildings or Alternate Buildings to increase their number to ten (10) and six (6) buildings, respectively, to be used for purposes of calculating the Alternative Assessed Valuation. The initial Substitute Buildings are as listed and attached hereto and made part hereof as Exhibit L. The "Alternate Buildings" shall mean initially the six (6) buildings set forth in the list annexed hereto as Exhibit M which particular buildings shall be chosen in the numbered order so listed on said Exhibit M.

If following an Event a dispute shall arise between the parties as to how to calculate the appropriate Tenant's Tax Payment pursuant to this Article 3, then at the request of either Landlord or Tenant, the issue shall be resolved by formal arbitration conducted in the manner set forth in Article 39 hereof. Each arbitrator shall be MAI qualified and shall have at least ten (10) years' experience in the appraisal of commercial office buildings in the "Downtown" office market of Manhattan. Pending the resolution of any dispute described herein, Tenant shall make Tax Payments in accordance with the Landlord's determination of the amount due and upon resolution of such dispute, appropriate adjustment shall be made. If Tenant is determined to have been correct, such adjustment shall include, with respect to the portion overpaid by Tenant, an amount for interest to the Tenant at the so-called "Prime Rate" then in effect as established by Bank of America, or any successor thereto, from time to time calculated from the date such overpayment was made.

The following hypothetical illustrates the intentions of the parties: A Sale occurs in October 2015, and the assessed valuation of the Land and the Building with respect to which Taxes are computed for the 2017/18 Tax Year as compared to that for the 2016/17 Tax Year is 3% or greater than the Average Percentage Change during such Tax Years, as calculated in the manner described above. The Tax Year 2017/18 is thus deemed to be the "First Transitional Tax Year." To illustrate the operation of the foregoing, assume that the hypothetical actual assessed valuation of the Land and the Building in the 2016/17 Tax Year is $175,000,000, that the Building is sold in October 2015, a "target" assessed valuation increase implemented by the taxing authority increases the assessed valuation for the 2017/18 Tax Year to $220,000,000, resulting in a percentage change of 25.7%. Assume further that the hypothetical Average Percentage Change is 18.7%. Consequently, a comparison of the changes yields a difference of 7% (which is 3% or greater) thereby triggering the application of the Alternative Assessed Valuation formula. The Substitute Buildings' assessments upon which Taxes are actually paid (i.e., the lower of the total actual assessed valuation and the total transitional assessed valuation) are as follows:

Substitute Building Number	Base Alternative Assessed Valuation (for 2016/17)	Alternative Assessed Valuation (for 2017/18)	Percentage Increase
	(numbers in millions)	(numbers in millions)	
1	30	40	33.3
2	25	30	20.0
3	60	75	25.0
4	100	107	7.0
5	200	280	40.0
6	175	186	6.3
7	95	108	13.7
8	105	125	19.0
9	118	148	25.4
10	195	207	6.1

From the foregoing list, Substitute Buildings Nos. 5 and 10 are eliminated as being the highest and lowest percentage changes.

The percentage changes for the balance of the Substitute Buildings are added together to arrive at a sum of 149.7% yielding the Average Percentage Change in the Alternative Assessed Valuation of 18.7% (149.7% ÷ 8 = 18.7%).

In the hypothetical, the total base assessed valuation of the Land and the Building in the 2016/17 Tax Year is $175,000,000. The 2017/18 transitional assessed valuation is $220,000,000. Assume further a tax rate in 2017/18 of 10%. The formula for computing the Alternate Real Estate Taxes for 2017/18 is as follows:

10% (tax rate) x ($175,000,000 + ($175,000,000 x 18.7%)) =
10% x ($207,725,000) or
$20,772,500 = the Alternate Taxes

Tenant's Proportionate Share as set forth in subsection 3.02(c) hereof shall be used to calculate any Tenant's Tax Payment in accordance with Section 3.03 based upon the increase of the Alternate Taxes as calculated for such Tax Year in accordance with this Section 3.08 over the Basic Tax or the Adjusted Basic Tax (whichever is applicable).

Notwithstanding all of the foregoing, Taxes for each Tax Year and Tenant's Tax Payments shall in all instances be computed based on the lower of Section 3.03 hereof and this Section 3.08.

ARTICLE 4

Intentionally Omitted

ARTICLE 5

Subordination, Notice to Superior Lessors and Mortgagees

5.01. (a) Subject to the provisions of paragraphs (b) and (c) of this Section 5.01, this Lease, and all rights of Tenant hereunder, are and shall be subject and subordinate to all ground leases, air-rights leases and underlying leases of the Land and/or the Building and/or that portion of the Building of which the Premises are a part, now or hereafter existing and to all mortgages which may now or hereafter affect the Land and/or the Building and/or that portion of the Building of which the Premises are a part and/or any of such leases, whether or not such mortgages shall also cover other lands and/or buildings and/or leases, to each and every advance made or hereafter to be made under such mortgages, and to all renewals, modifications, replacements and extensions of such leases and such mortgages and spreaders and consolidations of such mortgages. This Section 5.01 shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, Tenant shall promptly execute, acknowledge and deliver any instrument that Landlord, the lessor under any such lease or the holder of any such mortgage or any of their respective successors in interest may reasonably request to evidence such subordination provided such instrument does not in any material respect increase the obligations of Tenant or decrease the rights of Tenant, i.e., is consistent in all respects to the manner in which issues and matters addressed therein are resolved (except for such departures therefrom as are beneficial to Tenant) as compared with the terms and conditions of the "NDA" (as such term is hereinafter defined). Any lease to which this Lease is subject and subordinate is herein called "Superior Lease" and the lessor of a Superior Lease or its successor in interest, at the time referred to, is herein called "Superior Lessor"; and any mortgage to which this Lease is, at the time referred to, or may become, upon compliance with subsection 5.01(c), subject and subordinate is herein called "Superior Mortgage" and the holder of a Superior Mortgage is herein called "Superior Mortgagee".

(b) Landlord represents that as of the date hereof, there are no Superior Leases affecting the Land and/or the Building and that there is only one Superior Mortgage with respect to the Building which is held by the Superior Mortgagee referenced on the NDA Form. Landlord will deliver to Tenant on or prior to the Effective Date a subordination, non-disturbance and attornment agreement in favor of Tenant in the form as annexed hereto as Exhibit G (herein called the "NDA Form").

(c) With respect to future Superior Mortgages and all Superior Leases, the provisions of subsection 5.01 (a) hereof shall be conditioned upon the execution and delivery by such Superior Mortgagee or Superior Lessor to the Tenant (regardless whether Tenant shall likewise countersign and/or deliver the same) of a subordination, non-disturbance and attornment agreement in the NDA Form with such commercially reasonable changes as shall be applicable based upon the facts at the time, provided the same do not in any material respect increase the obligations of Tenant or decrease the rights of Tenant, i.e., is consistent in all respects to the

manner in which issues and matters addressed therein are resolved (except for such departures therefrom as are beneficial to Tenant) as compared with the terms and conditions of the NDA Form.

ARTICLE 6

Quiet Enjoyment

6.01. So long as Tenant is not in default under this Lease beyond any applicable grace and notice periods set forth herein, Tenant shall peaceably and quietly have, hold and enjoy the Premises without hindrance, ejection or molestation, subject, nevertheless, to the provisions of this Lease and to Superior Leases and Superior Mortgages. This covenant shall be construed as a covenant running with the Land.

ARTICLE 7

Assignment, Mortgaging, Subletting, Etc.

7.01. Tenant shall not (a) assign or otherwise transfer this Lease or the term and estate hereby granted, (b) sublet the Premises or any part thereof or allow the same to be used or occupied by others or in violation of Article 2, or (c) mortgage, pledge or encumber this Lease or the Premises or any part thereof without, in each instance, obtaining the prior consent of Landlord, except as otherwise expressly provided in this Article 7. For purposes of this Article 7, (i) the transfer of a majority of the issued and outstanding capital stock of any corporate tenant, or of a corporate subtenant, or the transfer of a majority of the total interest in any partnership tenant or subtenant, however accomplished, whether in a single transaction or in a series of related or unrelated transactions, shall be deemed an assignment of this Lease, or of such sublease, as the case may be, except that the transfer of the outstanding capital stock of any corporate tenant, or subtenant, shall be deemed not to include the sale of such stock by persons or parties, through the "over-the-counter market" or through any recognized stock exchange, other than those deemed "insiders" within the meaning of the Securities Exchange Act of 1934 as amended, provided, however, that any changes to the corporate structure or ownership of the Tenant or its parent company resulting from the current rehabilitation proceedings for a segregated account of Tenant in Wisconsin or Ambac Financial Group Inc.'s federal bankruptcy proceeding shall not violate this Section 7.01, and (ii) a modification, amendment or extension of a sublease which changes the term, the rent or the sublet space shall be deemed a sublease.

7.02. The provisions of Section 7.01 hereof shall not apply and Tenant shall have the right without the consent of, but upon prior written notice to, Landlord and without complying with the provisions of Sections 7.05 and 7.06 and without making any payments pursuant to Section 7.07, to assign this Lease to a corporation into or with which Tenant is merged or consolidated or to an entity to which substantially all of Tenant's assets are transferred (provided such merger or transfer of assets is for a good business purpose and not principally for the purpose of transferring the leasehold estate created hereby) and provided further, that the assignee has a net worth at least equal to or in excess of $250,000,000.00.

7.03. (a) Any person or legal representative of Tenant, to whom Tenant's interest under this Lease passes by operation of law, or otherwise, shall be bound by the provisions of this Article 7. Any assignment or transfer, whether made with Landlord's consent as required by Section 7.01, with Landlord's deemed consent as provided in subsection 7.05(c) or without Landlord's consent to the extent permitted by this Article 7, shall be made only if, and shall not be effective until, the assignee shall execute, acknowledge and deliver to Landlord an agreement, in form and substance reasonably satisfactory to Landlord, whereby the assignee shall assume the obligations and performance of this Lease from and after the date of the assignment (together with the obligation to pay any amounts then owed and outstanding with respect to any Fixed Rent or Additional Charges payable under this Lease provided, in the case of Additional Charges, Landlord has billed Tenant for the same) and agree to be bound by and upon all of the covenants, agreements, terms, provisions and conditions hereof on the part of Tenant to be performed or observed from and after the date of the assignment (except as to the arrearages as aforesaid) and whereby the assignee shall agree that the provisions of this Article 7 shall, notwithstanding such an assignment or transfer, continue to be binding upon it in the future. Tenant covenants that, notwithstanding any assignment or transfer, whether or not in violation of the provisions of this Lease, and notwithstanding the acceptance of Fixed Rent by Landlord from an assignee or transferee or any other party, Tenant shall remain fully and primarily liable for the payment of the Fixed Rent due and to become due under this Lease and for the performance of all of the covenants, agreements, terms, provisions and conditions of this Lease on the part of Tenant to be performed or observed.

(b) With respect to each and every sublease or subletting whether made with Landlord's consent, with Landlord's deemed consent (pursuant hereto) or without Landlord's consent to the extent permitted by this Article 7, it is agreed:

(i) No sublease shall be valid, and no subtenant shall take possession of the Premises or any part thereof, until an executed counterpart of such sublease (and all pertinent documents executed in connection therewith), have been delivered to Landlord; (ii) each sublease shall provide that it is subject and subordinate to this Lease and to any matters to which this Lease is or shall be subordinate, and that in the event of termination, reentry or dispossess by Landlord under this Lease, provided Landlord agrees to recognize the subtenant as a direct tenant, subject to the exceptions set forth below, Landlord may, at its option, take over all of the right, title and interest of Tenant, as sublessor, under such sublease, and such subtenant shall, at Landlord's option, attorn to Landlord pursuant to the then executory provisions of such sublease, except that Landlord shall not be (A) liable for any previous act or omission of Tenant under such sublease but rather for its own acts and omissions following such attornment to the extent the same violate the terms and provisions of the sublease, (B) subject to any credit, offset, claim, counterclaim, demand or defense which such subtenant may have against Tenant, (C) bound by any previous modification of such sublease or by any previous prepayment of more than one (1) month's rent, (D) bound by any covenant of Tenant to undertake or complete any construction of the Premises or any portion thereof, (E) required to account for any security deposit of the subtenant unless Landlord actually took possession of the same, or (F) bound by any obligation to make any payment to such subtenant or grant any credits, except for services, repairs, maintenance and restoration provided for under the sublease to be performed after the date of such attornment; and (iii) each sublease shall provide that the subtenant may not assign

its rights thereunder or further sublet the space demised under the sublease, in whole or in part, without Landlord's consent, which consent, however, shall not be unreasonably withheld or delayed with respect to a proposed assignment or underletting of a direct subtenant of Tenant only, provided (i) such subtenant shall satisfy the conditions applicable to Tenant provided in this Article 7 with respect to an assignment of such sublease or an underletting of all or a portion of the Premises; and (ii) the proposed assignment or underletting complies with all of the applicable provisions of this Article 7 including, specifically, Sections 7.06 and 7.07 hereof (it being understood that, with respect to such Section 7.07, all references to "Tenant" shall be deemed to apply to such subtenant and all references to "this Lease" shall be deemed to apply to the subtenant's sublease with Tenant). Notwithstanding any implication to the contrary contained in this Section 7.03, the assignee of such direct subtenant of Tenant shall not be permitted to further assign such sublease or further underlease all or a portion of such space nor shall any undertenant of such direct subtenant of Tenant be permitted to assign its leasehold interest under such underletting agreement or further underlease all or any portion of such space without Landlord's prior consent in each instance, which consent may be withheld for any reason.

7.04. The liability of the tenant named in this Lease or any of its successors-in-interest under this Lease for the due performance of the obligations on its part to be performed under this Lease, shall not be discharged, released or impaired in any respect by an agreement or stipulation made by Landlord with any assignee or grantee of the tenant named in this Lease or any of its successors-in-interest, by way of mortgage, or otherwise, extending the time of or modifying any of the obligations contained in this Lease, or by any waiver or failure of Landlord to enforce any of the obligations to be performed under this Lease, and the tenant named in this Lease or any of its successors-in-interest shall continue to be liable hereunder except as provided in the next sentence. If any such agreement or modification operates to increase the obligations of any assignee or grantee of the tenant named in this Lease or any of its successors-in-interest, the liability under this Section 7.04 of the tenant named in the Lease or any of its successors-in-interest (unless such party shall have expressly consented in writing to such agreement or modification) shall continue to be no greater than if such agreement or modification had not been made. To charge the tenant named in this Lease or any of its successors-in-interest, no demand or notice of any default shall be required; the tenant named in this Lease and each of its successors-in-interest hereby expressly waives any such demand or notice.

7.05. (a) In the event that Tenant complies with the provisions of Section 7.06 hereof and Landlord does not exercise any option provided to Landlord thereunder within the time provided therefor, and, within one hundred eighty (180) days following the expiration of the ten (10) day period described in Section 7.06 hereof, Tenant delivers to Landlord a memorandum (hereinafter called the "Consent Memo") setting forth the name and business address of the proposed subtenant or assignee, the basic financial terms of the proposed assignment or sublease, and the most recent financial statements and credit references available with respect to the proposed assignee or subtenant, Landlord shall not unreasonably withhold its consent to an assignment of this Lease or a subletting of the whole or a part of the Premises as set forth in the Consent Memo at such time as Tenant enters into the proposed assignment or sublease, provided that:

(1) The financial net worth, credit and financial responsibility of the proposed subtenant or assignee is, considering the responsibilities involved, reasonably satisfactory to Landlord;

(2) The proposed subtenant or assignee or its business activities is not so disreputable as to adversely affect the reputation of the Building;

(3) The proposed subtenant or assignee is not then (x) an occupant of any part of the Building except to the extent that there is not adequate space in the Building to satisfy such proposed subtenant's or assignee's requirements (adequate space being space that (i) shall be above-grade, (ii) Landlord has possession of, and (iii) in the event of a proposed sublet of one or more full floors, consists of at least the same number of full floors) (y) a party who actively negotiated with Landlord or Landlord's agent (directly or through a broker) with respect to space in the Building during the three (3) months immediately preceding Tenant's request for Landlord's consent except to the extent that Landlord shall not have (and based on surrender agreements, other written agreements material defaults under existing leases, or anticipated lease expirations is not reasonably likely to have) sufficient space available for leasing in the Building for such proposed assignee or sublessee;

(4) All costs incurred with respect to providing reasonably appropriate means of ingress and egress from the sublet space or to separate the sublet space from the remainder of the Premises shall, subject to the provisions of Article 11 with respect to alterations, installations, additions or improvements, be borne by Tenant or the subtenant;

(5) Tenant shall pay to Landlord any reasonable out-of-pocket costs incurred by Landlord to review the proposed assignment or subletting including reasonable attorneys' fees incurred by Landlord within thirty (30) days after rendition of a statement therefor; and

(6) Tenant shall have complied with the provisions in Section 7.06 and Landlord shall not have made any of the elections provided for in Section 7.06 and that the term as contemplated by Tenant's Recapture Notice (as such term is hereinafter defined) shall not be materially different from that set forth in Tenant's Consent Memo.

(b) In the event that Landlord fails to exercise any of its options under Section 7.06 and Tenant fails to deliver to Landlord the Consent Memo described herein within one hundred eighty (180) days following the expiration of the ten (10) day period set forth in Section 7.06, then Tenant shall again comply with all of the provisions and conditions of Section 7.06 before assigning this Lease or subletting the Premises or any portion thereof;

(c) Landlord agrees that it shall approve or disapprove of any such proposed sublease or assignment within ten (10) Business Days following Landlord's receipt of the Consent Memo containing all of the information set forth in Section 7.05(a). Any disapproval shall state Landlord's objections with reasonable specificity. If Landlord shall not respond to Tenant's request for Landlord's consent to such assignment or sublease within such ten (10) Business Days, then provided (i) Tenant is not in default hereunder beyond notice and any applicable cure period, (ii) Tenant's initial request for Landlord's consent shall in bold and capitalized lettering specifically reference this subsection and set forth the requirement that

Landlord respond within such ten (10) Business Day period, and (iii) such assignment or sublease satisfies the conditions specified in subsections 7.05 (1) - (6), Tenant may, following the expiration of such ten (10) Business Day period, deliver a second notice (the "Second A/S Notice") to Landlord, (which shall specify in bold and capitalized lettering that if Landlord's response to the proposed assignment or sublease is not given within five (5) business days after receipt of such Second A/S Notice, Landlord's approval of the proposed assignment or sublease shall be deemed granted) and if Landlord's response to the proposed assignment or sublease is not given within five (5) business days following receipt of the Second A/S Notice, Landlord's approval of the proposed assignment or sublease shall be deemed granted. Landlord and Tenant agree that Landlord shall have no obligation to respond to Tenant's request for Landlord's consent to any proposed assignment of the Lease or sublease of all or part of the Premises until Landlord has received a fully executed copy of the proposed assignment or sublease, as the case may be.

(d) At either party's option, any dispute between Landlord and Tenant as to the reasonableness of Landlord's decision to deny consent to Tenant's proposed assignee or subtenant pursuant to this Section 7.05 may be settled and finally determined by arbitration in the City of New York in accordance with the following provisions. Either party may apply to The American Arbitration Association (the "AAA") or any successor entity thereto for the designation of an arbitrator and if the AAA is unable or refuses to act within five (5) Business Days then either party may apply to the Supreme Court in New York County or to any other court having jurisdiction for the designation of such arbitrator. Any arbitrator who wishes-to be designated for the purposes described in this Section 7.05 must agree, as a condition of his or her employment, to render a determination no later than fifteen (15) days following the date of his or her designation. The arbitrator shall conduct such hearings as he or she deems appropriate, making a determination in writing and giving notice to Landlord and Tenant of his or her determination as soon as practicable, and if possible, within five (5) Business Days after his or her designation. Judgment upon any decision rendered in any arbitration held pursuant to this subparagraph (d) of Section 7.05 shall be final and binding upon Landlord and Tenant, whether or not a judgment shall be entered in any court. The arbitrator selected as herein provided shall have at least ten (10) years' experience (as broker, owner or manager) in the leasing and renting of office space in first-class office buildings in the Wall Street area. Each party shall pay its own counsel fees and expenses, if any, in connection with any arbitration under this subparagraph (d) of Section 7.05, and the parties shall share all other expenses and fees of any such arbitration. The arbitrator shall be bound by the provisions of this Lease, and shall not add to, subtract from or otherwise modify such provisions. The sole function of the arbitrator shall be to determine the reasonableness of Landlord's decision in accordance with this Section 7.05.

7.06. (a) If Tenant shall at any time desire in good faith to assign this Lease, Tenant (notwithstanding that it does not at such time have a prospective assignee) shall give notice (hereinafter the "Recapture Notice") of such desire to Landlord, which Recapture Notice shall set forth (i) the effective date of the proposed assignment and (ii) the amount of any consideration that Tenant reasonably believes it would obtain in connection with such assignment or the amount of any consideration that Tenant reasonably believes it would be required to pay in connection with such assignment. Landlord shall then have the right to elect, by notifying Tenant within ten (10) days of such delivery, to terminate this Lease, as of such effective date as if it were the Expiration Date set forth in this Lease. If the Recapture

Notice contemplates that an assignee shall pay any consideration in connection with the assignment, then Tenant shall not be entitled to any consideration or payment from Landlord in connection with such termination (except as may be provided in subsection 7.07(b) hereof). If the Recapture Notice contemplates that Tenant shall pay any consideration in connection with the assignment, then such consideration shall be payable by Tenant in connection with such termination.

(b) If Tenant shall at any time desire in good faith to sublet all or part of the Premises, Tenant (notwithstanding that it does not at such time have a prospective subtenant) shall give a Recapture Notice to Landlord, which Recapture Notice shall set forth (i) the area proposed to be sublet, (ii) the proposed term for such sublease, and (iii) the subrental rate (including, without limitation, all fixed rent and additional rent) that Tenant in its reasonable judgment believes it will be able to obtain for such sublet space (the "Proposed Rent Rate"), and Landlord shall then have the right to elect, with respect to a proposed sublease having a term expiring on or after the date that is nine (9) months prior to the Expiration Date, by notifying Tenant within ten (10) days of such delivery, to terminate this Lease as to the portion of the Premises affected by such subletting or as to the entire Premises in the case of a proposed subletting of all of or substantially all of the Premises, effective as of the commencement date of the proposed sublease as contemplated by Tenant in the Recapture Notice. In the event of any termination of this Lease by Landlord pursuant to this subsection 7.06(b), Tenant shall remain fully liable, in the case of a termination, for the full amount each month by which the Fixed Rent, Additional Charges and other sums, which would have been due under this Lease but for such termination shall exceed the Proposed Rent Rate for each such month. Except as may be specifically provided in subsection 7.07(b), no consideration or other sums shall be payable to Tenant by Landlord with respect to any termination of this Lease by Landlord pursuant to this Section 7.06.

(c) Intentionally omitted.

(d) If, pursuant to the exercise of Landlord's option pursuant to Section 7.06 hereof, this Lease is terminated as to only a portion of the Premises, then the Fixed Rent payable hereunder and Tenant's Tax Payments and Operating Expenses payable pursuant to Article 3 hereof shall be adjusted in proportion to the portion of the Premises affected by such termination.

7.07. (a) If Landlord shall give, or be deemed to have given, its consent to any assignment of this Lease or to any sublease, Tenant shall in consideration therefor, pay to Landlord, as Additional Charges hereunder:

(i) in the case of an assignment, an amount equal to fifty (50%) percent of all sums and other consideration paid to Tenant or any subtenant by the assignee for or by reason of such assignment (including, but not limited to, sums paid for the sale of Tenant's fixtures, leasehold improvements, equipment, furniture, furnishings or other personal property, less, in the case of a sale of any of the foregoing, the then fair market value thereof) after deducting therefrom the Tenant's Costs (as such term is hereinafter defined); and

(ii) in the case of a sublease, fifty (50%) percent of any rents, additional charges or other consideration payable under the sublease to Tenant by the subtenant or to any subtenant by an undertenant which is in excess of the Fixed Rent and Additional Charges accruing under this Lease during the term of the sublease in respect of the subleased space (at the rate per square foot payable by Tenant hereunder) pursuant to the terms hereof (including, but not limited to, sums paid for the sale or rental of Tenant's fixtures, leasehold improvements, equipment, furniture or other personal property, less, in the case of the sale or rental of any of foregoing, the then fair market value thereof) after deducting therefrom the Tenant's Costs (as such term is hereinafter defined).

Fair market value of Tenant's fixtures, equipment, furniture or other personal property shall be established by an appraiser selected by Landlord and approved by Tenant, such approval not to be unreasonably withheld, or if the parties are unable to agree upon an appraiser, then one selected at the application of either party by the American Arbitration Association, or any successor thereto.

With respect to the rental of or the proceeds of a sale of leasehold improvements by Tenant, the deduction therefor, (x) in the case of a sublease, shall in no event exceed $1.00 per rentable square foot per annum and (y) in the case of an assignment, shall in no event exceed the present value (using a discount factor equal to a fixed rate of interest which shall be the "Prime rate" of interest announced by Bank of America or any successor thereto on the effective date of the assignment) of a series of monthly payments aggregating not more than $1.00 per rentable square foot per annum during the period commencing on the effective date of the assignment and continuing thereafter for the then remaining term of this Lease. Except as hereinafter provided, the sums payable under this Section 7.07 shall be paid to Landlord as and when paid by the subtenant or assignee to Tenant. For purposes hereof, the term "Tenant's Costs" shall mean the amount of any reasonable and actual broker's fees or commissions paid as a result of any assignment or subletting by Tenant hereunder, reasonable and actual counsel's fees and disbursements paid with respect to such assignment and subletting, reasonable and actual advertising expenses paid relating to the assignment of this Lease or subletting of the space, the reasonable and actual cost to Tenant of additional improvements made by Tenant, at Tenant's expense, to prepare the space in question for the occupancy of the subtenant thereof or the assignee, in the case of a subletting, any rent concession or work allowance granted by Tenant to such subtenant in lieu of Tenant's performance of any such improvements, any amounts paid by Tenant in connection with any takeover of space theretofore leased by a proposed subtenant or assignee, the cost to Tenant (assuming market value for the space) for the period of time that the space in question shall be vacant (and if less than a full floor, separately demised with separate access), and all amounts paid to the Landlord's attorneys pursuant to this Lease in connection with Landlord's review of any proposed subletting or assignment.

(b) If Landlord shall, at any time, in the exercise of its rights under Section 7.06, either (i) terminate this Lease or, (ii) remove any portion of the Premises from the Premises and accept a surrender thereof for the term of any proposed sublease set forth in the Recapture Notice, and Landlord shall thereafter lease the Premises or any portion thereof (in the event of a termination of this Lease) or any portion of the space in the Premises surrendered pursuant to any Partial Surrender Agreement at a rental rate (including fixed rent, additional charges, and all other consideration paid to Landlord in connection with such rental) greater than the lower of (i)

the sum of all Fixed Rent and Additional Charges and other sums payable pursuant to this Lease with respect to such space or which would be payable hereunder but for a termination hereof pursuant to the exercise of Landlord's rights hereunder or (ii) the Proposed Rent Rate with respect to such space, then Landlord shall pay to Tenant: (x) an amount equal to forty (40%) Percent of such excess after deduction of Landlord's Cost (as such term is hereinafter defined) if Landlord terminated the Lease in response to a request for an assignment in the Recapture Notice or terminated the Lease or accepted a partial surrender of the space in response to a request for a sublease in the Recapture Notice and the Proposed Rent Rate set forth in the Recapture Notice equaled or exceeded the Fixed Rent, Additional Charges and other sums due under this Lease, or, (y) an amount equal to twenty-five (25%) percent of such excess after deduction of Landlord's Cost if Landlord terminated the Lease or accepted a partial surrender of the space in response to a request for a sublease in the Recapture Notice and the Proposed Rent Rate set forth in the Recapture Notice was less than the Fixed Rent, Additional Charges and other sums due under this Lease for such space (on a per square foot basis). For purposes hereof, the term "Landlord's Costs" shall mean the amount of any reasonable broker's fees or commissions paid as a result of any leasing transaction by Landlord hereunder, reasonable counsel's fees and disbursements paid with respect to such leasing transaction, reasonable advertising expenses paid relating to the rental of the space, the cost to Landlord of additional improvements made to prepare the space in question for the occupancy of the tenant, any rent concession or work allowance granted by Landlord to such tenant in lieu of Landlord's performance of any such improvements, amounts paid by Landlord in connection with any takeover of space theretofore leased by such tenant and the cost to Landlord for the period of time, if any, that the space in question shall be vacant. Notwithstanding the foregoing provisions of this subsection 7.07(b), to the extent that any such lease by Landlord shall include any portion(s) of the Building other than the Premises or shall involve only a part of the space as to which Landlord shall have exercised any of its options hereunder, the excess shall be calculated on a per square foot basis. The sums payable under this subsection 7.07(b) shall be paid to Tenant only if, as and when paid by Landlord's tenant. In lieu of payment thereof to Tenant, Landlord may at its option credit the amount of such payments as and when due against the next installments of Fixed Rent or Additional Charges payable by Tenant hereunder, including any amounts then payable by Tenant pursuant to Section 7.06. If the term of any lease by Landlord to which this subsection 7.07(b) shall apply shall extend beyond the date on which this Lease would have expired or terminated, but for Landlord's exercise of its right of termination pursuant to Section 7.06 hereof, Tenant's right to share in any excess shall terminate and shall be apportioned as of such date that this Lease would have expired or been terminated. As to any such lease, Landlord agrees that the rentals shall be structured in a commercially reasonable manner and not in such a manner as to deprive Tenant in bad faith of the share to which it would otherwise be entitled under this Section 7.07. Landlord's obligations under this subsection 7.07(b) shall survive the termination of this Lease.

7.08. Landlord's consent to any sublease or assignment shall not be deemed or construed to modify, amend or affect the terms and provisions of this Lease unless expressly provided in such consent, or Tenant's obligations hereunder, which shall continue to apply to the occupants thereof, as if the sublease or assignment had not been made. Notwithstanding any assignment or sublease, Tenant shall remain fully liable for the payment of Fixed Rent and Additional Charges and for the other obligations of this Lease on the part of Tenant to be performed or observed. In the event that Tenant defaults in the payment of any Fixed Rent or Additional Charges which default shall continue beyond all notice and grace periods

provided herein, Landlord is authorized to collect any rents due or accruing from any assignee, subtenant or other occupant of the Premises and Landlord shall apply the net amounts collected to the Fixed Rent and Additional Charges reserved herein, and the receipt of any such amounts by Landlord from an assignee or subtenant, or other occupant of any part of the Premises, shall not be deemed or construed as releasing Tenant from Tenant's obligations hereunder or the acceptance of that party as a direct tenant.

7.09. Notwithstanding the provisions of Article 7, Tenant shall not be obligated to deliver a Consent Memo in accordance with Section 7.05 hereof or to make the offer to Landlord described in Section 7.06 hereof, and Landlord's consent shall not be required however Tenant shall provide Landlord with advance written notice (but Tenant shall be obligated to comply with all of the other provisions of this Article 7) with respect to a subletting or a combination of sublettings from time to time in the aggregate of not more than 12,936 rentable square feet of the Premises (the "Exempted Sublet Space"); provided that none of such sublettings shall be to a subtenant of the type that, were the consent of the Landlord required per subsection 7.05(a) such subtenants would violate Section 7.05(a)(2) or Section 7.05(a)(3) hereof and provided further, that in the event the method of measuring the floor changes, the Exempted Sublet Space shall be one half of the floor. Notwithstanding the provisions of Section 7.07 hereof, in calculating the Additional Charges payable to Landlord pursuant to Section 7.07 hereof with respect to that portion of any sublease attributable to the Exempted Sublet Space, the percentage set forth in the first line of Section 7.07(a)(ii) shall be forty (40%) percent and not fifty (50%) percent.

7.10. Notwithstanding anything to the contrary contained in this Article 7, Tenant shall not be required to make the offer described in Section 7.06 hereof nor make any payments described in Section 7.07 hereof nor deliver a Consent Memo in accordance with Section 7.05 hereof and Tenant shall not be required to obtain Landlord's consent, however Tenant shall provide Landlord with advance written notice, to an assignment of this Lease or a subletting of all or a portion of the Premises to an affiliate of Tenant (as such term affiliate is defined in Section 2.07 hereof). Any transfer or cessation of control over any affiliate or subsidiary to which this Lease is assigned shall constitute an assignment of this Lease or a subletting to which all of the provisions of this Article 7 (other than Section 7.02) shall apply. In the event that Tenant assigns this Lease or sublets all or a portion of the Premises in accordance with this paragraph, the assignee of this Lease or such subtenant shall execute an agreement of the type required to be executed pursuant to Section 7.03 hereof.

7.11. Notwithstanding anything to the contrary contained in this Article 7, Tenant shall not be required to make the offer described in Section 7.06 hereof, nor make any of the payments described in Section 7.07 hereof, nor deliver a Consent Memo in accordance with Section 7.05 hereof and Landlord's consent shall not be required, however Tenant shall provide Landlord with advance written notice, with respect to occupancy of a portion of the Premises by persons having an ongoing business arrangement or relationship with Tenant, other than merely that of an occupant of the Premises ("Tenant's Associates"), provided that, (i) such Tenant's Associates shall not occupy, after including their allocable share of the common, secretarial and service areas, in excess of five (5%) percent of the rentable area of the Premises; (ii) no such occupancy shall be deemed to create a tenancy hereunder and any such occupancy shall be deemed to be pursuant to a license granted by Tenant and revocable

by Tenant upon not more than sixty (60) days' notice; and (iii) the acts and omissions of such Tenant's Associates and its employees, contractors, agents and invitees will be deemed to be the acts and omissions of Tenant and its employees, contractors, agents and invitees.

ARTICLE 8

Compliance with Laws

8.01. Tenant shall give prompt notice to Landlord of any written notice it receives of the violation of any law or requirement of any public authority with respect to the Premises or the use or occupation thereof. Tenant shall, subject to its rights to contest as set forth in Section 8.02 hereof, at Tenant's expense, comply with all laws and requirements of any public authorities in respect of the Premises and the use and occupation thereof, however, to the extent that such compliance shall require repairs, alterations, improvements or additions in the Premises, Tenant shall be responsible only for those that: (A) are to be performed in portions of the Premises other than elevator lobbies, core bathrooms and electrical closets (hereinafter called "Excluded Areas"), (B) are non-structural and (C) are of a nature or type that they would generally be demolished and/or removed in connection with a standard new building installation. Notwithstanding the foregoing, Tenant shall be responsible for the cost of removing any Alteration which Tenant installs in an Excluded Area (and restoring the area affected thereby) to the extent that such Alteration subsequently violates or creates conditions constituting a violation of such laws and requirements of any public authorities. Furthermore, Tenant shall be responsible for the cost of compliance with all present and future laws and requirements of any public authorities in respect of the Building arising from the breach of any of Tenant's obligations hereunder, whether or not such compliance requires work which is structural or non-structural, ordinary or extraordinary, foreseen or unforeseen. However, Tenant need not comply with any such law or requirement of any public authority so long as Tenant shall be contesting the validity thereof, or the applicability thereof to the Premises, in accordance with Section 8.02 hereof. Landlord, at its expense, shall comply with all other such laws and requirements of public authorities as shall affect the Premises (including without limitation, the Americans with Disabilities Act) and all laws as shall affect the Building and the Land to the extent that any non-compliance with the same shall adversely affect Tenant's use of the Premises or reduce Tenant's access to the Premises, but may, in any such instance, similarly defer compliance so long as Landlord shall be contesting the validity or applicability thereof.

8.02. Tenant, at its expense, after notice to Landlord, may contest, by appropriate proceedings prosecuted diligently and in good faith, the validity, or applicability to the Premises, of any law or requirement of any public authority, provided that (a) Landlord shall not be subject to criminal penalty or to prosecution for a crime, nor shall the Premises or any part thereof or the Building or Land, or any part thereof, be subject to being condemned, nor shall the Building or Land, or any part thereof, be subjected to any lien or encumbrance, by reason of non-compliance or otherwise by reason of such contest; (b) before the commencement of such contest, to the extent that Landlord may incur liability for such condition of non-compliance, Tenant shall furnish to Landlord a cash deposit or other security in amount, form and substance reasonably satisfactory to Landlord and shall indemnify Landlord against the cost thereof and against all liability for damages, interest,

penalties and expenses (including reasonable attorneys' fees and expenses), resulting from or incurred in connection with such contest or non-compliance; provided, however, that the cash deposit or other security requirement set forth in this clause (b) shall not apply with respect to the Tenant named herein or with respect to any other tenant that shall then have a net worth in excess of $50,000,000; (c) Tenant shall comply with any procedural requirements contained in any Superior Lease or Superior Mortgage of which requirements Tenant has been notified in writing with respect to such contest; (d) such non-compliance or contest shall not prevent Landlord from obtaining any permit or license that Landlord then requires or becomes required during the contest in connection with the operation of the Building; and (e) Tenant shall keep Landlord advised as to the status of such proceedings. Without limiting the application of the above, Landlord shall be deemed subject to prosecution for a crime if Landlord, or its managing agent, or any officer, director, partner, shareholder or employee of Landlord or its managing agent, as an individual, is charged with a crime of any kind or degree whatever, whether by service of a summons or otherwise, unless such charge is withdrawn before Landlord or its managing agent, or such officer, director, partner, shareholder or employee of Landlord or its managing agent (as the case may be) is required to plead or answer thereto.

ARTICLE 9

Insurance

9.01. Tenant shall not do, or permit anything to be done, or keep or permit anything to be kept in the Premises which would result in most reputable insurance companies refusing to insure the Building in amounts reasonably satisfactory to Landlord, or which would result in the cancellation of or the loss of coverage under any policy of insurance actually carried by Landlord in respect of the Building. If the action which Tenant may not do or permit to be done in the Premises pursuant to the previous sentence would not cause the cancellation of similar policies that most reputable insurance companies are then issuing, and provided Tenant notifies Landlord of the same in writing, then, following the expiration of the insurance policy in question, Landlord agrees to use reasonable efforts to obtain a similar insurance policy from a reputable insurance company that will not restrict Tenant's actions in the manner the existing policy does. Notwithstanding anything contained herein to the contrary, the provisions of this Section 9.01 shall not apply at all and shall not be construed to in any way to restrict Tenant's mere use of the Premises as general and executive offices.

9.02. If, by reason of Tenant's particular manner of use of the Premises (i.e., a special use other than that specifically permitted hereunder or generally contemplated in connection with an office occupancy), the premiums on Landlord's insurance on the Building shall be higher than they otherwise would be, Tenant shall reimburse Landlord, within thirty (30) days following demand and as Additional Charges, for that part of such premiums attributable to such use on the part of Tenant; provided that Landlord shall have promptly upon obtaining actual knowledge of the consequences of Tenant's use, notified Tenant of the same. A schedule of the premiums for the Building or the Premises, as the case may be, issued by the insurer, shall be evidence of the facts therein stated and of the several items and

charges in the insurance rate then applicable to the Building or the Premises, as the case may be.

9.03. (a) Tenant, at its expense, shall, except as provided in the last sentence of this paragraph (a), maintain at all times during the term of this Lease (x) "all risk" property insurance covering all present and future Tenant's Property and Tenant's improvements and betterments installed by or on behalf of Tenant to a limit of not less than the full replacement cost thereof, (y) commercial general liability insurance, including contractual liability, in respect of the Premises and the conduct or operation of business therein, with Landlord and its managing agent, if any, and each Superior Mortgagee or Superior Lessor whose name and address shall previously have been furnished to Tenant, as additional insureds, with limits of not less than Five Million ($5,000,000) Dollars combined single limit for bodily injury and property damage liability in any one occurrence, and (z) when Alterations are in progress, the insurance specified in Section 11.05 hereof. On or prior to the Effective Date, Tenant shall deliver to Landlord and any additional insureds a copy of certificates of insurance issued by the insurance company or its authorized agent. Tenant shall procure and pay for renewals of such insurance from time to time before the expiration thereof, and Tenant shall deliver to Landlord and any additional insureds reasonable evidence of such renewals (such as a "binder") before the expiration of any existing policy and a copy of the certificate with respect to such renewal insurance policies within thirty (30) days of the expiration of the existing policy. Such insurance may be carried in a blanket policy covering the Premises and other locations of Tenant, if any, provided that each such policy shall in all respects comply with this Article 9 and shall specify (or Tenant shall provide a certificate of such insurer to the same effect) that the portion of the total coverage of such policy that is allocated to the Premises is at least the minimum amount required pursuant to this Article 9. All such policies shall be issued by companies of recognized responsibility licensed to do business in New York State and all such policies shall contain a provision whereby the same cannot be cancelled or modified unless Landlord is given at least thirty (30) days' prior written notice of such cancellation or modification. Tenant shall cooperate with Landlord in connection with the collection of any insurance monies that may be due in the event of loss and Tenant shall execute and deliver to landlord such proofs of loss and other instruments which may be required to recover any such insurance monies. Tenant shall not be required to obtain the insurance referred to in clause (x) hereof as to Tenant's Alterations, improvements and betterments during the last two (2) years of the term hereof.

(b) Landlord, at its expense, shall maintain at all times during the term of this Lease (i) a commercial general liability insurance policy and (ii) an "all-risk" property insurance policy with broad form coverage in an amount equal to one hundred (100%) percent of the replacement cost of the Building (which policy shall, during the last two (2) years of the term hereof, provide coverage for Tenant's Alterations, improvements and betterments). Landlord agrees that in no event shall such general liability insurance policy have a minimum combined single limit of less than the limit amount Tenant is then required to carry with respect to its general liability policy pursuant to this Article 9. The policies described herein may be carried in a blanket policy covering this Building and other buildings or other properties.

9.04. Each party agrees to have included in each of its insurance policies (insuring the Building in case of Landlord, and insuring Tenant's Alterations and Tenant's

Property (hereinafter defined) and improvements and betterments in the case of Tenant, against loss, damage or destruction by fire or other casualty), a waiver of the insurer's right of subrogation against the other party and its employees during the term of this Lease or, if such waiver should be unobtainable or unenforceable, (i) an express agreement that such policy shall not be invalidated if the assured waives the right of recovery against any party responsible for a casualty covered by the policy before the casualty or (ii) any other form of permission for the release of the other party. If such waiver, agreement or permission shall not be, or shall cease to be, obtainable from either party's then current insurance company, the insured party shall so notify the other party promptly after learning thereof, and shall use its reasonable efforts to obtain the same from another insurance company described in Section 9.03 hereof. Each party hereby releases the other party and its employees, with respect to any claim (including a claim for negligence) which it might otherwise have against the other party, for loss, damage or destruction with respect to its property occurring during the term of this Lease to the extent to which it is, or is required to be, insured under a policy or policies containing a waiver of subrogation or permission to release liability, as provided in this Section 9.04. Nothing contained in this Section 9.04 shall be deemed to relieve either party of any duty imposed elsewhere in this Lease to repair, restore or rebuild or to nullify any abatement of rents provided for elsewhere in this Lease.

9.05. Landlord may from time to time (but in no event more often than once in any thirty-six (36) month period occurring during the term of this Lease) require that the amount of the insurance to be maintained by Tenant under Section 9.03 hereof be increased, so that the amount thereof is equivalent to amounts required of similar tenants of similar first-class office buildings in the Borough of Manhattan, comparable to the Building.

ARTICLE 10

Rules and Regulations

10.01. Tenant and its employees and agents shall faithfully observe and comply with the rules and regulations annexed hereto as Exhibit D and made a part hereof, and such reasonable changes therein (whether by modification, elimination or addition) as Landlord at any time or times hereafter may make and communicate to Tenant in writing at least twenty (20) days in advance (except in the case of an emergency or other exigent circumstances), which, in Landlord's judgment, reasonably exercised, shall be necessary for the reputation, safety, care and appearance of the Building, or the preservation of good order therein, or the operation or maintenance of the Building, and which do not unreasonably affect Tenant's use of the Premises or of the Building (such rules and regulations as changed from time to time being herein called "Rules and Regulations"); provided, however, that in case of any conflict or inconsistency between the provisions of this Lease and any of the Rules and Regulations, the provisions of this Lease shall control.

10.02. Nothing in this Lease contained shall be construed to impose upon Landlord any duty or obligation to enforce the Rules and Regulations against any other tenant or any employees or agents of Tenant or any other tenant, and Landlord shall not be liable to Tenant for violation of the Rules and Regulations by another tenant or its employees, agents, invitees or licensees. Landlord agrees that Landlord shall not enforce any

Rules and Regulations against Tenant that Landlord shall not then be enforcing against all other tenants in the Building.

10.03. If Tenant shall dispute the reasonableness of any Rule and Regulation promulgated by Landlord following the date of this Lease or of any changes to any existing Rules or Regulations, such dispute, at either party's option, may be resolved by arbitration conducted in the manner as set forth in Section 7.05 hereof, but pending the outcome thereof, Tenant will comply with the disputed Rule or Regulation.

ARTICLE 11

Alterations

11.01. Except as hereinafter provided, Tenant shall make no improvements, changes or alterations in or to the Premises (herein called "Alterations") of any nature without Landlord's prior written approval. Notwithstanding the foregoing, Tenant may, at its sole expense, without being required to obtain Landlord's prior approval, but upon prior written notice to Landlord, undertake "Non-Material Alterations" (as hereinafter defined), provided that, if such Non-Material Alteration is an alteration of such a nature that plans and specifications are generally prepared in connection with the performance thereof, Tenant shall, prior to performing such Non-Material Alteration, deliver to Landlord the plans and specifications prepared by Tenant in connection with such Non-Material Alterations. For purposes hereof, a "Material Alteration" is an Alteration which (a) is structural, or (b) materially affects the proper functioning of mechanical, electrical, sanitary, heating, ventilating, air-conditioning or other service systems of the Building. Landlord's approval of Material Alterations shall not be unreasonably withheld or delayed. Any Alteration which is not a Material Alteration is referred to in this Lease as a Non-Material Alteration. The fact that any Alteration is to be or shall be performed strictly within the interior space of the Premises shall not be, in and of itself, determinative that such Alteration does not affect one or more of the Building systems. An Alteration that affects the exterior or the appearance of the Building is neither a Non-Material Alteration nor a Material Alteration and Landlord may withhold consent thereto for any reason. For purposes of this Article 11, it is understood that the mere fact that an Alteration can be seen through the Building's windows does not, in and of itself, mean that such Alteration affects the "appearance" of the Building unless such Alteration was performed with the intention that it be seen through the windows.

11.02. (a) Before proceeding with any Material Alteration, Tenant shall submit to Landlord, for Landlord's approval, plans and specifications for the work to be done, and Tenant shall not proceed with such work until it obtains Landlord's written approval of such plans and specifications, which approval of Tenant's submitted plans and specifications shall not be unreasonably withheld or delayed or may be deemed approved as hereinafter provided. If Landlord shall disapprove of any portion of Tenant's plans and specifications, Landlord shall set forth in writing Landlord's specific objections thereto. Landlord agrees that it shall respond to Tenant's request for consent to plans and specifications for any Material Alterations within ten (10) Business Days after Landlord's receipt thereof (unless Landlord believes in good faith that review of such plans and specifications by an unaffiliated third party architect or engineer is necessary in which event Landlord will

respond to Tenant within fifteen (15) Business Days) and Landlord shall respond to a request for consent to a resubmission of previously disapproved plans within five (5) Business Days after Landlord's receipt thereof. Furthermore, such consent by Landlord shall be deemed granted if Landlord does not deliver to Tenant written notice of Landlord's disapproval within the requisite time limit set forth herein. If Tenant shall dispute the reasonableness of Landlord's decision to deny its approval of any particular Alteration or to deny its approval to any plans and specifications submitted by Tenant, or if there is any dispute as to whether a particular Alteration is "Material", then such dispute, at either party's option, may be resolved by expedited arbitration in the manner as set forth in subsection 7.05(d) hereof.

(b) Tenant shall pay to Landlord within thirty (30) days of Landlord's rendition of a bill therefor, as Additional Charges, Landlord's reasonable out-of-pocket costs and expenses (including, without limitation, the reasonable fees of any architect or engineer employed by Landlord for such purpose) for (i) reviewing said plans and specifications and (ii) inspecting the Alterations to determine whether the same are being performed in accordance with the approved plans and specifications and all laws and requirements of public authorities.

(c) Tenant agrees that any review or approval by Landlord of any plans and/or specifications with respect to any Alterations is solely for Landlord's benefit, and without any representation or warranty whatsoever to Tenant with respect to the adequacy, correctness or efficiency thereof or otherwise. Notwithstanding the foregoing, with respect to Alterations affecting the systems serving the Premises and/or the Building, Tenant may, at Tenant s option, in lieu of any other approved engineer utilize an engineer designated by Landlord (and who shall be reasonably available to Tenant and its representatives for the performance, at Tenant's expense, of usual engineering services) for the preparation of all mechanical and engineering plans. Use by Tenant of Landlord's designated engineer in accordance with the preceding sentence shall be deemed to preclude Landlord from subsequently claiming that Tenant is responsible for damage to the Building and/or its equipment, facilities or systems on the basis that such damage is attributable to the design incorporated in the plans prepared by such engineer or that such design impairs the proper maintenance, operation or repair of the Building and/or its equipment, facilities or systems.

11.03. Intentionally Deleted.

11.04. Tenant, in connection with any Alterations, shall comply with and observe the Alterations Rules and Regulations set forth as Exhibit E annexed hereto and made a part hereof.

11.05. Tenant, at its expense, shall obtain (and furnish true and complete copies to Landlord of) all necessary governmental permits and certificates for the commencement and prosecution of Alterations (as and when the same are necessary) and for final approval thereof upon completion, and shall cause Alterations to be performed in compliance therewith, with all applicable laws and requirements of public authorities, with all applicable requirements of insurance bodies and with the plans and specifications approved by Landlord. Landlord shall cooperate with Tenant and execute any documents reasonably required by Tenant to effect such compliance provided Landlord shall be reasonably satisfied that the facts set forth in such documents are accurate. Alterations shall be performed in a

good and workmanlike manner. All Alterations shall be performed only by contractors selected by Tenant and approved by Landlord, which approval Landlord shall not unreasonably withhold or delay. Landlord hereby approves of the following contractors with respect to any Alterations which Tenant may commence in the Premises during the twelve (12) month period following the date of the execution of this Lease: Gerner, Kronik and Valcarcel, Architects, JA Jennings, Inc., General Contractor, Atlas Acon, Electrical Contractor, PJ Mechanical, HVAC Contractor and Tangel Engineering. With respect to any Alterations commenced by Tenant subsequent to such twelve (12) month period, at Tenant's option, Tenant may, from time to time, request Landlord to supply Tenant with a list of Building-approved contractors which list shall contain at least three (3) entries per trade and any contractor appearing on such list may be utilized by Tenant and shall not require further approval by Landlord. Alterations shall be performed in such manner as not to unreasonably interfere with Landlord in the maintenance, repair or operation of the Building. Throughout the performance of Alterations, Tenant, at its expense, shall carry, or cause to be carried, worker's compensation insurance in statutory limits, all risk "Builders Risk" insurance and general liability insurance, with completed operation endorsement, for any occurrence in or about the Building, and with respect to such "Builder Risk" insurance and general liability insurance Landlord and its agent and any Superior Mortgagee or Superior Lessor whose name and address shall previously have been furnished to Tenant shall be named as parties insured. Such policies shall be issued by companies of recognized responsibility and licensed to do business in New York State in such limits as shall be commercially reasonable and, with respect to liability insurance, in an amount equal to at least the amount of liability insurance Tenant is then obligated to maintain in accordance with the provisions of Article 9 hereof unless a higher amount is required by law. Tenant shall furnish Landlord with copies of insurance certificates or other reasonably satisfactory evidence that such insurance is in effect at or before the commencement of Alterations.

11.06. Tenant agrees that it shall not exercise its rights pursuant to the provisions of this Article 11 or of any other provisions of this Lease or the Exhibits annexed hereto in a manner which might reasonably be expected to create any work stoppage, picketing, labor disruption or dispute or disharmony. Tenant shall promptly after notice stop work or other activity if Landlord notifies Tenant that such work or activity violates Landlord's union contracts affecting the Building, or creates any work stoppage, picketing, labor disruption or dispute or disharmony.

11.07. Tenant, at its expense, and with diligence and dispatch, shall procure the cancellation or discharge of all notices of violation arising from or otherwise connected with Alterations, or any other work, labor, services or materials done for or supplied to Tenant (exclusive of Landlord's Work) or any person claiming through or under Tenant, which shall be issued by the Department of Buildings of the City of New York or any other public authority having or asserting jurisdiction. Tenant shall defend, indemnify and save harmless Landlord from and against any and all mechanic's and other liens and encumbrances filed in connection with Alterations performed by Tenant or any other work, labor, services or materials done for or supplied to Tenant (exclusive of Landlord's Work) or any person claiming through or under Tenant, including, without limitation, security interests in any materials, fixtures or articles (but expressly excluding Tenant's business equipment, telephone systems, computers or trade fixtures, it being expressly understood and agreed that

Tenant shall be permitted to finance such items) so installed in and constituting part of the Premises and against all costs, expenses and liabilities incurred in connection with any such lien or encumbrance or any action or proceeding brought thereon. Tenant, at its expense, shall procure the satisfaction or discharge of record of all such liens and encumbrances within thirty (30) days after Tenant receives notice of the filing thereof. Nothing herein contained shall prevent Tenant from contesting, in good faith and at its own expense, any notice of violation, provided that Tenant shall comply with the provisions of Section 8.02 hereof; provided, however, that the foregoing provisions of this sentence shall not obviate the need for such satisfaction or discharge of record.

11.08. Tenant will, promptly upon the completion of any Material Alteration, deliver to Landlord "as built" drawings or marked shop drawings of such Material Alteration, Tenant has performed or caused to be performed in the Premises. Promptly upon completion of a Non-Material Alteration, Tenant shall deliver to Landlord only such "as built" drawings or marked shop drawings as Tenant shall have prepared in connection with such Non-Material Alteration.

11.09. All fixtures and equipment installed or used by Tenant in the Premises, other than Tenant's business equipment, telephone systems, computers and trade fixtures, shall not be subject to conditional bills of sale, chattel mortgage or other title retention agreements.

11.10. Tenant shall use reasonable efforts to keep records of Tenant's Alterations costing in excess of $50,000 and of the cost thereof. Tenant shall, within forty-five (45) days after demand by Landlord, furnish to Landlord copies of such records and cost if Landlord shall require same in connection with any proceeding to reduce the assessed valuation of the Building, in connection with the adjustment of any insurance claim following a fire or other casualty, in connection with the determination of a condemnation award or otherwise.

ARTICLE 12

Landlord's and Tenant's Property

12.01. All fixtures, equipment, improvements and appurtenances attached to or built into the Premises at the commencement of or during the term of this Lease, whether or not by or at the expense of Tenant, shall be and remain a part of the Premises, shall, upon the expiration or sooner termination of this Lease, be deemed the property of Landlord and shall not be removed by Tenant, except as provided in Sections 12.02 and 12.05. Upon such removal, Tenant shall, immediately and at its expense, repair any damage to the Premises or the Building due to such removal.

12.02. All movable partitions, business and trade fixtures, machinery and equipment, communications equipment and office equipment, whether or not attached to or built into the Premises, which are installed in the Premises by or for the account of Tenant and can be removed without structural damage to the Building, and all furniture, furnishings and other articles of movable personal property owned by Tenant and located in the Premises (herein collectively called "Tenant's Property") shall be and shall remain the property of

Tenant and may be removed by Tenant at any time during the term of this Lease; provided that if any of Tenant's Property is removed, Tenant shall repair or pay the cost of repairing any damage to the Premises or to the Building resulting from the installation and/or removal thereof.

12.03. At or before the Expiration Date of this Lease (or within twenty (20) days after any earlier termination of this Lease) Tenant, at its expense, shall remove from the Premises all of Tenant's Property (except such items thereof as Landlord shall have expressly permitted to remain, which property shall become the property of Landlord), and Tenant shall restore and/or repair any damage to the Premises or the Building resulting from any installation and/or removal of Tenant's Property.

12.04. Any other items of Tenant's Property which shall remain in the Premises after Tenant's vacating of the Premises following the Expiration Date of this Lease, or within twenty (20) days following an earlier termination date, may at the option of Landlord, be deemed to have been abandoned, and in such case such items may be retained by Landlord as its property or disposed of by Landlord, without accountability, in such manner as Landlord shall determine at Tenant's expense.

12.05 Notwithstanding anything contained herein to the contrary, those installations and improvements that are Specialty Alterations (as hereinafter defined) and which were installed after the Effective Date shall be removed from the Premises by Tenant at or prior to the Expiration Date of this Lease (or within twenty (20) days after earlier termination of this Lease), at Tenant's expense provided that Landlord notify Tenant as to whether Tenant will be required to remove and/or restore, as the case may be, said Specialty Alterations, at the time of Landlord's approval (if approved) whether said Specialty Alterations will be required to be removed by Tenant at the end of the term, at Tenant's sole cost and expense. Tenant shall not be required to remove Specialty Alterations installed prior to the Effective Date. "Specialty Alteration(s)" shall include, without limitation, installations by or on behalf of Tenant made after the Effective Date consisting of kitchens, executive bathrooms, satellite dishes and/or similar antennae devices, raised computer floors, computer installations, vaults, libraries, filing systems which are built-in and/or penetrate or otherwise affect any floor slab to a greater than de minimis extent, internal staircases, dumbwaiters, pneumatic tubes, vertical and horizontal transportation systems, supplemental HVAC systems, any installations which are structural in nature or penetrate or otherwise affects any floor slab to a greater than de minimis extent, and other installations of a similar character which are not customary for general office use in comparable office buildings in downtown Manhattan. Tenant shall restore and/or repair any damage to the Premises or the Building resulting from any installation and/or removal of Specialty Alterations.

ARTICLE 13

Repairs and Maintenance

13.01. (a) Tenant shall, at its expense, throughout the term of this Lease, take good care of and maintain in good order and condition the Premises and the fixtures (other than sanitary fixtures in the core bathrooms that were installed by Landlord) and improvements therein, including, without limitation, the property which is deemed

Landlord's pursuant to Section 12.01 hereof and Tenant's Property, reasonable wear and tear, obsolescence and damage for which Tenant is not responsible pursuant to this Lease, excepted. The foregoing exclusion is not intended to imply any obligation on the part of Landlord to make repairs resulting from such causes, but to free Tenant from the mandatory obligation as opposed to the responsibility for repairs or maintenance the need for which arises from such causes. Except with regard to any repairs resulting from Landlord's (or Landlord's agents, contractors or any other persons under Landlord's control) negligent or wrongful acts or omissions, Tenant shall be responsible for any non-structural repairs in and to the interior of the Premises. Furthermore, Tenant shall be responsible for the cost of all repairs, interior and exterior, structural and non-structural, ordinary and extraordinary, foreseen or unforeseen, in and to the Building and the facilities and systems thereof and in and to the Premises the need for which arises out of: (a) the performance or use by Tenant of any Alterations in the Premises, (b) the moving of Tenant's fixtures, furniture and equipment in or out of the Building, unless caused by the misuse, neglect or willful misconduct of Landlord, its agents, contractors, employees or any other persons under Landlord's control, (c) the misuse, neglect or willful misconduct of Tenant or any of its subtenants or its or their employees, agents, contractors or any other persons under Tenant's control, or (d) design flaws in any of Tenant's plans and specifications regardless of the fact that such Tenant s plans may have been approved by Landlord; unless such plans and specifications were designed by the engineer then designated by Landlord, as provided in Section 11.02(c) hereof. After the Effective Date, Tenant, at its expense, shall be responsible for the repair, maintenance and replacement of all distribution portions of the systems and facilities of the Building within and exclusively serving the Premises, including, without limitation, the sanitary (if any) and electrical fixtures installed by Tenant and equipment therein but specifically excluding the base Building perimeter HVAC induction units. In the event Tenant shall install any executive bathrooms or showers in the Premises, Tenant shall be solely responsible for any maintenance, repair and/or replacement work and/or any damages to the Building that arises in connection therewith. All repairs in or to the Premises for which Tenant is responsible shall be performed by Tenant in a prompt manner and in accordance with Tenant's obligations under this Lease; provided, however, any repairs in and to the Building and the facilities and systems thereof for which Tenant is responsible shall be performed by Landlord at Tenant's expense, at reasonable, commercially competitive rates. The exterior walls of the Building, the portions of any window sills outside the windows, and the windows are not part of the premises demised by this Lease and Landlord reserves all rights to such parts the Building and all responsibility for the maintenance, upkeep, repair and replacement thereof.

(b) Landlord shall, at its expense, keep and maintain the Building in good repair and in a condition comparable to similar first-class office buildings in the Wall Street area. Except to the extent Tenant is responsible for the same in accordance with the provisions of subsection 13.01(a) hereof, Landlord shall make all necessary repairs (structural and non-structural) to the facilities and systems of the Building, the public portions and common areas of the Building, the structural components of the Building and the public portions of the Land. Landlord shall be responsible, at its sole cost and expense, for repairing any damage to the Premises caused by Landlord's misuse, willful misconduct or negligent act or omission or that of its agents, employees, contractors or any other person or entity under Landlord's control. Landlord shall perform and complete any such repair upon reasonable advance notice to Tenant

in accordance with Section 16.03 hereof and in such a manner as to minimize interference with Tenant's use of the Premises. However, nothing contained herein shall be construed to require Landlord to perform such repairs on an overtime or premium-pay basis unless (i) the performance of such work during Business Hours would have a material adverse affect on the conduct of Tenant's business in the Premises, would substantially interfere with access to the Building or the Premises or would result in the stoppage of any Building systems; or (ii) such overtime or premium-pay basis is required to expedite the cure of a condition which presents an immediate danger to persons or property within the Premises.

13.02. Tenant shall give Landlord prompt notice of any defective condition of which Tenant has actual knowledge in any of the Building systems such as the plumbing, heating, air-conditioning or ventilation system or electrical lines located in, servicing or passing through the Premises. Following such notice, Landlord shall promptly remedy the conditions at the expense of the party that is responsible for same under the provisions of this Article 13.

13.03. Except as otherwise expressly provided in this Lease, Landlord shall have no liability to Tenant, nor shall Tenant's covenants and obligations under this Lease be reduced or abated in any manner whatsoever, by reason of any inconvenience, annoyance, interruption or injury arising from Landlord's making any repairs or changes which Landlord is required or permitted by this Lease, or required by law, to make in or to the fixtures, equipment or appurtenances of the Building or the Premises. Notwithstanding the foregoing or anything else to the contrary contained in this Lease, if for any reason other than as a direct result of the affirmative act or omission (where Tenant had a duty to act) of Tenant, Tenant is unable to operate and ceases the conduct of its normal business in all or in a portion of the Premises comprised of not less than 12,000 contiguous rentable square feet (such portion of the Premises being hereinafter referred to as the "Unusable Area") and all of Tenant's employees vacate the entire Premises or the Unusable Area, as the case may be, for a period in excess of five (5) consecutive Business Days (hereinafter called the "Threshold Period"), then beginning upon the day following the expiration of the Threshold Period and continuing thereafter until the date that Tenant resumes the normal conduct of its business in the Premises or the Unusable Area, as the case may be, or the date on which the same are once again usable by Tenant for the normal operation of its business, whichever occurs earlier, the Fixed Rent and Additional Charges payable pursuant to Article 3 hereof shall be fully abated in the event the entire Premises is unusable or abated in the proportion that the number of rentable square feet in the Unusable Area bears to the number of rentable square feet in the entire Premises, as the case may be. If the Premises or the Unusable Area shall remain untenantable for a period of 420 consecutive days and throughout such 420-day period Tenant ceases to conduct its business in the Premises or the Unusable Area, as the case may be, and none of Tenant's employees use the Premises or the Unusable Area, as the case may be, for the conduct of business therein, then Tenant shall, upon notice to Landlord given within ten (10) days following the expiration of such 420-day period, be permitted to terminate this Lease in whole (if the entire Premises shall have been so unusable) or with respect to the Unusable Area only, as the case may be. Inspections by Tenant or attempts by Tenant to retrieve records, personal property and equipment from the Premises or the Unusable Area shall not deem said space tenantable.

ARTICLE 14

Electricity

14.01. Landlord agrees to furnish to the Premises and Tenant agrees to purchase from Landlord all electricity consumed, used or to be used in the Premises. The amount to be paid by Tenant for electricity consumed shall be determined by a currently installed meter or meters and related equipment and billed in accordance with the consumption and demand amounts recorded by each meter. Bills for electricity consumed by Tenant, which Tenant hereby agrees to pay, shall be rendered by Landlord to Tenant not more often than monthly and shall be payable as an Additional Charge, within thirty (30) days after rendition of any such bill. The amount to be charged to Tenant by Landlord per "KW" and "KWHR" pursuant to this Article for electricity consumed within the Premises, as shown on the meters measuring Tenant's consumption of electricity, shall be 103.5% of the amount at which Landlord from time to time purchases each KW and KWHR of electricity for the same period from the utility company, which amount shall be determined by dividing the cost established by said utility company (averaged separately for KWs and KWHRs) during each respective billing period by the number of KWs and KWHRs consumed by the Building appearing on the utility company invoice for such period. If any tax is imposed on Landlord's receipt from the sale or resale of electric energy to Tenant by any federal, state or municipal authority, Tenant covenants and agrees that where permitted by law, Tenant's pro rata share of such taxes shall be passed on to, and included in the bill of, and paid by Tenant to Landlord. Any meters installed to furnish electric service to the Premises on a submetered basis, as herein provided, shall be maintained by Landlord at Landlord's expense except to the extent of any repairs that are necessary as a result of Tenant's negligence or wrongful acts which such repairs shall be performed by Landlord at Tenant's sole cost and expense.

14.02. Provided that, prior thereto or simultaneously therewith, Landlord shall discontinue or shall have discontinued furnishing electric energy to at least eighty (80%) percent of the tenants in the Building receiving electric energy on a submetering basis, Landlord reserves the right to discontinue furnishing electricity to Tenant in the Premises on a submetering basis on not less than thirty (30) days notice to Tenant, or upon such shorter notice as may be required by the public utility serving the Building. If Landlord exercises such right to discontinue, or is compelled to discontinue, furnishing electricity to Tenant, this Lease shall continue in full force and effect and shall be unaffected thereby and Tenant shall arrange to obtain electricity directly from the public utility serving the Building. Such electricity may be furnished to Tenant by means of the then existing Building system feeders, risers and wiring to the extent that the same are available, suitable and safe for such purposes. If such discontinuance on the part of Landlord shall be necessary to comply with any laws and requirements of public authorities, any requirements of insurance bodies or with any applicable rule, regulation, order or directive of any public utility company, all meters and all additional panel boards, feeders, risers, wiring and other conductors and equipment which may be required to obtain electricity of substantially the same quantity, quality and character directly from such public utility shall be installed by Landlord at Tenant's expense. If such discontinuance on the part of Landlord shall occur as a result of any other reason: (i) the aforementioned electrical equipment shall be installed by Landlord at Landlord's sole cost and expense and (ii) Landlord shall, on a regular basis, but in no event less frequently than

one (1) time during any three (3) month period during the term of this Lease, allow Tenant a credit against any Additional Charges due Landlord in an amount equal to the excess of Tenant's cost to obtain direct electric service over the cost that Tenant would have incurred for equivalent service if Tenant had continued to receive electric service under this Lease. Conversely, if Landlord shall voluntarily exercise its right described herein to discontinue furnishing Tenant with electric energy and as a result of the same the cost incurred by Tenant to obtain direct electric service is less than that which Tenant would have incurred for equivalent service if Tenant had continued to receive electric service under this Lease, then Tenant shall, as Additional Charges hereunder, pay to Landlord on a regular basis and in no event less frequently than one (1) time during any three (3) month period during the term of this Lease, all of such savings as have accrued to Tenant resulting from such Landlord's discontinuance.

14.03. Except as expressly provided in Section 13.03 hereof, Landlord shall not be liable to Tenant in any way for any failure or defect in the supply or character of electricity furnished to the Premises by reason of any requirement, act or omission of the public utility serving the Building with electricity or for any reason not attributable to Landlord. Tenant's use of electricity in the Premises shall not at any time exceed eight (8) watts per rentable square foot of demand load (the "Power Cap"), and Landlord hereby represents that the vertical electrical risers of the Building serving the Premises are capable of delivering an amount of electricity of no less than the Power Cap to the Premises. Tenant may redistribute and reallocate, at its discretion and at its expense, such demand load capacity of eight (8) watts per rentable square foot in any manner that Tenant so elects. If Tenant requests additional electrical tower in addition to the electrical capacity hereinabove described in this Section 14.03 and can demonstrate the need therefor, and if and to the extent such additional power is available for use by Tenant without resulting in a shortage of available power in the Building after taking into consideration the reasonable actual and potential needs of the other tenants in the Building and any potential tenants of then vacant space in the Building, then Landlord shall, at Tenant's cost and expense (which charge shall be commercially reasonable) make available to Tenant additional cower to the Premises in an amount up to an additional two (2) watts per rentable square foot in the Premises. Landlord agrees to make the necessary shaft space in the Building available in order for Tenant to be able to obtain such additional power; however, any additional riser or risers or feeders needed to supply Tenant's additional electrical requirements in excess of its initial capacity of a demand load not to exceed eight (8) watts per rentable square foot, will be installed by Landlord, at the sole cost and expense of Tenant (which charge shall be commercially reasonable). In addition to the installation of such riser or risers, Landlord will also, at the sole cost and expense of Tenant, install at a commercially reasonable charge all switches, meters and other equipment proper and necessary in connection therewith.

14.04. Landlord shall furnish and install all replacement lighting, tubes, lamps, bulbs and ballasts required in the Premises; and, in such event, Tenant shall pay to Landlord or its designated contractor upon demand the then established reasonable charges therefor of Landlord or its designated contractor, as the case may be, which charges shall not be in excess of commercially reasonable charges therefor.

14.05. Any statement from Landlord to Tenant for the payment of any Additional Charges pursuant to this Article 14 shall, if not disputed by Tenant or revised or corrected by Landlord within one (1) year after delivery thereof, be deemed final and conclusive upon the parties hereunder.

ARTICLE 15

Services and Equipment

15.01. Landlord, at its own cost and expense shall:

(a) Provide full passenger elevator service (i.e., five (5) Passenger elevator cars, subject to the provisions of Section 15.03) from 8:00 A.M. to 6:00 P.M. on all Business Days with two (2) passenger elevators available at all other times. Landlord may designate local and express stops for elevators and may change such designation of express and local stops from time to time. Landlord agrees that, except in an emergency situation, Landlord shall not grant permission for any construction items or materials or for any workmen carrying the same to be transported by use of the passenger elevator cars. At times other than during Business Hours of Business Days up to one (1) elevator car in Tenant's elevator bank may be used for the transport of construction workers or materials; provided that such elevator car shall be properly cleaned before the beginning of the next Business Day. Landlord will use a first class standard for elevator maintenance.

(b) Provide freight elevator service to the Premises on a first come-first served basis (i.e., no advance scheduling) during the Building's normal freight elevator hours (i.e., 8 A.M. to 12:00 P.M. and 1:00 P.M. to 4:30 P.M.) of Business Days. Freight elevator service shall also be provided to the Premises on a reserved basis at all other times, upon the payment of Landlord's then established charges therefor which shall be Additional Charges hereunder. As of the date hereof, Landlord's charge for overtime freight elevator service is at the rate of $200 per hour subject to increase in proportion to increases in Landlord's actual costs to provide same. Any request for overtime freight elevator service shall entail a minimum in the number of hours to the extent the applicable Building Service Union Employee Service contract requires a minimum number of hours per shift.

(c) (i) Supply ventilation throughout the year and supply heat and air-conditioning, as seasonally required; but in all events, Landlord shall supply heat from October 15 to April 15 and air-conditioning from April 15 to October 15, from the Building heating, ventilating and air-conditioning system from 8:00 A.M. to 6:00 P.M, on all Business Days in accordance with the specifications attached hereto as Exhibit N and made a part hereof.

(ii) In connection with its operation of the existing systems and equipment in the Building, give due consideration to the applicable portions of ASHRAE Standard No. 62-1989 to the extent that the same is implemented or adhered to generally by buildings with similar systems and equipment and of similar age and size.

Tenant acknowledges that if it shall fail to keep entirely unobstructed all of the vents, intakes, outlet and grilles in the Premises at all times, or shall fail to comply with and observe all

reasonable regulations and requirements prescribed by Landlord for the proper functioning of the heating, ventilating and air-conditioning system, the HVAC services may not meet the standards set forth in the specifications.

(d) Provide cleaning services, in accordance with the specifications set forth in Exhibit F hereto, in the Premises and public portions of the Building on all Business Days.

(e) Furnish hot and cold water for lavatory and drinking and office cleaning purposes and for use in all pantries and kitchenettes installed by Tenant in the Premises. If Tenant requires, uses or consumes water for any other purposes, Tenant agrees that Landlord may install a meter to measure Tenant's water consumption, and Tenant further agrees to reimburse Landlord for the reasonable out-of-pocket cost of the meter and the installation thereof, and to pay for the reasonable out-of-pocket maintenance cost of said meter equipment within thirty (30) days after Landlord's rendition of a bill therefor. Tenant shall reimburse Landlord for the water consumed as measured by said meter based upon the actual out-of-pocket cost to Landlord of such water, including any actual out-of-pocket costs incurred by Landlord in connection with the meter readings, and any sewer rents, and all other charges imposed by any authority, on, or measured by, the use of water within thirty (30) days after rendition of a bill therefor.

(f) Maintain listings on the Building directory of the names of Tenant, or its permitted subtenants, assignees or affiliates and the names of any of their officers and employees, provided that the names so listed shall not use more than Tenant's Proportionate Share of the space on the Building directory. Tenant shall reimburse Landlord for any actual out-of-pocket costs incurred by Landlord to unaffiliated third parties in connection with changes and additions to such directory listings requested by Tenant.

(g) Repaint or retouch, as reasonably required to compensate for ordinary wear and tear and for any damage caused by Landlord, its employees, contractors and agents, all convector covers in the Premises not less frequently than once in every three (3) years; provided, however, that Tenant shall be solely responsible at its expense to remove its property and make such convectors accessible for such painting by Landlord.

(h) With respect to the Tenant named herein only, provide at the existing security/concierge desk in the lobby of the Building during all hours other than Business Hours of Business Days personnel to carry out such security procedures as are set forth in Exhibit P hereof and to implement other security measures as Landlord shall from time to time adopt (after consultation with Tenant, but without any obligation to obtain Tenant's agreement or approval). Notwithstanding that Landlord shall agree to instruct its employees to follow such security procedures as set forth in this Lease, Landlord shall in no way be responsible for any violation of such procedures or circumvention of such Procedures as may occur from time to time at the Building and in no event shall Landlord be liable to Tenant for any loss, injury or damage to Tenant or to any other person as may result from violations or circumventions of the security procedures instituted at the Building as described in this subsection 15.01(h).

15.02. Holidays shall be deemed to mean all those dates designated as holidays by the Board of Governors of the New York Stock Exchange, in addition to dates designated

as holidays by the City of New York, State of New York and/or the United States, and in addition shall also include holidays to which maintenance or service employees of the Building are entitled under their union contract or contracts.

15.03. Landlord reserves the right to interrupt, curtail or suspend the services required to be furnished by Landlord under this Article 15 when the necessity therefor arises by reason of accident, emergency, mechanical breakdown, or when required by any law, order or regulation of any Federal, state, county or municipal authority, or for any other cause beyond the reasonable control of Landlord. Except in case of an emergency, Landlord will notify Tenant in advance of any such stoppage, and if ascertainable, its estimated duration. Landlord shall complete all required repairs or other necessary work in accordance with the standards set forth in subsection 13.01(b). Except as set forth in Section 13.03 hereof and subject to the provision of Section 27.03 hereof, no diminution or abatement of rent or other compensation shall or will be claimed by Tenant as a result therefrom, nor shall this Lease or any of the obligations of Tenant be affected or reduced by reason of such interruption, curtailment or suspension.

15.04. (a) If Tenant shall require heat or air-conditioning services at any time other than as furnished by Landlord in accordance with subsection 15.01(c) hereof, then, if Tenant shall give notice in writing to the Building superintendent prior to 4:00 P.M. in the case of services required on weekdays, prior to 4:00 P.M. on the Friday prior in the case of after hours service recurred on weekends or on holiday Mondays or prior to 4:00 P.M. on the day prior in the case of after hours service recurred on other holidays or weekends following Fridays which are holidays, Landlord shall furnish such service and Tenant shall pay to Landlord upon demand as Additional Charges hereunder Landlord's then established charges therefor. As of the date hereof, Landlord's standard rate charged to other tenants in the Building is $600.00 per floor per hour and, except as otherwise provided below in this subsection 15.04(a), requires a four (4) hour minimum and a four (4) floor minimum. Such charge shall be subject to increase in proportion to increases in Landlord's actual costs to provide same provided however if Landlord charges a future tenant in the Building a lesser rate for the overtime heat or air-conditioning services, then provided Tenant shall agree to be obligated to utilize the same or more overtime heat or air-conditioning services utilized by such future tenant, such charge charged to Tenant shall then and thereafter be reduced to such lesser charge charged to such future tenant. If any other tenant or tenants of the Building in the same zone as Tenant request overtime air-conditioning or heating for any period for which Tenant has requested such service pursuant to the provisions of this subsection 15.04(a), then the Landlord's charge for overtime HVAC, as set forth above, shall be prorated among Tenant and such other tenant or tenants, as the case may be. Notwithstanding the generality of the foregoing, any request for overtime HVAC service to commence at 6:00 P.M. on any Business Day shall not require or be subject to a "minimum" with respect to hours, but shall still require a four (4) floor minimum. Notwithstanding anything to the contrary contained herein, Tenant shall be entitled to receive overtime HVAC without being required to pay any Additional Charges therefor on up to twelve (12) occasions (each such occasion being of a duration of four (4) hours and applying with respect to four (4) floors in the Premises) during each calendar year to occur during the term of this Lease (prorated on the basis of one (1) such occasion per month with respect to any partial calendar year to occur during the term of this Lease). Each such four (4) continuous hour period is

hereinafter referred to as a "Bloc". Any unused Blocs can be accumulated from one calendar year to the next calendar year (and succeeding calendar years) up to a maximum of twenty-four (24) Blocs. Blocs in excess of the foregoing limitation shall be forfeited. Whenever Tenant wishes to utilize any such free overtime HVAC service, Tenant shall, together with its request for overtime HVAC service, specify to Landlord that such overtime HVAC services are to be provided for no cost as one of the Blocs on which no overtime HVAC charges are payable.

(b) If, within one (1) year of Tenant's receipt thereof, Tenant shall dispute any Additional Charges pursuant to this Section 15.04 set forth in a statement received by Tenant from Landlord, Landlord shall make available to Tenant or Tenant's designated agent for examination such of Landlord's books and records as are relevant to verify the amounts set forth in the Landlord's statement in question. Prior to the resolution of such dispute, Tenant shall pay to Landlord the amounts as set forth in said Landlord's statement and appropriate adjustment shall be made following the resolution of such dispute if needed. If Tenant is determined to have been correct, any such "adjustment" shall include an amount of interest to be paid to Tenant at a rate equal to the then Prime Rate announced by Bank of America or any successor thereto, from time to time on the overpaid amounts calculated from the date of such overpayment. Any statement from Landlord to Tenant for the payment of any Additional Charges pursuant to this Article 15 shall, if not disputed by Tenant or revised or corrected by Landlord within one (1) year after delivery thereof, be deemed final and conclusive upon the parties hereunder.

(c) Landlord agrees to make available 136.5 tons of condenser water ("Condenser Water Tonnage") for use by Tenant. Said condenser water shall be available on a 24-hour, 365 days per year basis, for Tenant's supplemental air-conditioning units in the Premises at a cost to Tenant of $1,855.44 per ton per annum (which charge shall escalate annually by a cumulative, compounded rate of 5%) made available, regardless whether Tenant actually uses all of the tonnage of water being reserved for Tenant's use.

15.05. Tenant shall reimburse Landlord for the cost to Landlord of removal from the Premises and the Building of any refuse and rubbish of Tenant to the extent any such refuse and rubbish of Tenant shall exceed that ordinarily accumulated daily in the routine conduct of Tenant's business as of the date of this Lease and Tenant shall pay all bills therefor within thirty (30) days after the same are rendered.

ARTICLE 16

Access and Name of Building

16.01. Except for the space within the inside surfaces of all walls, ceilings, floors, windows and doors bounding the Premises, all of the Building, including, without limitation, exterior and atrium Building walls, core corridor walls and doors and any core corridor entrance, any terraces or roofs adjacent to the Premises, and any space in or adjacent to the Premises used for shafts, stacks, pipes, conduits, fan rooms, ducts, electric or other utilities, sinks or other Building facilities, and the use thereof, as well as access thereto through the Premises for the purposes of operation, maintenance and repair, are reserved to Landlord and persons authorized by Landlord. Landlord, at Landlord's expense, may install, pursuant to

the provisions of this Section 16.01, in the Building on the inside of the windows thereof a clear film, of a quality consistent with the operation of the Building in a manner comparable with similar first-class office buildings in the Wall Street area, to reduce the usage of energy in the Building. Landlord agrees, however, that Landlord shall not perform any such film treatment to the windows of the Premises without first obtaining Tenant's consent with respect to the particular type of film treatment to be used, which such consent Tenant shall not unreasonably withhold or delay provided Landlord has proposed the use of a film treatment that is reasonably similar in color and consistency to the film treatment currently being used by Landlord in other portions of the Building. If Tenant shall, in accordance with the previous sentence, disapprove of any particular film treatment proposed by Landlord, in conjunction therewith, Tenant shall suggest to Landlord a reasonably comparable film treatment that Tenant does approve of and Tenant shall be responsible to pay to Landlord any incremental costs to Landlord resulting from the installation of Tenant's suggested film treatment as opposed to Landlord's.

16.02. Landlord reserves the right upon reasonable prior notice to Tenant, and Tenant shall permit Landlord and persons authorized by Landlord, to enter the Premises at reasonable times after Business Hours, to make installations, additions or improvements in or to the Premises and/or in or to the Building, as Landlord determines are necessary and proper and to install and erect pipes, ducts and conduits in and through the Premises by such methods and at such locations as will not materially interfere with or impair Tenant's use of the Premises and in such manner that the same are concealed. If as a result of the same, any portion of the usable square footage in the Premises shall be reduced other than by a de minimis amount, the Fixed Rent and Additional Charges pursuant to Article 3 shall be adjusted proportionately.

16.03. Upon reasonable prior notice to Tenant and at reasonable times except in the case of an emergency (in which case Landlord shall, if such entry for an emergency is after hours, give Tenant subsequent oral or written notice of such entry), Landlord and persons authorized by Landlord shall have the right to enter and/or pass through any portion of the Premises other than those that Tenant has designated as a "security area" (with respect to which neither Landlord nor persons authorized by Landlord may enter unless a representative of Tenant shall be present and with respect to which Landlord shall not be obligated to provide any of the cleaning services described in Section 15.01(d) hereof unless specifically so requested by Tenant): (a) to examine the Premises and to show them to actual and prospective Superior Mortgagees, or prospective purchasers or mortgagees of the Building, provided Tenant is given the opportunity to arrange for its representative to accompany such persons, (b) to make such repairs and perform such routine maintenance work or other work in or to the Premises and/or in or to the Building or its facilities and equipment as Landlord or persons authorized by Landlord is or are required to make, and (c) to read any utility meters located therein. Landlord and such authorized persons shall be allowed to take all materials into and upon the Premises that may be reasonably required in connection therewith, without any liability to Tenant and, except as expressly provided in this Lease, without any reduction of Tenant's covenants and obligations hereunder; provided such materials are stored in a manner so as to minimize any interference with Tenant's business operations. Landlord, in connection with any such entry into the Premises as described in this Section 16.03, shall use reasonable efforts to minimize interference with

Tenant's business operations to the extent practicable but nothing contained herein shall obligate Landlord to incur the cost of overtime or any other premium pay rate to perform the same except under the same circumstances as set forth in the last sentence of Section 13.01(b) hereof.

16.04. If at any time any windows of the Premises are either temporarily darkened or temporarily obstructed by reason of any repairs, improvements, maintenance and/or cleaning in or about the Building (or in the case of the lot line windows on the western side of the Building, are permanently darkened or obstructed) or covered by any translucent material for the purpose of energy conservation, or if any part of the Building, other than the Premises, is temporarily or permanently closed or inoperable, the same shall be without liability to Landlord and, except as specifically provided in this Lease, without any reduction or diminution of Tenants obligations under this Lease; provided the same shall not (i) unreasonably interfere with or diminish Tenant's access to the Premises or the Building or (ii) reduce the usable area of the Premises other than to a de minimis extent. Landlord shall diligently perform any repairs causing such temporary darkening or obstruction of Tenant's windows in a manner using reasonable efforts to minimize such window blockage or darkening; provided, however, that nothing contained herein shall obligate Landlord to perform the same on an overtime basis except under the circumstances described in the last sentence of subsection 13.01(b) hereof. During any period that such lot line windows are permanently darkened or obstructed as aforesaid, Tenant shall be entitled to a credit against the monthly installments of the Fixed Rent due and payable hereunder at a rate equal to $1,000 per window per annum.

16.05. During the time period of eighteen (18) months prior to the Expiration Date of this Lease, upon reasonable prior notice (oral or written) to Tenant and at reasonable times, Landlord and persons authorized by Landlord may exhibit the Premises to prospective tenants provided that Tenant is given the opportunity to arrange for its representative to accompany Landlord or its representative.

16.06. Intentionally Omitted.

16.07. Landlord reserves the right, at any time, without it being deemed a constructive eviction and without incurring any liability to Tenant therefor, or affecting or reducing any of Tenant's covenants and obligations hereunder, to make or permit to be made such changes, alterations, additions and improvements in or to the Building and the fixtures and equipment thereof, as well as in or to the street entrances, atrium, doors, halls, passages, elevators, escalators and stairways of the Building, and other public parts of the Building, provided same are consistent with maintaining the Building in a manner comparable to similar first-class office buildings in the Wall Street area, as Landlord shall deem necessary or desirable; provided the same shall not (i) unreasonably reduce, interfere with or deprive Tenant of access to the Premises or the Building, (ii) reduce the usable area of any floor of the Premises (except to a de minimis extent), or (iii) reduce or adversely affect any services which Landlord has agreed to provide to Tenant.

16.08. Landlord reserves the right to name the Building and to change the name or address of the Building at any time and from time to time. In no event shall Landlord use

the name "AMBAC" or any form thereof with respect to any name Landlord shall choose for the Building without Tenant's prior written approval. Neither this Lease nor any use by Tenant shall give Tenant any easement or other right in or to the use of any door or any passage or any concourse or any plaza connecting the Building with any subway or any other building or to any public conveniences, and the use of such doors, passages, concourses, plazas and conveniences may without notice to Tenant, be regulated or discontinued at any time by Landlord; provided the same shall not (i) unreasonably reduce, interfere with or deprive Tenant of access to the Premises or the Building, (ii) reduce the usable area of any floor of the Premises (except to a de minimis extent), or (iii) reduce or adversely affect any services which Landlord has agreed to provide to Tenant. Tenant shall have the right to change its name and logo and the Landlord shall recognize the new name and logo as being the Tenant.

16.09. If Tenant shall not be personally present to open and permit an entry into the Premises at any time when an entry therein shall be urgently necessary by reason of fire or other emergency, Landlord or Landlord's agents may forcibly enter the same without rendering Landlord or such agents liable therefor and without in any manner affecting the obligations and covenants of this Lease (if, in any of such cases, during such entry Landlord or Landlord's agents shall accord reasonable care to Tenant's property and shall otherwise act reasonably).

16.10. Tenant shall be permitted to maintain in the elevator lobby servicing the Premises located on the ground floor of the Building the Tenant's identification nameplate as such nameplate is currently installed. Landlord shall not unreasonably withhold its consent to any replacement nameplate(s) the Tenant named in this Lease wishes to install in lieu of the initial nameplate described herein provided replacement nameplate(s) is (are) substantially similar in size, location and material to the initial nameplate and contains colors that are not inconsistent with the decor of the lobby of the Building. Landlord hereby agrees that Landlord shall not grant signage rights in the elevator lobby servicing the Premises similar to those granted to the Tenant named in this Lease pursuant to this Section 16.10, to, or place a plaque or other identifying sign on the exterior of the Building of any company or entity that, at such time, pursuant to the provisions of Section 16.08 of this Lease, Landlord would be prohibited to name the Building after (except that clause (i) thereof shall not apply to such exterior plaque or sign but shall apply with regard to the placement of any signage in the elevator lobby servicing the Premises). The signage rights accorded to the Tenant named in this Lease in this Section 16.10 may be assigned by the Tenant named in this Lease to any assignee of this Lease provided such signage rights when applied to such assignee do not conflict with any pre-existing rights of other tenants in the Building or any pre-existing prohibitions then in effect regarding signage with respect to the Landlord.

ARTICLE 17

Notice of Occurrences

17.01. Upon receipt of actual knowledge by Tenant, Tenant's authorized representative shall use reasonable efforts to give prompt notice to Landlord of (a) any occurrence in or about the Premises for which Landlord might reasonably be liable, (b) any

fire or other casualty in the Premises, (c) any damage to or defect in the Premises, including the fixtures, equipment and appurtenances thereof, for the repair of which Landlord might be responsible, and (d) any damage to or defect in any part or appurtenance of the Building's sanitary, electrical, heating, ventilating, air-conditioning, elevator or other systems located in or passing through the Premises or any part thereof.

ARTICLE 18

Non-Liability and Indemnification

18.01. Neither Landlord, any Superior Mortgagee, nor any partner, director, officer, principal, shareholder, agent, servant or employee of Landlord or any Superior Mortgagee, shall be liable to Tenant for any damage caused by other tenants or persons in, upon or about the Building, or caused by operations in construction of any private, public or quasi-public work nor shall the foregoing parties be liable for damage to or loss of property of Tenant or others entrusted to employees of Landlord or its agents nor for loss due to theft.

18.02. Tenant shall indemnify and hold harmless Landlord and all Superior Mortgagees and its and their respective partners, directors, officers, principals, shareholders, agents and employees from and against any and all third-party claims arising from or in connection with any event occurring as a result of or any condition created by the negligent or wrongful acts of Tenant or its employees or contractors in or about the Premises during the term of this Lease or in connection with any other negligent or wrongful act or omission of Tenant or any of its subtenants or licensees or its or their partners, directors, principals, shareholders, officers, agents, employees or contractors; together with all costs, expenses and liabilities incurred in or in connection with each such claim or action or proceeding brought thereon, including, without limitation, reasonable attorneys' fees and expenses. In case any action or proceeding be brought against Landlord and/or any Superior Mortgagee and/or its or their partners, directors, officers, principals, shareholders, agents and/or employees by reason of any such claim, Tenant, upon notice from Landlord or such Superior Mortgagee, shall resist and defend such action or proceeding (by counsel reasonably satisfactory to Landlord or such Superior Mortgagee and the insurance company counsel shall be deemed satisfactory).

18.03. Landlord shall indemnify and hold Tenant and its partners, directors, officers, principals, shareholders, agents and employees harmless from and against any and all third-party claims arising from or in connection with any event occurring as a result of or any condition created by the negligent or wrongful acts of Landlord or its employees or contractors in or about the Building during the term of this Lease or in connection with any other negligent or wrongful act or omission of Landlord or its partners; directors, principals, shareholders, officers, agents, employees or contractors; together with all costs, expenses and liabilities incurred in or in connection with such claims including, without limitation, all attorneys' fees and expenses. In case any action or proceeding be brought against Tenant and/or its partners, directors, officers, principals, shareholders, agents and/or employees by reason of any such claim, Landlord, upon notice from Tenant, shall resist and defend such action or proceeding by counsel reasonably satisfactory to Tenant, the insurance company counsel shall be deemed satisfactory.

ARTICLE 19

Damage or Destruction

19.01. If the Building or the Premises or any of the Building systems servicing the Premises shall be partially or totally damaged or destroyed by fire or other casualty or if as a result of any fire or casualty, access to the Premises or the Building is denied or unreasonably interfered with (and if this Lease shall not be terminated as in this Article 19 hereinafter provided), (a) Landlord shall, at Landlord's expense, diligently repair the damage to and restore and rebuild the Building and the Premises (excluding Tenant's Alterations, including without limitation for these purposes, any alterations or improvements by the Tenant first named herein and/or its affiliates under prior leases with respect to the Premises, Specialty Alterations, and all improvements and betterments and the property which is deemed Tenant's Property pursuant to Section 12.02 hereof) with reasonable dispatch after notice to it of the damage or destruction, to substantially the condition which existed immediately prior thereto, and (b) Tenant shall, at Tenant's expense, repair the damage to and restore and repair Tenant's Alterations (including without limitation for these purposes, any alterations or improvements by the Tenant first named herein and/or its affiliates under prior leases with respect to the Premises, Specialty Alterations and all improvements and betterments, and the property which is deemed Tenant's Property pursuant to Section 12.02 hereof) with reasonable dispatch after such damage or destruction. Such work by Tenant shall be deemed Alterations for the purposes of Article 11 hereof. The proceeds of policies providing coverage for Tenant's Alterations, improvements and betterments that were obtained by Tenant at Tenant's expense in accordance with Section 9.03 hereof, shall be paid to Tenant and the proceeds of any insurance policies obtained at Landlord's expense (including those in effect during the last two (2) years of the term of this Lease) that cover Tenant's Alterations, improvements or betterments shall be paid to Landlord. In the event that during the final two (2) years of the term of this Lease, notwithstanding the occurrence of an event as described in subsection 19.03(c) hereof, this Lease is not terminated by Landlord or Tenant, Landlord shall apply any proceeds received from any insurance policies covering the Tenant's Alterations, improvements and betterments strictly for the replacement of such Alterations, improvements or betterments.

19.02. If all or part of the Premises or any of the Building systems servicing the Premises shall be damaged or destroyed or rendered completely or partially unusable for the normal conduct of Tenant's business on account of fire or other casualty or if as a result of any fire or casualty, access to the Premises or the Building is denied or unreasonably interfered with, the Fixed Rent and the Additional Charges under Article 3 and any charges payable pursuant to Section 15.04(c) (to the extent Tenant's usage of the condenser water is reduced) hereof shall be abated in the proportion that the unusable area of the Premises bears to the total area of the Premises, for the period from the date of the damage or destruction to the date that Landlord substantially completes its repair and restoration of the Premises and access thereto and the systems serving the Premises or, if Tenant has relocated its business elsewhere and is required hereunder to perform substantial work to repair and restore it improvements, betterments, etc., then to the date that is ninety (90) days after Landlord substantially completes its repair and restoration of the Premises and access thereto and the systems serving the Premises or to such earlier date on which Tenant resumes occupancy of

the Premises for the conduct of its business. Should Tenant or any of its subtenants reoccupy a portion of the Premises for the conduct of its business during the period the repair work is taking place, the Fixed Rent and the Additional Charges allocable to such reoccupied portion, based upon the proportion which the area of the reoccupied portion of the Premises bears to the total area of the Premises, shall be payable by Tenant from the date of such occupancy.

19.03. (a) If (i) the Building shall be totally damaged or destroyed by fire or other casualty, or if the Building shall be so damaged or destroyed by fire or other casualty (whether or not the Premises are damaged or destroyed) that its repair or restoration requires (x) more than twelve (12) months (as estimated by a reputable contractor, registered architect or licensed professional engineer designated by Landlord from persons unaffiliated (i.e., not owned nor controlled by) with Landlord, such person being hereinafter referred to as the "Expert") or (y) the expenditure of more than fifty (50%) percent of the full insurable value of the Building immediately prior to the casualty and provided that, in connection with the latter case only (i.e., a termination sought by Landlord on the basis described in clause (y) above) Landlord does or will, in connection therewith such casualty, terminate leases covering at least seventy-five (75%) percent of the rentable area of the Building then occupied by tenants (including Tenant) or (ii) if the Premises shall be totally or substantially (i.e., for this purpose, more than fifty (50%) percent) damaged or destroyed (as estimated by the Expert), then in any such case Landlord may terminate this Lease by giving Tenant notice to such effect within sixty (60) days after the date of the casualty. If such notice of termination is given, the term of this Lease shall expire thirty (30) days after date of notice. Upon termination, Tenants liability under this Lease, including, without limitation, Tenant's liability for Fixed Rent and Additional Charges, shall cease and any prepaid portion of Fixed Rent and Additional Charges for any period after such date shall be promptly refunded.

(b) In the event of an occurrence as set forth in Section 19.02 hereof, ninety (90) days after damage or destruction to the Building and/or the Premises, Landlord shall deliver to Tenant a statement prepared by the Expert setting forth such Expert's estimate (hereinafter the "Initial Estimate") as to the time required for Landlord to perform the work (hereinafter the "Restoration Work") it is required to perform to repair such damage to the Building and/or the Premises. If the estimated period exceeds fourteen (14) months from the date of the casualty, Tenant may elect to terminate this Lease by notice to Landlord not later than thirty (30) days following receipt of such statement. If Tenant makes such election, then, the term of this Lease shall expire upon the expiration of such thirty (30) day period after notice of such election is given to Landlord. If Tenant elects not to terminate this Lease and if Landlord has not substantially completed the Restoration Work within the fourteen (14) month period originally estimated by Landlord, then Tenant shall have the further right to elect to terminate this Lease upon written notice to Landlord and such election shall be effective upon the expiration of thirty (30) days after the date of such notice. Furthermore, in the event of an occurrence as described in Section 19.02, and provided that following receipt of the Initial Estimate given by the Expert, Tenant shall not be permitted or shall have elected not to terminate this Lease or shall be deemed to have elected not to terminate this Lease, Tenant may, from time to time (but in no event more often than once in any sixty (60) day period) request from Landlord that Landlord deliver to Tenant updated estimates with respect to the anticipated substantial completion date of the Restoration Work or Landlord, at Landlord's initiative, may send to Tenant such updated estimates not more often than once in any sixty (60) day period (each of such updated estimates

being hereinafter called a "Revised Estimate"). If Tenant, pursuant to its request or at Landlord's initiative, shall at any time following the Initial Estimate receive a Revised Estimate as described above which shall set forth an anticipated substantial completion date for the Restoration Work that is later than all of the following: (x) the date that is fourteen (14) months from the date of the occurrence of the casualty, (y) the date set forth by the Contractor in the Initial Estimate and (z) the date or dates for the substantial completion of the Restoration Work heretofore estimated and set forth in any Revised Estimate that Tenant shall have received to date (such a Revised Estimate being hereinafter called a "Materially Revised Estimate"), then Tenant shall have a further right to terminate this Lease upon written notice to Landlord given no later than thirty (30) days following Tenant's receipt of such a Materially Revised Estimate and such election shall be effective thirty (30) days following the date Landlord receives such notice. The fact that Tenant shall not have exercised its right of termination as herein described with respect to any Materially Revised Estimate previously received by Tenant, shall not preclude Tenant from exercising such right on a future date in connection with any subsequent Materially Revised Estimate Tenant shall receive. Notwithstanding anything to the contrary contained herein, in no event shall any Materially Revised Estimate sent to Tenant at Landlord's own initiative which shall set forth a substantial completion date for the Restoration Work that is later than both the Initial Estimate and any other date previously received by Tenant in any Revised Estimate, have the effect of delaying Tenant's ability to terminate this Lease, unless Landlord shall include, together with the Materially Revised Estimate, a notice referring to this subsection 19.03(b) and advising Tenant of the consequences to Tenant if Tenant shall fail to exercise the termination right to which Tenant is then entitled during the thirty (30) day period in effect following Tenant's receipt of such Materially Revised Estimate. If, notwithstanding any of the foregoing, Tenant shall not have elected to terminate this Lease in connection with its receipt of a Materially Revised Estimate or if Tenant shall, in fact, not have received any such Materially Revised Estimate, Tenant shall have the further right to terminate this Lease if the Restoration Work is not substantially completed by or before the date (herein the "Outside Date") that is the later of: (x) the date set forth in the Initial Estimate or (y) the latest date set forth for the substantial completion of such Restoration Work in any Revised Estimate received by Tenant prior to the substantial completion of the Restoration Work; provided such date is at least fourteen (14) months following the date of the casualty. Tenant's termination right as described in the previous sentence shall be exercised by Tenant's giving to Landlord a written notice to such effect within the thirty (30) day period following the Outside Date and such termination shall be effective as of the expiration of such 30 day period following the Outside Date.

(c) In the event the Premises shall be totally or substantially (i.e., for this purpose, more than thirty (30%) percent) damaged or destroyed (as estimated by the Expert) during the last two (2) years of the term of this Lease, then, notwithstanding anything contained in this Lease to the contrary, either Landlord or Tenant may elect to terminate this Lease by notice given to the other party to such effect within thirty (30) days following such casualty and, in either instance, Tenant shall not be entitled to any insurance proceeds under Landlord's policies covering Tenant's Alterations, improvements and betterments.

(d) Upon the effective date of any termination notice given by Tenant pursuant to subsection 19.03(b) or 19.03(c) above, Tenant's liability under this Lease, including, without limitation, Tenant's liability for Fixed Rent and Additional Charges, shall cease and any prepaid portions of Fixed Rent and Additional Charges for any period after such effective date

shall be promptly refunded, and Tenant shall vacate the Premises and surrender same to Landlord in the manner set forth in Article 21 hereof.

19.04. Except as set forth above in subsection 19.03(b) and 19.03(c), Tenant shall not be entitled to terminate this Lease and Landlord shall have no liability to Tenant for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Premises or of the Building pursuant to this Article 19. Landlord shall make such repair or restoration reasonably promptly and in such manner as not unreasonably to interfere with Tenant's use and occupancy of the Premises, but Landlord shall not be required to do such repair or restoration work on an overtime or premium pay basis except under the circumstances contemplated by clause (ii) of subsection 13.01(b) hereof.

19.05. Intentionally Omitted.

19.06. Except to the extent set forth to the contrary in Section 9.03 hereof with respect to the final two (2) years of the Lease, Landlord will not carry insurance of any kind on Tenant's Property or on Tenant's improvements and betterments and shall not be obligated to repair any damage to or replace Tenant's Property or Tenant's improvements and betterments and Tenant agrees to look solely to its insurance for recovery of any damage to or loss thereof. If Tenant shall fail to maintain such insurance and such situation shall continue and shall not be remedied by Tenant within thirty (30) days after Landlord shall have given Tenant a notice specifying the same, Landlord shall have the right to obtain such insurance and the cost thereof shall be Additional Charges under this Lease and payable by Tenant to Landlord within thirty (30) days after demand.

19.07. The provisions of this Article 19 shall be deemed an express agreement governing any case of damage or destruction of the Premises by fire or other casualty, and Section 227 of the Real Property Law of the State of New York, providing for such a contingency in the absence of an express agreement, and any other law of like import, now or hereafter in force, shall have no application in such case.

ARTICLE 20

Eminent Domain

20.01. If the whole of the Building or the Premises shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose, this Lease and the term and estate hereby granted shall terminate as of the date of vesting of title on such taking (herein called the "Date of the Taking"), and the Fixed Rent and Additional Charges shall be prorated and adjusted as of such date.

20.02. If any Part of the Building or the Land shall be so taken, this Lease shall be unaffected by such taking, except that (a) if more than fifty (50%) percent of the Building or the Land shall be so taken, then provided that concurrently with such termination Landlord terminates leases covering at least seventy-five (75%) percent of the rentable square footage of the Building then occupied by tenants, Landlord may, at its option, terminate this Lease by giving Tenant notice to that effect within sixty (60) days after the Date of the Taking, and (b)

if a material portion of the rentable area of the Premises shall be so taken or if Tenant's access to the Building or the Premises is denied or materially interfered with or if any of the services which Landlord provides shall be reduced and, in any such case, the remaining rentable area of the Premises shall not be reasonably sufficient for Tenant to continue feasible operation of its business, Tenant may terminate this Lease by giving Landlord notice to that effect within sixty (60) days after the Date of the Taking. This Lease shall terminate on the date which is thirty (30) days after the date that such notice from Landlord or Tenant to the other shall be given, and the Fixed Rent and Additional Charges under Article 3 shall be prorated and adjusted as of the Date of the Taking. Upon such partial taking and this Lease continuing in force as to any part of the Premises, the Fixed Rent and Tenant's Proportionate Share shall be reduced and Tenant's Tax Payments and Tenant's Operating Payments shall be adjusted in the proportion that the area of the Premises taken bears to the total area of the Premises.

20.03. Landlord shall be entitled to receive the entire award or payment in connection with any taking without reduction therefrom for any estate vested in Tenant by this Lease or any value attributable to the unexpired portion of the term of this Lease and Tenant shall receive no part of such award except as hereinafter expressly provided in this Article. Tenant hereby expressly assigns to Landlord all of its right, title and interest in and to every such award or payment and waives any right to the value of the unexpired portion of the term of this Lease. Nothing herein provided shall preclude Tenant from making a separate claim for the cost of Tenant's moving expenses and the value of any fixtures, alterations and improvements installed by Tenant in the Premises and paid for by Tenant.

20.04. If the temporary use or occupancy of all or any part of the Premises shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose during the term of this Lease, Tenant shall be entitled, except as hereinafter set forth, to receive that portion of the award or payment for such taking which represents compensation for the taking of Tenant's Property and for moving expenses, and Landlord shall be entitled to receive that portion which represents reimbursement for the cost of restoration of the Premises and compensation for the use and occupancy of the Premises. Except as hereinafter provided, this Lease shall be and remain unaffected by such taking and Tenant shall continue to be responsible for all of its obligations hereunder insofar as such obligations are not affected by such taking. During the period of such temporary taking, all Fixed Rent and Additional Charges under this Lease shall be fully abated. If the period of temporary use or occupancy described herein shall extend for a period of fourteen (14) consecutive months, then Tenant may, at its option, terminate this Lease by giving notice to Landlord to such-effect within thirty (30) days following the expiration of such fourteen (14) month period and this Lease shall terminate effective as of the last day of such thirty (30) day period and the Fixed Rent and Additional Charges under Article 3 shall be prorated and adjusted as of such date.

20.05. In the event of a taking of less than the whole of the Building and/or the Land which does not result in termination of this Lease, or in the event of a taking for a temporary use or occupancy of all or any part of the Premises which does not result in a termination of this Lease, (a) Landlord, at its expense, and whether or not any award or awards shall be sufficient for the purpose, shall proceed with due diligence to repair the

remaining parts of the Building and the Premises (other than those parts of the Premises which are deemed Landlord's property Pursuant to Section 12.01 hereof and Tenant's Property) to substantially their former condition to the extent that the same may be feasible and so as to constitute a complete and rentable Building and Premises of substantially the same character, quality and appearance as the Building and the Premises prior to the taking and (b) Tenant, at its expense, shall proceed with reasonable diligence to repair the remaining parts of the Premises which are deemed Landlord's Property pursuant to Section 12.01 hereof, to substantially their former condition to the extent that the same may be feasible, subject to reasonable changes which shall be deemed Alterations; provided, however, in no event, shall Tenant be obligated to expend any money in excess of the amount of any award received by Tenant in connection with such taking.

ARTICLE 21

Surrender

21.01. On the Expiration Date or upon any earlier termination of this Lease, or upon any reentry by Landlord upon the Premises, Tenant shall quit and surrender the Premises to Landlord "broom-clean" and in good order, condition and repair, except for ordinary wear and tear and such damage or destruction for which Tenant is not responsible under this Lease, and Tenant shall remove all of the Tenant's Property therefrom except as otherwise expressly provided in this Lease and repair and restore any damage to the Building as a result of such removal.

21.02. No act or thing done by Landlord or its agents shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such surrender shall be valid unless in writing and signed by Landlord.

ARTICLE 22

Default

22.01. This Lease and the term and estate hereby granted are subject to the limitation that whenever Tenant shall hereafter make an assignment for the benefit of creditors, or shall file a voluntary petition under any bankruptcy or insolvency law, or (subject to clause (a) below) an involuntary petition alleging an act of bankruptcy or insolvency shall be filed against Tenant under any bankruptcy or insolvency law, or whenever a petition shall be filed by or (subject to clause (a) below) against Tenant under the reorganization provisions of the United States Bankruptcy Code or under the provisions of any law of like import, or whenever a petition shall be filed by Tenant, under the arrangement provisions of the United States Bankruptcy Code or under the provisions of any law of like import, or whenever a permanent receiver of Tenant, or of or for the property of Tenant, shall be appointed, then Landlord (a) if such event occurs without the acquiescence of Tenant, as the case may be, at any time after the event continues for ninety (90) days, or (b) if such event is voluntary by Tenant, at any time after the occurrence of any such event, may give Tenant a notice of intention to end the term of this Lease at the expiration often (10) days from the date of service of such notice of intention, and upon the expiration of said

ten (10) day period this Lease and the term and estate hereby granted, whether or not the term shall theretofore have commenced, shall terminate with the same effect as if that day were the Expiration Date of this Lease, but Tenant shall remain liable for damages as provided in Article 24 hereof. Landlord acknowledges that at the time this Lease is executed a segregated account of Tenant is currently subject to a rehabilitation proceeding in Wisconsin and Tenant's parent company, Ambac Financial Group Inc., is currently subject to a federal bankruptcy proceeding and neither of those current proceedings shall have an adverse affect on this Lease or be considered a default under this Article 22 provided the Lease is not transferred to the segregated account of Tenant, the general account of Tenant does not become encompassed in the rehabilitation proceeding in Wisconsin and Tenant does not become subject to its parent company's bankruptcy proceeding.

22.02. This Lease and the term and estate hereby granted are subject to the further limitations that:

(a) if Tenant shall default in the payment when due of any Fixed Rent or Additional Charges, and such default shall continue for fourteen (14) days after notice of such default, or

(b) if Tenant shall, whether by action or inaction, be in default of any of its obligations under this Lease (other than a default in the payment of Fixed Rent or Additional Charges) and such default shall continue and not be remedied within thirty (30) days after Landlord shall have given to Tenant a notice specifying the same, or, in the case of a default which cannot with due diligence be cured within a period of thirty (30) days and the continuance of which for the period required for cure will not (i) subject Landlord or any Superior Lessor or any Superior Mortgagee to prosecution for a crime or (ii) subject the Premises or any part thereof or the Building or Land, or any part thereof, to being condemned or vacated, if Tenant shall not (x) within said thirty (30) day period advise Landlord of Tenant's intention to take all steps necessary to remedy such default, (y) duly commence within said thirty (30) day period, and thereafter diligently prosecute to completion all steps necessary to remedy the default,

then in any of said cases Landlord may give to Tenant a notice of intention to end the term of this Lease at the expiration of five (5) days from the date of the service of such notice of intention, and upon the expiration of said five (5) days this Lease and the term and estate hereby granted, whether or not the term shall theretofore have commenced, shall terminate with the same effect as if that day was the day herein definitely fixed for the end and expiration of this Lease, but Tenant shall remain liable for damages as provided in Article 24 hereof.

22.03. (a) If Tenant shall have assigned its interest in this Lease, and this Lease shall thereafter be disaffirmed or rejected in any proceeding under the United States Bankruptcy Code or under the provisions of any federal, state or foreign law of like import, or in the event of termination of this Lease by reason of any such proceeding, the assignor or any of its predecessors in interest under this Lease, upon request of Landlord given within ninety (90) days after such disaffirmance or rejection shall (a) pay to Landlord all Fixed Rent and Additional Charges then due and payable to Landlord under this Lease to and including

the date of such disaffirmance or rejection and (b) enter into a new lease as lessee with Landlord of the Premises for a term commencing on the effective date of such disaffirmance or rejection and ending on the Expiration Date, unless sooner terminated as in such lease provided, at the same Fixed Rent and Additional Charges and upon the then executory terms, covenants and conditions as are contained in this Lease, except that (i) the rights of the lessee under the new lease, shall be subject to any possessory rights of the assignee in question under this Lease and any rights of persons claiming through or under such assignee, (ii) such new lease shall require all defaults existing under this Lease to be cured by the lessee with reasonable diligence, and (iii) such new lease shall require the lessee to pay all Additional Charges which, had this Lease not been disaffirmed or rejected, would have become due after the effective date of such disaffirmance or rejection with respect to any prior period, subject to the right of such lessee to dispute such amounts. If the lessee shall fail or refuse to enter into the new lease within fourteen (14) days after Landlord's request to do so, then in addition to all other rights and remedies by reason of such default, under this Lease, at law or in equity Landlord shall have the same rights and remedies against the lessee as if the lessee had entered into such new lease and such new lease had thereafter been terminated at the beginning of its term by reason of the default of the lessee thereunder.

(b) if pursuant to the Bankruptcy Code, Tenant is permitted to assign this Lease in disregard of the restrictions contained in Article 7 hereof (or if this Lease shall be assumed by a trustee), the trustee or assignee shall cure any default under this Lease and shall provide adequate assurance of future performance by the trustee or assignee including (a) of the source of payment of rent and performance of other obligations under this Lease (for which adequate assurance shall mean the deposit of cash security with Landlord in an amount equal to the sum of one year's Fixed Rent then reserved hereunder plus an amount equal to all Additional Charges payable under Article 3 hereof for the calendar year preceding the year in which such assignment is intended to become effective, which deposit shall be held by Landlord, with interest, for the balance of the term as security for the full and faithful performance of all of the obligations under this Lease on the part of Tenant yet to be performed) and that any such assignee of this Lease shall have a net worth computed in accordance with generally accepted accounting principles, equal to at least ten (10) times the aggregate of the annual Fixed Rent reserved hereunder plus all Additional Charges for the preceding calendar year as aforesaid and (b) that the use of the Premises shall comply with the provisions of Article 2 of this Lease and shall not be so disreputable as to adversely affect the reputation of the Building. If all defaults are not cured and such adequate assurance is not provided within 60 days after there has been an order for relief under the Bankruptcy Code, then this Lease shall be deemed rejected, Tenant or any other person in possession shall vacate the Premises, and Landlord shall be entitled to retain any rent or security deposit previously received from Tenant and shall have no further liability to Tenant or any person claiming through Tenant or any trustee. If Tenant receives or is to receive any valuable consideration for such an assignment of this Lease, such consideration, after deducting therefrom (a) the brokerage commissions, if any, and other expenses reasonably incurred by Tenant for such assignment and (b) any portion of such consideration reasonably designed by the assignee as paid for the purchase of Tenant's Property in the Premises, shall be and become the sole exclusive property of Landlord and shall be paid over to Landlord directly by such assignee. If Tenant's trustee, Tenant or Tenant as debtor-in-possession assumes this Lease and proposes to assign the same (pursuant to Title 11 U.S.C. Section 365, as the same may be amended) to any person, including, without limitation, any individual, partnership or

corporate entity, who shall have made a bona fide offer to accept an assignment of this Lease on terms acceptable to the trustee, Tenant or Tenant as debtor-in-possession, then notice of such proposed assignment, setting forth (x) the name and address of such person, (y) all of the terms and conditions of such offer, and (z) the adequate assurance to be provided Landlord to assure such person's future performance under this Lease, including, without limitation, the assurances referred to in Title 11 U.S.C. Section 365(b)(3) (as the same may be amended), shall be given to Landlord by the trustee, Tenant or Tenant as debtor-in-possession prior to the assignment, but in any event no later than ten (10) days prior to the date that the trustee, Tenant or Tenant as debtor-in-possession shall make application to a court of competent jurisdiction for authority and approval to enter into such assignment and assumption, and Landlord shall thereupon have the prior right and option, to be exercised by notice to the trustee, Tenant or Tenant as debtor-in-possession, given at any time prior to the effective date of such proposed assignment, to accept an assignment of this Lease upon the same terms and conditions and for the same consideration after giving effect to any sharing of consideration to which Landlord would be entitled under Section 7.07 if this were an assignment contemplated by Article 7 hereof, if any, as the bona fide offer made by such person, less any brokerage commissions which may be payable out of the consideration to be paid by such person for the assignment of this Lease except to the extent of any such brokerage commissions that Tenant is required to pay to any party unaffiliated with Tenant and which is in fact paid by Tenant.

ARTICLE 23

Reentry by Landlord

23.01. If Tenant shall default in the payment of any Fixed Rent or Additional Charges, and such default shall continue for fourteen (14) days after notice of such default, or if this Lease shall terminate (after notice and expiration of any applicable grace period) as provided in Article 22 hereof, Landlord or Landlord's agents and employees may immediately or at any time thereafter reenter the Premises, or any part thereof, either by summary dispossess proceedings or by any suitable action or proceeding at law, without being liable to indictment, prosecution or damages therefor, and may repossess the same, and may remove any person therefrom, to the end that Landlord may have, hold and enjoy the Premises. The word "reenter," as used herein, is not restricted to its technical legal meaning. If this Lease is terminated under the provisions of Article 22, or if Landlord shall reenter the Premises by or under any summary dispossess or other proceeding or action or any provision of law, Tenant shall thereupon pay to Landlord the Fixed Rent and Additional Charges payable up to the time of such termination of this Lease, or of such recovery of possession of the Premises by Landlord, as the case may be, and shall also pay to Landlord damages as provided in Article 24 hereof.

23.02. In the event of a breach or threatened breach by Tenant of any of its obligations under this Lease, Landlord shall also have the right of injunction. The special remedies to which Landlord may resort hereunder are cumulative and are not intended to be exclusive of any other remedies to which Landlord may lawfully be entitled at any time and Landlord may invoke any remedy allowed at law or in equity as if specific remedies were not provided for herein.

23.03. If this Lease shall terminate (after notice and expiration of any applicable grace period) under the provisions of Article 22 hereof, or in the event of the termination of this Lease, or of reentry, by or under any summary dispossess or other proceeding or action or any provision of law, Landlord shall be entitled to retain all monies, if any, paid by Tenant to Landlord, whether as advance rent, security or otherwise, but such monies shall be credited by Landlord against any Fixed Rent or Additional Charges due from Tenant at the time of such termination or reentry or, at Landlord's option, against any damages payable by Tenant under Article 24 hereof or pursuant to law.

ARTICLE 24

Damages

24.01. If this Lease is terminated (after notice and expiration of any applicable grace period) under the provisions of Article 22 hereof, or in the event of the termination of this Lease, or of reentry, by or under any summary dispossess or other proceeding or action or any provision of law by reason of default hereunder on the part of Tenant, Tenant shall pay to Landlord as damages, at the election of Landlord, either:

(a) a sum which at the time of such termination of this Lease or at the time of any such reentry by Landlord, as the case may be, represents the then value of the excess, if any, of (i) the aggregate amount of the Fixed Rent and the Additional Charges under Article 3 hereof which would have been payable by Tenant (conclusively presuming the average monthly Additional Charges under Article 3 hereof to be the same as were payable for the last 12 calendar months, or if less than 12 calendar months have then elapsed since the Effective Date, all of the calendar months immediately preceding such termination or reentry) for the period commencing with such earlier termination of this Lease or the date of any such reentry, as the case may be, and ending with the date contemplated as the Expiration Date hereof if this Lease had not so terminated or if Landlord had not so reentered the Premises, over (ii) the aggregate rental value of the Premises for the same period, less any amounts allocable to a period following such termination of this Lease or the date of Landlord's reentry, as the case may be, which may theretofore have been collected pursuant to subsection 24.01(b), or

(b) sums equal to the Fixed Rent and the Additional Charges under Article 3 hereof which would have been payable by Tenant had this Lease not so terminated, or had Landlord not so reentered the Premises, payable upon the due dates therefor specified herein following such termination or such reentry and until the date contemplated as the Expiration Date hereof if this Lease had not so terminated or if Landlord had not so reentered the Premises, provided, however, that if Landlord shall relet the Premises during said period, Landlord shall credit Tenant with the net rents received by Landlord from such reletting, such net rents to be determined by first deducting from the gross rents as and when received by Landlord from such reletting the expenses incurred or paid by Landlord in terminating this Lease or in reentering the Premises and in securing possession thereof, as well as the expenses of reletting, including, without limitation, altering and preparing the Premises for new tenants, brokers' commissions, legal fees, and all other expenses properly chargeable against the Premises and the rental therefrom, it being understood that any such reletting may be for a period shorter or longer than the remaining term of this Lease; but in no event shall Tenant be entitled to receive any excess of

such net rents over the sums payable by Tenant to Landlord hereunder, nor shall Tenant be entitled in any suit for the collection of damages pursuant to this subdivision to a credit in respect of any net rents from a reletting, except to the extent that such net rents are actually received by Landlord. If the Premises or any part thereof should be relet in combination with other space, then proper apportionment on a square foot basis shall be made of the rent received from such reletting and of the expenses of reletting.

If the Premises or any part thereof be relet by Landlord for the unexpired portion of the term of this Lease, or any part thereof, before presentation of proof of such damages to any court, commission or tribunal, the amount of rent reserved upon such reletting shall, prima facie, be the fair and reasonable rental value for the Premises, or part thereof, so relet during the term of the reletting.

24.02. Suit or suits for the recovery of such damages, or any installments thereof, may be brought by Landlord from time to time at its election, and nothing contained herein shall be deemed to require Landlord to postpone suit until the date when the term of this Lease would have expired if it had not been so terminated under the provisions of Article 22 hereof, or had Landlord not reentered the Premises. Nothing herein contained shall be construed to limit or preclude recovery by Landlord against Tenant of any sums or damages to which, in addition to the damages particularly provided above, Landlord may lawfully be entitled by reason of Tenant's failure to comply with its obligations under this Lease. Nothing herein contained shall be construed to limit or prejudice the right of Landlord to prove for and obtain as damages by reason of the termination of this Lease or reentry on the Premises for Tenant's failure to comply with its obligations under this Lease an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, such damages are to be proved whether or not such amount be greater than any of the sums referred to in Section 24.01 hereof.

24.03. In addition, if this Lease is terminated under the provisions of Article 22 hereof, or if Landlord shall, reenter the Premises under the provisions of Article 23 hereof, Tenant agrees that the Premises then shall be in the condition in which Tenant has agreed to surrender the same to Landlord at the expiration of the term hereof.

24.04. In addition to any other remedies Landlord may have under this Lease, and without reducing or adversely affecting any of Landlord's rights and remedies under Article 22 hereof, if any Fixed Rent, Additional Charges or damages payable hereunder by Tenant to Landlord are not paid within ten (10) days after the due date thereof, the same shall bear interest at the Interest Rate from the tenth (10th) day after the due date thereof until paid, and the amount of such interest shall be an Additional Charge hereunder.

ARTICLE 25

Affirmative Waivers

25.01. Tenant, on behalf of itself and any and all persons claiming through or under Tenant, does hereby waive and surrender all right and privilege which it, they or any of them might have under or by reason of any present or future law, to redeem the Premises or

to have a continuance of this Lease after being dispossessed or ejected therefrom by process of law or under the terms of this Lease or after the termination of this Lease as provided in this Lease.

25.02. If Tenant is in default beyond all applicable notice and grace periods in the payment of Fixed Rent or Additional Charges, Tenant waives Tenant's right, if any, to designate the items to which any payments made by Tenant are to be credited, and Landlord may, without prejudice to any position being asserted by Tenant, apply any payments made by Tenant to such items as Landlord sees fit.

25.03. Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Premises, including, without limitation, any claim of injury or damage, and any emergency and other statutory remedy with respect thereto.

25.04. Tenant shall not interpose any counterclaim of any kind in any summary proceeding commenced by Landlord to recover possession of the Premises due to Tenant's default hereunder unless the failure to impose such counterclaim would preclude Tenant from asserting in a separate action the claim which is the subject of such counterclaim.

ARTICLE 26

No Waivers

26.01. The failure of either party to insist in any one or more instances upon the strict performance of any one or more of the obligations of this Lease, or to exercise any election herein contained, shall not be construed as a waiver or relinquishment for the future of the performance of such one or more obligations of this Lease or of the right to exercise such election, and such right to insist upon strict performance shall continue and remain in full force and effect with respect to any subsequent breach, act or omission. The receipt by Landlord of Fixed Rent or partial payments thereof or Additional Charges or partial payments thereof with knowledge of breach by Tenant of any obligation of this Lease shall not be deemed a waiver of such breach.

ARTICLE 27

Curing Defaults

27.01. If Tenant shall be in default in the performance of any of Tenant's obligations under this Lease, Landlord without thereby waiving such default, may (but shall not be obligated to) perform the same for the account and at the expense of Tenant, immediately and without notice in a case of emergency, and in any other case only if such default continues after the expiration of the applicable grace period, if any. If Landlord effects such cure by bonding any lien which Tenant is required to bond or otherwise discharge, Tenant shall obtain and substitute a bond for Landlord's bond at its sole cost and expense and reimburse Landlord for the reasonable out-of-pocket cost of Landlord's bond.

27.02. Bills for any expenses incurred by Landlord in connection with any such performance by it for the account of Tenant as permitted in Section 27.01 or in recovering possession of the Premises after default by Tenant beyond all applicable notice and grace periods or upon the expiration or sooner termination of this Lease, and interest on all sums advanced by Landlord under this Section 27.02 and/or Section 27.01 hereof (at the Interest Rate or the maximum rate permitted by law, whichever is less) may be sent by Landlord to Tenant monthly, or immediately, at its option, and such amounts shall be due and payable as Additional Charges within thirty (30) days after rendition of such bills, provided such bills are accompanied by invoices and other appropriate evidence.

27.03. (a) For the purposes of this Section 27.03 a default by Landlord in the performance of any obligation that it may have under this Lease which involves the complete and total failure by Landlord to deliver any one of the essential services as are enumerated in Article 15 hereof, such as HVAC, electricity, water, elevator service and cleaning to more than half of the Premises, and which default is of such a nature that the cure thereof involves the performance of work or rendition of services solely within the confines of the Premises is hereinafter called a "Self-Help Default". With respect to Self-Help Defaults occurring during the term of this Lease, the "first notice period" as such term is utilized herein, shall be fifteen (15) days and the "second notice period", as such term is utilized herein, shall be five (5) days. For all purposes under this Section 27.03, a notice shall be deemed given upon receipt by Landlord. If Landlord commits a Self-Help Default, Tenant may give to Landlord notice thereof, and Landlord shall have the first notice period within which to cure such Self-Help Default or if such Self-Help Default is of such a nature that the same cannot with reasonable diligence be cured within the first notice period, then the first notice period shall be deemed extended by such period as may be required with the application of reasonable diligence to cure such Self-Help Default, provided Landlord has commenced the cure of such Self-Help Default within the first notice period and thereafter diligently prosecutes the same completion. If landlord fails during the first notice period to cure any such Self-Help Default or initiate the cure thereof if the same is of such a nature that it cannot with reasonable diligence be cured within the first notice period and fails thereafter to cure the same diligently, Tenant may give to Landlord a second notice announcing its intention to cure Landlord's Self-Help Default (should Landlord fail to do so) and the date following the day on which Landlord receives such notice shall be the first day of the second notice period. If Landlord fails to cure such Self-Help Default' within the second notice period, or if such Self-Help Default is of such a nature that the same cannot with reasonable diligence be cured within the second notice period and Landlord fails to commence to cure the same within the second notice period and fails thereafter to continue to cure the same diligently, then Tenant may, utilizing reputable and experienced contractors and personnel engaged by it for such purpose perform such work within the Premises as may be required and may be prudently performed under the circumstances to effect the cure of such Self-Help Default. To the extent that Tenant incurs any cost or expense for the performance of any work required to cure Landlord's Self-Help Default as aforesaid, Tenant shall submit copies of relevant invoices together with proof of payment thereof, and Landlord shall reimburse Tenant for such costs within thirty (30) days after submission of such invoices and proof. To the extent that Tenant invokes any of its rights hereunder and incurs any cost or expense for which it is entitled to reimbursement hereunder, such costs or expenses shall be incurred by Tenant acting reasonably under the circumstances and to the extent practicable, competitively. Tenant shall also be entitled to reimbursement in the manner set forth in this subsection 27.03(a) for any reasonable

cancellation penalties that Tenant shall incur in connection with any service or repair contracts that Tenant shall have entered into in order to exercise the rights granted to Tenant pursuant to this Section 27.03; provided: (i) such contract(s), under the circumstances, are both reasonable and commercially competitive, (ii) Tenant exercised reasonable effort to avoid or minimize such penalties and (iii) such cancellation penalties were not incurred as a result of any unreasonable or careless action on the part of Tenant (e.g., Tenant's failure to cancel any such contract(s) promptly following Landlord's rendition to Tenant of a Performance Notice, as the same is hereinafter defined). If Landlord fails to reimburse Tenant for any sums incurred by Tenant as permitted under this Section 27.03 within the thirty (30) day period provided herein, Tenant may thereafter recover such expenditures with interest thereon at the Interest Rate against the Letter of Credit (as hereinafter defined) until Tenant has been fully reimbursed with interest, but in no event shall Tenant be permitted to offset the same against or deduct the same from the Fixed Rent or Additional Charges Payable under this Lease. Notwithstanding any other provision contained in this Section 27.03, with respect to any Successor Landlord, the first notice period shall be thirty (30) days with respect to Self-Help Defaults, and the second notice period shall be fifteen (15) days. To the extent that Landlord's failure to cure or initiate the cure of any Self-Help Default shall result from circumstances contemplated by Section 35.04 hereof, Landlord shall be deemed to be acting diligently as contemplated by this Section 27.03.

(b) If at any time after Tenant exercises its right to cure a Self-Help Default with respect to the rendition of any continuing service or utility or other activity Landlord shall elect to assume or resume the performance thereof, Landlord shall give notice (hereinafter called the "Performance Notice") of its willingness and readiness to do so and Tenant shall discontinue the rendition or performance thereof as of a time and date as to which Landlord and Tenant shall agree in order to facilitate coordination thereof, but in no event more than thirty (30) days from the date of the Performance Notice.

ARTICLE 28

Broker

28.01. (a) Tenant covenants, warrants and represents that no broker except Newmark Knight Frank (herein called the "Broker") was instrumental in bringing about or consummating this Lease and that Tenant has not dealt with any broker except the Broker concerning the leasing of the Premises. Tenant agrees to indemnify and hold harmless Landlord against and from any claims made by any other person other than the Broker for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, who shall claim to have dealt with Tenant in connection with this Lease.

(b) Landlord covenants, warrants and represents that no broker except the Broker was instrumental in bringing about or consummating this Lease and that Landlord has not dealt with any broker purporting to represent Tenant except the Broker. Landlord agrees to indemnify and hold harmless Tenant against and from any claims made by any person, including (to the extent of its failure to perform its obligations pursuant to the next to last sentence of this

paragraph) the Broker, for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including without limitation, reasonable attorneys' fees and expenses, if the representation set forth in the previous sentence is false. Landlord shall be solely responsible for the payment of any commission or other compensation due the Broker in accordance with a separate agreement. This Article 28 shall survive the expiration or earlier termination of the term of this Lease.

ARTICLE 29

Notices

29.01. Any notice, statement, demand, consent, approval or other communication required or permitted to be given, rendered or made by either party to this Lease or pursuant to any applicable law or requirement of public authority (herein collectively called "notices") shall be in writing (except as expressly stated otherwise elsewhere in this Lease) and shall be deemed to have been properly given, rendered or made only if sent by registered or certified mail, return receipt requested or sent via nationally recognized overnight courier service (such as Federal Express) or delivered by hand (against a signed receipt) addressed to the other party as follows:

If to Landlord:

One State Street, LLC
c/o One State Street Plaza
New York, New York 10004
Attn: Eli Levitin

with a copy to:

Olshan Grundman Frome Rosenzweig & Wolosky LLP
65 East 55th Street
New York, NY 10022
Attn: Nina Roket, Esq.

and if to Tenant as follows:

AMBAC Assurance Corporation
One State Street Plaza
New York, New York 10004
Attn: Diana Adams

with a copy to:

Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, New York
Attn: Stuart M. Saft, Esq.

and shall be deemed to have been given, rendered or made on the third (3rd) day after so mailed or on the day after the same is sent by nationally recognized overnight courier, or on the day delivered, if delivered by hand (against a signed receipt). Either party may, by notice as aforesaid, designate a different address or addresses or different individuals (up to a reasonable amount) for notices intended for it.

29.02. Notices hereunder from Landlord may be given by Landlord's managing agent, which as of the date hereof is ACTA Realty Corp. Notices hereunder from either party may be given by such party's attorney. As of the date hereof, Landlord's attorney is Olshan Grundman Frome Rosenzweig & Wolosky LLP, 65 East 55th Street, New York, New York 10022, Attn: Nina Roket, Esq. and Tenant's attorney is Dewey & LeBoeuf LLP, 1301 Avenue of the Americas, New York, New York 10019, Attn: Stuart M. Saft, Esq.

29.03. In addition to the foregoing, either Landlord or Tenant may, from time to time, request in writing that the other party serve a copy of any notice on one other person or entity designated in such request, such service to be effected as provided in Section 29.01 or 29.02 hereof.

ARTICLE 30

Estoppel Certificates

30.01. Each party agrees, at any time and from time to time, but not more often than twice in any year to execute and deliver to the other a statement in form reasonably satisfactory to the requesting party, stating that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), certifying the Effective Date, Expiration Date and the dates to which the Fixed Rent and Additional Charges have been paid, and stating whether or not, to the best knowledge of the signer (without any independent investigation), the other party is in default in performance of any of its obligations under this Lease, and, if so, specifying each such default of which the signer may have knowledge and stating whether or not, to the best knowledge of the signer (without any independent investigation), any event has occurred which with the giving of notice or passage of time, or both, would constitute such a default, and, if so, specifying each such event, it being intended that any such statement delivered pursuant hereto shall be deemed a representation and warranty to be relied upon by the party requesting the certificate and by others with whom such requesting party may be dealing, regardless of independent investigation.

ARTICLE 31

Memorandum of Lease

31.01. Tenant shall not record this Lease. Upon request of either party, from time to time, Landlord and Tenant shall execute, acknowledge and deliver a memorandum of this Lease in a form reasonably satisfactory to both parties for recording, together with any tax forms required in connection therewith. Upon request by Landlord, in the event a memorandum of lease is recorded pursuant hereto, Tenant shall promptly execute and deliver

to Landlord a termination of the memorandum of lease, which obligation shall survive the Expiration Date or sooner termination of this Lease.

ARTICLE 32

No Representations by Landlord

32.01. Tenant expressly acknowledges and agrees that Landlord has not made and is not making, and Tenant, in executing and delivering this Lease, is not relying upon, any warranties, representations, promises or statements, except to the extent that the same are expressly set forth in this Lease or in any other written agreement which may be made between the parties concurrently with the execution and delivery of this Lease and shall expressly refer to this Lease. All understandings and agreements heretofore had between the parties are merged in this Lease and any other written agreement(s) made concurrently herewith, which alone fully and completely express the agreement of the parties and which are entered into after full investigation, neither party relying upon any statement or representation not embodied in this Lease or any other written agreement(s) made concurrently herewith.

ARTICLE 33

Intentionally Omitted

ARTICLE 34

Intentionally Omitted

ARTICLE 35

Miscellaneous Provisions and Definitions

35.01. No agreement shall be effective to change, modify, waive, release, discharge, terminate or effect an abandonment of this Lease, in whole or in part, including, without limitation, this Section 35.01, unless such agreement is in writing, refers expressly to this Lease and is signed by the party against whom enforcement of the change, modification, waiver, release, discharge, termination or effectuation of the abandonment is sought. If Tenant shall at any time request Landlord to sublet the Premises for Tenant's account, Landlord or its agent is authorized to receive keys for such purposes without releasing Tenant from any of its obligations under this Lease, and Tenant hereby releases Landlord of any liability for loss or damage to any of Tenant's Property in connection with such subletting (provided Landlord or Landlord's agents shall accord reasonable care to Tenant's Property).

35.02. Except as otherwise expressly provided in this Lease, the obligations of this Lease shall bind and benefit the successors and assigns of the parties hereto with the same effect as if mentioned in each instance where a party is named or referred to; provided, however, that no violation of the provisions of Article 7 hereof shall operate to vest any rights in any successor or assignee of Tenant.

35.03. Tenant shall look only to Landlord's estate and property in the Land and the Building (and provided that a claim was asserted within thirty (30) days following Tenant's receipt of notice or actual knowledge, whichever occurs earlier, of such sale of the Land and/or the Building and suit with respect to such claim is commenced by Tenant within one (1) year following Tenant's receipt of notice or actual knowledge (whichever is earlier) of such sale of the Land and/or the Building, the proceeds of such sale) for the satisfaction of Tenant's remedies, for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default by Landlord hereunder, and no other property or assets of Landlord or its partners, officers, directors, shareholders or principals, disclosed or undisclosed, shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease, the relationship of Landlord and Tenant hereunder or Tenant's use or occupancy of the Premises.

35.04. The obligations of Tenant hereunder shall be in no wise affected, impaired or excused, nor shall Landlord have any liability whatsoever to Tenant, nor shall it be deemed a constructive eviction because (a) Landlord is unable to fulfill, or is delayed in fulfilling, any of its obligations under this Lease by reason of strike, lock-out or other labor trouble, governmental preemption of priorities or other controls in connection with a national or other public emergency or shortages of fuel, supplies or labor resulting therefrom, or any other cause, whether similar or dissimilar, beyond Landlord's reasonable control; or (b) of any failure or defect in the supply, quantity or character of electricity or water furnished to the Premises, by reason of any requirement, act or omission of the public utility or others serving the Building with electric energy, steam, oil, gas or water, or for any other reason whether similar or dissimilar, beyond Landlord's reasonable control. The obligations of Landlord hereunder shall be in no wise affected, impaired or executed, nor shall Tenant be deemed in default under this Lease and nor shall Tenant have any liability whatsoever to Landlord to the extent that its failure to perform any covenant or agreement hereunder (other than the obligation to pay Fixed Rent or Additional Charges) shall result from any of the events as described in clauses (a) or (b) of the previous sentence or for any other reason, similar or dissimilar beyond Tenant's reasonable control. The provisions of this Section 35.04 are hereby made expressly subject, however, to and shall not be deemed to modify in any manner the provisions of and the rights granted to Tenant under Section 13.03 hereof.

35.05. For the purposes of this Lease, the following terms have the meanings indicated:

(a) The term "mortgage" shall include a mortgage and/or a deed of trust, and the term "holder of a mortgage" or "mortgagee" or words of similar import shall include a mortgagee of a mortgage or a beneficiary of a deed of trust.

(b) The term "laws and requirements of any public authorities" and words of a similar import shall mean laws and ordinances of any or all of the federal, state, city, county and borough governments and rules, regulations, orders and directives of any and all departments, subdivisions, bureaus, agencies or offices thereof, and of any other governmental, public or quasi-public authorities having jurisdiction over the Building and/or the Premises, and the direction of any public officer pursuant to law, whether now or hereafter in force.

(c) The term "requirements of insurance bodies" and words of similar import shall mean rules, regulations, orders and other requirements of the New York Board of Underwriters and/or the New York Fire Insurance Rating Organization and/or any other similar body performing the same or similar functions and having jurisdiction or cognizance over the Building and/or the Premises, whether now or hereafter in force.

(d) The term "Tenant' shall mean Tenant herein named or (except when a provision applies specifically or exclusively to the named Tenant or the Tenant named herein or the Tenant named in this Lease) any assignee or other successor in interest (immediate or remote) of Tenant herein named, which at the time in question is the owner of Tenant's estate and interest granted by this Lease; but the foregoing provisions of this subsection shall not be construed to permit any assignment of this Lease or to relieve Tenant herein named or any assignee or other successor in interest (whether immediate or remote) of Tenant herein named from the full and prompt payment, performance and observance of the covenants, obligations and conditions to be paid, performed and observed by Tenant under this Lease.

(e) The term "Landlord' shall mean only the owner at the time in question of Landlord's interest in the Land or a lease of the Land and the Building or a lease thereof so that in the event of any transfer or transfers of Landlord's interest in the Land or a lease thereof or the Building or a lease thereof, the transferor shall be and hereby is relieved and freed of all obligations of Landlord under this Lease accruing after such transfer, and it shall be deemed, without further agreement that such transferee has assumed and agreed to perform and observe all obligations of Landlord herein during the period it is the holder of Landlord's interest under this Lease,

(f) The terms "herein", hereof and "hereunder", and words of similar import, shall be construed to refer to this Lease as a whole, and not to any particular article or section, unless expressly so stated.

(g) The term "and/or" when applied to one or more matters or things shall be construed to apply to any one or more or all thereof as the circumstances warrant at the time in question.

(h) The term "person" shall mean any natural person or persons, a partnership, a corporation, and any other form of business or legal association or entity.

(i) Intentionally Omitted.

(j) The term "Interest Rate," when used in this Lease, shall mean an interest rate equal to three (3%) percent above the so-called "Prime Rate" of interest established and approved by Bank of America, or its successors, from time to time, but in no event greater than the highest lawful rate from time to time in effect.

(k) The term "Business Days" shall mean all days except Saturdays, Sundays and any holidays described in Section 15.02 hereof.

(l) The term "Business Hours" shall mean the hours from 8:00 A.M. to 6 P.M.

35.06. Upon the expiration or other termination of this Lease neither party shall have any further obligation or liability to the other except as otherwise expressly provided in this Lease and except for such obligations as by their nature or under the circumstances can only be, or by the provisions of this Lease, may be, performed after such expiration or other termination; and, in any event, unless otherwise expressly provided in this Lease, any liability for a payment (including, without limitation, Additional Charges under Article 3 hereof) which shall have accrued to or with respect to any period ending at the time of expiration or other termination of this Lease but for which Landlord has not sent Tenant a bill or made any claim or demand shall survive the expiration or other termination of this Lease for a period of one (1) year except as expressly set forth in this Lease to the contrary and except as pertains to claims by either party against the other for contribution or indemnification or both arising out of third-party claims against Landlord or Tenant, as the case may be.

35.07. If Tenant shall request Landlord's consent and Landlord shall fail or refuse to give such consent, Tenant shall not be entitled to any damages for any withholding by Landlord of its consent, it being intended that Tenant's sole remedy shall be an action for specific performance, arbitration or expedited arbitration to the extent such arbitration is expressly provided for in this Lease, and that such remedy shall be available only in those cases where Landlord has expressly agreed in writing not to unreasonably withhold or delay its consent or where as a matter of law Landlord may not unreasonably withhold or delay its consent. Notwithstanding the foregoing, the provisions of this Section 35.07 shall not apply in any instance in which Landlord has withheld or delayed its consent in bad faith with respect to any consent that Landlord is asked to grant in accordance with this Lease and which such consent is not, in accordance with this Lease, to be unreasonably withheld or delayed.

35.08. If any Superior Mortgagee shall require any modification(s) of this Lease, Tenant shall, at Landlord's request, promptly execute and deliver to Landlord such instruments effecting such modification(s) as Landlord shall require, provided that such modification(s) do not adversely affect any of Tenants rights under this Lease; it being understood that, for purposes of this Section 35.08, a requested modification to this Lease which would obligate Tenant to deliver a notice to the Superior Mortgagee under certain circumstances, which such notice obligation may exceed the then notice obligations of Tenant under this Lease, shall not be considered a modification that "adversely affects" the Tenant's rights under this Lease.

35.09. If an excavation shall be made upon land adjacent to or under the Building, or shall be authorized to be made, Tenant shall afford to the person causing or authorized to cause such excavation, license to enter the Premises for the purpose of performing such work as said person shall deem necessary or desirable to preserve and protect the Building from injury or damage to support the same by proper foundations, without any claim for damages or liability against Landlord and without reducing or otherwise affecting Tenant's obligations under this Lease except as expressly set forth in Section 13.03 hereof; it being understood that Landlord shall not enter into any agreement or do anything else that would exculpate any such parties performing such work from any liability they may have to Tenant pursuant to law.

35.10. Tenant shall not place a load upon any floor of the Premises which exceeds fifty (50) pounds per square foot unless such floor shall be properly reinforced. Landlord shall not unreasonably withhold its consent to a request by Tenant to permit any floors in the Premises or any portions of such floors to be reinforced by Tenant at Tenant's expense. All heavy material and/or equipment must be placed by Tenant, at Tenant's expense, so as to distribute the weight or support the same appropriately. Business machines and mechanical equipment shall be placed and maintained by Tenant, at Tenant's expense, in settings sufficient to absorb and prevent vibration and noise. If the Premises be or become infested with vermin as a result of the use or any misuse or neglect of the Premises by Tenant, its agents, employees, visitors or licensees, Tenant shall at Tenant's expense cause the same to be exterminated from time to time and shall employ such exterminators and such exterminating company or companies as shall be reasonably approved by Landlord.

35.11. The submission by Landlord of this Lease in draft form shall be deemed submitted solely for Tenant's consideration and not for acceptance and execution. Such submission shall have no binding force or effect and shall confer no rights nor impose any obligations, including brokerage obligations, on either party unless and until both Landlord and Tenant shall have executed this Lease and duplicate originals thereof shall have been delivered to the respective parties.

35.12. Irrespective of the place of execution or performance, this Lease shall be governed by and construed in accordance with the laws of the State of New York. If any provisions of this Lease or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, the remainder of this Lease and the application of that provision to other persons or circumstances shall not be affected but rather shall be enforced to the extent permitted by law. The table of contents, captions, headings and titles in this Lease are solely for convenience of references and shall not affect its interpretation. This Lease shall be construed without regard to any presumption or other rule requiring construction against the party causing this Lease to be drafted. Each covenant, agreement, obligation or other provision of this Lease on Landlord's or Tenant's part to be performed, shall, unless specifically provided to the contrary, be deemed and construed as a separate and independent covenant of Landlord or Tenant, not dependent on any other provision of this Lease. All terms and words used in this Lease, shall be deemed to include any other number and any other gender as the context may require.

35.13. If under the terms of this Lease Tenant is obligated to pay Landlord a sum in addition to the Fixed Rent under the Lease and no payment period therefor is specified, Tenant shall pay Landlord the amount due, as Additional Charges, within thirty (30) days after being billed.

35.14. Intentionally Omitted.

35.15. Landlord and Tenant represent and warrant (each with respect to itself):

(a) That there are no actions, suits or proceedings pending or, to the knowledge of either, threatened against or affecting either, at law or in equity or before any

Federal, state, municipal or governmental department, commission, board, bureau, agency or instrumentality which would impair its ability to perform its obligations under this Lease;

(b) That this Lease has been duly authorized, executed and delivered and constitutes its legal, valid and binding obligation subject to bankruptcy, insolvency, reorganization, rehabilitation, moratorium or other similar laws affecting creditors' rights generally, general principles of equity and to approval by Tenant's Board of Directors; and

(c) That the consummation of the transactions hereby contemplated and the performance of this Lease will not result in any breach or violation of, or constitute a default under any Superior Lease, Superior Mortgage, lease, bank loan or credit agreement to which it is a party.

35.16. Tenant acknowledges that it has no rights to any development rights, "air rights" or comparable rights appurtenant to the Building, and consents, without further consideration, to any utilization of such rights by Landlord and agrees to promptly execute and deliver any instruments which may be reasonably requested by Landlord, including instruments merging zoning lots, evidencing such acknowledgment and consent. The provisions of this Section 35.16 shall be deemed to be and shall be construed as an express waiver by Tenant of any interest Tenant may have as a "party in interest" (as such quoted term is defined in Section 12-10 Zoning Lot of the Zoning Resolution of the City of New York) in the Building.

35.17. In connection with any examination by Tenant of Landlord's books and records, Tenant agrees to treat, and to instruct its employees, accountants and agents to treat, all information as confidential and not disclose it to any other Person unless required by law; and Tenant will confirm or cause its agents and accountants to confirm such agreement in a separate written agreement if requested by Landlord.

35.18. Except as otherwise indicated in this Lease, Landlord agrees that wherever in this Lease Landlord's consent is required not to be unreasonably withheld, such consent shall also not be unreasonably delayed.

ARTICLE 36

Back-up AC System

36.01. Tenant shall have the right, at no additional charge, to maintain the currently existing emergency back-up dry cooler air conditioning system (the "Back-up AC System") for the Tenant's computer room on the fourteenth floor of the Building in the same area in which the Back-up AC system currently exists and the piping and duct work connecting the Back-up AC System directly to the louvers. Landlord shall have the right in its sole discretion at its sole cost and expense to move or at Landlord's expense to cause the Tenant to move and reinstall the equipment (with attendant ductwork, piping and electric) for the Back-up AC System up to 25 feet from the center point of the installation to another location in the Building, provided that such location shall be one in which the Back-up AC System can properly function throughout the

term of this Lease. Landlord must fully restore at no cost to Tenant the Back-up AC System so that it functions at least as affectively as it did prior to its being moved. Except in the case of an emergency, Landlord agrees that such movement shall occur at a time when the Back-up AC System is not likely to be needed and that is otherwise mutually satisfactory and shall be with advance notice to Tenant. Tenant represents that the Back-up AC System will be used for emergency back-up for the computer room in the event the primary systems servicing such space are not functional and for no other purpose.

36.02. Tenant shall be solely responsible for the cost and expense of installation, operation, repair and maintenance of the Back-up AC System, including any necessary piping, ductwork and electricity. The Back-up AC System shall be maintained and operated in compliance with all applicable all statutes, rules, and governmental regulation and good engineering practices. Tenant shall indemnify and hold Landlord harmless in accordance with Article 18 of the Lease as a result of any breach of the foregoing.

36.03. Access to the 14th Floor and the Back-up AC System shall be: (i) only in the presence of a representative of the Landlord, which Landlord shall endeavor to make available upon reasonable notice (such as one to two hours, but Tenant shall endeavor to give longer notice), and (ii) only on business days and during business hours, except in the event of an emergency which requires access to the Back-up AC System, in which case Landlord shall use commercially reasonable efforts to provide immediate access, provided that Tenant shall pay Landlord's charges for overtime personnel if such overtime or additional personnel were required as a result of Tenant's access. An emergency shall include, without limitation, any malfunction of the Building's cooling system.

ARTICLE 37

Extension of Term

37.01. Subject to the provisions hereof, Tenant shall continue to lease the Premises and extend the term of this Lease for an additional term (such additional term is hereinafter called the "Extension Term") commencing on the day following the Expiration Date (hereinafter called the "Commencement Date of the Extension Term") and expiring on September 30, 2019 (hereinafter called the "Expiration Date of the Extension Term") if Tenant and/or its "affiliates" have any office in Manhattan.

37.02. In the event Tenant does not in good faith based upon its and/or its affiliates' business operations require to lease the entire Premises during the Extension Term and Tenant and/or its affiliates do not anticipate to lease, sublease, license or otherwise occupy any office space in any other location or building in Manhattan during the Extension Term then on or prior to December 31, 2014, Tenant shall give Landlord written notice (hereinafter called the "Extension Notice") of its and its affiliates' anticipated office needs for the Extension Term stating the number of useable square feet (and the corresponding number of rentable square feet calculated with a 25% loss factor) it estimates that it requires and the number of all employees it is projected to retain. In the event Tenant fails to timely deliver the Extension Notice on or prior to December 31, 2014, Landlord shall notify Tenant in writing (the "Landlord Notice") and, in the event Tenant fails to then deliver the Extension Notice within ten (10) days

after delivery of the Landlord Notice (to be delivered by hand (against a signed receipt) in accordance with Section 29.01 hereof), Tenant shall be deemed to be leasing the entire Premises during the Extension Term pursuant to the provisions hereof and such failure shall not affect the validity and obligation of Tenant's extension of the Term of this Lease pursuant hereto. In the event Tenant does not in good faith require to lease the entire Premises during the Extension Term then Tenant and/or its affiliates shall not lease, sublease, license or occupy any office space in any other location or building in Manhattan during the Extension Term and the portion of the Premises to be leased by Tenant during the Extension Term shall be designated by Tenant in the Extension Notice as one or more contiguous full floors comprising the Premises up to the four (4) floors comprising the Premises. To the extent Tenant does not lease the entire Premises during the Extension Term pursuant hereto, the floor(s) of the Premises not being retained by Tenant will be surrendered by Tenant pursuant to the terms and conditions hereof beginning with the highest floor of the Premises (i.e., the 18th floor).

37.03. The Fixed Rent payable by Tenant to Landlord during the Extension Term shall be a sum equal to the fair market rent for the Premises (or such full floor portion(s) thereof being retained) as determined as of the date occurring six (6) months prior to the Commencement Date of the Extension Term (such date is hereinafter called the "Determination Date") and which determination shall include the proposed Fixed Rent for the Extension Term and the basis upon which it was calculated and shall be made by Landlord in writing to Tenant ("Landlord's Determination") pursuant to the provisions hereof, but such Fixed Rent shall in no event be less than the Fixed Rent and Additional Charges (i.e. not less than Tenant's fully escalated rent) in effect under this Lease for the last month of the Term (without giving effect to any temporary abatement of Fixed Rent under the provisions of this Lease). In determining the fair market rent, all relevant factors shall be considered including, but not limited to, a) the fact that the Premises have been built out and their then current condition and b) the provisions of Article 3 of this Lease including, without limitation the Basic Tax and the Base Wage Rate, each of which are based on the calendar 2011 base year and both the Base Wage Rate and Base Tax shall continue to be utilized without change during the Extension Term.

(a) Tenant shall have the right by written notice to Landlord ("Tenant's Objection Notice") to object to Landlord's Determination within thirty (30) days (time being of the essence) following delivery of Landlord's Determination, timely failing which shall be deemed that Tenant has accepted Landlord's Determination. In the event Landlord timely receives from Tenant, Tenant's Objection Notice, Landlord and Tenant shall endeavor to agree as to the amount of the fair market rent for the Premises pursuant to the provisions of Section 37.03 hereof, during the thirty (30) day period following the date of Tenant's Objection Notice. In the event that Landlord and Tenant cannot agree as to the amount of the fair market rent within such thirty (30) day period following the date of Tenant's Objection Notice, then Landlord or Tenant may initiate the appraisal process provided for herein by giving notice to that effect to the other, and the party so initiating the appraisal process (such party hereinafter called the "Initiating Party") shall specify in such notice the name and address of the person designated to act as an arbitrator on its behalf. Within thirty (30) days after the designation of such arbitrator, the other party (hereinafter called the "Other Party") shall give notice to the Initiating Party specifying the name and address of the qualified independent third party designated to act as an arbitrator on its behalf. If the Other Party fails to notify the Initiating Party of the

appointment of its arbitrator within the time above specified, then the appointment of the second arbitrator shall be made in the same manner as hereinafter provided for the appointment of a third arbitrator in a case where the two arbitrators appointed hereunder and the parties are unable to agree upon such appointment. The two arbitrators so chosen shall meet within ten (10) days after the second arbitrator is appointed and if, within sixty (60) days after the second arbitrator is appointed, the two arbitrators shall not agree, they shall together appoint a third arbitrator. In the event of their being unable to agree upon such appointment within eighty (80) days after the appointment of the second arbitrator, the third arbitrator shall be selected by the parties themselves if they can agree thereon within a further period of fifteen (15) days. If the parties do not so agree, then either party, on behalf of both and on notice to the other, may request such appointment by the American Arbitration Association (or organization successor thereto) in New York City in accordance with its rules then prevailing.

(b) Each party shall pay the fees and expenses of the one of the two original arbitrators appointed by or for such party, and the fees and expenses of the third arbitrator and all other expenses (not including the attorneys fees, witness fees and similar expenses of the parties which shall be borne separately by each of the parties) of the arbitration shall be borne by the parties equally.

(c) The third arbitrator shall determine the fair market rent of the Premises, which determination shall be within the range of the determinations of the first and second arbitrators only, and render a written certified report of his or her determination to both Landlord and Tenant within sixty (60) days of the appointment of the first two arbitrators or sixty (60) days from the appointment of the third arbitrator if such third arbitrator is appointed pursuant to this paragraph; and the fair market rent, so determined, shall be applied to determine the Fixed Rent pursuant to this Section 37.03.

(d) Each of the arbitrators selected as herein provided shall have at least ten (10) years experience in the leasing and renting of office space in similar office buildings in downtown Manhattan.

(e) In the event Landlord or Tenant initiates the appraisal process and as of the Commencement Date of the Extension Term the amount of the fair market rent has not been determined, Tenant shall continue to pay the Fixed Rent and Additional Charges in effect for the last month of the Term until such time as the fair market rent is determined by the parties or the Arbitrator and within thirty (30) days after the Fixed Rent for the Extension Term is finally determined, Tenant shall pay Landlord the difference, if any, between the amount of Fixed Rent paid during the Extension Term and the amount that should have been paid.

37.04. If Landlord notifies Tenant that the Fixed Rent for the Extension Term shall be equal to the Fixed Rent and Additional Charges in effect under this Lease for the last month of the Term (without giving effect to any temporary abatement thereof), then the provisions of this Section 37.03 shall be inapplicable and have no force or effect.

37.05. Except as provided in this Article 37, Tenant's occupancy of the Premises during the Extension Term shall be on the same terms and conditions as are in effect immediately prior to the expiration of the Term, provided, however, Tenant shall have no further right to extend the term of this Lease pursuant to this Article 37.

37.06. In the event Tenant leases less than all of the Premises during the Extension Term, pursuant hereto, Tenant's Operating Payments, Tenant's Proportionate Share and Condenser Water Tonnage shall be proportionately adjusted based on the floor or floors that is not leased as follows:

Floor Surrendered	Applicable Reduction in Condenser Water Tonnage
15th Floor	73.5
16th Floor	21.0
17th Floor	21.5
18th Floor	20.5

37.07. In the event Tenant surrenders one or more floors of the Premises pursuant to this Article 37, Landlord shall, at its sole cost and expense, be responsible for the removal of any currently existing internal staircase and restoration of the slab between the remaining floor(s) and surrendered floor(s) of the Premises including, but not limited to, repairing the surrounding area to match so there is no indication that the staircase existed. Landlord will use commercially reasonable efforts to complete such work as soon as reasonably practicable after the date Tenant has surrendered any such portion of the Premises in accordance herewith in a manner that will not unreasonably disturb Tenant's use of the Premises in accordance with Section 2.02 hereof; provided however Tenant shall reasonably cooperate with Landlord in all respects until such work is completed.

37.08. If Tenant extends the Term for the Extension Term pursuant to this Article 37, the phrases "Term", "the term of this Lease" or "the term hereof" as used this Lease, shall be construed to include, when practicable, the Extension Term and the term "Premises" shall be mean the Premises, or such floor(s) comprising the Premises as delineated by Tenant in the Extension Notice.

37.09 Notwithstanding anything contained herein to the contrary, Landlord shall have the right, in its sole and absolute discretion, at any time during the Term up until February 15, 2015, to eliminate the Extension Term and Tenant's rights pursuant to this Article 37 upon thirty (30) days notice to Tenant in which event the Lease (i) will not be extended for the Extension Term and (ii) will expire on the Expiration Date, unless sooner terminated pursuant to the terms and conditions hereof.

37.10 Notwithstanding anything contained herein to the contrary, in the event Tenant does not lease the entire Premises during the Extension Term pursuant to the terms and conditions hereof and Tenant and/or its affiliates lease, sublease, license or otherwise occupy any office space in any other location or building in Manhattan during the Extension Term, then Tenant shall be deemed to have leased the entire Premises during the Extension Term and shall be liable hereunder for the entire Premises during the Extension Term (including without limitation for all Fixed Rent and Additional Charges payable hereunder for the entire Premises as determined pursuant to the terms of this Article 37) less such amounts as Landlord actually collects from tenants of the Premises and shall be deemed to be in default under this Lease, entitling Landlord to all damages and remedies available to it pursuant to the Lease, law and equity. Notwithstanding the foregoing, Landlord shall not be obligated to find another tenant for the Premises or charge such other tenant, the fair market rent.

ARTICLE 38

Landlord's Work

38.01. Tenant acknowledges that it is currently in possession of the Premises, is fully acquainted with the condition of the Premises and the Building and agrees to continue in and accept possession of the Premises and all Building systems in their then "as-is" physical condition on the Effective Date, it being understood and agreed that Landlord shall not be required to perform any work, supply any materials or incur any expense to prepare the Premises for Tenant's continued occupancy except Landlord, or its designated agent, shall perform the work expressly set forth on Exhibit C annexed hereto (such work to be performed pursuant to Exhibit C is herein called "Landlord's Work").

ARTICLE 39

Arbitration

39.01. (a) Either party may request arbitration of any matter in dispute wherein arbitration is expressly provided in this Lease as the appropriate remedy (i.e., in Sections 3.08 and 37.08 hereof). The arbitration shall, except where the procedure set forth in Article 7 is specified, be conducted, to the extent consistent with this Article 39, in accordance with the then prevailing rules of the American Arbitration Association (or any organization successor thereto) in the City and County of New York. The arbitrator(s) shall be disinterested person(s) having at least 10 years of experience in the County of New York in a calling connected with the dispute. In rendering any decision or award hereunder, the arbitrator(s) shall not add to, subtract from or otherwise modify the provisions of this Lease.

(b) The fees and expenses of the arbitrator(s) and all other expenses (not including the attorneys' fees, witness fees and similar expenses of the parties) of the arbitration shall be borne by the parties equally.

(c) Such arbitration shall be conducted as follows: Within fifteen (15) Business Days next following the giving of any notice by Landlord or Tenant stating that wishes a dispute to be determined by arbitration, wherein arbitration is expressly provided for in this

Lease as an appropriate remedy, Landlord and Tenant shall each give notice to the other setting forth the name and address of an arbitrator designated by the party giving such notice. If either party shall fail to give notice of such designation within said fifteen (15) Business Days, then the arbitrator chosen by the other side shall make the determination alone. If the two (2) arbitrators shall fail to agree upon the designation of a third arbitrator within twenty (20) Business Days after the designation of the second arbitrator then either party may apply to the American Arbitration Association for the designation of such arbitrator and if such organization is unable or refuses to act within twenty (20) Business Days then either party may apply to the Supreme Court in New York County or to any other court having jurisdiction for the designation of such arbitrator. The three arbitrators shall conduct such hearings as they deem appropriate, making their determination in writing and giving notice to Landlord and Tenant of their determination as soon as practicable, and if possible, within thirty (30) Business Days after the designation of the third arbitrator. The concurrence of two (2) arbitrators or, in the event no two (2) of the arbitrators shall render a concurrent determination, then the determination of the third arbitrator designated shall be binding upon Landlord and Tenant. Judgment upon any decision rendered in any arbitration held pursuant to this Article 39 shall be final and binding upon Landlord and Tenant, whether or not a judgment shall be entered in any court.

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Lease as of the day and year first above written.

WITNESS:

ONE STATE STREET, LLC,
Landlord
By: _____
General Partner

WITNESS:

AMBAC ASSURANCE CORPORATION,
Tenant
By: _____

Tenant's Federal Identification Number: _____

EXHIBIT A

Description of the Land

ALL those certain lot, pieces or parcel of land, situate, lying and being in the Borough of Manhattan, City of New York, County of New York, State of New York, bounded and described as follows:

BEGINNING at the corner formed by the intersection of the northerly side of State Street with the westerly side of Whitehall Street; running;

Thence northerly along the westerly side of Whitehall Street 211 feet 4 1/8 inches to the southerly side of Pearl Street;

Thence westerly along the southerly side of Pearl Street on a line which forms an angle of 101 degrees, 38 minutes, 00 seconds on its southerly side with the westerly side of Whitehall Street 73 feet 7 3/8 inches;

Thence southerly along a line which forms an angle of 90 degrees, 23 minutes, 00 seconds on its easterly side with the last mentioned course and along said line of Pearl Street, 1 foot;

Thence westerly along a line which forms an angle of 86 degrees, 13 minutes, 30 seconds on its southerly side with the last mentioned course and along the said southerly side of Pearl Street 19 feet 10 5/8 inches;

Thence westerly along a line which forms an angle of 183 degrees, 58 minutes, 40 seconds on its southerly side with the last mentioned course and along the southerly side of Pearl Street 21 feet 3 3/4 inches to a point at or opposite the center of a party wall standing partly on the premises hereby described and partly on the premises adjoining on the west;

Thence southerly along a line which forms an angle of 89 degrees, 33 minutes, 00 seconds on its easterly side with the last mentioned course and nearly the entire distance through the center of aforesaid party wall 109 feet 3 1/4 inches.

EXHIBIT B

Floor Plans of the Premises

See Attached

EXHIBIT B

Floor Plan of Premises

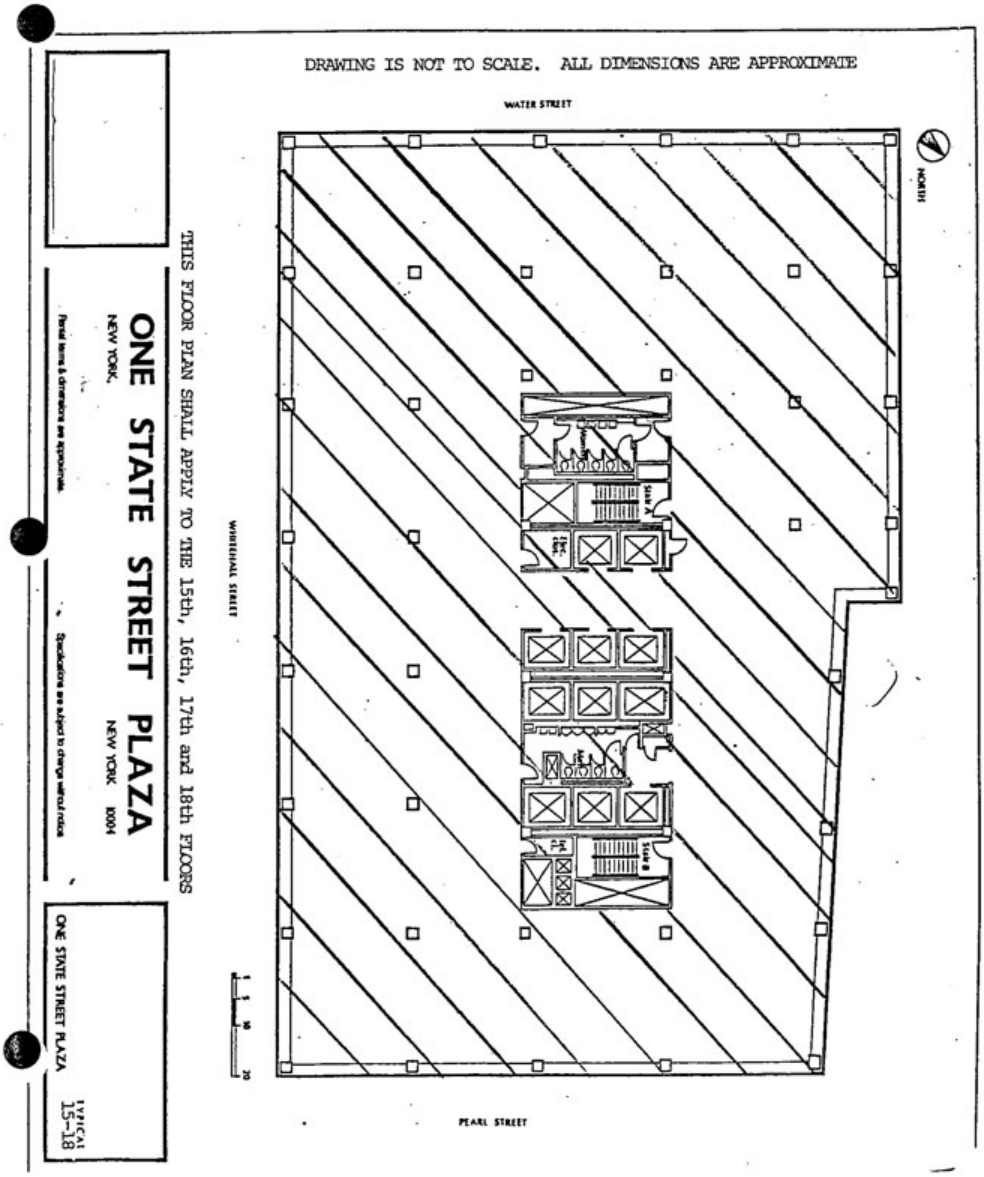


EXHIBIT C

Landlord's Work

Landlord shall be responsible for removing any currently existing internal staircase between the eighteenth (18th) floor portion of the Premises and the nineteenth (19th) floor of the Building and restoring any portion of the slab of the nineteenth (19th) floor affected by such removal including, but not limited to, repairing the surrounding areas to match, so there is no indication that the staircase existed.

EXHIBIT D

Building Rules and Regulations

If and to the extent that any of the provisions of the Building Rules and Regulations set forth hereinbelow conflict or are otherwise inconsistent with any of the provisions of the body of the Lease, whether or not such conflict or inconsistency is expressly noted hereinbelow, the provisions of the body of the Lease shall prevail.

1. The sidewalks, entrances, driveways, passages, courts, elevators, vestibules, stairways, corridors or halls shall no: be obstructed or encumbered by any Tenant or used for any purpose other than for ingress or egress from the Premises and for delivery of merchandise and equipment using elevators and passageways reasonably designated for such delivery by Landlord. There shall not be used in any space, or in the public hall of the Building, either by any Tenant or by jobbers or others in the delivery or receipt of merchandise, any hand trucks, except those equipped with rubber tires and sideguards.

2. The water and wash closets and plumbing fixtures shall not be used for any purposes other than those for which they were designed or constructed and no sweepings, rubbish, rags, acids or other substances shall be deposited therein, and the expense of any breakage, stoppage, or damage resulting from the violation of this rule shall be borne by the Tenant if, but only if, caused by Tenant or its agents, employees or visitors.

3. No carpet, rug or other article shall be hung or shaken out of any window of the Building, and no Tenant shall sweep or throw or permit to be swept or thrown from the Premises any dirt or other substances into any of the corridors or halls, elevators, or out of the doors or windows or stairways of the Building and Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in any manner prohibited by Section 2.04 of this Lease. No animals (except seeing-eye dogs) or birds shall be kept in or about the Building. Smoking or carrying lighted cigars or cigarettes in the elevators of the Building is prohibited.

4. No awnings or other projections shall be attached to the outside walls of the Building without the prior written consent of Landlord.

5. Subject to the provisions of Article 16 of this Lease, no sign, advertisement, notice or other lettering shall be exhibited, inscribed, painted or affixed by any Tenant on any part of the outside of the Premises or the Building or on the inside of the Premises if the same is visible from the outside of the Premises without the prior written consent of Landlord, except that the name of Tenant may appear on the entrance doors of the Premises and provided that Tenant is the only tenant or occupant of a particular floor in the Building, Tenant may affix a sign or lettering visible from the elevator cabs serving such floor. In the event of the violation of the foregoing by Tenant which shall continue for five (5) days after Landlord shall have given Tenant a notice of such violation, Landlord may remove same without any liability, and may charge the expense incurred by such removal to Tenant or tenants violating this rule.

6. Subject to Article 11 and the Alteration Rules and Regulations, except in connection with normal interior decorating, no Tenant shall mark, paint, drill into, or in any way

deface any part, of the Premises or the building of which they form a part, except as otherwise permitted under the Lease. No boring, cutting or stringing of wires shall be permitted, except with the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed.

7. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by any Tenant, nor shall any changes be made in existing locks or mechanism thereof unless, in either such case, copies of all keys therefor are provided to Landlord upon installation or change by Tenant. Each Tenant must, upon the termination of his tenancy, restore to Landlord all keys of stores, offices and toilet rooms, either furnished to, or otherwise procured by, such Tenant.

8. Freight, furniture, business equipment, merchandise and bulky matter of any description (other than mail, packages and such other materials as Tenant routinely receives in the normal course of its business provided the same is not delivered by use of dollies, hand trucks and the like) shall be delivered to and removed from the Premises only on the freight elevators and through the service entrance and corridors, and, to the extent that the same shall unreasonably deprive other tenants in the Building of the use of the freight elevator, only after Business Hours. Landlord reserves the right to inspect all freight (other than mail, packages or such other materials as Tenant routinely receives in the normal course of its business) brought into the Building and to exclude from the Building all freight (other than mail, packages or such other materials as Tenant routinely receives in the normal course of its business) which violates any of these Rules and Regulations or the Lease of which these Rules and Regulations are a part. During Tenant's move-in period, Landlord shall use reasonable efforts to accommodate Tenant's needs to bring freight into its Premises during regular business hours.

9. Canvassing, soliciting and peddling in the Building is prohibited and each Tenant shall cooperate to prevent the same.

10. Landlord, reserves the right to exclude from the Building between the hours of 6 p.m. and 8 a.m. and at all hours on Sundays and Holidays all persons who do not present a Pass to the Building signed by Landlord or are not accompanied by an employee of Tenant. Each Tenant shall be responsible for all persons for whom he requests such pass and shall be liable to Landlord for all acts of such person to the extent provided in the Lease.

11. Landlord shall have the right reasonably exercised to prohibit any advertising by Tenant which specifically identifies the Building or the Premises, which in Landlord's opinion, reasonably exercised, impairs the reputation of the Building or its desirability as a building for offices, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

12. Tenant shall not bring or permit to be brought or kept in or on the Premises, any inflammable, combustible or explosive fluid, material, chemical or substance except those substance commonly used for office purposes, or cause or permit any odors of cooking or other processes, or any objectionable odors to permeate in or emanate from the Premises.

13. Tenant agrees to abide by all reasonable rules and regulations issued by the Landlord which are consistent with the Lease with respect to air-conditioning and ventilation services. If Tenant requires air-conditioning or ventilation after 6:00 P.M., Tenant shall give telephonic notice to the Building superintendent prior to 4:00 p.m. in the case of services required on weekdays, and prior to 4:00 p.m. on the Friday prior in the case of after hours service required on weekends or on holiday Mondays and prior to 4:00 p.m. on the day prior in the case of after hours service required on other holidays or weekends following Fridays which are holidays. Overtime freight elevator service will be requested on the same basis.

14. Tenant shall not move any heavy safe, heavy machinery, heavy equipment, bulky matter, or heavy fixtures into or cut of the Building except in compliance with all applicable laws and regulations, including the load limitations set forth in the Certificate of Occupancy, and except with Landlord's prior written consent to the manner in which Tenant proposes to accomplish such move, which consent shall not be unreasonably withheld or delayed. If such heavy safe, heavy machinery, heavy equipment, bulky matter or heavy fixtures requires special handling, all work in connection therewith shall comply with the Administrative Code of the City of New York and all other laws and regulations applicable thereto and shall be done during such hours as Landlord may reasonably designate.

EXHIBIT E

Alteration Rules and Regulations

1. All costs and expenses in connection with or arising out of the performance of any Alteration made by Tenant shall be borne by Tenant and all payments thereof shall be made by Tenant promptly as they become due, and evidence of such payments shall be furnished to Landlord on request. At no time shall Tenant do or permit anything to be done whereby Landlord's property may be subject to any mechanic's or other liens or encumbrances arising out of any Alteration; and Landlord's consent herein shall not be deemed to constitute any consent or permission to do anything which may create or be the basis of any lien or charge against the estate of the Landlord in the Premises or the real estate of which they are a tart. If a mechanic's lien is filed due to acts of Tenant or Tenant's agent, at any time so requested by Landlord, Tenant will, at Tenant's expense, provide and furnish Landlord, at Tenant's election, either (a) surety company bond, or (b) court order discharging lien, or (c) other form or protection against any such lien or encumbrance which may be filed, or (d) secure the release and/or discharge of any claim alleged to constitute such lien or encumbrance and will hold Landlord harmless against the same, and upon Tenant's failure to comply herewith the same may be furnished by Landlord.

2. Landlord may refer Tenant's mechanical plans to a consultant selected by Landlord, and, in such event, Tenant agrees to pay the reasonable cost of such service. Tenant agrees further to comply with all reasonable changes and requirements that may be recommended by Landlord's consultant.

3. Tenant will perform any Alteration in a safe and lawful manner, and as provided in Article 11, using contractors chosen by Tenant and reasonably approved by Landlord in accordance with the Lease and complying with applicable laws and all requirements and-regulations of municipal and other governmental or duly constituted bodies exercising authority, and this compliance shall include the filing of plans and other documents as required, and the procuring of any required licenses or permits, prior to commencement of any Alteration. Upon completion of any Alteration, Tenant shall submit to the Landlord all approvals issued by the Department of Buildings in connection therewith.

4. Landlord shall have no responsibility for or in connection with any Alteration other than the Landlord's Work.

EXHIBIT F

Office Cleaning Specifications

1. GENERAL OFFICE AREAS:

(A) Nightly

1. Damp mop all stone ceramic tile, terrazzo and other types of unwaxed floors.
2. Sweep all vinyl, asphalt, rubber and similar types of floors using an approved chemically treated cloth.
3. Vacuum clean all carpeted areas. Sweep all private stairways and vacuum if carpeted.
4. Hand dust and wipe clean with damp or chemically treated cloth all furniture, file cabinets, fixtures, window sills, convector enclosures tops and wash said sills and tops if necessary.
5. Dust all telephones as necessary.
6. Dust all chair rails, trim, etc.
7. Remove all gum and foreign matter on site.
8. Empty and clean all waste receptacles and remove waste paper and waste materials to a designated area.
9. Damp dust interiors of all waste disposal receptacles.
10. Empty and wipe clean all ash trays and screen all sand urns.
11. Wash clean all water fountains and water coolers.
12. Spot clean all glass furniture tops.
13. Remove fingermarks and dust doors of elevator hatchways.

(B) Periodic

1. Hand dust all louvers and other ventilating louvers within reach once per week.
2. Dust all baseboards once per week.
3. Wipe clean all bright work weekly.
4. Wash floors in public stairwells once per week.

5. Move and vacuum clean once per week underneath all furniture that can be moved.
6. Dust all picture frames, charts and similar hangings quarterly which were not reached in nightly cleaning.
7. Dust all vertical surfaces such as walls, partitions, doors and other surfaces not reached in nightly cleaning, quarterly.
8. Dust exterior of lighting fixtures quarterly.
9. Dust all venetian blinds quarterly.
10. Dust quarterly all air-conditioning louvers, grills, etc. not reached in nightly cleaning.
11. Vacuum clean peripheral induction units quarterly.
12. Clean all windows, inside and outside, quarterly. At the same time wipe clean window frames and metal trim.

2. TOILETS:

(A) Nightly

1. Wash all floors.
2. Wash all mirrors and powder shelves.
3. Wash all bright work.
4. Wash all plumbing fixtures.
5. Wash and disinfect all toilet seats, both sides.
6. Scour, wash and disinfect all basins, bowls, urinals throughout all toilets.
7. Empty paper towel receptacles and remove paper to designated area.
8. Fill toilet tissues holders (tissue to be furnished at Tenant's expense).
9. Fill soap dispenser systems and fill paper towel dispensers (towels and soap to be furnished at Tenant's expense).
10. Empty and clean sanitary disposal receptacles.
11. Clean and wash receptacles and dispensers nightly.

12. Remove fingermarks from painted surfaces.

13. Coin operated sanitary napkin dispensers will be installed and serviced by cleaning contractor.

(B) Periodic

1. Clean and wash all partitions once a week.

2. Scrub floors once every two weeks.

3. Hand dust, clean and wash all tile walls once each month.

4. High dusting to be done once each month which includes lights, walls and grills.

5. Wash toilet lighting fixtures as often as necessary but no less than twice per year.

3. GENERAL:

(A) Landlord may substitute for any of the methods or devices set forth in this Cleaning Schedule, such other methods or devices as in Landlord's reasonable judgment will achieve substantially the same results.

(B) As used in this Cleaning Schedule "nightly" means five nights a week, Monday through Friday, during regular cleaning hours (between 6:00 p.m. and 8:00 a.m.).

(C) Tenant shall provide, or pay for, all electricity for lighting and power and all hot and cold water required in the Tenant's premises during regular cleaning hours.

(D) All cleaning operations in the Tenant's premises will be scheduled to use a minimum number of lights. Upon completion of cleaning all lights will be turned off. All entrance doors will be kept locked during the entire cleaning operation.

EXHIBIT G

NDA Form

UBS REAL ESTATE SECURITIES INC.,
(Lender)

- and -

AMBAC ASSURANCE CORPORATION
(Tenant)

SUBORDINATION, NON-DISTURBANCE
AND ATTORNMENT AGREEMENT

Dated:	_____, 2011
Location:	One State Street Plaza
Section:	
Block:	
Lot:	
County:	New York

PREPARED BY AND UPON
RECORDATION RETURN TO:
Thacher Proffitt & Wood LLP
Two World Financial Center
New York, New York 10281
Attention: Donald F. Simone, Esq.
File No.: 20862-

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (the "Agreement") is made as of the _____ day of _____, 2011, by and between **UBS REAL ESTATE SECURITIES INC.,** a Delaware corporation, as lender, having an address at 1285 Avenue of the Americas, New York, New York 10019, or an affiliate thereof ("Lender") and **AMBAC ASSURANCE CORPORATION,** a Wisconsin corporation, having an address at One State Street Plaza, New York, New York 10004 ("Tenant").

RECITALS:

A. Lender is the present owner and holder of a certain mortgage and security agreement (together with any and all extensions, renewals, substitutions, replacements, amendments, modifications and/or restatements thereof, the "Security Instrument") dated _____ __, 20__ , given by Landlord (defined below) to Lender which encumbers the fee estate of Landlord in certain premises described in Exhibit A attached hereto (the "Property") and which secures the payment of certain indebtedness owed by Landlord to Lender evidenced by a certain promissory note dated _____ __, 20__ , given by Landlord to Lender (the note together with all extensions, renewals, modifications, substitutions and amendments thereof shall collectively be referred to as the "Note");

B. Tenant is the holder of a leasehold estate in a portion of the Property under and pursuant to the provisions of a certain lease dated _____, 2011 between One State Street, LLC, as landlord ("Landlord") and Tenant, as tenant, (such lease, as modified and amended as set forth herein being hereinafter referred to as the "Lease"); and

C. Tenant has agreed to subordinate the Lease to the Security Instrument and to the lien thereof and Lender has agreed to grant non-disturbance to Tenant under the Lease on the terms and conditions hereinafter set forth.

AGREEMENT:

For good and valuable consideration, Tenant and Lender agree as follows:

1. SUBORDINATION. The Lease and all of the terms, covenants and provisions thereof and all rights, remedies and options of Tenant thereunder are and shall at all times continue to be subject and subordinate in all respects to the terms, covenants and provisions of the Security Instrument and to the lien thereof, including without limitation, all renewals, increases, modifications, spreaders, consolidations, replacements and extensions thereof and to all sums secured thereby and advances made thereunder with the same force and effect as if the Security Instrument had been executed, delivered and recorded prior to the execution and delivery of the Lease.

2. NON-DISTURBANCE. If any action or proceeding is commenced by Lender for the foreclosure of the Security Instrument or the sale of the Property, Tenant shall not be named as a party therein unless such joinder shall be required by law, provided, however, such joinder shall not result in the termination of the Lease or disturb the Tenant's possession or use of the premises demised thereunder, and the sale of the Property in any such action or proceeding and the exercise by Lender of any of its other rights under the Note or the Security Instrument

shall be made subject to all rights of Tenant under the Lease, provided that at the time of the commencement of any such action or proceeding or at the time of any such sale or exercise of any such other rights (a) the Lease shall be in full force and effect and (b) Tenant shall not be in default beyond applicable notice and cure periods under any of the monetary terms, covenants or conditions of the Lease or of this Agreement on Tenant's part to be observed or performed.

3. ATTORNMENT. If Lender or any other subsequent purchaser of the Property shall become the owner of the Property by reason of the foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or by reason of any other enforcement of the Security Instrument (Lender or such other purchaser being hereinafter referred as "Purchaser"), and the conditions set forth in Section 2 above have been met, the Lease shall not be terminated or affected thereby but shall continue in full force and effect as a direct lease between Purchaser and Tenant upon all of the terms, covenants and conditions set forth in the Lease and in that event, Tenant agrees to attorn to Purchaser and Purchaser by virtue of such acquisition of the Property shall be deemed to have agreed to accept such attornment, provided, however, that Purchaser shall not be (a) liable for the failure of any prior landlord (any such prior landlord, including Landlord, being hereinafter referred to as a "Prior Landlord") to perform any obligations of Prior Landlord under the Lease, unless continuing, which have accrued prior to the date on which Purchaser shall become the owner of the Property, (b) subject to any offsets, defenses, abatements or counterclaims which shall have accrued in favor of Tenant against any Prior Landlord prior to the date upon which Purchaser shall become the owner of the Property, (c) liable for the return of rental security deposits, if any, paid by Tenant to any Prior Landlord in accordance with the Lease unless such sums are actually received by Purchaser, (d) bound by any payment of rents, additional rents or other sums which Tenant may have paid more than one (1) month in advance to any Prior Landlord unless (i) such sums are actually received by Purchaser or (ii) such prepayment shall have been expressly approved of by Purchaser or (e) bound by any agreement terminating or amending or modifying the rent, term, commencement date or other material term of the Lease, or any voluntary surrender of the premises demised under the Lease, made without Lender's or Purchaser's prior written consent prior to the time Purchaser succeeded to Landlord's interest. In the event that any liability of Purchaser does arise pursuant to this Agreement or the Lease, such liability shall be limited and restricted to Purchaser's interest in the Property and shall in no event exceed such interest.

4. NOTICE TO TENANT. After notice is given to Tenant by Lender that the Landlord is in default under the Note and the Security Instrument and that the rentals under the Lease should be paid to Lender pursuant to the terms of the assignment of leases and rents executed and delivered by Landlord to Lender in connection therewith, Tenant shall thereafter pay to Lender or as directed by the Lender, all rentals and all other monies due or to become due to Landlord under the Lease and Landlord hereby expressly authorizes Tenant to make such payments to Lender and hereby releases and discharges Tenant from any liability to Landlord on account of any such payments.

5. NOTICE TO LENDER AND RIGHT TO CURE. Tenant shall notify Lender of any default by Landlord under the Lease and agrees that, notwithstanding any provisions of the Lease to the contrary, no notice of cancellation thereof or of an abatement shall be effective unless Lender shall have received notice of default giving rise to such cancellation or abatement and shall have failed within sixty (60) days after receipt of such notice to cure such default, or if

such default cannot be cured within sixty (60) days, shall have failed within sixty (60) days after receipt of such notice to commence and thereafter diligently pursue any action necessary to cure such default. Notwithstanding the foregoing, Lender shall have no obligation to cure any such default.

6. NOTICES. All notices or other written communications hereunder shall be deemed to have been properly given (i) upon delivery, if delivered in person or by facsimile transmission with receipt acknowledged by the recipient thereof and confirmed by telephone by sender, (ii) one (1) Business Day (hereinafter defined) after having been deposited for overnight delivery with any reputable overnight courier service, or (iii) three (3) Business Days after having been deposited in any post office or mail depository regularly maintained by the U.S. Postal Service and sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Tenant:

AMBAC Assurance Corporation
One State Street Plaza
New York, New York, 10004
Attention: Diana Adams
Facsimile No. _____

with a copy to
Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, New York
Attention: Stuart M. Saft, Esq.

If to Lender:

UBS Real Estate Securities Inc.
1285 Avenue of the Americas
New York, New York 10019
Attention: Jeffrey N. Lavine
Facsimile No.: (212)713-4062

with a copy to

Thacher Proffitt & Wood LLP
Two World Financial Center
New York, New York 10281
Attention: Donald F. Simone, Esq.
Facsimile No.: (212) 912-7751

or addressed as such party may from time to time designate by written notice to the other parties. For purposes of this Section 6, the term "Business Day" shall mean a day on which commercial banks are not authorized or required by law to close in the state where the Property is located. Either party by notice to the other may designate additional or different addresses for subsequent notices or communications.

7. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of Lender, Tenant and Purchaser and their respective successors and assigns.

8. GOVERNING LAW. This Agreement shall be deemed to be a contract entered into pursuant to the laws of the State where the Property is located and shall in all respects be governed, construed, applied and enforced in accordance with the laws of the State where the Property is located.

9. MISCELLANEOUS. This Agreement may not be modified in any manner or terminated except by an instrument in writing executed by the parties hereto. If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision. This Agreement may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. This Agreement may be executed in several counterparts, each of which counterparts shall be deemed an original instrument and all of which together shall constitute a single Agreement. The failure of any party hereto to execute this Agreement, or any counterpart hereof, shall not relieve the other signatories from their obligations hereunder. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

10. LENDER AFFILIATE. The Loan may be originated in the name of an affiliate of Lender, and in such event, the term "Lender" under this agreement shall be deemed to refer to such affiliate.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, Lender and Tenant have duly executed this Agreement as of the date first above written.

LENDER:
UBS REAL ESTATE SECURITIES INC.,
a Delaware corporation
By: _____
Name:
Title:
TENANT:
AMBAC ASSURANCE CORPORATION
a Wisconsin corporation
By: _____
Name:
Title:

The undersigned accepts and agrees to the provisions of Section 4 hereof:
LANDLORD:
ONE STATE STREET, LLC,
a New York limited liability company
By: _____
Name:
Title:

ACKNOWLEDGMENTS

(To be attached)

EXHIBIT A

(Description of Property)

The parcel of real property, the improvements thereon and all personal property owned by Landlord known as One State Street Plaza, New York, New York 10004.

EXHIBIT H

Intentionally Omitted

EXHIBIT I

Intentionally Omitted

EXHIBIT J

Intentionally Omitted

EXHIBIT K

Sample Porter's Wage Calculation

2011 PORTER'S WAGE RATE W/OUT FRINGES

	Porters 8 (40 Hours)	Cleaners 6 (30 Hours)
Base Wage Rage	22.648	22.648
One-half combined total		**22.648**

EXHIBIT L

Substitute Buildings

	Block	Lot
2-8 Broadway	11	1
52-56 Broadway	22	28
58-80 Broadway	23	7
20-24 Broad Street	23	50
37-43 Wall Street	26	14
4-10 Hanover Square	31	1
107-13 Wall Street	35	10
88 Pine Street	38	17
140 Broadway	48	1
98-6 William Street	68	36

EXHIBIT M

Alternate Buildings

		Block	Lot
1.	29 Whitehall Street	10	14
2.	41-45 Broadway	20	9
3.	77 Water Street	33	1
4.	180 Maiden Lane	37	23
5.	100 Wall Street	38	1
6.	160 Water Street	70	43

EXHIBIT N

Heat and Air-Conditioning Specifications -

During all times that the Landlord is required to provide air-conditioning, the base building air-conditioning shall be capable of maintaining an interior space condition of not more than 78 degrees F dry bulb, 50% relative humidity for the following design conditions:

1. Outside air temperature not to exceed 89 degrees F dry bulb, 76 degrees F wet bulb.
2. Occupancy of the space not exceeding 1 person per 100 usable square feet.
3. Actual electric usage for lighting and general power not exceeding 6.0 watts per usable square foot.

During all times that the Landlord is required to provide heat, the base building heating system shall be capable of maintaining an interior space condition of 72 degrees F dry bulb for the following design conditions:

1. Outside air temperature not less than 15 degrees F dry bulb.

EXHIBIT O

Intentionally Omitted

EXHIBIT P

Security Procedures -

1 Anyone seeking to enter the elevators in AMBAC's elevator bank at any time (hereinafter called "Off-Hours") other than during Business Hours of Business Days shall be challenged and required to "sign in" at the concierge/security desk and such persons, if claiming to be an AMBAC employee must display corporate ID or if not must display some other reasonable form of identification. Once such AMBAC invitees or employees comply, such persons shall then either be accompanied to the elevator by a member of AMBAC's personnel or must be in possession of an AMBAC ID otherwise access to the Building will be denied.

2. AMBAC, at AMBAC's election and expense and upon prior approval by Landlord as to size, design and location, may install near the elevators in AMBAC's elevator bank area in the lobby of the Building, a security camera to video tape those entering the elevator to go to AMBAC's Premises during Off- Hours. AMBAC, at AMBAC's sole cost and expense, shall maintain, and if necessary, repair or replace such video cameras.

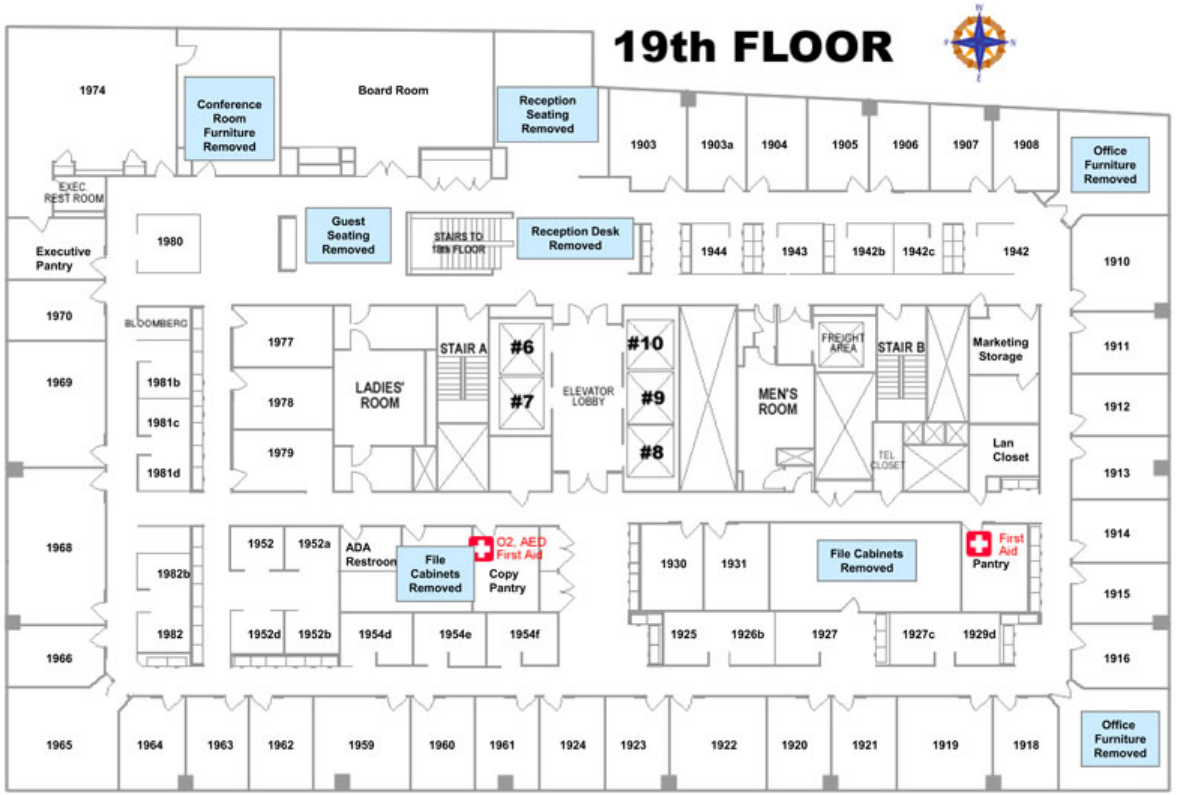
3. Landlord agrees to store for up to two (2) weeks video tapes of all those who "signed in" at the concierge/security desk during Off-Hours. At AMBAC's request, Landlord will permit AMBAC to review such video tapes. In addition, at AMBAC's request, Landlord will show AMBAC the list of all those who "signed in" at the concierge/security desk seeking to enter AMBAC's Premises during the previous weekend.

4. Landlord agrees to instruct the employees employed at the security/concierge desk to observe and to confirm that all those "signing in" in order to enter the Building during Off-Hours in fact proceed to the elevator bank in the lobby corresponding to the portion of the Building they stated they wished to enter.

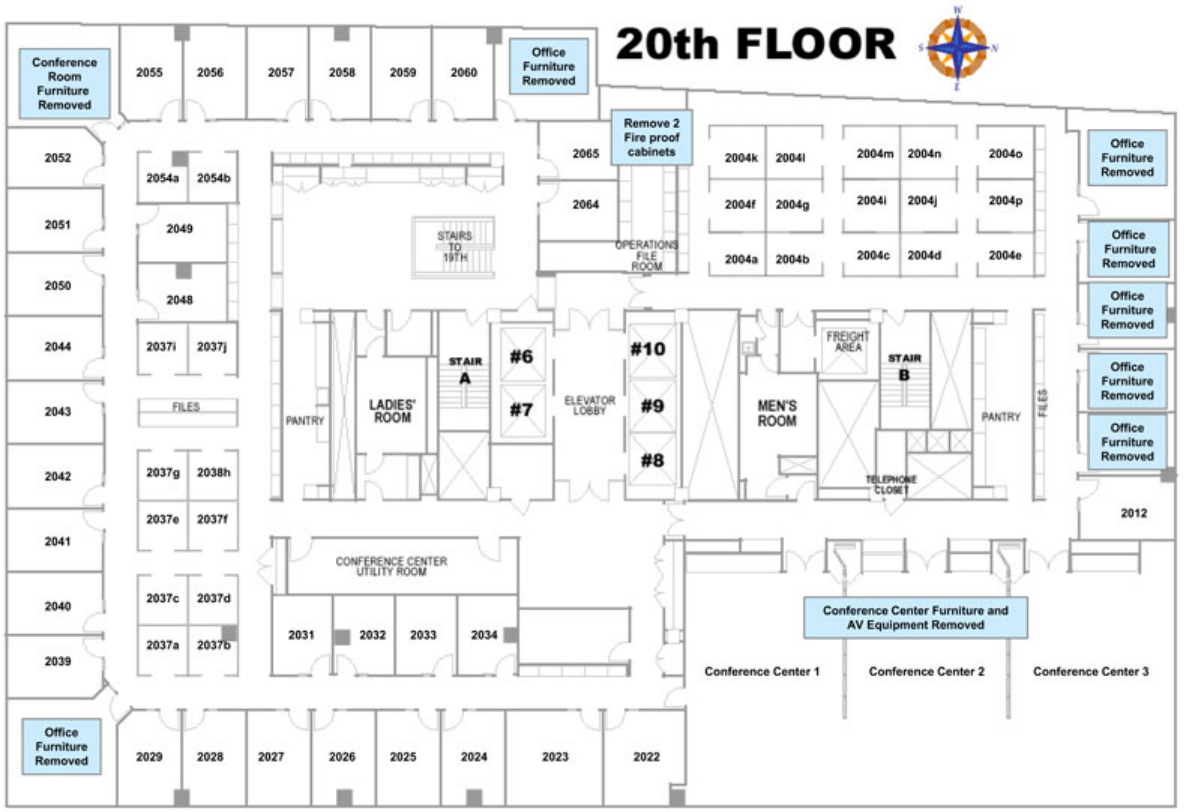
EXHIBIT B

FURNITURE TO BE REMOVED FROM THE PREMISES

19th FLOOR



Note: Upon vacating the 19th & 20th Floor – Chairs will be exchanged for those on other floors, as employees may choose to move their chair with them.



Note: Upon vacating the 19th & 20th Floor – Chairs will be exchanged for those on other floors, as employees may choose to move their chair with them.

EXHIBIT C

METHODOLOGY FOR CALCULATION OF ALLOWED CLAIM

One State Street, LLC

AMBAC - Settlement, Discontinuance and Release Agreement Calculations 2/28/2011 17:39

Original Lease Expiration Date	9/30/2019
Petition Date	11/8/2010

Section 4 - Allowed Claim (AFG)

	Pre-Petition Rent (Arrears)				Post-Effective Date Remaining Headquarters Lease Rental										
					Fiscal Year Ended December 31										
	Current Through	Pre-Nov-10 Arrears[1]	Nov-10 Arrears	Total	2010	2011F	2012	2013	2014	2015	2016	2017	2018	2019	Total
Base Rent	10/31/10	0	134,379	134,379	0	5,039,206	6,047,048	6,278,809	6,541,225	6,859,559	6,859,559	6,859,559	6,859,559	5,144,669	56,489,191
Porter's Wage Escalation[2]	10/31/10	0	38,553	38,553	0	1,578,101	2,058,131	2,228,294	2,404,413	2,586,696	2,775,359	2,970,626	3,172,726	2,536,426	22,310,772
R.E. Tax Escalation[3]	12/31/10	0	0	0	0	683,362	900,609	994,358	1,092,795	1,196,154	1,304,680	1,418,633	1,538,284	1,231,850	10,360,726
Electricity	8/30/10	59,048	7,873	66,921	0	0	0	0	0	0	0	0	0	0	0
Condenser Water	10/31/10	0	9,464	9,464	0	368,010	460,287	480,801	502,341	524,958	548,706	573,642	599,824	467,738	4,526,309
Total		59,048	190,269	249,317	0	7,668,680	9,466,074	9,982,263	10,540,774	11,167,367	11,488,305	11,822,459	12,170,392	9,380,683	93,686,997

Calculation 4(a)(i)

Remaining Headquarters Lease Rental	93,686,997	
Pre-Petition Rent	249,317	
Remaining New Headquarters Lease Rental[4]	(23,215,512)	
Claim	**70,720,803**	

Calculation 4(a)(ii) (i.e. 502(b)(6) Determination)

(A) Greater of:		
(i) 1 Year of Rent (Post-Petition)	9,246,359	**"Allowed Claim"** against AFGI is the lesser of the two claims per 4(a)
(ii) Lesser of:		
(x) 15% of RLO	14,053,050	
(y) 3-Years' Rent	28,873,813	
~PLUS~		
(B) Unpaid Rent (Pre-Petition)	249,317	
Claim	**14,302,367**	

7,668,680	1,577,679
7,668,680	9,466,074	9,982,263	1,756,796

Section 5 - OSS General Claim (AAC)

		Post-Effective Date Remaining Headquarters Lease Rental									
		2011F	2012	2013	2014	2015	2016	2017	2018	2019	NPV (7.0%)
RLO (Excludes Floor 20)											
Base Rent		4,138,339	4,966,007	4,966,007	5,072,118	5,390,452	5,390,452	5,390,452	5,390,452	4,042,839	
Porter's Wage Escalation		1,446,351	1,872,671	2,014,517	2,161,328	2,313,277	2,470,544	2,633,315	2,801,784	2,232,112	
R.E. Tax Escalation		572,158	753,733	831,859	913,890	1,000,022	1,090,461	1,185,421	1,285,130	1,028,962	
Electricity		0	0	0	0	0	0	0	0	0	
Condenser Water		358,431	448,217	468,128	489,034	510,986	534,035	558,237	583,649	455,000	
Total		6,515,279	8,040,629	8,280,510	8,636,369	9,214,736	9,485,491	9,767,425	10,061,014	7,758,913	55,509,211
Less: Remaining New Headquarters Lease Rental (Initial Term)											
RSF (Excludes Floors 19 & 20)		*103,484*	*103,484*	*103,484*	*103,484*	*103,484*					
Base Rent		3,449,458	4,139,349	4,139,349	4,139,349	4,139,349					
Porter's Wage Escalation		0	116,949	237,991	363,269	492,932					
R.E. Tax Escalation		14,518	59,523	122,023	187,647	256,553					
Electricity		0	0	0	0	0					
Condenser Water		211,056	265,931	279,227	293,189	307,848					
Total		3,675,032	4,581,752	4,778,590	4,983,455	5,196,683					18,844,259
"OSS General Claim"	*A*	2,840,247	3,458,877	3,501,920	3,652,915	4,018,053	9,485,491	9,767,425	10,061,014	7,758,913	**$36,664,952**
Potential Reduction for Lease Extension for Maximum Term / Space											
RSF (Excludes Floors 19 & 20)							*103,484*	*103,484*	*103,484*	*103,484*	
Base Rent							4,139,349	4,139,349	4,139,349	3,104,512	
Porter's Wage Escalation							627,133	766,032	909,792	793,937	
R.E. Tax Escalation							328,904	404,873	484,640	415,571	
Electricity							0	0	0	0	
Condenser Water							323,241	359,403	356,373	280,644	
"Extension Term Reduction Allocation"	*B*	0	0	0	0	0	5,418,628	5,649,657	5,890,153	4,594,664	13,056,298
"Allowed Claim" against AFGI x 83.33% ("Bankruptcy Distribution Reduction Allocation")	*C*										11,918,162
"Reducing Surplus Note"	*B + C*										**$24,974,461**
"Non-Reducing Surplus Note" [5]	*A - B - C*	2,840,247	3,458,877	3,501,920	3,652,915	4,018,053	4,066,863	4,117,768	4,170,861	3,164,248	**$11,690,491**

1 - Electricity charges reflect estimates based on prior month's billing. Billing lag is result of billing cycle lag from utility provider. Projected amounts include 5% annual growth.
2 - Assumes an Effective Date of March 1, 2011, subject to final determination in accordance with the terms of the Agreement.
3 - Real Estate Taxes, and Porter's Wage Rate are projected to increase at 5.0% and 3.5%, respectively.
4 - Sum of "OSS General Claim" amounts.
5 - "OSS General Claim," less (i) maximum "Extension Term Reduction Allocation" discounted at 7.0% per annum and (ii) 83.33% of maximum "Allowed Claim"

Exhibit 10.34

LEASE

between

ONE STATE STREET, LLC

Landlord

and

AMBAC ASSURANCE CORPORATION

Tenant

As of
March 1, 2011

PREMISES:
Entire 15th Floor
Entire 16th Floor
Entire 17th Floor
Entire 18th Floor

One State Street Plaza
New York, New York

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LEASE, dated as of March 1, 2011, between ONE STATE STREET, LLC, a New York limited liability company, having an office at One State Street Plaza, New York, New York 10004 (herein called "Landlord"), and AMBAC ASSURANCE CORPORATION, a corporation established under the laws of the State of Wisconsin, having an office at One State Street Plaza, New York, New York 10004 (herein called "Tenant").

Landlord and Tenant do hereby covenant and agree as follows:

ARTICLE 1

Term and Fixed Rent

1.01. Landlord hereby leases to Tenant, and Tenant hereby hires from Landlord, upon and subject to the terms, covenants, provisions and conditions of this Lease, the premises described in Section 1.02 in the building (herein called the "Building") known as One State Street Plaza in the City, County and State of New York. The Building is located on a portion of the land (herein called the "Land") described in Exhibit A annexed hereto and made a part hereof.

1.02. The premises (herein called the "Premises") leased to Tenant are the entire fifteenth (15th), sixteenth (16th), seventeenth (17th) and eighteenth (18th) floors of the Building, substantially as shown hatched on the floor plans annexed hereto as Exhibit B and made a part hereof. The parties hereto hereby agree that for purposes of this Lease the Premises shall be deemed to contain 103,484 rentable square feet.

1.03. The term ("Term") of this Lease (a) shall commence on the Effective Date (as defined in Section 1.05 hereof) and (b) shall end on December 31, 2015 (herein called the "Expiration Date") or on such earlier date upon which the term of this Lease shall expire or be cancelled or terminated pursuant to any of the conditions or covenants of this Lease or pursuant to law.

1.04. The rents shall be and consist of:

(a) For the period commencing on the Effective Date and ending on the Expiration Date: Four Million One Hundred Thirty Nine Thousand Three Hundred and Sixty ($4,139,360) Dollars per annum ($344,946.67 per month) **("Fixed Rent").**

Tenant shall receive a credit against its obligation to pay Fixed Rent and Additional Charges hereunder in accordance with, and to the extent available under, Section 6 of the Settlement Agreement (as hereinafter defined). Subject to the foregoing, Fixed Rent shall be payable commencing on the Effective Date and thereafter in equal monthly installments in advance on the first day of each and every calendar month during the term of this Lease, and

(b) additional rent (herein called "Additional Charges") consisting of Tax Payments (hereinafter defined), Operating Payments (hereinafter defined), the Additional Charges set forth in Articles 14 and 15 and all other sums

of money as shall become due from and payable by Tenant to Landlord hereunder from and after the Effective Date;

all to be paid in lawful money of the United States to Landlord at its office, or such other place, or to Landlord's agent and at such other place, as landlord shall designate by notice to Tenant.

1.05.

(a) This Lease shall become effective on the Effective Date (such term to have the meaning given thereto in Section 6 of that certain Settlement, Discontinuance and Release Agreement dated as of March 1, 2011, among Landlord, Ambac Financial Group Inc., Tenant and the Segregated Account of Ambac Assurance Corporation (the "Settlement Agreement")).

(b) As set forth in the Settlement Agreement, the Lease dated January 1, 1992 between Landlord and Ambac Financial Group, Inc., as assignee of Tenant, as amended (the "1992 Lease"), shall terminate simultaneously with the Effective Date.

1.06. Tenant covenants and agrees to pay Fixed Rent and Additional Charges promptly when due and without any abatement, deduction or setoff for any reason whatsoever, except as may be expressly provided in this Lease. Fixed Rent and Additional Charges shall be paid by good and sufficient check (subject to collection) drawn on a New York City bank which is a member of the New York Clearing House Association or a successor thereto.

1.07. If the Effective Date occurs on a day other than the first day of a calendar month, the Fixed Rent and all Additional Charges payable on a monthly basis (including, without limitation, Tax Payments and Operating Payments) shall be prorated based upon the number of days remaining in the calendar month in which the same occur.

1.08. No payment by Tenant or receipt or acceptance by Landlord of a lesser amount than the correct Fixed Rent or Additional Charges shall be deemed to be other than a payment on account, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance or pursue any other remedy in this Lease or at law provided. No payment by Landlord or receipt or acceptance by Tenant of a lesser amount than that stipulated to be paid hereunder shall be deemed to be other than a payment on account nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfaction, and Tenant may accept such check or payment without prejudice to Tenants right to recover the balance or pursue any other remedy in this Lease or at law provided.

1.09. Any apportionments or prorations for partial calendar years that are necessary to be made under this Lease with respect to Additional Charges that are neither payable on a monthly basis nor payable strictly based on usage (such as the Additional

Charges for Tenant's submetered electricity set forth in Article 14) shall be made on a per diem basis computed on the basis of a 365-day year.

1.10. If any of the Fixed Rent or Additional Charges payable under the terms and provisions of this Lease shall be or become uncollectible, reduced or required to be refunded because of any act or law enacted by a governmental authority, Tenant shall enter into such agreement(s) and take such other steps (without any expense to Tenant over and above Tenant's financial obligations under this Lease with respect to the Fixed Rent and the Additional Charges) as Landlord may reasonably request and as may be legally permissible to permit Landlord to collect the maximum rents which from time to time during the continuance of such legal rent restriction may be legally permissible (but not in excess of the amounts reserved therefor under this Lease). Upon the termination of such legal rent restriction, (a) the Fixed Rent and/or Additional Charges shall become and thereafter be payable in accordance with the amounts reserved herein for the periods following such termination, and (b) Tenant shall pay to Landlord promptly upon being billed, to the maximum extent legally permissible, an amount equal to (i) the Fixed Rent and/or Additional Charges which would have been paid pursuant to this Lease but for such legal rent restriction less (ii) the rents paid by Tenant during the period such legal rent restriction was in effect. Notwithstanding the foregoing, the provisions of the preceding sentence shall not be enforceable except with respect to any such legal rent restriction terminating on or before the first anniversary of the expiration of the term of this Lease and provided Landlord furnishes Tenant with a bill for any additional amounts payable in accordance with the preceding sentence no later than such first anniversary date.

1.11. Additional Charges shall be deemed to be rent and if Tenant shall fail to pay the Additional Charges which failure continues beyond all notice and grace periods provided herein, Landlord shall be entitled to all rights and remedies provided herein or by law for a default in the payment of Additional Charges as for a default in the payment of Fixed Rent.

ARTICLE 2

Delivery and Use of Premises

2.01. Tenant is the current occupant of the Premises and shall accept Premises in its "as is" condition on the Effective Date and Landlord shall not be required to perform any work, install any fixtures or equipment or render any services to make the Premises ready or suitable for Tenant's use or occupancy, except for Landlord's obligation to perform certain work ("Landlord's Work") pursuant to Article 38 hereof.

2.02. The Premises shall be used and occupied only for executive and general offices and other lawful purposes incidental or ancillary to such use.

2.03. If any governmental license or permit (other than any governmental license or permit relating to the entire Building) shall be required for the proper and lawful conduct of Tenant's business (for a special use other than merely for general and executive offices) in the Premises or any part thereof, Tenant, at its expense, shall duly procure and

thereafter maintain such license or permit and submit the same to Landlord for inspection. Tenant shall at all times maintain each such license or permit in full force and effect, to the extent such license or permit remains necessary. Additionally, should Alterations (hereinafter defined) or Tenant's use of the Premises (for a special use other than merely for general and executive offices) require any modification or amendment of any Certificate of Occupancy for the Building, Tenant shall, at its expense, take all actions necessary in order to procure any such modification or amendment and shall reimburse Landlord (as Additional Charges) for all actual and reasonable costs and expenses Landlord incurs in effecting said modifications or amendments. The foregoing provisions are not intended to be deemed Landlord's consent to any Alterations or to a use of the Premises not otherwise permitted hereunder nor to require Landlord to effect such modifications or amendments of any Certificate of Occupancy.

2.04. Tenant shall not at any time use or occupy the Premises or the Building, or suffer or permit anyone to use or occupy the Premises, or do anything in the Premises or the Building, or suffer or permit anything to be done in, brought into or kept on the Premises, which in any manner: (a) violates the Certificate of Occupancy for the Premises or for the Building; (b) is a violation of the laws and requirements of any public authorities or the requirements of insurance bodies; (c) subject to subsection 11.02(c) hereof, impairs the proper maintenance, operation and repair of the Building and/or its equipment, facilities or systems; (d) annoys other tenants or occupants of the Building in an unreasonable fashion; (e) constitutes a nuisance, public or private; (f) makes unobtainable from reputable insurance companies authorized to do business in New York State all-risk property insurance, or liability, elevator, boiler or other insurance at standard rates customarily carried by landlords of similar buildings; or (g) discharges objectionable fumes, vapors or odors into the Building's flues or vents or otherwise.

2.05. Tenant shall not use, or suffer or permit anyone to use, the Premises, or any part thereof, for (a) a restaurant and/or bar and/or the sale of confectionery and/or soda and/or beverages and/or sandwiches and/or ice cream and/or baked goods, (b) the business of photographic reproductions and/or offset printing, (c) an employment or travel agency, (d) a school or classroom (with the exception of any seminars or training sessions given in the Premises for the benefit of Tenant's employees or clients), (e) medical or psychiatric offices (except that Tenant may use part of the Premises for any of the uses described in clauses (a) through (e) of this Section 2.05 in connection with its own business and/or activities provided such usage shall be only for the benefit of the employees or officers of Tenant), (f) conduct of an auction, (g) gambling activities or (h) the conduct of obscene, pornographic or similar disreputable activities.

2.06. Provided the same shall be performed in a manner that complies with all applicable laws and requirements of any public authorities and with all the provisions of this Lease, Tenant shall have the right to install in the Premises, at Tenant's sole cost and expense, one or more kitchenettes, dryer units and pantries containing, inter alia, microwave ovens, refrigerators, electric stoves, dishwashers, sinks, coffee stations, cabinetry, vending machines and other similar items for the purpose of preparing food provided that: (i) the use thereof shall be confined to Tenant's officers and employees and business invitees (i.e., persons having a business relationship with Tenant and who are invited by Tenant into the

Premises for a bona fide business purpose other than the mere use of such facilities); (ii) the operation thereof shall not involve the installation of any flues or other ventilation equipment or facilities, and shall not cause any food or other odors to emanate from the Premises to other parts of the Building; (iii) the use of the foregoing facilities shall not involve or require Landlord to furnish any additional cleaning or air-conditioning service; (iv) Tenant shall from time to time engage such extermination services as shall be necessary to maintain the Premises free of rats, mice, roaches and other insects or vermin; and (v) such installation is performed in a manner complying with all of the relevant provisions of Article 11 hereof.

2.07. Tenant shall have the right to permit its "affiliates", as hereinafter defined, to use and occupy the Premises pursuant to Article 2 hereof. Tenant's "affiliates" shall mean any corporation, partnership or other business entity which is controlled by, controls, or is under common control with, Tenant, and the term "control", as used with respect to any corporation, partnership or other business entity, shall mean the possession of the power to direct or cause the direction of the management and policies of such corporation, partnership or other business entity. Except to extent permitted in Article 7 hereof, the permission granted in this Section 2.07 shall automatically terminate upon Tenant's transfer or cessation of control over any such affiliate occupying the Premises.

ARTICLE 3

Adjustment of Rent

3.01. In addition to the Fixed Rent hereinbefore reserved, Tenant covenants and agrees to pay to Landlord as Additional Charges for the term of this Lease commencing on the Effective Date, sums computed in accordance with the following provisions:

(a) "Wage Rate" shall mean, as of the times referred to in the last paragraph of this Section 3.01, one-half of the combined total of the hourly wage rate (including mandatory overtime) computed on the basis of the standard work week as set forth in the Agreement (as such term is hereinafter defined) plus all other sums required to be paid to or for the benefit of (i) porters, and (ii) cleaners engaged in the general maintenance and operation of office buildings most nearly comparable to the classification now applicable to porters and cleaners in the current collective bargaining agreement (hereinafter the "Agreement") between Realty Advisory Board on Labor Relations, Inc. (or any successor thereto) and Local 323 and Local 32J of the Building Service Employees International Union AFL-CIO (or any successor thereto), which classification is currently termed "others' in said Agreement. The Wage Rate shall not include fringe benefits. Annexed hereto as Exhibit K is an example demonstrating the method by which Landlord has calculated the Wage Rate for the calendar year 2011 as of the date hereof. If such Agreement is not entered into or such parties or their successors shall cease to bargain collectively, then the Wage Rate shall be one-half the combined total of the hourly wage rate (including mandatory overtime) and other sums as aforesaid payable to or for the benefit of porters and cleaners engaged in the maintenance and operation of the Building and payable by either Landlord or the contractor furnishing such services, but not in excess of the hourly minimum rate of wages and other sums as aforesaid for porters and cleaners engaged in the general maintenance and operation of buildings of the same type as the Building. The Wage Rate

is intended to-be an index in the nature of a cost of living index, and is not intended to reflect the actual cost of wages or expenses for the Building.

(b) "Base Wage Rate" shall mean the Wage Rate in effect on December 31, 2011.

(c) For purposes of this Article 3 the number of square feet of rentable area contained in the Premises is hereby fixed (by mutual agreement) at 103,484 square feet and the number of square feet of rentable area contained on each individual floor comprising the Premises is hereby fixed (by mutual agreement) at 25,871 square feet.

If the Wage Rate shall be changed at any time during the term of this Lease and shall be greater than the Base Wage Rate, Tenant shall pay to Landlord as additional rent an annual sum equal to 75% of the product obtained by multiplying (i) the number of cents (including any fraction of a cent) by which the Wage Rate exceeds the Base Wage Rate by (ii) 103,484. The amounts (herein called "Operating Payments") payable pursuant to this Section 3.01(c) shall be payable in equal monthly installments commencing with the first monthly installment of Fixed Rent falling due hereunder after Tenant receives notice from Landlord of the effective date of such change in the Wage Rate and continuing thereafter until a new adjustment in the Additional Charges shall be established and become effective in accordance with the provisions of this paragraph, excepting that notwithstanding any change in the Wage Rate downwards the Fixed Rent shall not be reduced. In the event any change in the Wage Rate shall be made retroactive, Tenant shall pay Landlord the amount of such retroactive adjustment within thirty (30) days after being billed therefor. Notwithstanding the foregoing, Landlord shall have the right to change Tenant's Operating Payments not more frequently than once in each calendar year. If, on the date on which Landlord notifies Tenant of its Operating Payments for the current calendar year, an increase in the Wage Rate shall be scheduled to occur during the calendar year in question, Landlord may, in its notice, include a bump-up in Operating Payments to occur later in the calendar year to reflect such scheduled increase. If there shall be more than one scheduled increase or if one or more unscheduled increase(s) in the Wage Rate shall occur during any calendar year, Landlord may, in its statement for the succeeding calendar year, include a retroactive adjustment for such increase(s).

3.02. Tenant further covenants and agrees to pay to Landlord as Additional Charges, sums computed as follows:

(a) "Taxes" shall mean all real estate taxes, assessments, governmental levies, county taxes or any other governmental charge, general or special, ordinary or extraordinary, unforeseen as well as foreseen, of any kind or nature whatsoever, which are or may be assessed or imposed upon the Land, the existing leasehold of air rights or Landlord's share thereof, the Building and the sidewalks, plazas or streets in front of or adjacent thereto, exclusive of penalties and interest. The term "Taxes" shall also include any tax, excise or fee levied against Landlord and/or the Land and/or the Building, under the laws of the United States, the State of New York or any political subdivision thereof or by the City of New York, as a substitute or addition in whole or in part for taxes presently or hereafter imposed on the Landlord and/or the Land and/or the Building or resulting from or due to any change in the method of taxation; provided that any such additional or substitute tax is imposed exclusively upon owners or lessees of real property

interests or buildings (including, without limitation, those which are classified as Class A office buildings) and only to the extent that such tax would be payable if the Land and the Building were the only assets of Landlord and the rental income derived therefrom were the only income of Landlord. In no event shall Taxes include taxes of general applicability such as income, franchise, corporate, estate, inheritance, succession, capital stock, transfer or similar tax levied on Landlord. The term "Land" where used in this Lease shall, unless the context otherwise indicates, include the existing air rights leased from the adjoining property as of the date hereof but shall exclude any and all air rights which may hereafter be transferred to the Land or the Building from any other property. With respect to any Tax Year occurring within the term of this Lease, all reasonable or customary expenses, including reasonable legal fees, reasonable experts' and other reasonable witnesses' fees, incurred in contesting the validity or amount of any Taxes or in obtaining a refund of Taxes, shall be considered as part of the Taxes for such Tax Year. To the extent any tax or any other similar payment that is a component of "Taxes" under this Lease is due and payable by Landlord to the taxing authority in installments over a period of time that consists of portions of more than one (1) Tax Year, for purposes of calculating Tenant's Tax Payment under this Lease, an allocation shall be made with regard to the installment payments for the respective Tax Years in question on the basis of the last date that Landlord is permitted by the applicable tax laws to pay such various installment payments.

(b) "Tax Year" shall mean each consecutive period of twelve (12) months, commencing on the first day of July of each such period and ending twelve (12) months thereafter in which occurs any part of the term of this Lease, or such other period of twelve (12) months occurring during the term of this Lease as hereafter may be duly adopted as the fiscal year for real estate tax purposes of the City of New York.

(c) "Tenant's Proportionate Share" shall be deemed to be 13.6232%.

(d) "Basic Tax" shall mean the average Taxes for the 2010/11 and 2011/12 fiscal years.

3.03. If the Taxes for any Tax Year shall be greater than the Basic Tax, then Tenant shall pay to Landlord as Additional Charges an amount (herein called "Tenant's Tax Payment") equal to Tenant's Proportionate Share of the increase over the Basic Tax.

3.04. (a) Any such Tenant's Tax Payment payable by reason of the provisions of this Article 3 shall be payable in the same number of installments that Landlord is required by applicable laws and requirements of any public authorities to make such payments not less than ten (10) days prior to the date the corresponding payment or installment of such Taxes is required to be paid by Landlord to the appropriate taxing authority; provided Tenant shall have received a statement from Landlord at least thirty (30) days prior to the date each such installment of Tenant's Tax Payment is due. Landlord shall, together with any statement sent to Tenant setting forth Tenant's Tax Payment to be made with respect to the approaching new Tax Year, furnish Tenant with a copy of the tax bill received by Landlord from the municipality for such new Tax Year or if such new tax bill has not been received, the data and information on which the Tenant's Tax Payment has been based. If Landlord shall fail to so enclose the appropriate tax bill with such statement or, if such tax bill has not been received, such alternative information on which Landlord's statement is based, Tenant, after

its receipt of such statement, shall notify Landlord in writing of the same. If Landlord shall fail to send to Tenant either the applicable new tax bill, if the same is available to Landlord, or such other data and information reasonably evidencing the calculation of the amount of the Tenant's Tax Payment set forth in Landlord's statement within fifteen (15) days after Landlord's receipt of such notice from Tenant, then, notwithstanding anything contained in the prior sentence to the contrary, Tenant may defer Tenant's Tax Payment for such new Tax Year until ten (10) Business Days following the date upon which Tenant receives such new tax bill or the aforementioned other data and information. If the statement for Tenant's Tax Payment shall have been based upon such alternative data and information, Landlord shall send a copy of the tax bill to Tenant promptly after Landlord receives the same from the taxing authority.

(b) Landlord's failure to render a statement to Tenant setting forth Tenant's Tax Payment with respect to any Tax Year shall not prejudice Landlord's right to thereafter render a statement with respect thereto or with respect to any subsequent Tax Year; Provided, however, that in the event Landlord fails to deliver a statement to Tenant with respect to any Tenant's Tax Payment for a period of more than two (2) years after the end of the Tax Year to which such statement would have related, Landlord shall be deemed to have waived the right to collect the Tenant's Tax Payment as to which such statement would have related.

3.05. (a) In the event Landlord shall receive a reduction of Taxes for any Tax Year for which Tenant shall have paid any Additional Charges under the provisions of this Article 3, the proceeds of such reduction shall be applied and allocated to the periods for which the reduction was obtained and proper adjustment shall be made between Landlord and Tenant. In no event, however, shall such adjustment exceed Tenant's Tax Payment amounts paid by Tenant to Landlord for the period to which such refund relates. Landlord's obligation to pay to Tenant such refund shall survive the expiration or earlier termination of the term of this Lease.

(b) Any payments or refunds due hereunder for any period of less than a full Tax Year at the end of the term of this Lease, shall be equitably prorated to reflect the same.

(c) If the Taxes comprising the Basic Tax are reduced as a result of an appropriate proceeding or otherwise, the Taxes as so reduced shall, for all purposes be deemed to be the Basic Tax and Landlord shall give notice to Tenant of the amount by which the Tax Payments previously made were less than the Tax Payments required to be made under this Article 3, and Tenant shall pay the amount of the deficiency within thirty (30) days after demand therefor.

(d) The two (2) year limitation with respect to the Tenant's Tax Payments set forth in subsection 3.04(b) hereof shall not apply with respect to any amounts due the Landlord pursuant to subsection 3.05(c) above or limit in any way Tenant's rights to the amounts described in subsection 3.05(a) hereof.

(e) Notwithstanding anything contained herein to the contrary, in the event Landlord receives any refund or abatement of Taxes pursuant to the Lower Manhattan Commercial Revitalization Program, or any other similar tax reduction, rebate or incentive which

is attributable to and passed through to a particular tenant(s) in the Building (whether related to the Premises under the Lease or otherwise and whether related to Tenant or another tenant in the Building), (i) Tenant shall not be entitled to any payment or credit under the Lease in connection with such refund or abatement (except to the extent such abatement is for the benefit of, and required by law to be paid to, Tenant) and (ii) for purposes of computing Taxes for any Tax Year pursuant to Section 3.02 of this Lease, there shall not be deducted from Taxes all or any portion of such refund or abatement.

3.06. (a) If in lieu of the rent or occupancy tax currently in effect by which an occupancy tax is payable directly by a commercial tenant to the taxing authority, a modified occupancy or rent tax is enacted which is the obligation of the Landlord in the first instance, Tenant shall pay to Landlord with respect to such modified occupancy tax or rent tax any portion thereof allocable to the Premises as Additional Charges hereunder within thirty (30) days of Landlord's rendition of a bill therefor.

(b) At Tenant's request, given no later than thirty (30) days prior to the last permissible day such a proceeding may be commenced, Landlord shall, with respect to any Tax Year so requested by Tenant, bring an application or proceeding (hereinafter the "Proceedings") seeking a reduction in Taxes for such Tax Year unless Landlord shall provide Tenant with a reasonable explanation as to why Landlord believes it is ill-advised for Landlord to initiate such Proceedings. If such Proceedings are commenced with respect to or affecting the Basic Tax, Landlord agrees that Landlord shall not acquiesce to any settlement or withdrawal of such Proceedings if such settlement or withdrawal shall have the effect of a disproportionate reduction in the calculation of the Basic Tax as compared with the amount(s) of the Taxes for any other Tax Year that was a subject of or is directly affected by such Proceedings, unless there is reasonable explanation for such disproportionate effect.

3.07. Tenant, upon reasonable notice given within one (1) year after the receipt of any statement from Landlord hereunder for the payment of Tenant's Tax Payments or Operating Payments, may elect to have Tenant's designated certified public accountant (which may be an employee of Tenant and which is hereinafter called "Tenant's Accountant") examine such of Landlord's books and records (collectively "Records") as are relevant to Landlord's statement in question and Landlord agrees to provide reasonable access to such books and records (including the right at Tenant's sole expense to copy the same) at the place where they are regularly maintained in New York City. In making such examination, Tenant agrees, and shall cause Tenant's Accountant to agree, to keep confidential any and all information contained in such Records. If a dispute shall persist despite Tenants examination of the Records, then, pending the resolution of such dispute, Tenant shall make all payments due under this Article 3 in the amounts as set forth in Landlord's statement(s) and upon resolution of such dispute, appropriate adjustment shall be made if needed. If Tenant is determined to have been correct, such adjustment shall include an amount for interest to the Tenant at the then so-called "Prime Rate" established by Bank of America, or its successor, from time to time with respect to the amount overpaid by Tenant calculated from the date such overpayment was made. Any statement from Landlord for the payment of Tenant's Tax Payments or Operating Payments shall, if not disputed by

Tenant or revised or corrected by Landlord within one (1) year after delivery thereof, be deemed final and conclusive upon the parties hereunder.

3.08. Notwithstanding anything to the contrary contained herein, if at any time during the term of this Lease, the so called "target" assessed valuation of the Land and Building shall be increased following a Building Sale (as hereinafter defined) or Building Financing (as hereinafter defined) (a Building Sale and/or a Building Financing being hereinafter referred to as an "Event") either during the Tax Year in which the Event occurred, or during the two (2) Tax Years subsequent thereto, which such "target" increase shall result in an increase in the assessed valuation for the Land and the Building over the assessed valuation of the same for the previous Tax Year in a percentage that is 3% or more greater than the Average Percentage Change during the Tax Years in question, then, effective as of the first day of the Tax Year in which occurs such 3% or more percentage change (such Tax Year being hereinafter referred to as the "First Transitional Tax Year") and throughout the "phase-in" period of such "target" assessed valuation increase, an alternate amount of Taxes (the "Alternate Taxes") shall be calculated for both the First Transitional Tax Year and for each Tax Year thereafter during the phase-in period of such "target-assessed valuation increase. Such Alternate Taxes shall be determined by multiplying the tax rate(s) in effect with respect to the Land and Building in the applicable Tax Year by the sum of: (i) the assessed valuation of the Land and Building in the Tax Year prior to the First Transitional Tax Year (hereinafter called the "Prior Assessment") and (ii) the product of the Prior Assessment multiplied by the Average Percentage Change (as hereinafter defined) in the Alternative Assessed Valuation (as hereinafter defined) (such sum being hereinafter referred to as the "Unaffected Portion").

Commencing with the first Tax Year to occur following the completion of the phase-in period with respect to any "target" assessed valuation increase that gives rise to the calculation of the Alternate Taxes as described above, Tenant shall resume making Tenant's Tax Payments in the manner as described in Section 3.03 hereof, except that with respect to each Tax Year thereafter during the term, the "Basic Tax" shall be increased to an amount (hereinafter called the "Adjusted Basic Tax") that is the sum of: (A) the Taxes for the fiscal year of July 1, 2011 to June 30, 2012, as finally determined plus (B) the product obtained when multiplying (x) the difference between (i) the "target" assessed valuation amount in question (the "phase-in" period for which having just been completed) less (ii) the Unaffected Portion of such "target" assessed valuation amount (as the same is hereinabove defined) by (y) the tax rate in effect during the fiscal year July 1, 2011 to June 30, 2012 plus or minus (C) the amount of any previous adjustment made to the Basic Tax pursuant to this paragraph. If in any Tax Year subsequent to the determination of the Adjusted Basic Tax pursuant to the previous sentence, the assessed valuation for tax Purposes of the Land and the Building shall for any reason be reduced below the amount used to determine the Taxes for the Tax Year immediately following the completion of the "phase-in" period of any "target" assessed valuation increase described herein, then the Adjusted Basic Tax as determined in the previous sentence shall be reduced, to an amount that is the greater of: (A) the product obtained when multiplying (x) the lowest assessed valuation of the Land and the Building amount to date used or being used by the taxing authority to calculate the Taxes for any Tax Year occurring following the completion of the "phase-in" period for any "target" assessed valuation increase described in this Section 3.08 by (y) the tax rate for the fiscal year July 1,

2011 to June 30, 2012 or (3) the Taxes for the fiscal year July 1, 2011 to June 30, 2012, as finally determined.

A "Building Sale" as applied to the Building, or a "Sale" as applied to a Substitute or Alternate Building (as hereinafter defined), shall mean the sale, conveyance or other transfer of the Land or the Building or of the Substitute Building or Alternate Building and/or a ground lease of the Land and/or a ground lease of the land on which any such Substitute or Alternate Building is situated, as the case may be, as said terms "sale, conveyance or other transfer" are defined under Article 31-3 of the New York State Tax Law and its related regulations or under Chapter 21 of Title 11 of The New York City Administrative Code and its related regulations as the same may be modified from time to time.

A "Building Financing" as applied to the Building, shall mean a financing of the Land and/or the Building and/or a ground lease of the Land or of the Land or the Building and/or the lessee's interest in the ground lease of the Land, as the case may be, secured in each case by a mortgage thereon which is recorded and which mortgage shall secure indebtedness in the amount of at least $170,000,000.00, specifically excluding any existing mortgage on the Building as of the date hereof to the extent such mortgage is extended or increased by an amount not exceeding in the aggregate ten (10%) percent thereof. "Substitute or Alternate Building Financing" as applied to a Substitute or Alternate Building, shall mean a financing of the Substitute Building or Alternate Building and/or the land on which the same is situated and/or a ground lease of the land on which such Substitute or Alternate Buildings are situated and/or the lessee's interest in the ground lease of the land on which such Substitute or Alternate Buildings are situated, as the case may be, secured in each case by a mortgage thereon which is recorded in an amount that is greater than the previous mortgage recorded against such Substitute or Alternate Building.

As used in this Section 3.08, unless otherwise expressly provided, Assessed Valuation' or assessed valuation" shall mean the lower of the total actual (i.e., "target") assessed valuation and the total transitional assessed valuation for the Land and/or the Building, or for the Substitute Building or for the Alternate Building together with the land on which such Substitute or Alternate Buildings are situated, as the case may be, as designated by the Department of Finance of the City of New York. For purposes of this Article, assessed valuation in all cases shall not take into consideration any exemption and/or abatement and shall include both the applicable building and the parcel of land on which the same is located.

Average Percentage Change shall mean the amount, expressed as a percentage, obtained by (a) first, dividing the difference between the Alternative Assessed Valuation and the Base Alternative Assessed Valuation (hereinafter defined) by the Base Alternative Assessed Valuation, for each of the Substitute Buildings and (b) second, eliminating both the highest and lowest resultant percentages (without regard to whether they are positive or negative) and averaging the remaining percentages. The "Base Alternative Assessed valuation" shall mean, with respect to a Substitute Building, the assessed valuation for such Substitute Building in the Tax Year prior to the First Transitional Tax Year.

The "Alternative Assessed Valuation' shall mean, with respect to a Substitute Building, the total assessed valuation of such Substitute Building in the Tax Year in question, as the same may be increased or decreased from time to time other than as the result of a Sale, an increase or

decrease in building size or a Substitute Building Financing. If the assessed valuation of any of the Substitute Buildings shall be increased as the result of a Sale (or decreased as the result of a casualty, other destruction or taking), or increased or decreased as a result of an increase or decrease in building size or Substitute Building Financing (such Sale, change in Building Size or Substitute Building Financing is hereinafter referred to as the "Substitute Event"), then, effective as of the effective date of such increase (or decrease), an Alternate Building or Buildings selected by Landlord and approved by Tenant, which approval shall not be unreasonably withheld or delayed shall be substituted for such Substitute Building or Substitute Buildings. If at any time the total number of Substitute Buildings shall be less than ten (10) or the total number of Alternate Buildings shall be less than six (6), Landlord and Tenant shall designate a sufficient number of Substitute Buildings or Alternate Buildings to increase their number to ten (10) and six (6) buildings, respectively, to be used for purposes of calculating the Alternative Assessed Valuation. The initial Substitute Buildings are as listed and attached hereto and made part hereof as Exhibit L. The "Alternate Buildings" shall mean initially the six (6) buildings set forth in the list annexed hereto as Exhibit M which particular buildings shall be chosen in the numbered order so listed on said Exhibit M.

If following an Event a dispute shall arise between the parties as to how to calculate the appropriate Tenant's Tax Payment pursuant to this Article 3, then at the request of either Landlord or Tenant, the issue shall be resolved by formal arbitration conducted in the manner set forth in Article 39 hereof. Each arbitrator shall be MAI qualified and shall have at least ten (10) years' experience in the appraisal of commercial office buildings in the "Downtown" office market of Manhattan. Pending the resolution of any dispute described herein, Tenant shall make Tax Payments in accordance with the Landlord's determination of the amount due and upon resolution of such dispute, appropriate adjustment shall be made. If Tenant is determined to have been correct, such adjustment shall include, with respect to the portion overpaid by Tenant, an amount for interest to the Tenant at the so-called "Prime Rate" then in effect as established by Bank of America, or any successor thereto, from time to time calculated from the date such overpayment was made.

The following hypothetical illustrates the intentions of the parties: A Sale occurs in October 2015, and the assessed valuation of the Land and the Building with respect to which Taxes are computed for the 2017/18 Tax Year as compared to that for the 2016/17 Tax Year is 3% or greater than the Average Percentage Change during such Tax Years, as calculated in the manner described above. The Tax Year 2017/18 is thus deemed to be the "First Transitional Tax Year." To illustrate the operation of the foregoing, assume that the hypothetical actual assessed valuation of the Land and the Building in the 2016/17 Tax Year is $175,000,000, that the Building is sold in October 2015, a "target" assessed valuation increase implemented by the taxing authority increases the assessed valuation for the 2017/18 Tax Year to $220,000,000, resulting in a percentage change of 25.7%. Assume further that the hypothetical Average Percentage Change is 18.7%. Consequently, a comparison of the changes yields a difference of 7% (which is 3% or greater) thereby triggering the application of the Alternative Assessed Valuation formula. The Substitute Buildings' assessments upon which Taxes are actually paid (i.e., the lower of the total actual assessed valuation and the total transitional assessed valuation) are as follows:

Substitute Building Number	Base Alternative Assessed Valuation (for 2016/17)	Alternative Assessed Valuation (for 2017/18)	Percentage Increase
	(numbers in millions)	**(numbers in millions)**	
1	30	40	33.3
2	25	30	20.0
3	60	75	25.0
4	100	107	7.0
5	200	280	40.0
6	175	186	6.3
7	95	108	13.7
8	105	125	19.0
9	118	148	25.4
10	195	207	6.1

From the foregoing list, Substitute Buildings Nos. 5 and 10 are eliminated as being the highest and lowest percentage changes.

The percentage changes for the balance of the Substitute Buildings are added together to arrive at a sum of 149.7% yielding the Average Percentage Change in the Alternative Assessed Valuation of 18.7% (149.7% ÷ 8 = 18.7%).

In the hypothetical, the total base assessed valuation of the Land and the Building in the 2016/17 Tax Year is $175,000,000. The 2017/18 transitional assessed valuation is $220,000,000. Assume further a tax rate in 2017/18 of 10%. The formula for computing the Alternate Real Estate Taxes for 2017/18 is as follows:

10% (tax rate) x ($175,000,000 + ($175,000,000 x 18.7%)) =
10% x ($207,725,000) or
$20,772,500 = the Alternate Taxes

Tenant's Proportionate Share as set forth in subsection 3.02(c) hereof shall be used to calculate any Tenant's Tax Payment in accordance with Section 3.03 based upon the increase of the Alternate Taxes as calculated for such Tax Year in accordance with this Section 3.08 over the Basic Tax or the Adjusted Basic Tax (whichever is applicable).

Notwithstanding all of the foregoing, Taxes for each Tax Year and Tenant's Tax Payments shall in all instances be computed based on the lower of Section 3.03 hereof and this Section 3.08.

ARTICLE 4

Intentionally Omitted

ARTICLE 5

Subordination, Notice to Superior Lessors and Mortgagees

5.01.(a) Subject to the provisions of paragraphs (b) and (c) of this Section 5.01, this Lease, and all rights of Tenant hereunder, are and shall be subject and subordinate to all ground leases, air-rights leases and underlying leases of the Land and/or the Building and/or that portion of the Building of which the Premises are a part, now or hereafter existing and to all mortgages which may now or hereafter affect the Land and/or the Building and/or that portion of the Building of which the Premises are a part and/or any of such leases, whether or not such mortgages shall also cover other lands and/or buildings and/or leases, to each and every advance made or hereafter to be made under such mortgages, and to all renewals, modifications, replacements and extensions of such leases and such mortgages and spreaders and consolidations of such mortgages. This Section 5.01 shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, Tenant shall promptly execute, acknowledge and deliver any instrument that Landlord, the lessor under any such lease or the holder of any such mortgage or any of their respective successors in interest may reasonably request to evidence such subordination provided such instrument does not in any material respect increase the obligations of Tenant or decrease the rights of Tenant, i.e., is consistent in all respects to the manner in which issues and matters addressed therein are resolved (except for such departures therefrom as are beneficial to Tenant) as compared with the terms and conditions of the "NDA" (as such term is hereinafter defined). Any lease to which this Lease is subject and subordinate is herein called "Superior Lease" and the lessor of a Superior Lease or its successor in interest, at the time referred to, is herein called "Superior Lessor"; and any mortgage to which this Lease is, at the time referred to, or may become, upon compliance with subsection 5.01(c), subject and subordinate is herein called "Superior Mortgage" and the holder of a Superior Mortgage is herein called "Superior Mortgagee".

(b) Landlord represents that as of the date hereof, there are no Superior Leases affecting the Land and/or the Building and that there is only one Superior Mortgage with respect to the Building which is held by the Superior Mortgagee referenced on the NDA Form. Landlord will deliver to Tenant on or prior to the Effective Date a subordination, non-disturbance and attornment agreement in favor of Tenant in the form as annexed hereto as Exhibit G (herein called the "NDA Form").

(c) With respect to future Superior Mortgages and all Superior Leases, the provisions of subsection 5.01 (a) hereof shall be conditioned upon the execution and delivery by such Superior Mortgagee or Superior Lessor to the Tenant (regardless whether Tenant shall likewise countersign and/or deliver the same) of a subordination, non-disturbance and attornment agreement in the NDA Form with such commercially reasonable changes as shall be applicable based upon the facts at the time, provided the same do not in any material respect increase the obligations of Tenant or decrease the rights of Tenant, i.e., is consistent in all respects to the

manner in which issues and matters addressed therein are resolved (except for such departures therefrom as are beneficial to Tenant) as compared with the terms and conditions of the NDA Form.

ARTICLE 6

Quiet Enjoyment

6.01. So long as Tenant is not in default under this Lease beyond any applicable grace and notice periods set forth herein, Tenant shall peaceably and quietly have, hold and enjoy the Premises without hindrance, ejection or molestation, subject, nevertheless, to the provisions of this Lease and to Superior Leases and Superior Mortgages. This covenant shall be construed as a covenant running with the Land.

ARTICLE 7

Assignment, Mortgaging, Subletting, Etc.

7.01. Tenant shall not (a) assign or otherwise transfer this Lease or the term and estate hereby granted, (b) sublet the Premises or any part thereof or allow the same to be used or occupied by others or in violation of Article 2, or (c) mortgage, pledge or encumber this Lease or the Premises or any part thereof without, in each instance, obtaining the prior consent of Landlord, except as otherwise expressly provided in this Article 7. For purposes of this Article 7, (i) the transfer of a majority of the issued and outstanding capital stock of any corporate tenant, or of a corporate subtenant, or the transfer of a majority of the total interest in any partnership tenant or subtenant, however accomplished, whether in a single transaction or in a series of related or unrelated transactions, shall be deemed an assignment of this Lease, or of such sublease, as the case may be, except that the transfer of the outstanding capital stock of any corporate tenant, or subtenant, shall be deemed not to include the sale of such stock by persons or parties, through the "over-the-counter market" or through any recognized stock exchange, other than those deemed "insiders" within the meaning of the Securities Exchange Act of 1934 as amended, provided, however, that any changes to the corporate structure or ownership of the Tenant or its parent company resulting from the current rehabilitation proceedings for a segregated account of Tenant in Wisconsin or Ambac Financial Group Inc.'s federal bankruptcy proceeding shall not violate this Section 7.01, and (ii) a modification, amendment or extension of a sublease which changes the term, the rent or the sublet space shall be deemed a sublease.

7.02. The provisions of Section 7.01 hereof shall not apply and Tenant shall have the right without the consent of, but upon prior written notice to, Landlord and without complying with the provisions of Sections 7.05 and 7.06 and without making any payments pursuant to Section 7.07, to assign this Lease to a corporation into or with which Tenant is merged or consolidated or to an entity to which substantially all of Tenant's assets are transferred (provided such merger or transfer of assets is for a good business purpose and not principally for the purpose of transferring the leasehold estate created hereby) and provided further, that the assignee has a net worth at least equal to or in excess of $250,000,000.00.

7.03. (a) Any person or legal representative of Tenant, to whom Tenant's interest under this Lease passes by operation of law, or otherwise, shall be bound by the provisions of this Article 7. Any assignment or transfer, whether made with Landlord's consent as required by Section 7.01, with Landlord's deemed consent as provided in subsection 7.05(c) or without Landlord's consent to the extent permitted by this Article 7, shall be made only if, and shall not be effective until, the assignee shall execute, acknowledge and deliver to Landlord an agreement, in form and substance reasonably satisfactory to Landlord, whereby the assignee shall assume the obligations and performance of this Lease from and after the date of the assignment (together with the obligation to pay any amounts then owed and outstanding with respect to any Fixed Rent or Additional Charges payable under this Lease provided, in the case of Additional Charges, Landlord has billed Tenant for the same) and agree to be bound by and upon all of the covenants, agreements, terms, provisions and conditions hereof on the part of Tenant to be performed or observed from and after the date of the assignment (except as to the arrearages as aforesaid) and whereby the assignee shall agree that the provisions of this Article 7 shall, notwithstanding such an assignment or transfer, continue to be binding upon it in the future. Tenant covenants that, notwithstanding any assignment or transfer, whether or not in violation of the provisions of this Lease, and notwithstanding the acceptance of Fixed Rent by Landlord from an assignee or transferee or any other party, Tenant shall remain fully and primarily liable for the payment of the Fixed Rent due and to become due under this Lease and for the performance of all of the covenants, agreements, terms, provisions and conditions of this Lease on the part of Tenant to be performed or observed.

(b) With respect to each and every sublease or subletting whether made with Landlord's consent, with Landlord's deemed consent (pursuant hereto) or without Landlord's consent to the extent permitted by this Article 7, it is agreed:

(i) No sublease shall be valid, and no subtenant shall take possession of the Premises or any part thereof, until an executed counterpart of such sublease (and all pertinent documents executed in connection therewith), have been delivered to Landlord; (ii) each sublease shall provide that it is subject and subordinate to this Lease and to any matters to which this Lease is or shall be subordinate, and that in the event of termination, reentry or dispossess by Landlord under this Lease, provided Landlord agrees to recognize the subtenant as a direct tenant, subject to the exceptions set forth below, Landlord may, at its option, take over all of the right, title and interest of Tenant, as sublessor, under such sublease, and such subtenant shall, at Landlord's option, attorn to Landlord pursuant to the then executory provisions of such sublease, except that Landlord shall not be (A) liable for any previous act or omission of Tenant under such sublease but rather for its own acts and omissions following such attornment to the extent the same violate the terms and provisions of the sublease, (B) subject to any credit, offset, claim, counterclaim, demand or defense which such subtenant may have against Tenant, (C) bound by any previous modification of such sublease or by any previous prepayment of more than one (1) month's rent, (D) bound by any covenant of Tenant to undertake or complete any construction of the Premises or any portion thereof, (E) required to account for any security deposit of the subtenant unless Landlord actually took possession of the same, or (F) bound by any obligation to make any payment to such subtenant or grant any credits, except for services, repairs, maintenance and restoration provided for under the sublease to be performed after the date of such attornment; and (iii) each sublease shall provide that the subtenant may not assign

its rights thereunder or further sublet the space demised under the sublease, in whole or in part, without Landlord's consent, which consent, however, shall not be unreasonably withheld or delayed with respect to a proposed assignment or underletting of a direct subtenant of Tenant only, provided (i) such subtenant shall satisfy the conditions applicable to Tenant provided in this Article 7 with respect to an assignment of such sublease or an underletting of all or a portion of the Premises; and (ii) the proposed assignment or underletting complies with all of the applicable provisions of this Article 7 including, specifically, Sections 7.06 and 7.07 hereof (it being understood that, with respect to such Section 7.07, all references to "Tenant" shall be deemed to apply to such subtenant and all references to "this Lease" shall be deemed to apply to the subtenant's sublease with Tenant). Notwithstanding any implication to the contrary contained in this Section 7.03, the assignee of such direct subtenant of Tenant shall not be permitted to further assign such sublease or further underlease all or a portion of such space nor shall any undertenant of such direct subtenant of Tenant be permitted to assign its leasehold interest under such underletting agreement or further underlease all or any portion of such space without Landlord's prior consent in each instance, which consent may be withheld for any reason.

7.04. The liability of the tenant named in this Lease or any of its successors-in- interest under this Lease for the due performance of the obligations on its part to be performed under this Lease, shall not be discharged, released or impaired in any respect by an agreement or stipulation made by Landlord with any assignee or grantee of the tenant named in this Lease or any of its successors-in-interest, by way of mortgage, or otherwise, extending the time of or modifying any of the obligations contained in this Lease, or by any waiver or failure of Landlord to enforce any of the obligations to be performed under this Lease, and the tenant named in this Lease or any of its successors-in-interest shall continue to be liable hereunder except as provided in the next sentence. If any such agreement or modification operates to increase the obligations of any assignee or grantee of the tenant named in this Lease or any of its successors-in-interest, the liability under this Section 7.04 of the tenant named in the Lease or any of its successors-in-interest (unless such party shall have expressly consented in writing to such agreement or modification) shall continue to be no greater than if such agreement or modification had not been made. To charge the tenant named in this Lease or any of its successors-in-interest, no demand or notice of any default shall be required; the tenant named in this Lease and each of its successors-in-interest hereby expressly waives any such demand or notice.

7.05. (a) In the event that Tenant complies with the provisions of Section 7.06 hereof and Landlord does not exercise any option provided to Landlord thereunder within the time provided therefor, and, within one hundred eighty (180) days following the expiration of the ten (10) day period described in Section 7.06 hereof, Tenant delivers to Landlord a memorandum (hereinafter called the "Consent Memo") setting forth the name and business address of the proposed subtenant or assignee, the basic financial terms of the proposed assignment or sublease, and the most recent financial statements and credit references available with respect to the proposed assignee or subtenant, Landlord shall not unreasonably withhold its consent to an assignment of this Lease or a subletting of the whole or a part of the Premises as set forth in the Consent Memo at such time as Tenant enters into the proposed assignment or sublease, provided that:

(1) The financial net worth, credit and financial responsibility of the proposed subtenant or assignee is, considering the responsibilities involved, reasonably satisfactory to Landlord;

(2) The proposed subtenant or assignee or its business activities is not so disreputable as to adversely affect the reputation of the Building;

(3) The proposed subtenant or assignee is not then (x) an occupant of any part of the Building except to the extent that there is not adequate space in the Building to satisfy such proposed subtenant's or assignee's requirements (adequate space being space that (i) shall be above-grade, (ii) Landlord has possession of, and (iii) in the event of a proposed sublet of one or more full floors, consists of at least the same number of full floors) (y) a party who actively negotiated with Landlord or Landlord's agent (directly or through a broker) with respect to space in the Building during the three (3) months immediately preceding Tenant's request for Landlord's consent except to the extent that Landlord shall not have (and based on surrender agreements, other written agreements material defaults under existing leases, or anticipated lease expirations is not reasonably likely to have) sufficient space available for leasing in the Building for such proposed assignee or sublessee;

(4) All costs incurred with respect to providing reasonably appropriate means of ingress and egress from the sublet space or to separate the sublet space from the remainder of the Premises shall, subject to the provisions of Article 11 with respect to alterations, installations, additions or improvements, be borne by Tenant or the subtenant;

(5) Tenant shall pay to Landlord any reasonable out-of-pocket costs incurred by Landlord to review the proposed assignment or subletting including reasonable attorneys' fees incurred by Landlord within thirty (30) days after rendition of a statement therefor; and

(6) Tenant shall have complied with the provisions in Section 7.06 and Landlord shall not have made any of the elections provided for in Section 7.06 and that the term as contemplated by Tenant's Recapture Notice (as such term is hereinafter defined) shall not be materially different from that set forth in Tenant's Consent Memo.

(b) In the event that Landlord fails to exercise any of its options under Section 7.06 and Tenant fails to deliver to Landlord the Consent Memo described herein within one hundred eighty (180) days following the expiration of the ten (10) day period set forth in Section 7.06, then Tenant shall again comply with all of the provisions and conditions of Section 7.06 before assigning this Lease or subletting the Premises or any portion thereof;

(c) Landlord agrees that it shall approve or disapprove of any such proposed sublease or assignment within ten (10) Business Days following Landlord's receipt of the Consent Memo containing all of the information set forth in Section 7.05(a). Any disapproval shall state Landlord's objections with reasonable specificity. If Landlord shall not respond to Tenant's request for Landlord's consent to such assignment or sublease within such ten (10) Business Days, then provided (i) Tenant is not in default hereunder beyond notice and any applicable cure period, (ii) Tenant's initial request for Landlord's consent shall in bold and capitalized lettering specifically reference this subsection and set forth the requirement that

Landlord respond within such ten (10) Business Day period, and (iii) such assignment or sublease satisfies the conditions specified in subsections 7.05 (1) - (6), Tenant may, following the expiration of such ten (10) Business Day period, deliver a second notice (the "Second A/S Notice") to Landlord, (which shall specify in bold and capitalized lettering that if Landlord's response to the proposed assignment or sublease is not given within five (5) business days after receipt of such Second A/S Notice, Landlord's approval of the proposed assignment or sublease shall be deemed granted) and if Landlord's response to the proposed assignment or sublease is not given within five (5) business days following receipt of the Second A/S Notice, Landlord's approval of the proposed assignment or sublease shall be deemed granted. Landlord and Tenant agree that Landlord shall have no obligation to respond to Tenant's request for Landlord's consent to any proposed assignment of the Lease or sublease of all or part of the Premises until Landlord has received a fully executed copy of the proposed assignment or sublease, as the case may be.

(d) At either party's option, any dispute between Landlord and Tenant as to the reasonableness of Landlord's decision to deny consent to Tenant's proposed assignee or subtenant pursuant to this Section 7.05 may be settled and finally determined by arbitration in the City of New York in accordance with the following provisions. Either party may apply to The American Arbitration Association (the "AAA") or any successor entity thereto for the designation of an arbitrator and if the AAA is unable or refuses to act within five (5) Business Days then either party may apply to the Supreme Court in New York County or to any other court having jurisdiction for the designation of such arbitrator. Any arbitrator who wishes-to be designated for the purposes described in this Section 7.05 must agree, as a condition of his or her employment, to render a determination no later than fifteen (15) days following the date of his or her designation. The arbitrator shall conduct such hearings as he or she deems appropriate, making a determination in writing and giving notice to Landlord and Tenant of his or her determination as soon as practicable, and if possible, within five (5) Business Days after his or her designation. Judgment upon any decision rendered in any arbitration held pursuant to this subparagraph (d) of Section 7.05 shall be final and binding upon Landlord and Tenant, whether or not a judgment shall be entered in any court. The arbitrator selected as herein provided shall have at least ten (10) years' experience (as broker, owner or manager) in the leasing and renting of office space in first-class office buildings in the Wall Street area. Each party shall pay its own counsel fees and expenses, if any, in connection with any arbitration under this subparagraph (d) of Section 7.05, and the parties shall share all other expenses and fees of any such arbitration. The arbitrator shall be bound by the provisions of this Lease, and shall not add to, subtract from or otherwise modify such provisions. The sole function of the arbitrator shall be to determine the reasonableness of Landlord's decision in accordance with this Section 7.05.

7.06. (a) If Tenant shall at any time desire in good faith to assign this Lease, Tenant (notwithstanding that it does not at such time have a prospective assignee) shall give notice (hereinafter the "Recapture Notice") of such desire to Landlord, which Recapture Notice shall set forth (i) the effective date of the proposed assignment and (ii) the amount of any consideration that Tenant reasonably believes it would obtain in connection with such assignment or the amount of any consideration that Tenant reasonably believes it would be required to pay in connection with such assignment. Landlord shall then have the right to elect, by notifying Tenant within ten (10) days of such delivery, to terminate this Lease, as of such effective date as if it were the Expiration Date set forth in this Lease. If the Recapture

Notice contemplates that an assignee shall pay any consideration in connection with the assignment, then Tenant shall not be entitled to any consideration or payment from Landlord in connection with such termination (except as may be provided in subsection 7.07(b) hereof). If the Recapture Notice contemplates that Tenant shall pay any consideration in connection with the assignment, then such consideration shall be payable by Tenant in connection with such termination.

(b) If Tenant shall at any time desire in good faith to sublet all or part of the Premises, Tenant (notwithstanding that it does not at such time have a prospective subtenant) shall give a Recapture Notice to Landlord, which Recapture Notice shall set forth (i) the area proposed to be sublet, (ii) the proposed term for such sublease, and (iii) the subrental rate (including, without limitation, all fixed rent and additional rent) that Tenant in its reasonable judgment believes it will be able to obtain for such sublet space (the "Proposed Rent Rate"), and Landlord shall then have the right to elect, with respect to a proposed sublease having a term expiring on or after the date that is nine (9) months prior to the Expiration Date, by notifying Tenant within ten (10) days of such delivery, to terminate this Lease as to the portion of the Premises affected by such subletting or as to the entire Premises in the case of a proposed subletting of all of or substantially all of the Premises, effective as of the commencement date of the proposed sublease as contemplated by Tenant in the Recapture Notice. In the event of any termination of this Lease by Landlord pursuant to this subsection 7.06(b), Tenant shall remain fully liable, in the case of a termination, for the full amount each month by which the Fixed Rent, Additional Charges and other sums, which would have been due under this Lease but for such termination shall exceed the Proposed Rent Rate for each such month. Except as may be specifically provided in subsection 7.07(b), no consideration or other sums shall be payable to Tenant by Landlord with respect to any termination of this Lease by Landlord pursuant to this Section 7.06.

(c) Intentionally omitted.

(d) If, pursuant to the exercise of Landlord's option pursuant to Section 7.06 hereof, this Lease is terminated as to only a portion of the Premises, then the Fixed Rent payable hereunder and Tenant's Tax Payments and Operating Expenses payable pursuant to Article 3 hereof shall be adjusted in proportion to the portion of the Premises affected by such termination.

7.07. (a) If Landlord shall give, or be deemed to have given, its consent to any assignment of this Lease or to any sublease, Tenant shall in consideration therefor, pay to Landlord, as Additional Charges hereunder:

(i) in the case of an assignment, an amount equal to fifty (50%) percent of all sums and other consideration paid to Tenant or any subtenant by the assignee for or by reason of such assignment (including, but not limited to, sums paid for the sale of Tenant's fixtures, leasehold improvements, equipment, furniture, furnishings or other personal property, less, in the case of a sale of any of the foregoing, the then fair market value thereof) after deducting therefrom the Tenant's Costs (as such term is hereinafter defined); and

(ii) in the case of a sublease, fifty (50%) percent of any rents, additional charges or other consideration payable under the sublease to Tenant by the subtenant or to any subtenant by an undertenant which is in excess of the Fixed Rent and Additional Charges accruing under this Lease during the term of the sublease in respect of the subleased space (at the rate per square foot payable by Tenant hereunder) pursuant to the terms hereof (including, but not limited to, sums paid for the sale or rental of Tenant's fixtures, leasehold improvements, equipment, furniture or other personal property, less, in the case of the sale or rental of any of foregoing, the then fair market value thereof) after deducting therefrom the Tenant's Costs (as such term is hereinafter defined).

Fair market value of Tenant's fixtures, equipment, furniture or other personal property shall be established by an appraiser selected by Landlord and approved by Tenant, such approval not to be unreasonably withheld, or if the parties are unable to agree upon an appraiser, then one selected at the application of either party by the American Arbitration Association, or any successor thereto.

With respect to the rental of or the proceeds of a sale of leasehold improvements by Tenant, the deduction therefor, (x) in the case of a sublease, shall in no event exceed $1.00 per rentable square foot per annum and (y) in the case of an assignment, shall in no event exceed the present value (using a discount factor equal to a fixed rate of interest which shall be the "Prime rate" of interest announced by Bank of America or any successor thereto on the effective date of the assignment) of a series of monthly payments aggregating not more than $1.00 per rentable square foot per annum during the period commencing on the effective date of the assignment and continuing thereafter for the then remaining term of this Lease. Except as hereinafter provided, the sums payable under this Section 7.07 shall be paid to Landlord as and when paid by the subtenant or assignee to Tenant. For purposes hereof, the term "Tenant's Costs" shall mean the amount of any reasonable and actual broker's fees or commissions paid as a result of any assignment or subletting by Tenant hereunder, reasonable and actual counsel's fees and disbursements paid with respect to such assignment and subletting, reasonable and actual advertising expenses paid relating to the assignment of this Lease or subletting of the space, the reasonable and actual cost to Tenant of additional improvements made by Tenant, at Tenant's expense, to prepare the space in question for the occupancy of the subtenant thereof or the assignee, in the case of a subletting, any rent concession or work allowance granted by Tenant to such subtenant in lieu of Tenant's performance of any such improvements, any amounts paid by Tenant in connection with any takeover of space theretofore leased by a proposed subtenant or assignee, the cost to Tenant (assuming market value for the space) for the period of time that the space in question shall be vacant (and if less than a full floor, separately demised with separate access), and all amounts paid to the Landlord's attorneys pursuant to this Lease in connection with Landlord's review of any proposed subletting or assignment.

(b) If Landlord shall, at any time, in the exercise of its rights under Section 7.06, either (i) terminate this Lease or, (ii) remove any portion of the Premises from the Premises and accept a surrender thereof for the term of any proposed sublease set forth in the Recapture Notice, and Landlord shall thereafter lease the Premises or any portion thereof (in the event of a termination of this Lease) or any portion of the space in the Premises surrendered pursuant to any Partial Surrender Agreement at a rental rate (including fixed rent, additional charges, and all other consideration paid to Landlord in connection with such rental) greater than the lower of (i)

the sum of all Fixed Rent and Additional Charges and other sums payable pursuant to this Lease with respect to such space or which would be payable hereunder but for a termination hereof pursuant to the exercise of Landlord's rights hereunder or (ii) the Proposed Rent Rate with respect to such space, then Landlord shall pay to Tenant: (x) an amount equal to forty (40%) Percent of such excess after deduction of Landlord's Cost (as such term is hereinafter defined) if Landlord terminated the Lease in response to a request for an assignment in the Recapture Notice or terminated the Lease or accepted a partial surrender of the space in response to a request for a sublease in the Recapture Notice and the Proposed Rent Rate set forth in the Recapture Notice equaled or exceeded the Fixed Rent, Additional Charges and other sums due under this Lease, or, (y) an amount equal to twenty-five (25%) percent of such excess after deduction of Landlord's Cost if Landlord terminated the Lease or accepted a partial surrender of the space in response to a request for a sublease in the Recapture Notice and the Proposed Rent Rate set forth in the Recapture Notice was less than the Fixed Rent, Additional Charges and other sums due under this Lease for such space (on a per square foot basis). For purposes hereof, the term "Landlord's Costs" shall mean the amount of any reasonable broker's fees or commissions paid as a result of any leasing transaction by Landlord hereunder, reasonable counsel's fees and disbursements paid with respect to such leasing transaction, reasonable advertising expenses paid relating to the rental of the space, the cost to Landlord of additional improvements made to prepare the space in question for the occupancy of the tenant, any rent concession or work allowance granted by Landlord to such tenant in lieu of Landlord's performance of any such improvements, amounts paid by Landlord in connection with any takeover of space theretofore leased by such tenant and the cost to Landlord for the period of time, if any, that the space in question shall be vacant. Notwithstanding the foregoing provisions of this subsection 7.07(b), to the extent that any such lease by Landlord shall include any portion(s) of the Building other than the Premises or shall involve only a part of the space as to which Landlord shall have exercised any of its options hereunder, the excess shall be calculated on a per square foot basis. The sums payable under this subsection 7.07(b) shall be paid to Tenant only if, as and when paid by Landlord's tenant. In lieu of payment thereof to Tenant, Landlord may at its option credit the amount of such payments as and when due against the next installments of Fixed Rent or Additional Charges payable by Tenant hereunder, including any amounts then payable by Tenant pursuant to Section 7.06. If the term of any lease by Landlord to which this subsection 7.07(b) shall apply shall extend beyond the date on which this Lease would have expired or terminated, but for Landlord's exercise of its right of termination pursuant to Section 7.06 hereof, Tenant's right to share in any excess shall terminate and shall be apportioned as of such date that this Lease would have expired or been terminated. As to any such lease, Landlord agrees that the rentals shall be structured in a commercially reasonable manner and not in such a manner as to deprive Tenant in bad faith of the share to which it would otherwise be entitled under this Section 7.07. Landlord's obligations under this subsection 7.07(b) shall survive the termination of this Lease.

7.08. Landlord's consent to any sublease or assignment shall not be deemed or construed to modify, amend or affect the terms and provisions of this Lease unless expressly provided in such consent, or Tenant's obligations hereunder, which shall continue to apply to the occupants thereof, as if the sublease or assignment had not been made. Notwithstanding any assignment or sublease, Tenant shall remain fully liable for the payment of Fixed Rent and Additional Charges and for the other obligations of this Lease on the part of Tenant to be performed or observed. In the event that Tenant defaults in the payment of any Fixed Rent or Additional Charges which default shall continue beyond all notice and grace periods

provided herein, Landlord is authorized to collect any rents due or accruing from any assignee, subtenant or other occupant of the Premises and Landlord shall apply the net amounts collected to the Fixed Rent and Additional Charges reserved herein, and the receipt of any such amounts by Landlord from an assignee or subtenant, or other occupant of any part of the Premises, shall not be deemed or construed as releasing Tenant from Tenant's obligations hereunder or the acceptance of that party as a direct tenant.

7.09. Notwithstanding the provisions of Article 7, Tenant shall not be obligated to deliver a Consent Memo in accordance with Section 7.05 hereof or to make the offer to Landlord described in Section 7.06 hereof, and Landlord's consent shall not be required however Tenant shall provide Landlord with advance written notice (but Tenant shall be obligated to comply with all of the other provisions of this Article 7) with respect to a subletting or a combination of sublettings from time to time in the aggregate of not more than 12,936 rentable square feet of the Premises (the "Exempted Sublet Space"); provided that none of such sublettings shall be to a subtenant of the type that, were the consent of the Landlord required per subsection 7.05(a) such subtenants would violate Section 7.05(a)(2) or Section 7.05(a)(3) hereof and provided further, that in the event the method of measuring the floor changes, the Exempted Sublet Space shall be one half of the floor. Notwithstanding the provisions of Section 7.07 hereof, in calculating the Additional Charges payable to Landlord pursuant to Section 7.07 hereof with respect to that portion of any sublease attributable to the Exempted Sublet Space, the percentage set forth in the first line of Section 7.07(a)(ii) shall be forty (40%) percent and not fifty (50%) percent.

7.10. Notwithstanding anything to the contrary contained in this Article 7, Tenant shall not be required to make the offer described in Section 7.06 hereof nor make any payments described in Section 7.07 hereof nor deliver a Consent Memo in accordance with Section 7.05 hereof and Tenant shall not be required to obtain Landlord's consent, however Tenant shall provide Landlord with advance written notice, to an assignment of this Lease or a subletting of all or a portion of the Premises to an affiliate of Tenant (as such term affiliate is defined in Section 2.07 hereof). Any transfer or cessation of control over any affiliate or subsidiary to which this Lease is assigned shall constitute an assignment of this Lease or a subletting to which all of the provisions of this Article 7 (other than Section 7.02) shall apply. In the event that Tenant assigns this Lease or sublets all or a portion of the Premises in accordance with this paragraph, the assignee of this Lease or such subtenant shall execute an agreement of the type required to be executed pursuant to Section 7.03 hereof.

7.11. Notwithstanding anything to the contrary contained in this Article 7, Tenant shall not be required to make the offer described in Section 7.06 hereof, nor make any of the payments described in Section 7.07 hereof, nor deliver a Consent Memo in accordance with Section 7.05 hereof and Landlord's consent shall not be required, however Tenant shall provide Landlord with advance written notice, with respect to occupancy of a portion of the Premises by persons having an ongoing business arrangement or relationship with Tenant, other than merely that of an occupant of the Premises (Tenant's Associates"), provided that, (i) such Tenant's Associates shall not occupy, after including their allocable share of the common, secretarial and service areas, in excess of five (5%) percent of the rentable area of the Premises; (ii) no such occupancy shall be deemed to create a tenancy hereunder and any such occupancy shall be deemed to be pursuant to a license granted by Tenant and revocable

by Tenant upon not more than sixty (60) days' notice; and (iii) the acts and omissions of such Tenant's Associates and its employees, contractors, agents and invitees will be deemed to be the acts and omissions of Tenant and its employees, contractors, agents and invitees.

ARTICLE 8

Compliance with Laws

8.01. Tenant shall give prompt notice to Landlord of any written notice it receives of the violation of any law or requirement of any public authority with respect to the Premises or the use or occupation thereof. Tenant shall, subject to its rights to contest as set forth in Section 8.02 hereof, at Tenant's expense, comply with all laws and requirements of any public authorities in respect of the Premises and the use and occupation thereof, however, to the extent that such compliance shall require repairs, alterations, improvements or additions in the Premises, Tenant shall be responsible only for those that: (A) are to be performed in portions of the Premises other than elevator lobbies, core bathrooms and electrical closets (hereinafter called "Excluded Areas"), (B) are non-structural and (C) are of a nature or type that they would generally be demolished and/or removed in connection with a standard new building installation. Notwithstanding the foregoing, Tenant shall be responsible for the cost of removing any Alteration which Tenant installs in an Excluded Area (and restoring the area affected thereby) to the extent that such Alteration subsequently violates or creates conditions constituting a violation of such laws and requirements of any public authorities. Furthermore, Tenant shall be responsible for the cost of compliance with all present and future laws and requirements of any public authorities in respect of the Building arising from the breach of any of Tenant's obligations hereunder, whether or not such compliance requires work which is structural or non-structural, ordinary or extraordinary, foreseen or unforeseen. However, Tenant need not comply with any such law or requirement of any public authority so long as Tenant shall be contesting the validity thereof, or the applicability thereof to the Premises, in accordance with Section 8.02 hereof. Landlord, at its expense, shall comply with all other such laws and requirements of public authorities as shall affect the Premises (including without limitation, the Americans with Disabilities Act) and all laws as shall affect the Building and the Land to the extent that any non-compliance with the same shall adversely affect Tenant's use of the Premises or reduce Tenant's access to the Premises, but may, in any such instance, similarly defer compliance so long as Landlord shall be contesting the validity or applicability thereof.

8.02. Tenant, at its expense, after notice to Landlord, may contest, by appropriate proceedings prosecuted diligently and in good faith, the validity, or applicability to the Premises, of any law or requirement of any public authority, provided that (a) Landlord shall not be subject to criminal penalty or to prosecution for a crime, nor shall the Premises or any part thereof or the Building or Land, or any part thereof, be subject to being condemned, nor shall the Building or Land, or any part thereof, be subjected to any lien or encumbrance, by reason of non-compliance or otherwise by reason of such contest; (b) before the commencement of such contest, to the extent that Landlord may incur liability for such condition of non-compliance, Tenant shall furnish to Landlord a cash deposit or other security in amount, form and substance reasonably satisfactory to Landlord and shall indemnify Landlord against the cost thereof and against all liability for damages, interest,

penalties and expenses (including reasonable attorneys' fees and expenses), resulting from or incurred in connection with such contest or non-compliance; provided, however, that the cash deposit or other security requirement set forth in this clause (b) shall not apply with respect to the Tenant named herein or with respect to any other tenant that shall then have a net worth in excess of $50,000,000; (c) Tenant shall comply with any procedural requirements contained in any Superior Lease or Superior Mortgage of which requirements Tenant has been notified in writing with respect to such contest; (d) such non-compliance or contest shall not prevent Landlord from obtaining any permit or license that Landlord then requires or becomes required during the contest in connection with the operation of the Building; and (e) Tenant shall keep Landlord advised as to the status of such proceedings. Without limiting the application of the above, Landlord shall be deemed subject to prosecution for a crime if Landlord, or its managing agent, or any officer, director, partner, shareholder or employee of Landlord or its managing agent, as an individual, is charged with a crime of any kind or degree whatever, whether by service of a summons or otherwise, unless such charge is withdrawn before Landlord or its managing agent, or such officer, director, partner, shareholder or employee of Landlord or its managing agent (as the case may be) is required to plead or answer thereto.

ARTICLE 9

Insurance

9.01. Tenant shall not do, or permit anything to be done, or keep or permit anything to be kept in the Premises which would result in most reputable insurance companies refusing to insure the Building in amounts reasonably satisfactory to Landlord, or which would result in the cancellation of or the loss of coverage under any policy of insurance actually carried by Landlord in respect of the Building. If the action which Tenant may not do or permit to be done in the Premises pursuant to the previous sentence would not cause the cancellation of similar policies that most reputable insurance companies are then issuing, and provided Tenant notifies Landlord of the same in writing, then, following the expiration of the insurance policy in question, Landlord agrees to use reasonable efforts to obtain a similar insurance policy from a reputable insurance company that will not restrict Tenant's actions in the manner the existing policy does. Notwithstanding anything contained herein to the contrary, the provisions of this Section 9.01 shall not apply at all and shall not be construed to in any way to restrict Tenant's mere use of the Premises as general and executive offices.

9.02. If, by reason of Tenant's particular manner of use of the Premises (i.e., a special use other than that specifically permitted hereunder or generally contemplated in connection with an office occupancy), the premiums on Landlord's insurance on the Building shall be higher than they otherwise would be, Tenant shall reimburse Landlord, within thirty (30) days following demand and as Additional Charges, for that part of such premiums attributable to such use on the part of Tenant; provided that Landlord shall have promptly upon obtaining actual knowledge of the consequences of Tenant's use, notified Tenant of the same. A schedule of the premiums for the Building or the Premises, as the case may be, issued by the insurer, shall be evidence of the facts therein stated and of the several items and

charges in the insurance rate then applicable to the Building or the Premises, as the case may be.

9.03. (a) Tenant, at its expense, shall, except as provided in the last sentence of this paragraph (a), maintain at all times during the term of this Lease (x) "all risk" property insurance covering all present and future Tenant's Property and Tenant's improvements and betterments installed by or on behalf of Tenant to a limit of not less than the full replacement cost thereof, (y) commercial general liability insurance, including contractual liability, in respect of the Premises and the conduct or operation of business therein, with Landlord and its managing agent, if any, and each Superior Mortgagee or Superior Lessor whose name and address shall previously have been furnished to Tenant, as additional insureds, with limits of not less than Five Million ($5,000,000) Dollars combined single limit for bodily injury and property damage liability in any one occurrence, and (z) when Alterations are in progress, the insurance specified in Section 11.05 hereof. On or prior to the Effective Date, Tenant shall deliver to Landlord and any additional insureds a copy of certificates of insurance issued by the insurance company or its authorized agent. Tenant shall procure and pay for renewals of such insurance from time to time before the expiration thereof, and Tenant shall deliver to Landlord and any additional insureds reasonable evidence of such renewals (such as a "binder") before the expiration of any existing policy and a copy of the certificate with respect to such renewal insurance policies within thirty (30) days of the expiration of the existing policy. Such insurance may be carried in a blanket policy covering the Premises and other locations of Tenant, if any, provided that each such policy shall in all respects comply with this Article 9 and shall specify (or Tenant shall provide a certificate of such insurer to the same effect) that the portion of the total coverage of such policy that is allocated to the Premises is at least the minimum amount required pursuant to this Article 9. All such policies shall be issued by companies of recognized responsibility licensed to do business in New York State and all such policies shall contain a provision whereby the same cannot be cancelled or modified unless Landlord is given at least thirty (30) days' prior written notice of such cancellation or modification. Tenant shall cooperate with Landlord in connection with the collection of any insurance monies that may be due in the event of loss and Tenant shall execute and deliver to landlord such proofs of loss and other instruments which may be required to recover any such insurance monies. Tenant shall not be required to obtain the insurance referred to in clause (x) hereof as to Tenant's Alterations, improvements and betterments during the last two (2) years of the term hereof.

(b) Landlord, at its expense, shall maintain at all times during the term of this Lease (i) a commercial general liability insurance policy and (ii) an "all-risk" property insurance policy with broad form coverage in an amount equal to one hundred (100%) percent of the replacement cost of the Building (which policy shall, during the last two (2) years of the term hereof, provide coverage for Tenant's Alterations, improvements and betterments). Landlord agrees that in no event shall such general liability insurance policy have a minimum combined single limit of less than the limit amount Tenant is then required to carry with respect to its general liability policy pursuant to this Article 9. The policies described herein may be carried in a blanket policy covering this Building and other buildings or other properties.

9.04. Each party agrees to have included in each of its insurance policies (insuring the Building in case of Landlord, and insuring Tenant's Alterations and Tenant's

Property (hereinafter defined) and improvements and betterments in the case of Tenant, against loss, damage or destruction by fire or other casualty), a waiver of the insurer's right of subrogation against the other party and its employees during the term of this Lease or, if such waiver should be unobtainable or unenforceable, (i) an express agreement that such policy shall not be invalidated if the assured waives the right of recovery against any party responsible for a casualty covered by the policy before the casualty or (ii) any other form of permission for the release of the other party. If such waiver, agreement or permission shall not be, or shall cease to be, obtainable from either party's then current insurance company, the insured party shall so notify the other party promptly after learning thereof, and shall use its reasonable efforts to obtain the same from another insurance company described in Section 9.03 hereof. Each party hereby releases the other party and its employees, with respect to any claim (including a claim for negligence) which it might otherwise have against the other party, for loss, damage or destruction with respect to its property occurring during the term of this Lease to the extent to which it is, or is required to be, insured under a policy or policies containing a waiver of subrogation or permission to release liability, as provided in this Section 9.04. Nothing contained in this Section 9.04 shall be deemed to relieve either party of any duty imposed elsewhere in this Lease to repair, restore or rebuild or to nullify any abatement of rents provided for elsewhere in this Lease.

9.05. Landlord may from time to time (but in no event more often than once in any thirty-six (36) month period occurring during the term of this Lease) require that the amount of the insurance to be maintained by Tenant under Section 9.03 hereof be increased, so that the amount thereof is equivalent to amounts required of similar tenants of similar first-class office buildings in the Borough of Manhattan, comparable to the Building.

ARTICLE 10

Rules and Regulations

10.01. Tenant and its employees and agents shall faithfully observe and comply with the rules and regulations annexed hereto as Exhibit D and made a part hereof, and such reasonable changes therein (whether by modification, elimination or addition) as Landlord at any time or times hereafter may make and communicate to Tenant in writing at least twenty (20) days in advance (except in the case of an emergency or other exigent circumstances), which, in Landlord's judgment, reasonably exercised, shall be necessary for the reputation, safety, care and appearance of the Building, or the preservation of good order therein, or the operation or maintenance of the Building, and which do not unreasonably affect Tenant's use of the Premises or of the Building (such rules and regulations as changed from time to time being herein called "Rules and Regulations"); provided, however, that in case of any conflict or inconsistency between the provisions of this Lease and any of the Rules and Regulations, the provisions of this Lease shall control.

10.02. Nothing in this Lease contained shall be construed to impose upon Landlord any duty or obligation to enforce the Rules and Regulations against any other tenant or any employees or agents of Tenant or any other tenant, and Landlord shall not be liable to Tenant for violation of the Rules and Regulations by another tenant or its employees, agents, invitees or licensees. Landlord agrees that Landlord shall not enforce any

Rules and Regulations against Tenant that Landlord shall not then be enforcing against all other tenants in the Building.

10.03. If Tenant shall dispute the reasonableness of any Rule and Regulation promulgated by Landlord following the date of this Lease or of any changes to any existing Rules or Regulations, such dispute, at either party's option, may be resolved by arbitration conducted in the manner as set forth in Section 7.05 hereof, but pending the outcome thereof, Tenant will comply with the disputed Rule or Regulation.

ARTICLE 11

Alterations

11.01. Except as hereinafter provided, Tenant shall make no improvements, changes or alterations in or to the Premises (herein called "Alterations") of any nature without Landlord's prior written approval. Notwithstanding the foregoing, Tenant may, at its sole expense, without being required to obtain Landlord's prior approval, but upon prior written notice to Landlord, undertake "Non-Material Alterations" (as hereinafter defined), provided that, if such Non-Material Alteration is an alteration of such a nature that plans and specifications are generally prepared in connection with the performance thereof, Tenant shall, prior to performing such Non-Material Alteration, deliver to Landlord the plans and specifications prepared by Tenant in connection with such Non-Material Alterations. For purposes hereof, a "Material Alteration" is an Alteration which (a) is structural, or (b) materially affects the proper functioning of mechanical, electrical, sanitary, heating, ventilating, air-conditioning or other service systems of the Building. Landlord's approval of Material Alterations shall not be unreasonably withheld or delayed. Any Alteration which is not a Material Alteration is referred to in this Lease as a Non-Material Alteration. The fact that any Alteration is to be or shall be performed strictly within the interior space of the Premises shall not be, in and of itself, determinative that such Alteration does not affect one or more of the Building systems. An Alteration that affects the exterior or the appearance of the Building is neither a Non-Material Alteration nor a Material Alteration and Landlord may withhold consent thereto for any reason. For purposes of this Article 11, it is understood that the mere fact that an Alteration can be seen through the Building's windows does not, in and of itself, mean that such Alteration affects the "appearance" of the Building unless such Alteration was performed with the intention that it be seen through the windows.

11.02. (a) Before proceeding with any Material Alteration, Tenant shall submit to Landlord, for Landlord's approval, plans and specifications for the work to be done, and Tenant shall not proceed with such work until it obtains Landlord's written approval of such plans and specifications, which approval of Tenant's submitted plans and specifications shall not be unreasonably withheld or delayed or may be deemed approved as hereinafter provided. If Landlord shall disapprove of any portion of Tenant's plans and specifications, Landlord shall set forth in writing Landlord's specific objections thereto. Landlord agrees that it shall respond to Tenant's request for consent to plans and specifications for any Material Alterations within ten (10) Business Days after Landlord's receipt thereof (unless Landlord believes in good faith that review of such plans and specifications by an unaffiliated third party architect or engineer is necessary in which event Landlord will

respond to Tenant within fifteen (15) Business Days) and Landlord shall respond to a request for consent to a resubmission of previously disapproved plans within five (5) Business Days after Landlord's receipt thereof. Furthermore, such consent by Landlord shall be deemed granted if Landlord does not deliver to Tenant written notice of Landlord's disapproval within the requisite time limit set forth herein. If Tenant shall dispute the reasonableness of Landlord's decision to deny its approval of any particular Alteration or to deny its approval to any plans and specifications submitted by Tenant, or if there is any dispute as to whether a particular Alteration is "Material", then such dispute, at either party's option, may be resolved by expedited arbitration in the manner as set forth in subsection 7.05(d) hereof.

(b) Tenant shall pay to Landlord within thirty (30) days of Landlord's rendition of a bill therefor, as Additional Charges, Landlord's reasonable out-of-pocket costs and expenses (including, without limitation, the reasonable fees of any architect or engineer employed by Landlord for such purpose) for (i) reviewing said plans and specifications and (ii) inspecting the Alterations to determine whether the same are being performed in accordance with the approved plans and specifications and all laws and requirements of public authorities.

(c) Tenant agrees that any review or approval by Landlord of any plans and/or specifications with respect to any Alterations is solely for Landlord's benefit, and without any representation or warranty whatsoever to Tenant with respect to the adequacy, correctness or efficiency thereof or otherwise. Notwithstanding the foregoing, with respect to Alterations affecting the systems serving the Premises and/or the Building, Tenant may, at Tenant s option, in lieu of any other approved engineer utilize an engineer designated by Landlord (and who shall be reasonably available to Tenant and its representatives for the performance, at Tenant's expense, of usual engineering services) for the preparation of all mechanical and engineering plans. Use by Tenant of Landlord's designated engineer in accordance with the preceding sentence shall be deemed to preclude Landlord from subsequently claiming that Tenant is responsible for damage to the Building and/or its equipment, facilities or systems on the basis that such damage is attributable to the design incorporated in the plans prepared by such engineer or that such design impairs the proper maintenance, operation or repair of the Building and/or its equipment, facilities or systems.

11.03. Intentionally Deleted.

11.04. Tenant, in connection with any Alterations, shall comply with and observe the Alterations Rules and Regulations set forth as Exhibit E annexed hereto and made a part hereof.

11.05. Tenant, at its expense, shall obtain (and furnish true and complete copies to Landlord of) all necessary governmental permits and certificates for the commencement and prosecution of Alterations (as and when the same are necessary) and for final approval thereof upon completion, and shall cause Alterations to be performed in compliance therewith, with all applicable laws and requirements of public authorities, with all applicable requirements of insurance bodies and with the plans and specifications approved by Landlord. Landlord shall cooperate with Tenant and execute any documents reasonably required by Tenant to effect such compliance provided Landlord shall be reasonably satisfied that the facts set forth in such documents are accurate. Alterations shall be performed in a

good and workmanlike manner. All Alterations shall be performed only by contractors selected by Tenant and approved by Landlord, which approval Landlord shall not unreasonably withhold or delay. Landlord hereby approves of the following contractors with respect to any Alterations which Tenant may commence in the Premises during the twelve (12) month period following the date of the execution of this Lease: Gerner, Kronik and Valcarcel, Architects, JA Jennings, Inc., General Contractor, Atlas Acon, Electrical Contractor, PJ Mechanical, HVAC Contractor and Tangel Engineering. With respect to any Alterations commenced by Tenant subsequent to such twelve (12) month period, at Tenant's option, Tenant may, from time to time, request Landlord to supply Tenant with a list of Building-approved contractors which list shall contain at least three (3) entries per trade and any contractor appearing on such list may be utilized by Tenant and shall not require further approval by Landlord. Alterations shall be performed in such manner as not to unreasonably interfere with Landlord in the maintenance, repair or operation of the Building. Throughout the performance of Alterations, Tenant, at its expense, shall carry, or cause to be carried, worker's compensation insurance in statutory limits, all risk "Builders Risk" insurance and general liability insurance, with completed operation endorsement, for any occurrence in or about the Building, and with respect to such "Builder Risk" insurance and general liability insurance Landlord and its agent and any Superior Mortgagee or Superior Lessor whose name and address shall previously have been furnished to Tenant shall be named as parties insured. Such policies shall be issued by companies of recognized responsibility and licensed to do business in New York State in such limits as shall be commercially reasonable and, with respect to liability insurance, in an amount equal to at least the amount of liability insurance Tenant is then obligated to maintain in accordance with the provisions of Article 9 hereof unless a higher amount is required by law. Tenant shall furnish Landlord with copies of insurance certificates or other reasonably satisfactory evidence that such insurance is in effect at or before the commencement of Alterations.

11.06. Tenant agrees that it shall not exercise its rights pursuant to the provisions of this Article 11 or of any other provisions of this Lease or the Exhibits annexed hereto in a manner which might reasonably be expected to create any work stoppage, picketing, labor disruption or dispute or disharmony. Tenant shall promptly after notice stop work or other activity if Landlord notifies Tenant that such work or activity violates Landlord's union contracts affecting the Building, or creates any work stoppage, picketing, labor disruption or dispute or disharmony.

11.07. Tenant, at its expense, and with diligence and dispatch, shall procure the cancellation or discharge of all notices of violation arising from or otherwise connected with Alterations, or any other work, labor, services or materials done for or supplied to Tenant (exclusive of Landlord's Work) or any person claiming through or under Tenant, which shall be issued by the Department of Buildings of the City of New York or any other public authority having or asserting jurisdiction. Tenant shall defend, indemnify and save harmless Landlord from and against any and all mechanic's and other liens and encumbrances filed in connection with Alterations performed by Tenant or any other work, labor, services or materials done for or supplied to Tenant (exclusive of Landlord's Work) or any person claiming through or under Tenant, including, without limitation, security interests in any materials, fixtures or articles (but expressly excluding Tenant's business equipment, telephone systems, computers or trade fixtures, it being expressly understood and agreed that

Tenant shall be permitted to finance such items) so installed in and constituting part of the Premises and against all costs, expenses and liabilities incurred in connection with any such lien or encumbrance or any action or proceeding brought thereon. Tenant, at its expense, shall procure the satisfaction or discharge of record of all such liens and encumbrances within thirty (30) days after Tenant receives notice of the filing thereof. Nothing herein contained shall prevent Tenant from contesting, in good faith and at its own expense, any notice of violation, provided that Tenant shall comply with the provisions of Section 8.02 hereof; provided, however, that the foregoing provisions of this sentence shall not obviate the need for such satisfaction or discharge of record.

11.08. Tenant will, promptly upon the completion of any Material Alteration, deliver to Landlord "as built" drawings or marked shop drawings of such Material Alteration, Tenant has performed or caused to be performed in the Premises. Promptly upon completion of a Non-Material Alteration, Tenant shall deliver to Landlord only such "as built" drawings or marked shop drawings as Tenant shall have prepared in connection with such Non-Material Alteration.

11.09. All fixtures and equipment installed or used by Tenant in the Premises, other than Tenant's business equipment, telephone systems, computers and trade fixtures, shall not be subject to conditional bills of sale, chattel mortgage or other title retention agreements.

11.10. Tenant shall use reasonable efforts to keep records of Tenant's Alterations costing in excess of $50,000 and of the cost thereof. Tenant shall, within forty-five (45) days after demand by Landlord, furnish to Landlord copies of such records and cost if Landlord shall require same in connection with any proceeding to reduce the assessed valuation of the Building, in connection with the adjustment of any insurance claim following a fire or other casualty, in connection with the determination of a condemnation award or otherwise.

ARTICLE 12

Landlord's and Tenant's Property

12.01. All fixtures, equipment, improvements and appurtenances attached to or built into the Premises at the commencement of or during the term of this Lease, whether or not by or at the expense of Tenant, shall be and remain a part of the Premises, shall, upon the expiration or sooner termination of this Lease, be deemed the property of Landlord and shall not be removed by Tenant, except as provided in Sections 12.02 and 12.05. Upon such removal, Tenant shall, immediately and at its expense, repair any damage to the Premises or the Building due to such removal.

12.02. All movable partitions, business and trade fixtures, machinery and equipment, communications equipment and office equipment, whether or not attached to or built into the Premises, which are installed in the Premises by or for the account of Tenant and can be removed without structural damage to the Building, and all furniture, furnishings and other articles of movable personal property owned by Tenant and located in the Premises (herein collectively called "Tenant's Property") shall be and shall remain the property of

Tenant and may be removed by Tenant at any time during the term of this Lease; provided that if any of Tenant's Property is removed, Tenant shall repair or pay the cost of repairing any damage to the Premises or to the Building resulting from the installation and/or removal thereof.

12.03. At or before the Expiration Date of this Lease (or within twenty (20) days after any earlier termination of this Lease) Tenant, at its expense, shall remove from the Premises all of Tenant's Property (except such items thereof as Landlord shall have expressly permitted to remain, which property shall become the property of Landlord), and Tenant shall restore and/or repair any damage to the Premises or the Building resulting from any installation and/or removal of Tenant's Property.

12.04. Any other items of Tenant's Property which shall remain in the Premises after Tenant's vacating of the Premises following the Expiration Date of this Lease, or within twenty (20) days following an earlier termination date, may at the option of Landlord, be deemed to have been abandoned, and in such case such items may be retained by Landlord as its property or disposed of by Landlord, without accountability, in such manner as Landlord shall determine at Tenant's expense.

12.05. Notwithstanding anything contained herein to the contrary, those installations and improvements that are Specialty Alterations (as hereinafter defined) and which were installed after the Effective Date shall be removed from the Premises by Tenant at or prior to the Expiration Date of this Lease (or within twenty (20) days after earlier termination of this Lease), at Tenant's expense provided that Landlord notify Tenant as to whether Tenant will be required to remove and/or restore, as the case may be, said Specialty Alterations, at the time of Landlord's approval (if approved) whether said Specialty Alterations will be required to be removed by Tenant at the end of the term, at Tenant's sole cost and expense. Tenant shall not be required to remove Specialty Alterations installed prior to the Effective Date. "Specialty Alteration(s)" shall include, without limitation, installations by or on behalf of Tenant made after the Effective Date consisting of kitchens, executive bathrooms, satellite dishes and/or similar antennae devices, raised computer floors, computer installations, vaults, libraries, filing systems which are built-in and/or penetrate or otherwise affect any floor slab to a greater than de minimis extent, internal staircases, dumbwaiters, pneumatic tubes, vertical and horizontal transportation systems, supplemental HVAC systems, any installations which are structural in nature or penetrate or otherwise affects any floor slab to a greater than de minimis extent, and other installations of a similar character which are not customary for general office use in comparable office buildings in downtown Manhattan. Tenant shall restore and/or repair any damage to the Premises or the Building resulting from any installation and/or removal of Specialty Alterations.

ARTICLE 13

Repairs and Maintenance

13.01. (a) Tenant shall, at its expense, throughout the term of this Lease, take good care of and maintain in good order and condition the Premises and the fixtures (other than sanitary fixtures in the core bathrooms that were installed by Landlord) and improvements therein, including, without limitation, the property which is deemed

Landlord's pursuant to Section 12.01 hereof and Tenant's Property, reasonable wear and tear, obsolescence and damage for which Tenant is not responsible pursuant to this Lease, excepted. The foregoing exclusion is not intended to imply any obligation on the part of Landlord to make repairs resulting from such causes, but to free Tenant from the mandatory obligation as opposed to the responsibility for repairs or maintenance the need for which arises from such causes. Except with regard to any repairs resulting from Landlord's (or Landlord's agents, contractors or any other persons under Landlord's control) negligent or wrongful acts or omissions, Tenant shall be responsible for any non-structural repairs in and to the interior of the Premises. Furthermore, Tenant shall be responsible for the cost of all repairs, interior and exterior, structural and non-structural, ordinary and extraordinary, foreseen or unforeseen, in and to the Building and the facilities and systems thereof and in and to the Premises the need for which arises out of: (a) the performance or use by Tenant of any Alterations in the Premises, (b) the moving of Tenant's fixtures, furniture and equipment in or out of the Building, unless caused by the misuse, neglect or willful misconduct of Landlord, its agents, contractors, employees or any other persons under Landlord's control, (c) the misuse, neglect or willful misconduct of Tenant or any of its subtenants or its or their employees, agents, contractors or any other persons under Tenant's control, or (d) design flaws in any of Tenant's plans and specifications regardless of the fact that such Tenant's plans may have been approved by Landlord; unless such plans and specifications were designed by the engineer then designated by Landlord, as provided in Section 11.02(c) hereof. After the Effective Date, Tenant, at its expense, shall be responsible for the repair, maintenance and replacement of all distribution portions of the systems and facilities of the Building within and exclusively serving the Premises, including, without limitation, the sanitary (if any) and electrical fixtures installed by Tenant and equipment therein but specifically excluding the base Building perimeter HVAC induction units. In the event Tenant shall install any executive bathrooms or showers in the Premises, Tenant shall be solely responsible for any maintenance, repair and/or replacement work and/or any damages to the Building that arises in connection therewith. All repairs in or to the Premises for which Tenant is responsible shall be performed by Tenant in a prompt manner and in accordance with Tenant's obligations under this Lease; provided, however, any repairs in and to the Building and the facilities and systems thereof for which Tenant is responsible shall be performed by Landlord at Tenant's expense, at reasonable, commercially competitive rates. The exterior walls of the Building, the portions of any window sills outside the windows, and the windows are not part of the premises demised by this Lease and Landlord reserves all rights to such parts the Building and all responsibility for the maintenance, upkeep, repair and replacement thereof.

(b) Landlord shall, at its expense, keep and maintain the Building in good repair and in a condition comparable to similar first-class office buildings in the Wall Street area. Except to the extent Tenant is responsible for the same in accordance with the provisions of subsection 13.01(a) hereof, Landlord shall make all necessary repairs (structural and non-structural) to the facilities and systems of the Building, the public portions and common areas of the Building, the structural components of the Building and the public portions of the Land. Landlord shall be responsible, at its sole cost and expense, for repairing any damage to the Premises caused by Landlord's misuse, willful misconduct or negligent act or omission or that of its agents, employees, contractors or any other person or entity under Landlord's control. Landlord shall perform and complete any such repair upon reasonable advance notice to Tenant

in accordance with Section 16.03 hereof and in such a manner as to minimize interference with Tenant's use of the Premises. However, nothing contained herein shall be construed to require Landlord to perform such repairs on an overtime or premium-pay basis unless (i) the performance of such work during Business Hours would have a material adverse affect on the conduct of Tenant's business in the Premises, would substantially interfere with access to the Building or the Premises or would result in the stoppage of any Building systems; or (ii) such overtime or premium-pay basis is required to expedite the cure of a condition which presents an immediate danger to persons or property within the Premises.

13.02. Tenant shall give Landlord prompt notice of any defective condition of which Tenant has actual knowledge in any of the Building systems such as the plumbing, heating, air-conditioning or ventilation system or electrical lines located in, servicing or passing through the Premises. Following such notice, Landlord shall promptly remedy the conditions at the expense of the party that is responsible for same under the provisions of this Article 13.

13.03. Except as otherwise expressly provided in this Lease, Landlord shall have no liability to Tenant, nor shall Tenant's covenants and obligations under this Lease be reduced or abated in any manner whatsoever, by reason of any inconvenience, annoyance, interruption or injury arising from Landlord's making any repairs or changes which Landlord is required or permitted by this Lease, or required by law, to make in or to the fixtures, equipment or appurtenances of the Building or the Premises. Notwithstanding the foregoing or anything else to the contrary contained in this Lease, if for any reason other than as a direct result of the affirmative act or omission (where Tenant had a duty to act) of Tenant, Tenant is unable to operate and ceases the conduct of its normal business in all or in a portion of the Premises comprised of not less than 12,000 contiguous rentable square feet (such portion of the Premises being hereinafter referred to as the "Unusable Area") and all of Tenant's employees vacate the entire Premises or the Unusable Area, as the case may be, for a period in excess of five (5) consecutive Business Days (hereinafter called the "Threshold Period"), then beginning upon the day following the expiration of the Threshold Period and continuing thereafter until the date that Tenant resumes the normal conduct of its business in the Premises or the Unusable Area, as the case may be, or the date on which the same are once again usable by Tenant for the normal operation of its business, whichever occurs earlier, the Fixed Rent and Additional Charges payable pursuant to Article 3 hereof shall be fully abated in the event the entire Premises is unusable or abated in the proportion that the number of rentable square feet in the Unusable Area bears to the number of rentable square feet in the entire Premises, as the case may be. If the Premises or the Unusable Area shall remain untenantable for a period of 420 consecutive days and throughout such 420-day period Tenant ceases to conduct its business in the Premises or the Unusable Area, as the case may be, and none of Tenant's employees use the Premises or the Unusable Area, as the case may be, for the conduct of business therein, then Tenant shall, upon notice to Landlord given within ten (10) days following the expiration of such 420-day period, be permitted to terminate this Lease in whole (if the entire Premises shall have been so unusable) or with respect to the Unusable Area only, as the case may be. Inspections by Tenant or attempts by Tenant to retrieve records, personal property and equipment from the Premises or the Unusable Area shall not deem said space tenantable.

ARTICLE 14

Electricity

14.01. Landlord agrees to furnish to the Premises and Tenant agrees to purchase from Landlord all electricity consumed, used or to be used in the Premises. The amount to be paid by Tenant for electricity consumed shall be determined by a currently installed meter or meters and related equipment and billed in accordance with the consumption and demand amounts recorded by each meter. Bills for electricity consumed by Tenant, which Tenant hereby agrees to pay, shall be rendered by Landlord to Tenant not more often than monthly and shall be payable as an Additional Charge, within thirty (30) days after rendition of any such bill. The amount to be charged to Tenant by Landlord per "KW" and "KWHR" pursuant to this Article for electricity consumed within the Premises, as shown on the meters measuring Tenant's consumption of electricity, shall be 103.5% of the amount at which Landlord from time to time purchases each KW and KWHR of electricity for the same period from the utility company, which amount shall be determined by dividing the cost established by said utility company (averaged separately for KWs and KWHRs) during each respective billing period by the number of KWs and KWHRs consumed by the Building appearing on the utility company invoice for such period. If any tax is imposed on Landlord's receipt from the sale or resale of electric energy to Tenant by any federal, state or municipal authority, Tenant covenants and agrees that where permitted by law, Tenant's pro rata share of such taxes shall be passed on to, and included in the bill of, and paid by Tenant to Landlord. Any meters installed to furnish electric service to the Premises on a submetered basis, as herein provided, shall be maintained by Landlord at Landlord's expense except to the extent of any repairs that are necessary as a result of Tenant's negligence or wrongful acts which such repairs shall be performed by Landlord at Tenant's sole cost and expense.

14.02. Provided that, prior thereto or simultaneously therewith, Landlord shall discontinue or shall have discontinued furnishing electric energy to at least eighty (80%) percent of the tenants in the Building receiving electric energy on a submetering basis, Landlord reserves the right to discontinue furnishing electricity to Tenant in the Premises on a submetering basis on not less than thirty (30) days notice to Tenant, or upon such shorter notice as may be required by the public utility serving the Building. If Landlord exercises such right to discontinue, or is compelled to discontinue, furnishing electricity to Tenant, this Lease shall continue in full force and effect and shall be unaffected thereby and Tenant shall arrange to obtain electricity directly from the public utility serving the Building. Such electricity may be furnished to Tenant by means of the then existing Building system feeders, risers and wiring to the extent that the same are available, suitable and safe for such purposes. If such discontinuance on the part of Landlord shall be necessary to comply with any laws and requirements of public authorities, any requirements of insurance bodies or with any applicable rule, regulation, order or directive of any public utility company, all meters and all additional panel boards, feeders, risers, wiring and other conductors and equipment which may be required to obtain electricity of substantially the same quantity, quality and character directly from such public utility shall be installed by Landlord at Tenant's expense. If such discontinuance on the part of Landlord shall occur as a result of any other reason: (i) the aforementioned electrical equipment shall be installed by Landlord at Landlord's sole cost and expense and (ii) Landlord shall, on a regular basis, but in no event less frequently than

one (1) time during any three (3) month period during the term of this Lease, allow Tenant a credit against any Additional Charges due Landlord in an amount equal to the excess of Tenant's cost to obtain direct electric service over the cost that Tenant would have incurred for equivalent service if Tenant had continued to receive electric service under this Lease. Conversely, if Landlord shall voluntarily exercise its right described herein to discontinue furnishing Tenant with electric energy and as a result of the same the cost incurred by Tenant to obtain direct electric service is less than that which Tenant would have incurred for equivalent service if Tenant had continued to receive electric service under this Lease, then Tenant shall, as Additional Charges hereunder, pay to Landlord on a regular basis and in no event less frequently than one (1) time during any three (3) month period during the term of this Lease, all of such savings as have accrued to Tenant resulting from such Landlord's discontinuance.

14.03. Except as expressly provided in Section 13.03 hereof, Landlord shall not be liable to Tenant in any way for any failure or defect in the supply or character of electricity furnished to the Premises by reason of any requirement, act or omission of the public utility serving the Building with electricity or for any reason not attributable to Landlord. Tenant's use of electricity in the Premises shall not at any time exceed eight (8) watts per rentable square foot of demand load (the "Power Cap"), and Landlord hereby represents that the vertical electrical risers of the Building serving the Premises are capable of delivering an amount of electricity of no less than the Power Cap to the Premises. Tenant may redistribute and reallocate, at its discretion and at its expense, such demand load capacity of eight (8) watts per rentable square foot in any manner that Tenant so elects. If Tenant requests additional electrical tower in addition to the electrical capacity hereinabove described in this Section 14.03 and can demonstrate the need therefor, and if and to the extent such additional power is available for use by Tenant without resulting in a shortage of available power in the Building after taking into consideration the reasonable actual and potential needs of the other tenants in the Building and any potential tenants of then vacant space in the Building, then Landlord shall, at Tenant's cost and expense (which charge shall be commercially reasonable) make available to Tenant additional cower to the Premises in an amount up to an additional two (2) watts per rentable square foot in the Premises. Landlord agrees to make the necessary shaft space in the Building available in order for Tenant to be able to obtain such additional power; however, any additional riser or risers or feeders needed to supply Tenant's additional electrical requirements in excess of its initial capacity of a demand load not to exceed eight (8) watts per rentable square foot, will be installed by Landlord, at the sole cost and expense of Tenant (which charge shall be commercially reasonable). In addition to the installation of such riser or risers, Landlord will also, at the sole cost and expense of Tenant, install at a commercially reasonable charge all switches, meters and other equipment proper and necessary in connection therewith.

14.04. Landlord shall furnish and install all replacement lighting, tubes, lamps, bulbs and ballasts required in the Premises; and, in such event, Tenant shall pay to Landlord or its designated contractor upon demand the then established reasonable charges therefor of Landlord or its designated contractor, as the case may be, which charges shall not be in excess of commercially reasonable charges therefor.

14.05. Any statement from Landlord to Tenant for the payment of any Additional Charges pursuant to this Article 14 shall, if not disputed by Tenant or revised or corrected by Landlord within one (1) year after delivery thereof, be deemed final and conclusive upon the parties hereunder.

ARTICLE 15

Services and Equipment

15.01. Landlord, at its own cost and expense shall:

(a) Provide full passenger elevator service (i.e., five (5) Passenger elevator cars, subject to the provisions of Section 15.03) from 8:00 A.M. to 6:00 P.M. on all Business Days with two (2) passenger elevators available at all other times. Landlord may designate local and express stops for elevators and may change such designation of express and local stops from time to time. Landlord agrees that, except in an emergency situation, Landlord shall not grant permission for any construction items or materials or for any workmen carrying the same to be transported by use of the passenger elevator cars. At times other than during Business Hours of Business Days up to one (1) elevator car in Tenant's elevator bank may be used for the transport of construction workers or materials; provided that such elevator car shall be properly cleaned before the beginning of the next Business Day. Landlord will use a first class standard for elevator maintenance.

(b) Provide freight elevator service to the Premises on a first come-first served basis (i.e., no advance scheduling) during the Building's normal freight elevator hours (i.e., 8 A.M. to 12:00 P.M. and 1:00 P.M. to 4:30 P.M.) of Business Days. Freight elevator service shall also be provided to the Premises on a reserved basis at all other times, upon the payment of Landlord's then established charges therefor which shall be Additional Charges hereunder. As of the date hereof, Landlord's charge for overtime freight elevator service is at the rate of $200 per hour subject to increase in proportion to increases in Landlord's actual costs to provide same. Any request for overtime freight elevator service shall entail a minimum in the number of hours to the extent the applicable Building Service Union Employee Service contract requires a minimum number of hours per shift.

(c) (i) Supply ventilation throughout the year and supply heat and air-conditioning, as seasonally required; but in all events, Landlord shall supply heat from October 15 to April 15 and air-conditioning from April 15 to October 15, from the Building heating, ventilating and air-conditioning system from 8:00 A.M. to 6:00 P.M, on all Business Days in accordance with the specifications attached hereto as Exhibit N and made a part hereof.

(ii) In connection with its operation of the existing systems and equipment in the Building, give due consideration to the applicable portions of ASHRAE Standard No. 62-1989 to the extent that the same is implemented or adhered to generally by buildings with similar systems and equipment and of similar age and size.

Tenant acknowledges that if it shall fail to keep entirely unobstructed all of the vents, intakes, outlet and grilles in the Premises at all times, or shall fail to comply with and observe all

reasonable regulations and requirements prescribed by Landlord for the proper functioning of the heating, ventilating and air-conditioning system, the HVAC services may not meet the standards set forth in the specifications.

(d) Provide cleaning services, in accordance with the specifications set forth in Exhibit F hereto, in the Premises and public portions of the Building on all Business Days.

(e) Furnish hot and cold water for lavatory and drinking and office cleaning purposes and for use in all pantries and kitchenettes installed by Tenant in the Premises. If Tenant requires, uses or consumes water for any other purposes, Tenant agrees that Landlord may install a meter to measure Tenant's water consumption, and Tenant further agrees to reimburse Landlord for the reasonable out-of-pocket cost of the meter and the installation thereof, and to pay for the reasonable out-of-pocket maintenance cost of said meter equipment within thirty (30) days after Landlord's rendition of a bill therefor. Tenant shall reimburse Landlord for the water consumed as measured by said meter based upon the actual out-of-pocket cost to Landlord of such water, including any actual out-of-pocket costs incurred by Landlord in connection with the meter readings, and any sewer rents, and all other charges imposed by any authority, on, or measured by, the use of water within thirty (30) days after rendition of a bill therefor.

(f) Maintain listings on the Building directory of the names of Tenant, or its permitted subtenants, assignees or affiliates and the names of any of their officers and employees, provided that the names so listed shall not use more than Tenant's Proportionate Share of the space on the Building directory. Tenant shall reimburse Landlord for any actual out-of-pocket costs incurred by Landlord to unaffiliated third parties in connection with changes and additions to such directory listings requested by Tenant.

(g) Repaint or retouch, as reasonably required to compensate for ordinary wear and tear and for any damage caused by Landlord, its employees, contractors and agents, all convector covers in the Premises not less frequently than once in every three (3) years; provided, however, that Tenant shall be solely responsible at its expense to remove its property and make such convectors accessible for such painting by Landlord.

(h) With respect to the Tenant named herein only, provide at the existing security/concierge desk in the lobby of the Building during all hours other than Business Hours of Business Days personnel to carry out such security procedures as are set forth in Exhibit P hereof and to implement other security measures as Landlord shall from time to time adopt (after consultation with Tenant, but without any obligation to obtain Tenant's agreement or approval). Notwithstanding that Landlord shall agree to instruct its employees to follow such security procedures as set forth in this Lease, Landlord shall in no way be responsible for any violation of such procedures or circumvention of such Procedures as may occur from time to time at the Building and in no event shall Landlord be liable to Tenant for any loss, injury or damage to Tenant or to any other person as may result from violations or circumventions of the security procedures instituted at the Building as described in this subsection 15.01(h).

15.02. Holidays shall be deemed to mean all those dates designated as holidays by the Board of Governors of the New York Stock Exchange, in addition to dates designated

as holidays by the City of New York, State of New York and/or the United States, and in addition shall also include holidays to which maintenance or service employees of the Building are entitled under their union contract or contracts.

15.03. Landlord reserves the right to interrupt, curtail or suspend the services required to be furnished by Landlord under this Article 15 when the necessity therefor arises by reason of accident, emergency, mechanical breakdown, or when required by any law, order or regulation of any Federal, state, county or municipal authority, or for any other cause beyond the reasonable control of Landlord. Except in case of an emergency, Landlord will notify Tenant in advance of any such stoppage, and if ascertainable, its estimated duration. Landlord shall complete all required repairs or other necessary work in accordance with the standards set forth in subsection 13.01(b). Except as set forth in Section 13.03 hereof and subject to the provision of Section 27.03 hereof, no diminution or abatement of rent or other compensation shall or will be claimed by Tenant as a result therefrom, nor shall this Lease or any of the obligations of Tenant be affected or reduced by reason of such interruption, curtailment or suspension.

15.04. (a) If Tenant shall require heat or air-conditioning services at any time other than as furnished by Landlord in accordance with subsection 15.01(c) hereof, then, if Tenant shall give notice in writing to the Building superintendent prior to 4:00 P.M. in the case of services required on weekdays, prior to 4:00 P.M. on the Friday prior in the case of after hours service recurred on weekends or on holiday Mondays or prior to 4:00 P.M. on the day prior in the case of after hours service recurred on other holidays or weekends following Fridays which are holidays, Landlord shall furnish such service and Tenant shall pay to Landlord upon demand as Additional Charges hereunder Landlord's then established charges therefor. As of the date hereof, Landlord's standard rate charged to other tenants in the Building is $600.00 per floor per hour and, except as otherwise provided below in this subsection 15.04(a), requires a four (4) hour minimum and a four (4) floor minimum. Such charge shall be subject to increase in proportion to increases in Landlord's actual costs to provide same provided however if Landlord charges a future tenant in the Building a lesser rate for the overtime heat or air-conditioning services, then provided Tenant shall agree to be obligated to utilize the same or more overtime heat or air-conditioning services utilized by such future tenant, such charge charged to Tenant shall then and thereafter be reduced to such lesser charge charged to such future tenant. If any other tenant or tenants of the Building in the same zone as Tenant request overtime air-conditioning or heating for any period for which Tenant has requested such service pursuant to the provisions of this subsection 15.04(a), then the Landlord's charge for overtime HVAC, as set forth above, shall be prorated among Tenant and such other tenant or tenants, as the case may be. Notwithstanding the generality of the foregoing, any request for overtime HVAC service to commence at 6:00 P.M. on any Business Day shall not require or be subject to a "minimum" with respect to hours, but shall still require a four (4) floor minimum. Notwithstanding anything to the contrary contained herein, Tenant shall be entitled to receive overtime HVAC without being required to pay any Additional Charges therefor on up to twelve (12) occasions (each such occasion being of a duration of four (4) hours and applying with respect to four (4) floors in the Premises) during each calendar year to occur during the term of this Lease (prorated on the basis of one (1) such occasion per month with respect to any partial calendar year to occur during the term of this Lease). Each such four (4) continuous hour period is

hereinafter referred to as a "Bloc". Any unused Blocs can be accumulated from one calendar year to the next calendar year (and succeeding calendar years) up to a maximum of twenty-four (24) Blocs. Blocs in excess of the foregoing limitation shall be forfeited. Whenever Tenant wishes to utilize any such free overtime HVAC service, Tenant shall, together with its request for overtime HVAC service, specify to Landlord that such overtime HVAC services are to be provided for no cost as one of the Blocs on which no overtime HVAC charges are payable.

(b) If, within one (1) year of Tenant's receipt thereof, Tenant shall dispute any Additional Charges pursuant to this Section 15.04 set forth in a statement received by Tenant from Landlord, Landlord shall make available to Tenant or Tenant's designated agent for examination such of Landlord's books and records as are relevant to verify the amounts set forth in the Landlord's statement in question. Prior to the resolution of such dispute, Tenant shall pay to Landlord the amounts as set forth in said Landlord's statement and appropriate adjustment shall be made following the resolution of such dispute if needed. If Tenant is determined to have been correct, any such "adjustment" shall include an amount of interest to be paid to Tenant at a rate equal to the then Prime Rate announced by Bank of America or any successor thereto, from time to time on the overpaid amounts calculated from the date of such overpayment. Any statement from Landlord to Tenant for the payment of any Additional Charges pursuant to this Article 15 shall, if not disputed by Tenant or revised or corrected by Landlord within one (1) year after delivery thereof, be deemed final and conclusive upon the parties hereunder.

(c) Landlord agrees to make available 136.5 tons of condenser water ("Condenser Water Tonnage") for use by Tenant. Said condenser water shall be available on a 24-hour, 365 days per year basis, for Tenant's supplemental air-conditioning units in the Premises at a cost to Tenant of $1,855.44 per ton per annum (which charge shall escalate annually by a cumulative, compounded rate of 5%) made available, regardless whether Tenant actually uses all of the tonnage of water being reserved for Tenant's use.

15.05. Tenant shall reimburse Landlord for the cost to Landlord of removal from the Premises and the Building of any refuse and rubbish of Tenant to the extent any such refuse and rubbish of Tenant shall exceed that ordinarily accumulated daily in the routine conduct of Tenant's business as of the date of this Lease and Tenant shall pay all bills therefor within thirty (30) days after the same are rendered.

ARTICLE 16

Access and Name of Building

16.01. Except for the space within the inside surfaces of all walls, ceilings, floors, windows and doors bounding the Premises, all of the Building, including, without limitation, exterior and atrium Building walls, core corridor walls and doors and any core corridor entrance, any terraces or roofs adjacent to the Premises, and any space in or adjacent to the Premises used for shafts, stacks, pipes, conduits, fan rooms, ducts, electric or other utilities, sinks or other Building facilities, and the use thereof, as well as access thereto through the Premises for the purposes of operation, maintenance and repair, are reserved to Landlord and persons authorized by Landlord. Landlord, at Landlord's expense, may install, pursuant to

the provisions of this Section 16.01, in the Building on the inside of the windows thereof a clear film, of a quality consistent with the operation of the Building in a manner comparable with similar first-class office buildings in the Wall Street area, to reduce the usage of energy in the Building. Landlord agrees, however, that Landlord shall not perform any such film treatment to the windows of the Premises without first obtaining Tenant's consent with respect to the particular type of film treatment to be used, which such consent Tenant shall not unreasonably withhold or delay provided Landlord has proposed the use of a film treatment that is reasonably similar in color and consistency to the film treatment currently being used by Landlord in other portions of the Building. If Tenant shall, in accordance with the previous sentence, disapprove of any particular film treatment proposed by Landlord, in conjunction therewith, Tenant shall suggest to Landlord a reasonably comparable film treatment that Tenant does approve of and Tenant shall be responsible to pay to Landlord any incremental costs to Landlord resulting from the installation of Tenant's suggested film treatment as opposed to Landlord's.

16.02. Landlord reserves the right upon reasonable prior notice to Tenant, and Tenant shall permit Landlord and persons authorized by Landlord, to enter the Premises at reasonable times after Business Hours, to make installations, additions or improvements in or to the Premises and/or in or to the Building, as Landlord determines are necessary and proper and to install and erect pipes, ducts and conduits in and through the Premises by such methods and at such locations as will not materially interfere with or impair Tenant's use of the Premises and in such manner that the same are concealed. If as a result of the same, any portion of the usable square footage in the Premises shall be reduced other than by a de minimis amount, the Fixed Rent and Additional Charges pursuant to Article 3 shall be adjusted proportionately.

16.03. Upon reasonable prior notice to Tenant and at reasonable times except in the case of an emergency (in which case Landlord shall, if such entry for an emergency is after hours, give Tenant subsequent oral or written notice of such entry), Landlord and persons authorized by Landlord shall have the right to enter and/or pass through any portion of the Premises other than those that Tenant has designated as a "security area" (with respect to which neither Landlord nor persons authorized by Landlord may enter unless a representative of Tenant shall be present and with respect to which Landlord shall not be obligated to provide any of the cleaning services described in Section 15.01(d) hereof unless specifically so requested by Tenant): (a) to examine the Premises and to show them to actual and prospective Superior Mortgagees, or prospective purchasers or mortgagees of the Building, provided Tenant is given the opportunity to arrange for its representative to accompany such persons, (b) to make such repairs and perform such routine maintenance work or other work in or to the Premises and/or in or to the Building or its facilities and equipment as Landlord or persons authorized by Landlord is or are required to make, and (c) to read any utility meters located therein. Landlord and such authorized persons shall be allowed to take all materials into and upon the Premises that may be reasonably required in connection therewith, without any liability to Tenant and, except as expressly provided in this Lease, without any reduction of Tenant's covenants and obligations hereunder; provided such materials are stored in a manner so as to minimize any interference with Tenant's business operations. Landlord, in connection with any such entry into the Premises as described in this Section 16.03, shall use reasonable efforts to minimize interference with

Tenant's business operations to the extent practicable but nothing contained herein shall obligate Landlord to incur the cost of overtime or any other premium pay rate to perform the same except under the same circumstances as set forth in the last sentence of Section 13.01(b) hereof.

16.04. If at any time any windows of the Premises are either temporarily darkened or temporarily obstructed by reason of any repairs, improvements, maintenance and/or cleaning in or about the Building (or in the case of the lot line windows on the western side of the Building, are permanently darkened or obstructed) or covered by any translucent material for the purpose of energy conservation, or if any part of the Building, other than the Premises, is temporarily or permanently closed or inoperable, the same shall be without liability to Landlord and, except as specifically provided in this Lease, without any reduction or diminution of Tenant's obligations under this Lease; provided the same shall not (i) unreasonably interfere with or diminish Tenant's access to the Premises or the Building or (ii) reduce the usable area of the Premises other than to a de minimis extent. Landlord shall diligently perform any repairs causing such temporary darkening or obstruction of Tenant's windows in a manner using reasonable efforts to minimize such window blockage or darkening; provided, however, that nothing contained herein shall obligate Landlord to perform the same on an overtime basis except under the circumstances described in the last sentence of subsection 13.01(b) hereof. During any period that such lot line windows are permanently darkened or obstructed as aforesaid, Tenant shall be entitled to a credit against the monthly installments of the Fixed Rent due and payable hereunder at a rate equal to $1,000 per window per annum.

16.05. During the time period of eighteen (18) months prior to the Expiration Date of this Lease, upon reasonable prior notice (oral or written) to Tenant and at reasonable times, Landlord and persons authorized by Landlord may exhibit the Premises to prospective tenants provided that Tenant is given the opportunity to arrange for its representative to accompany Landlord or its representative.

16.06. Intentionally Omitted.

16.07. Landlord reserves the right, at any time, without it being deemed a constructive eviction and without incurring any liability to Tenant therefor, or affecting or reducing any of Tenant's covenants and obligations hereunder, to make or permit to be made such changes, alterations, additions and improvements in or to the Building and the fixtures and equipment thereof, as well as in or to the street entrances, atrium, doors, halls, passages, elevators, escalators and stairways of the Building, and other public parts of the Building, provided same are consistent with maintaining the Building in a manner comparable to similar first-class office buildings in the Wall Street area, as Landlord shall deem necessary or desirable; provided the same shall not (i) unreasonably reduce, interfere with or deprive Tenant of access to the Premises or the Building, (ii) reduce the usable area of any floor of the Premises (except to a de minimis extent), or (iii) reduce or adversely affect any services which Landlord has agreed to provide to Tenant.

16.08. Landlord reserves the right to name the Building and to change the name or address of the Building at any time and from time to time. In no event shall Landlord use

the name "AMBAC" or any form thereof with respect to any name Landlord shall choose for the Building without Tenant's prior written approval. Neither this Lease nor any use by Tenant shall give Tenant any easement or other right in or to the use of any door or any passage or any concourse or any plaza connecting the Building with any subway or any other building or to any public conveniences, and the use of such doors, passages, concourses, plazas and conveniences may without notice to Tenant, be regulated or discontinued at any time by Landlord; provided the same shall not (i) unreasonably reduce, interfere with or deprive Tenant of access to the Premises or the Building, (ii) reduce the usable area of any floor of the Premises (except to a de minimis extent), or (iii) reduce or adversely affect any services which Landlord has agreed to provide to Tenant. Tenant shall have the right to change its name and logo and the Landlord shall recognize the new name and logo as being the Tenant.

16.09. If Tenant shall not be personally present to open and permit an entry into the Premises at any time when an entry therein shall be urgently necessary by reason of fire or other emergency, Landlord or Landlord's agents may forcibly enter the same without rendering Landlord or such agents liable therefor and without in any manner affecting the obligations and covenants of this Lease (if, in any of such cases, during such entry Landlord or Landlord's agents shall accord reasonable care to Tenant's property and shall otherwise act reasonably).

16.10. Tenant shall be permitted to maintain in the elevator lobby servicing the Premises located on the ground floor of the Building the Tenant's identification nameplate as such nameplate is currently installed. Landlord shall not unreasonably withhold its consent to any replacement nameplate(s) the Tenant named in this Lease wishes to install in lieu of the initial nameplate described herein provided replacement nameplate(s) is (are) substantially similar in size, location and material to the initial nameplate and contains colors that are not inconsistent with the decor of the lobby of the Building. Landlord hereby agrees that Landlord shall not grant signage rights in the elevator lobby servicing the Premises similar to those granted to the Tenant named in this Lease pursuant to this Section 16.10, to, or place a plaque or other identifying sign on the exterior of the Building of any company or entity that, at such time, pursuant to the provisions of Section 16.08 of this Lease, Landlord would be prohibited to name the Building after (except that clause (i) thereof shall not apply to such exterior plaque or sign but shall apply with regard to the placement of any signage in the elevator lobby servicing the Premises). The signage rights accorded to the Tenant named in this Lease in this Section 16.10 may be assigned by the Tenant named in this Lease to any assignee of this Lease provided such signage rights when applied to such assignee do not conflict with any pre-existing rights of other tenants in the Building or any pre-existing prohibitions then in effect regarding signage with respect to the Landlord.

ARTICLE 17

Notice of Occurrences

17.01. Upon receipt of actual knowledge by Tenant, Tenant's authorized representative shall use reasonable efforts to give prompt notice to Landlord of (a) any occurrence in or about the Premises for which Landlord might reasonably be liable, (b) any

fire or other casualty in the Premises, (c) any damage to or defect in the Premises, including the fixtures, equipment and appurtenances thereof, for the repair of which Landlord might be responsible, and (d) any damage to or defect in any part or appurtenance of the Building's sanitary, electrical, heating, ventilating, air-conditioning, elevator or other systems located in or passing through the Premises or any part thereof.

ARTICLE 18

Non-Liability and Indemnification

18.01. Neither Landlord, any Superior Mortgagee, nor any partner, director, officer, principal, shareholder, agent, servant or employee of Landlord or any Superior Mortgagee, shall be liable to Tenant for any damage caused by other tenants or persons in, upon or about the Building, or caused by operations in construction of any private, public or quasi-public work nor shall the foregoing parties be liable for damage to or loss of property of Tenant or others entrusted to employees of Landlord or its agents nor for loss due to theft.

18.02. Tenant shall indemnify and hold harmless Landlord and all Superior Mortgagees and its and their respective partners, directors, officers, principals, shareholders, agents and employees from and against any and all third-party claims arising from or in connection with any event occurring as a result of or any condition created by the negligent or wrongful acts of Tenant or its employees or contractors in or about the Premises during the term of this Lease or in connection with any other negligent or wrongful act or omission of Tenant or any of its subtenants or licensees or its or their partners, directors, principals, shareholders, officers, agents, employees or contractors; together with all costs, expenses and liabilities incurred in or in connection with each such claim or action or proceeding brought thereon, including, without limitation, reasonable attorneys' fees and expenses. In case any action or proceeding be brought against Landlord and/or any Superior Mortgagee and/or its or their partners, directors, officers, principals, shareholders, agents and/or employees by reason of any such claim, Tenant, upon notice from Landlord or such Superior Mortgagee, shall resist and defend such action or proceeding (by counsel reasonably satisfactory to Landlord or such Superior Mortgagee and the insurance company counsel shall be deemed satisfactory).

18.03. Landlord shall indemnify and hold Tenant and its partners, directors, officers, principals, shareholders, agents and employees harmless from and against any and all third-party claims arising from or in connection with any event occurring as a result of or any condition created by the negligent or wrongful acts of Landlord or its employees or contractors in or about the Building during the term of this Lease or in connection with any other negligent or wrongful act or omission of Landlord or its partners; directors, principals, shareholders, officers, agents, employees or contractors; together with all costs, expenses and liabilities incurred in or in connection with such claims including, without limitation, all attorneys' fees and expenses. In case any action or proceeding be brought against Tenant and/or its partners, directors, officers, principals, shareholders, agents and/or employees by reason of any such claim, Landlord, upon notice from Tenant, shall resist and defend such action or proceeding by counsel reasonably satisfactory to Tenant, the insurance company counsel shall be deemed satisfactory.

ARTICLE 19

Damage or Destruction

19.01. If the Building or the Premises or any of the Building systems servicing the Premises shall be partially or totally damaged or destroyed by fire or other casualty or if as a result of any fire or casualty, access to the Premises or the Building is denied or unreasonably interfered with (and if this Lease shall not be terminated as in this Article 19 hereinafter provided), (a) Landlord shall, at Landlord's expense, diligently repair the damage to and restore and rebuild the Building and the Premises (excluding Tenant's Alterations, including without limitation for these purposes, any alterations or improvements by the Tenant first named herein and/or its affiliates under prior leases with respect to the Premises, Specialty Alterations, and all improvements and betterments and the property which is deemed Tenant's Property pursuant to Section 12.02 hereof) with reasonable dispatch after notice to it of the damage or destruction, to substantially the condition which existed immediately prior thereto, and (b) Tenant shall, at Tenant's expense, repair the damage to and restore and repair Tenant's Alterations (including without limitation for these purposes, any alterations or improvements by the Tenant first named herein and/or its affiliates under prior leases with respect to the Premises, Specialty Alterations and all improvements and betterments, and the property which is deemed Tenant's Property pursuant to Section 12.02 hereof) with reasonable dispatch after such damage or destruction. Such work by Tenant shall be deemed Alterations for the purposes of Article 11 hereof. The proceeds of policies providing coverage for Tenant's Alterations, improvements and betterments that were obtained by Tenant at Tenant's expense in accordance with Section 9.03 hereof, shall be paid to Tenant and the proceeds of any insurance policies obtained at Landlord's expense (including those in effect during the last two (2) years of the term of this Lease) that cover Tenant's Alterations, improvements or betterments shall be paid to Landlord. In the event that during the final two (2) years of the term of this Lease, notwithstanding the occurrence of an event as described in subsection 19.03(c) hereof, this Lease is not terminated by Landlord or Tenant, Landlord shall apply any proceeds received from any insurance policies covering the Tenant's Alterations, improvements and betterments strictly for the replacement of such Alterations, improvements or betterments.

19.02. If all or part of the Premises or any of the Building systems servicing the Premises shall be damaged or destroyed or rendered completely or partially unusable for the normal conduct of Tenant's business on account of fire or other casualty or if as a result of any fire or casualty, access to the Premises or the Building is denied or unreasonably interfered with, the Fixed Rent and the Additional Charges under Article 3 and any charges payable pursuant to Section 15.04(c) (to the extent Tenant's usage of the condenser water is reduced) hereof shall be abated in the proportion that the unusable area of the Premises bears to the total area of the Premises, for the period from the date of the damage or destruction to the date that Landlord substantially completes its repair and restoration of the Premises and access thereto and the systems serving the Premises or, if Tenant has relocated its business elsewhere and is required hereunder to perform substantial work to repair and restore it improvements, betterments, etc., then to the date that is ninety (90) days after Landlord substantially completes its repair and restoration of the Premises and access thereto and the systems serving the Premises or to such earlier date on which Tenant resumes occupancy of

the Premises for the conduct of its business. Should Tenant or any of its subtenants reoccupy a portion of the Premises for the conduct of its business during the period the repair work is taking place, the Fixed Rent and the Additional Charges allocable to such reoccupied portion, based upon the proportion which the area of the reoccupied portion of the Premises bears to the total area of the Premises, shall be payable by Tenant from the date of such occupancy.

19.03. (a) If (i) the Building shall be totally damaged or destroyed by fire or other casualty, or if the Building shall be so damaged or destroyed by fire or other casualty (whether or not the Premises are damaged or destroyed) that its repair or restoration requires (x) more than twelve (12) months (as estimated by a reputable contractor, registered architect or licensed professional engineer designated by Landlord from persons unaffiliated (i.e., not owned nor controlled by) with Landlord, such person being hereinafter referred to as the "Expert") or (y) the expenditure of more than fifty (50%) percent of the full insurable value of the Building immediately prior to the casualty and provided that, in connection with the latter case only (i.e., a termination sought by Landlord on the basis described in clause (y) above) Landlord does or will, in connection therewith such casualty, terminate leases covering at least seventy-five (75%) percent of the rentable area of the Building then occupied by tenants (including Tenant) or (ii) if the Premises shall be totally or substantially (i.e., for this purpose, more than fifty (50%) percent) damaged or destroyed (as estimated by the Expert), then in any such case Landlord may terminate this Lease by giving Tenant notice to such effect within sixty (60) days after the date of the casualty. If such notice of termination is given, the term of this Lease shall expire thirty (30) days after date of notice. Upon termination, Tenants liability under this Lease, including, without limitation, Tenant's liability for Fixed Rent and Additional Charges, shall cease and any prepaid portion of Fixed Rent and Additional Charges for any period after such date shall be promptly refunded.

(b) In the event of an occurrence as set forth in Section 19.02 hereof, ninety (90) days after damage or destruction to the Building and/or the Premises, Landlord shall deliver to Tenant a statement prepared by the Expert setting forth such Expert's estimate (hereinafter the "Initial Estimate") as to the time required for Landlord to perform the work (hereinafter the "Restoration Work") it is required to perform to repair such damage to the Building and/or the Premises. If the estimated period exceeds fourteen (14) months from the date of the casualty, Tenant may elect to terminate this Lease by notice to Landlord not later than thirty (30) days following receipt of such statement. If Tenant makes such election, then, the term of this Lease shall expire upon the expiration of such thirty (30) day period after notice of such election is given to Landlord. If Tenant elects not to terminate this Lease and if Landlord has not substantially completed the Restoration Work within the fourteen (14) month period originally estimated by Landlord, then Tenant shall have the further right to elect to terminate this Lease upon written notice to Landlord and such election shall be effective upon the expiration of thirty (30) days after the date of such notice. Furthermore, in the event of an occurrence as described in Section 19.02, and provided that following receipt of the Initial Estimate given by the Expert, Tenant shall not be permitted or shall have elected not to terminate this Lease or shall be deemed to have elected not to terminate this Lease, Tenant may, from time to time (but in no event more often than once in any sixty (60) day period) request from Landlord that Landlord deliver to Tenant updated estimates with respect to the anticipated substantial completion date of the Restoration Work or Landlord, at Landlord's initiative, may send to Tenant such updated estimates not more often than once in any sixty (60) day period (each of such updated estimates

being hereinafter called a "Revised Estimate"). If Tenant, pursuant to its request or at Landlord's initiative, shall at any time following the Initial Estimate receive a Revised Estimate as described above which shall set forth an anticipated substantial completion date for the Restoration Work that is later than all of the following: (x) the date that is fourteen (14) months from the date of the occurrence of the casualty, (y) the date set forth by the Contractor in the Initial Estimate and (z) the date or dates for the substantial completion of the Restoration Work heretofore estimated and set forth in any Revised Estimate that Tenant shall have received to date (such a Revised Estimate being hereinafter called a "Materially Revised Estimate"), then Tenant shall have a further right to terminate this Lease upon written notice to Landlord given no later than thirty (30) days following Tenant's receipt of such a Materially Revised Estimate and such election shall be effective thirty (30) days following the date Landlord receives such notice. The fact that Tenant shall not have exercised its right of termination as herein described with respect to any Materially Revised Estimate previously received by Tenant, shall not preclude Tenant from exercising such right on a future date in connection with any subsequent Materially Revised Estimate Tenant shall receive. Notwithstanding anything to the contrary contained herein, in no event shall any Materially Revised Estimate sent to Tenant at Landlord's own initiative which shall set forth a substantial completion date for the Restoration Work that is later than both the Initial Estimate and any other date previously received by Tenant in any Revised Estimate, have the effect of delaying Tenant's ability to terminate this Lease, unless Landlord shall include, together with the Materially Revised Estimate, a notice referring to this subsection 19.03(b) and advising Tenant of the consequences to Tenant if Tenant shall fail to exercise the termination right to which Tenant is then entitled during the thirty (30) day period in effect following Tenant's receipt of such Materially Revised Estimate. If, notwithstanding any of the foregoing, Tenant shall not have elected to terminate this Lease in connection with its receipt of a Materially Revised Estimate or if Tenant shall, in fact, not have received any such Materially Revised Estimate, Tenant shall have the further right to terminate this Lease if the Restoration Work is not substantially completed by or before the date (herein the "Outside Date") that is the later of: (x) the date set forth in the Initial Estimate or (y) the latest date set forth for the substantial completion of such Restoration Work in any Revised Estimate received by Tenant prior to the substantial completion of the Restoration Work; provided such date is at least fourteen (14) months following the date of the casualty. Tenant's termination right as described in the previous sentence shall be exercised by Tenant's giving to Landlord a written notice to such effect within the thirty (30) day period following the Outside Date and such termination shall be effective as of the expiration of such 30 day period following the Outside Date.

(c) In the event the Premises shall be totally or substantially (i.e., for this purpose, more than thirty (30%) percent) damaged or destroyed (as estimated by the Expert) during the last two (2) years of the term of this Lease, then, notwithstanding anything contained in this Lease to the contrary, either Landlord or Tenant may elect to terminate this Lease by notice given to the other party to such effect within thirty (30) days following such casualty and, in either instance, Tenant shall not be entitled to any insurance proceeds under Landlord's policies covering Tenant's Alterations, improvements and betterments.

(d) Upon the effective date of any termination notice given by Tenant pursuant to subsection 19.03(b) or 19.03(c) above, Tenant's liability under this Lease, including, without limitation, Tenant's liability for Fixed Rent and Additional Charges, shall cease and any prepaid portions of Fixed Rent and Additional Charges for any period after such effective date

shall be promptly refunded, and Tenant shall vacate the Premises and surrender same to Landlord in the manner set forth in Article 21 hereof.

19.04. Except as set forth above in subsection 19.03(b) and 19.03(c), Tenant shall not be entitled to terminate this Lease and Landlord shall have no liability to Tenant for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Premises or of the Building pursuant to this Article 19. Landlord shall make such repair or restoration reasonably promptly and in such manner as not unreasonably to interfere with Tenant's use and occupancy of the Premises, but Landlord shall not be required to do such repair or restoration work on an overtime or premium pay basis except under the circumstances contemplated by clause (ii) of subsection 13.01(b) hereof.

19.05. Intentionally Omitted.

19.06. Except to the extent set forth to the contrary in Section 9.03 hereof with respect to the final two (2) years of the Lease, Landlord will not carry insurance of any kind on Tenant's Property or on Tenant's improvements and betterments and shall not be obligated to repair any damage to or replace Tenant's Property or Tenant's improvements and betterments and Tenant agrees to look solely to its insurance for recovery of any damage to or loss thereof. If Tenant shall fail to maintain such insurance and such situation shall continue and shall not be remedied by Tenant within thirty (30) days after Landlord shall have given Tenant a notice specifying the same, Landlord shall have the right to obtain such insurance and the cost thereof shall be Additional Charges under this Lease and payable by Tenant to Landlord within thirty (30) days after demand.

19.07. The provisions of this Article 19 shall be deemed an express agreement governing any case of damage or destruction of the Premises by fire or other casualty, and Section 227 of the Real Property Law of the State of New York, providing for such a contingency in the absence of an express agreement, and any other law of like import, now or hereafter in force, shall have no application in such case.

ARTICLE 20

Eminent Domain

20.01. If the whole of the Building or the Premises shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose, this Lease and the term and estate hereby granted shall terminate as of the date of vesting of title on such taking (herein called the "Date of the Taking"), and the Fixed Rent and Additional Charges shall be prorated and adjusted as of such date.

20.02. If any Part of the Building or the Land shall be so taken, this Lease shall be unaffected by such taking, except that (a) if more than fifty (50%) percent of the Building or the Land shall be so taken, then provided that concurrently with such termination Landlord terminates leases covering at least seventy-five (75%) percent of the rentable square footage of the Building then occupied by tenants, Landlord may, at its option, terminate this Lease by giving Tenant notice to that effect within sixty (60) days after the Date of the Taking, and (b)

if a material portion of the rentable area of the Premises shall be so taken or if Tenant's access to the Building or the Premises is denied or materially interfered with or if any of the services which Landlord provides shall be reduced and, in any such case, the remaining rentable area of the Premises shall not be reasonably sufficient for Tenant to continue feasible operation of its business, Tenant may terminate this Lease by giving Landlord notice to that effect within sixty (60) days after the Date of the Taking. This Lease shall terminate on the date which is thirty (30) days after the date that such notice from Landlord or Tenant to the other shall be given, and the Fixed Rent and Additional Charges under Article 3 shall be prorated and adjusted as of the Date of the Taking. Upon such partial taking and this Lease continuing in force as to any part of the Premises, the Fixed Rent and Tenant's Proportionate Share shall be reduced and Tenant's Tax Payments and Tenant's Operating Payments shall be adjusted in the proportion that the area of the Premises taken bears to the total area of the Premises.

20.03. Landlord shall be entitled to receive the entire award or payment in connection with any taking without reduction therefrom for any estate vested in Tenant by this Lease or any value attributable to the unexpired portion of the term of this Lease and Tenant shall receive no part of such award except as hereinafter expressly provided in this Article. Tenant hereby expressly assigns to Landlord all of its right, title and interest in and to every such award or payment and waives any right to the value of the unexpired portion of the term of this Lease. Nothing herein provided shall preclude Tenant from making a separate claim for the cost of Tenant's moving expenses and the value of any fixtures, alterations and improvements installed by Tenant in the Premises and paid for by Tenant.

20.04. If the temporary use or occupancy of all or any part of the Premises shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose during the term of this Lease, Tenant shall be entitled, except as hereinafter set forth, to receive that portion of the award or payment for such taking which represents compensation for the taking of Tenant's Property and for moving expenses, and Landlord shall be entitled to receive that portion which represents reimbursement for the cost of restoration of the Premises and compensation for the use and occupancy of the Premises. Except as hereinafter provided, this Lease shall be and remain unaffected by such taking and Tenant shall continue to be responsible for all of its obligations hereunder insofar as such obligations are not affected by such taking. During the period of such temporary taking, all Fixed Rent and Additional Charges under this Lease shall be fully abated. If the period of temporary use or occupancy described herein shall extend for a period of fourteen (14) consecutive months, then Tenant may, at its option, terminate this Lease by giving notice to Landlord to such-effect within thirty (30) days following the expiration of such fourteen (14) month period and this Lease shall terminate effective as of the last day of such thirty (30) day period and the Fixed Rent and Additional Charges under Article 3 shall be prorated and adjusted as of such date.

20.05. In the event of a taking of less than the whole of the Building and/or the Land which does not result in termination of this Lease, or in the event of a taking for a temporary use or occupancy of all or any part of the Premises which does not result in a termination of this Lease, (a) Landlord, at its expense, and whether or not any award or awards shall be sufficient for the purpose, shall proceed with due diligence to repair the

remaining parts of the Building and the Premises (other than those parts of the Premises which are deemed Landlord's property Pursuant to Section 12.01 hereof and Tenant's Property) to substantially their former condition to the extent that the same may be feasible and so as to constitute a complete and rentable Building and Premises of substantially the same character, quality and appearance as the Building and the Premises prior to the taking and (b) Tenant, at its expense, shall proceed with reasonable diligence to repair the remaining parts of the Premises which are deemed Landlord's Property pursuant to Section 12.01 hereof, to substantially their former condition to the extent that the same may be feasible, subject to reasonable changes which shall be deemed Alterations; provided, however, in no event, shall Tenant be obligated to expend any money in excess of the amount of any award received by Tenant in connection with such taking.

ARTICLE 21

Surrender

21.01. On the Expiration Date or upon any earlier termination of this Lease, or upon any reentry by Landlord upon the Premises, Tenant shall quit and surrender the Premises to Landlord "broom-clean" and in good order, condition and repair, except for ordinary wear and tear and such damage or destruction for which Tenant is not responsible under this Lease, and Tenant shall remove all of the Tenant's Property therefrom except as otherwise expressly provided in this Lease and repair and restore any damage to the Building as a result of such removal.

21.02. No act or thing done by Landlord or its agents shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such surrender shall be valid unless in writing and signed by Landlord.

ARTICLE 22

Default

22.01. This Lease and the term and estate hereby granted are subject to the limitation that whenever Tenant shall hereafter make an assignment for the benefit of creditors, or shall file a voluntary petition under any bankruptcy or insolvency law, or (subject to clause (a) below) an involuntary petition alleging an act of bankruptcy or insolvency shall be filed against Tenant under any bankruptcy or insolvency law, or whenever a petition shall be filed by or (subject to clause (a) below) against Tenant under the reorganization provisions of the United States Bankruptcy Code or under the provisions of any law of like import, or whenever a petition shall be filed by Tenant, under the arrangement provisions of the United States Bankruptcy Code or under the provisions of any law of like import, or whenever a permanent receiver of Tenant, or of or for the property of Tenant, shall be appointed, then Landlord (a) if such event occurs without the acquiescence of Tenant, as the case may be, at any time after the event continues for ninety (90) days, or (b) if such event is voluntary by Tenant, at any time after the occurrence of any such event, may give Tenant a notice of intention to end the term of this Lease at the expiration often (10) days from the date of service of such notice of intention, and upon the expiration of said

ten (10) day period this Lease and the term and estate hereby granted, whether or not the term shall theretofore have commenced, shall terminate with the same effect as if that day were the Expiration Date of this Lease, but Tenant shall remain liable for damages as provided in Article 24 hereof. Landlord acknowledges that at the time this Lease is executed a segregated account of Tenant is currently subject to a rehabilitation proceeding in Wisconsin and Tenant's parent company, Ambac Financial Group Inc., is currently subject to a federal bankruptcy proceeding and neither of those current proceedings shall have an adverse affect on this Lease or be considered a default under this Article 22 provided the Lease is not transferred to the segregated account of Tenant, the general account of Tenant does not become encompassed in the rehabilitation proceeding in Wisconsin and Tenant does not become subject to its parent company's bankruptcy proceeding.

22.02. This Lease and the term and estate hereby granted are subject to the further limitations that:

(a) if Tenant shall default in the payment when due of any Fixed Rent or Additional Charges, and such default shall continue for fourteen (14) days after notice of such default, or

(b) if Tenant shall, whether by action or inaction, be in default of any of its obligations under this Lease (other than a default in the payment of Fixed Rent or Additional Charges) and such default shall continue and not be remedied within thirty (30) days after Landlord shall have given to Tenant a notice specifying the same, or, in the case of a default which cannot with due diligence be cured within a period of thirty (30) days and the continuance of which for the period required for cure will not (i) subject Landlord or any Superior Lessor or any Superior Mortgagee to prosecution for a crime or (ii) subject the Premises or any part thereof or the Building or Land, or any part thereof, to being condemned or vacated, if Tenant shall not (x) within said thirty (30) day period advise Landlord of Tenant's intention to take all steps necessary to remedy such default, (y) duly commence within said thirty (30) day period, and thereafter diligently prosecute to completion all steps necessary to remedy the default,

then in any of said cases Landlord may give to Tenant a notice of intention to end the term of this Lease at the expiration of five (5) days from the date of the service of such notice of intention, and upon the expiration of said five (5) days this Lease and the term and estate hereby granted, whether or not the term shall theretofore have commenced, shall terminate with the same effect as if that day was the day herein definitely fixed for the end and expiration of this Lease, but Tenant shall remain liable for damages as provided in Article 24 hereof.

22.03. (a) If Tenant shall have assigned its interest in this Lease, and this Lease shall thereafter be disaffirmed or rejected in any proceeding under the United States Bankruptcy Code or under the provisions of any federal, state or foreign law of like import, or in the event of termination of this Lease by reason of any such proceeding, the assignor or any of its predecessors in interest under this Lease, upon request of Landlord given within ninety (90) days after such disaffirmance or rejection shall (a) pay to Landlord all Fixed Rent and Additional Charges then due and payable to Landlord under this Lease to and including

the date of such disaffirmance or rejection and (b) enter into a new lease as lessee with Landlord of the Premises for a term commencing on the effective date of such disaffirmance or rejection and ending on the Expiration Date, unless sooner terminated as in such lease provided, at the same Fixed Rent and Additional Charges and upon the then executory terms, covenants and conditions as are contained in this Lease, except that (i) the rights of the lessee under the new lease, shall be subject to any possessory rights of the assignee in question under this Lease and any rights of persons claiming through or under such assignee, (ii) such new lease shall require all defaults existing under this Lease to be cured by the lessee with reasonable diligence, and (iii) such new lease shall require the lessee to pay all Additional Charges which, had this Lease not been disaffirmed or rejected, would have become due after the effective date of such disaffirmance or rejection with respect to any prior period, subject to the right of such lessee to dispute such amounts. If the lessee shall fail or refuse to enter into the new lease within fourteen (14) days after Landlord's request to do so, then in addition to all other rights and remedies by reason of such default, under this Lease, at law or in equity Landlord shall have the same rights and remedies against the lessee as if the lessee had entered into such new lease and such new lease had thereafter been terminated at the beginning of its term by reason of the default of the lessee thereunder.

(b) if pursuant to the Bankruptcy Code, Tenant is permitted to assign this Lease in disregard of the restrictions contained in Article 7 hereof (or if this Lease shall be assumed by a trustee), the trustee or assignee shall cure any default under this Lease and shall provide adequate assurance of future performance by the trustee or assignee including (a) of the source of payment of rent and performance of other obligations under this Lease (for which adequate assurance shall mean the deposit of cash security with Landlord in an amount equal to the sum of one year's Fixed Rent then reserved hereunder plus an amount equal to all Additional Charges payable under Article 3 hereof for the calendar year preceding the year in which such assignment is intended to become effective, which deposit shall be held by Landlord, with interest, for the balance of the term as security for the full and faithful performance of all of the obligations under this Lease on the part of Tenant yet to be performed) and that any such assignee of this Lease shall have a net worth computed in accordance with generally accepted accounting principles, equal to at least ten (10) times the aggregate of the annual Fixed Rent reserved hereunder plus all Additional Charges for the preceding calendar year as aforesaid and (b) that the use of the Premises shall comply with the provisions of Article 2 of this Lease and shall not be so disreputable as to adversely affect the reputation of the Building. If all defaults are not cured and such adequate assurance is not provided within 60 days after there has been an order for relief under the Bankruptcy Code, then this Lease shall be deemed rejected, Tenant or any other person in possession shall vacate the Premises, and Landlord shall be entitled to retain any rent or security deposit previously received from Tenant and shall have no further liability to Tenant or any person claiming through Tenant or any trustee. If Tenant receives or is to receive any valuable consideration for such an assignment of this Lease, such consideration, after deducting therefrom (a) the brokerage commissions, if any, and other expenses reasonably incurred by Tenant for such assignment and (b) any portion of such consideration reasonably designed by the assignee as paid for the purchase of Tenant's Property in the Premises, shall be and become the sole exclusive property of Landlord and shall be paid over to Landlord directly by such assignee. If Tenant's trustee, Tenant or Tenant as debtor-in-possession assumes this Lease and proposes to assign the same (pursuant to Title 11 U.S.C. Section 365, as the same may be amended) to any person, including, without limitation, any individual, partnership or

corporate entity, who shall have made a bona fide offer to accept an assignment of this Lease on terms acceptable to the trustee, Tenant or Tenant as debtor-in-possession, then notice of such proposed assignment, setting forth (x) the name and address of such person, (y) all of the terms and conditions of such offer, and (z) the adequate assurance to be provided Landlord to assure such person's future performance under this Lease, including, without limitation, the assurances referred to in Title 11 U.S.C. Section 365(b)(3) (as the same may be amended), shall be given to Landlord by the trustee, Tenant or Tenant as debtor-in-possession prior to the assignment, but in any event no later than ten (10) days prior to the date that the trustee, Tenant or Tenant as debtor-in-possession shall make application to a court of competent jurisdiction for authority and approval to enter into such assignment and assumption, and Landlord shall thereupon have the prior right and option, to be exercised by notice to the trustee, Tenant or Tenant as debtor-in-possession, given at any time prior to the effective date of such proposed assignment, to accept an assignment of this Lease upon the same terms and conditions and for the same consideration after giving effect to any sharing of consideration to which Landlord would be entitled under Section 7.07 if this were an assignment contemplated by Article 7 hereof, if any, as the bona fide offer made by such person, less any brokerage commissions which may be payable out of the consideration to be paid by such person for the assignment of this Lease except to the extent of any such brokerage commissions that Tenant is required to pay to any party unaffiliated with Tenant and which is in fact paid by Tenant.

ARTICLE 23

Reentry by Landlord

23.01. If Tenant shall default in the payment of any Fixed Rent or Additional Charges, and such default shall continue for fourteen (14) days after notice of such default, or if this Lease shall terminate (after notice and expiration of any applicable grace period) as provided in Article 22 hereof, Landlord or Landlord's agents and employees may immediately or at any time thereafter reenter the Premises, or any part thereof, either by summary dispossess proceedings or by any suitable action or proceeding at law, without being liable to indictment, prosecution or damages therefor, and may repossess the same, and may remove any person therefrom, to the end that Landlord may have, hold and enjoy the Premises. The word "reenter," as used herein, is not restricted to its technical legal meaning. If this Lease is terminated under the provisions of Article 22, or if Landlord shall reenter the Premises by or under any summary dispossess or other proceeding or action or any provision of law, Tenant shall thereupon pay to Landlord the Fixed Rent and Additional Charges payable up to the time of such termination of this Lease, or of such recovery of possession of the Premises by Landlord, as the case may be, and shall also pay to Landlord damages as provided in Article 24 hereof.

23.02. In the event of a breach or threatened breach by Tenant of any of its obligations under this Lease, Landlord shall also have the right of injunction. The special remedies to which Landlord may resort hereunder are cumulative and are not intended to be exclusive of any other remedies to which Landlord may lawfully be entitled at any time and Landlord may invoke any remedy allowed at law or in equity as if specific remedies were not provided for herein.

23.03. If this Lease shall terminate (after notice and expiration of any applicable grace period) under the provisions of Article 22 hereof, or in the event of the termination of this Lease, or of reentry, by or under any summary dispossess or other proceeding or action or any provision of law, Landlord shall be entitled to retain all monies, if any, paid by Tenant to Landlord, whether as advance rent, security or otherwise, but such monies shall be credited by Landlord against any Fixed Rent or Additional Charges due from Tenant at the time of such termination or reentry or, at Landlord's option, against any damages payable by Tenant under Article 24 hereof or pursuant to law.

ARTICLE 24

Damages

24.01. If this Lease is terminated (after notice and expiration of any applicable grace period) under the provisions of Article 22 hereof, or in the event of the termination of this Lease, or of reentry, by or under any summary dispossess or other proceeding or action or any provision of law by reason of default hereunder on the part of Tenant, Tenant shall pay to Landlord as damages, at the election of Landlord, either:

(a) a sum which at the time of such termination of this Lease or at the time of any such reentry by Landlord, as the case may be, represents the then value of the excess, if any, of (i) the aggregate amount of the Fixed Rent and the Additional Charges under Article 3 hereof which would have been payable by Tenant (conclusively presuming the average monthly Additional Charges under Article 3 hereof to be the same as were payable for the last 12 calendar months, or if less than 12 calendar months have then elapsed since the Effective Date, all of the calendar months immediately preceding such termination or reentry) for the period commencing with such earlier termination of this Lease or the date of any such reentry, as the case may be, and ending with the date contemplated as the Expiration Date hereof if this Lease had not so terminated or if Landlord had not so reentered the Premises, over (ii) the aggregate rental value of the Premises for the same period, less any amounts allocable to a period following such termination of this Lease or the date of Landlord's reentry, as the case may be, which may theretofore have been collected pursuant to subsection 24.0 1(b), or

(b) sums equal to the Fixed Rent and the Additional Charges under Article 3 hereof which would have been payable by Tenant had this Lease not so terminated, or had Landlord not so reentered the Premises, payable upon the due dates therefor specified herein following such termination or such reentry and until the date contemplated as the Expiration Date hereof if this Lease had not so terminated or if Landlord had not so reentered the Premises, provided, however, that if Landlord shall relet the Premises during said period, Landlord shall credit Tenant with the net rents received by Landlord from such reletting, such net rents to be determined by first deducting from the gross rents as and when received by Landlord from such reletting the expenses incurred or paid by Landlord in terminating this Lease or in reentering the Premises and in securing possession thereof, as well as the expenses of reletting, including, without limitation, altering and preparing the Premises for new tenants, brokers' commissions, legal fees, and all other expenses properly chargeable against the Premises and the rental therefrom, it being understood that any such reletting may be for a period shorter or longer than the remaining term of this Lease; but in no event shall Tenant be entitled to receive any excess of

such net rents over the sums payable by Tenant to Landlord hereunder, nor shall Tenant be entitled in any suit for the collection of damages pursuant to this subdivision to a credit in respect of any net rents from a reletting, except to the extent that such net rents are actually received by Landlord. If the Premises or any part thereof should be relet in combination with other space, then proper apportionment on a square foot basis shall be made of the rent received from such reletting and of the expenses of reletting.

If the Premises or any part thereof be relet by Landlord for the unexpired portion of the term of this Lease, or any part thereof, before presentation of proof of such damages to any court, commission or tribunal, the amount of rent reserved upon such reletting shall, prima facie, be the fair and reasonable rental value for the Premises, or part thereof, so relet during the term of the reletting.

24.02. Suit or suits for the recovery of such damages, or any installments thereof, may be brought by Landlord from time to time at its election, and nothing contained herein shall be deemed to require Landlord to postpone suit until the date when the term of this Lease would have expired if it had not been so terminated under the provisions of Article 22 hereof, or had Landlord not reentered the Premises. Nothing herein contained shall be construed to limit or preclude recovery by Landlord against Tenant of any sums or damages to which, in addition to the damages particularly provided above, Landlord may lawfully be entitled by reason of Tenant's failure to comply with its obligations under this Lease. Nothing herein contained shall be construed to limit or prejudice the right of Landlord to prove for and obtain as damages by reason of the termination of this Lease or reentry on the Premises for Tenant's failure to comply with its obligations under this Lease an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, such damages are to be proved whether or not such amount be greater than any of the sums referred to in Section 24.01 hereof.

24.03. In addition, if this Lease is terminated under the provisions of Article 22 hereof, or if Landlord shall, reenter the Premises under the provisions of Article 23 hereof, Tenant agrees that the Premises then shall be in the condition in which Tenant has agreed to surrender the same to Landlord at the expiration of the term hereof.

24.04. In addition to any other remedies Landlord may have under this Lease, and without reducing or adversely affecting any of Landlord's rights and remedies under Article 22 hereof, if any Fixed Rent, Additional Charges or damages payable hereunder by Tenant to Landlord are not paid within ten (10) days after the due date thereof, the same shall bear interest at the Interest Rate from the tenth (10th) day after the due date thereof until paid, and the amount of such interest shall be an Additional Charge hereunder.

ARTICLE 25

Affirmative Waivers

25.01. Tenant, on behalf of itself and any and all persons claiming through or under Tenant, does hereby waive and surrender all right and privilege which it, they or any of them might have under or by reason of any present or future law, to redeem the Premises or

to have a continuance of this Lease after being dispossessed or ejected therefrom by process of law or under the terms of this Lease or after the termination of this Lease as provided in this Lease.

25.02. If Tenant is in default beyond all applicable notice and grace periods in the payment of Fixed Rent or Additional Charges, Tenant waives Tenant's right, if any, to designate the items to which any payments made by Tenant are to be credited, and Landlord may, without prejudice to any position being asserted by Tenant, apply any payments made by Tenant to such items as Landlord sees fit.

25.03. Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Premises, including, without limitation, any claim of injury or damage, and any emergency and other statutory remedy with respect thereto.

25.04. Tenant shall not interpose any counterclaim of any kind in any summary proceeding commenced by Landlord to recover possession of the Premises due to Tenant's default hereunder unless the failure to impose such counterclaim would preclude Tenant from asserting in a separate action the claim which is the subject of such counterclaim.

ARTICLE 26

No Waivers

26.01. The failure of either party to insist in any one or more instances upon the strict performance of any one or more of the obligations of this Lease, or to exercise any election herein contained, shall not be construed as a waiver or relinquishment for the future of the performance of such one or more obligations of this Lease or of the right to exercise such election, and such right to insist upon strict performance shall continue and remain in full force and effect with respect to any subsequent breach, act or omission. The receipt by Landlord of Fixed Rent or partial payments thereof or Additional Charges or partial payments thereof with knowledge of breach by Tenant of any obligation of this Lease shall not be deemed a waiver of such breach.

ARTICLE 27

Curing Defaults

27.01. If Tenant shall be in default in the performance of any of Tenant's obligations under this Lease, Landlord without thereby waiving such default, may (but shall not be obligated to) perform the same for the account and at the expense of Tenant, immediately and without notice in a case of emergency, and in any other case only if such default continues after the expiration of the applicable grace period, if any. If Landlord effects such cure by bonding any lien which Tenant is required to bond or otherwise discharge, Tenant shall obtain and substitute a bond for Landlord's bond at its sole cost and expense and reimburse Landlord for the reasonable out-of-pocket cost of Landlord's bond.

27.02. Bills for any expenses incurred by Landlord in connection with any such performance by it for the account of Tenant as permitted in Section 27.01 or in recovering possession of the Premises after default by Tenant beyond all applicable notice and grace periods or upon the expiration or sooner termination of this Lease, and interest on all sums advanced by Landlord under this Section 27.02 and/or Section 27.01 hereof (at the Interest Rate or the maximum rate permitted by law, whichever is less) may be sent by Landlord to Tenant monthly, or immediately, at its option, and such amounts shall be due and payable as Additional Charges within thirty (30) days after rendition of such bills, provided such bills are accompanied by invoices and other appropriate evidence.

27.03. (a) For the purposes of this Section 27.03 a default by Landlord in the performance of any obligation that it may have under this Lease which involves the complete and total failure by Landlord to deliver any one of the essential services as are enumerated in Article 15 hereof, such as HVAC, electricity, water, elevator service and cleaning to more than half of the Premises, and which default is of such a nature that the cure thereof involves the performance of work or rendition of services solely within the confines of the Premises is hereinafter called a "Self-Help Default". With respect to Self-Help Defaults occurring during the term of this Lease, the "first notice period" as such term is utilized herein, shall be fifteen (15) days and the "second notice period", as such term is utilized herein, shall be five (5) days. For all purposes under this Section 27.03, a notice shall be deemed given upon receipt by Landlord. If Landlord commits a Self-Help Default, Tenant may give to Landlord notice thereof, and Landlord shall have the first notice period within which to cure such Self-Help Default or if such Self-Help Default is of such a nature that the same cannot with reasonable diligence be cured within the first notice period, then the first notice period shall be deemed extended by such period as may be required with the application of reasonable diligence to cure such Self-Help Default, provided Landlord has commenced the cure of such Self-Help Default within the first notice period and thereafter diligently prosecutes the same completion. If landlord fails during the first notice period to cure any such Self-Help Default or initiate the cure thereof if the same is of such a nature that it cannot with reasonable diligence be cured within the first notice period and fails thereafter to cure the same diligently, Tenant may give to Landlord a second notice announcing its intention to cure Landlord's Self-Help Default (should Landlord fail to do so) and the date following the day on which Landlord receives such notice shall be the first day of the second notice period. If Landlord fails to cure such Self-Help Default' within the second notice period, or if such Self-Help Default is of such a nature that the same cannot with reasonable diligence be cured within the second notice period and Landlord fails to commence to cure the same within the second notice period and fails thereafter to continue to cure the same diligently, then Tenant may, utilizing reputable and experienced contractors and personnel engaged by it for such purpose perform such work within the Premises as may be required and may be prudently performed under the circumstances to effect the cure of such Self-Help Default. To the extent that Tenant incurs any cost or expense for the performance of any work required to cure Landlord's Self-Help Default as aforesaid, Tenant shall submit copies of relevant invoices together with proof of payment thereof, and Landlord shall reimburse Tenant for such costs within thirty (30) days after submission of such invoices and proof. To the extent that Tenant invokes any of its rights hereunder and incurs any cost or expense for which it is entitled to reimbursement hereunder, such costs or expenses shall be incurred by Tenant acting reasonably under the circumstances and to the extent practicable, competitively. Tenant shall also be entitled to reimbursement in the manner set forth in this subsection 27.03(a) for any reasonable

cancellation penalties that Tenant shall incur in connection with any service or repair contracts that Tenant shall have entered into in order to exercise the rights granted to Tenant pursuant to this Section 27.03; provided: (i) such contract(s), under the circumstances, are both reasonable and commercially competitive, (ii) Tenant exercised reasonable effort to avoid or minimize such penalties and (iii) such cancellation penalties were not incurred as a result of any unreasonable or careless action on the part of Tenant (e.g., Tenant's failure to cancel any such contract(s) promptly following Landlord's rendition to Tenant of a Performance Notice, as the same is hereinafter defined). If Landlord fails to reimburse Tenant for any sums incurred by Tenant as permitted under this Section 27.03 within the thirty (30) day period provided herein, Tenant may thereafter recover such expenditures with interest thereon at the Interest Rate against the Letter of Credit (as hereinafter defined) until Tenant has been fully reimbursed with interest, but in no event shall Tenant be permitted to offset the same against or deduct the same from the Fixed Rent or Additional Charges Payable under this Lease. Notwithstanding any other provision contained in this Section 27.03, with respect to any Successor Landlord, the first notice period shall be thirty (30) days with respect to Self-Help Defaults, and the second notice period shall be fifteen (15) days. To the extent that Landlord's failure to cure or initiate the cure of any Self-Help Default shall result from circumstances contemplated by Section 35.04 hereof, Landlord shall be deemed to be acting diligently as contemplated by this Section 27.03.

(b) If at any time after Tenant exercises its right to cure a Self-Help Default with respect to the rendition of any continuing service or utility or other activity Landlord shall elect to assume or resume the performance thereof, Landlord shall give notice (hereinafter called the "Performance Notice") of its willingness and readiness to do so and Tenant shall discontinue the rendition or performance thereof as of a time and date as to which Landlord and Tenant shall agree in order to facilitate coordination thereof, but in no event more than thirty (30) days from the date of the Performance Notice.

ARTICLE 28

Broker

28.01. (a) Tenant covenants, warrants and represents that no broker except Newmark Knight Frank (herein called the "Broker") was instrumental in bringing about or consummating this Lease and that Tenant has not dealt with any broker except the Broker concerning the leasing of the Premises. Tenant agrees to indemnify and hold harmless Landlord against and from any claims made by any other person other than the Broker for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, who shall claim to have dealt with Tenant in connection with this Lease.

(b) Landlord covenants, warrants and represents that no broker except the Broker was instrumental in bringing about or consummating this Lease and that Landlord has not dealt with any broker purporting to represent Tenant except the Broker. Landlord agrees to indemnify and hold harmless Tenant against and from any claims made by any person, including (to the extent of its failure to perform its obligations pursuant to the next to last sentence of this

paragraph) the Broker, for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including without limitation, reasonable attorneys' fees and expenses, if the representation set forth in the previous sentence is false. Landlord shall be solely responsible for the payment of any commission or other compensation due the Broker in accordance with a separate agreement. This Article 28 shall survive the expiration or earlier termination of the term of this Lease.

ARTICLE 29

Notices

29.01. Any notice, statement, demand, consent, approval or other communication required or permitted to be given, rendered or made by either party to this Lease or pursuant to any applicable law or requirement of public authority (herein collectively called "notices") shall be in writing (except as expressly stated otherwise elsewhere in this Lease) and shall be deemed to have been properly given, rendered or made only if sent by registered or certified mail, return receipt requested or sent via nationally recognized overnight courier service (such as Federal Express) or delivered by hand (against a signed receipt) addressed to the other party as follows:

If to Landlord:

One State Street, LLC
c/o One State Street Plaza
New York, New York 10004
Attn: Eli Levitin

with a copy to:

Olshan Grundman Frome Rosenzweig & Wolosky LLP
65 East 55th Street
New York, NY 10022
Attn: Nina Roket, Esq.

and if to Tenant as follows:

AMBAC Assurance Corporation
One State Street Plaza
New York, New York 10004
Attn: Diana Adams

with a copy to:

Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, New York
Attn: Stuart M. Saft, Esq.

and shall be deemed to have been given, rendered or made on the third (3rd) day after so mailed or on the day after the same is sent by nationally recognized overnight courier, or on the day delivered, if delivered by hand (against a signed receipt). Either party may, by notice as aforesaid, designate a different address or addresses or different individuals (up to a reasonable amount) for notices intended for it.

29.02. Notices hereunder from Landlord may be given by Landlord's managing agent, which as of the date hereof is ACTA Realty Corp. Notices hereunder from either party may be given by such party's attorney. As of the date hereof, Landlord's attorney is Olshan Grundman Frome Rosenzweig & Wolosky LLP, 65 East 55th Street, New York, New York 10022, Attn: Nina Roket, Esq. and Tenant's attorney is Dewey & LeBoeuf LLP, 1301 Avenue of the Americas, New York, New York 10019, Attn: Stuart M. Saft, Esq.

29.03. In addition to the foregoing, either Landlord or Tenant may, from time to time, request in writing that the other party serve a copy of any notice on one other person or entity designated in such request, such service to be effected as provided in Section 29.01 or 29.02 hereof.

ARTICLE 30

Estoppel Certificates

30.01. Each party agrees, at any time and from time to time, but not more often than twice in any year to execute and deliver to the other a statement in form reasonably satisfactory to the requesting party, stating that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), certifying the Effective Date, Expiration Date and the dates to which the Fixed Rent and Additional Charges have been paid, and stating whether or not, to the best knowledge of the signer (without any independent investigation), the other party is in default in performance of any of its obligations under this Lease, and, if so, specifying each such default of which the signer may have knowledge and stating whether or not, to the best knowledge of the signer (without any independent investigation), any event has occurred which with the giving of notice or passage of time, or both, would constitute such a default, and, if so, specifying each such event, it being intended that any such statement delivered pursuant hereto shall be deemed a representation and warranty to be relied upon by the party requesting the certificate and by others with whom such requesting party may be dealing, regardless of independent investigation.

ARTICLE 31

Memorandum of Lease

31.01. Tenant shall not record this Lease. Upon request of either party, from time to time, Landlord and Tenant shall execute, acknowledge and deliver a memorandum of this Lease in a form reasonably satisfactory to both parties for recording, together with any tax forms required in connection therewith. Upon request by Landlord, in the event a memorandum of lease is recorded pursuant hereto, Tenant shall promptly execute and deliver

to Landlord a termination of the memorandum of lease, which obligation shall survive the Expiration Date or sooner termination of this Lease.

ARTICLE 32

No Representations by Landlord

32.01. Tenant expressly acknowledges and agrees that Landlord has not made and is not making, and Tenant, in executing and delivering this Lease, is not relying upon, any warranties, representations, promises or statements, except to the extent that the same are expressly set forth in this Lease or in any other written agreement which may be made between the parties concurrently with the execution and delivery of this Lease and shall expressly refer to this Lease. All understandings and agreements heretofore had between the parties are merged in this Lease and any other written agreement(s) made concurrently herewith, which alone fully and completely express the agreement of the parties and which are entered into after full investigation, neither party relying upon any statement or representation not embodied in this Lease or any other written agreement(s) made concurrently herewith.

ARTICLE 33

Intentionally Omitted

ARTICLE 34

Intentionally Omitted

ARTICLE 35

Miscellaneous Provisions and Definitions

35.01. No agreement shall be effective to change, modify, waive, release, discharge, terminate or effect an abandonment of this Lease, in whole or in part, including, without limitation, this Section 35.01, unless such agreement is in writing, refers expressly to this Lease and is signed by the party against whom enforcement of the change, modification, waiver, release, discharge, termination or effectuation of the abandonment is sought. If Tenant shall at any time request Landlord to sublet the Premises for Tenant's account, Landlord or its agent is authorized to receive keys for such purposes without releasing Tenant from any of its obligations under this Lease, and Tenant hereby releases Landlord of any liability for loss or damage to any of Tenant's Property in connection with such subletting (provided Landlord or Landlord's agents shall accord reasonable care to Tenant's Property).

35.02. Except as otherwise expressly provided in this Lease, the obligations of this Lease shall bind and benefit the successors and assigns of the parties hereto with the same effect as if mentioned in each instance where a party is named or referred to; provided, however, that no violation of the provisions of Article 7 hereof shall operate to vest any rights in any successor or assignee of Tenant.

35.03. Tenant shall look only to Landlord's estate and property in the Land and the Building (and provided that a claim was asserted within thirty (30) days following Tenant's receipt of notice or actual knowledge, whichever occurs earlier, of such sale of the Land and/or the Building and suit with respect to such claim is commenced by Tenant within one (1) year following Tenant's receipt of notice or actual knowledge (whichever is earlier) of such sale of the Land and/or the Building, the proceeds of such sale) for the satisfaction of Tenant's remedies, for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default by Landlord hereunder, and no other property or assets of Landlord or its partners, officers, directors, shareholders or principals, disclosed or undisclosed, shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease, the relationship of Landlord and Tenant hereunder or Tenant's use or occupancy of the Premises.

35.04. The obligations of Tenant hereunder shall be in no wise affected, impaired or excused, nor shall Landlord have any liability whatsoever to Tenant, nor shall it be deemed a constructive eviction because (a) Landlord is unable to fulfill, or is delayed in fulfilling, any of its obligations under this Lease by reason of strike, lock-out or other labor trouble, governmental preemption of priorities or other controls in connection with a national or other public emergency or shortages of fuel, supplies or labor resulting therefrom, or any other cause, whether similar or dissimilar, beyond Landlord's reasonable control; or (b) of any failure or defect in the supply, quantity or character of electricity or water furnished to the Premises, by reason of any requirement, act or omission of the public utility or others serving the Building with electric energy, steam, oil, gas or water, or for any other reason whether similar or dissimilar, beyond Landlord's reasonable control. The obligations of Landlord hereunder shall be in no wise affected, impaired or executed, nor shall Tenant be deemed in default under this Lease and nor shall Tenant have any liability whatsoever to Landlord to the extent that its failure to perform any covenant or agreement hereunder (other than the obligation to pay Fixed Rent or Additional Charges) shall result from any of the events as described in clauses (a) or (b) of the previous sentence or for any other reason, similar or dissimilar beyond Tenant's reasonable control. The provisions of this Section 35.04 are hereby made expressly subject, however, to and shall not be deemed to modify in any manner the provisions of and the rights granted to Tenant under Section 13.03 hereof.

35.05. For the purposes of this Lease, the following terms have the meanings indicated:

(a) The term "mortgage" shall include a mortgage and/or a deed of trust, and the term "holder of a mortgage" or "mortgagee" or words of similar import shall include a mortgagee of a mortgage or a beneficiary of a deed of trust.

(b) The term "laws and requirements of any public authorities" and words of a similar import shall mean laws and ordinances of any or all of the federal, state, city, county and borough governments and rules, regulations, orders and directives of any and all departments, subdivisions, bureaus, agencies or offices thereof, and of any other governmental, public or quasi-public authorities having jurisdiction over the Building and/or the Premises, and the direction of any public officer pursuant to law, whether now or hereafter in force.

(c) The term "requirements of insurance bodies" and words of similar import shall mean rules, regulations, orders and other requirements of the New York Board of Underwriters and/or the New York Fire Insurance Rating Organization and/or any other similar body performing the same or similar functions and having jurisdiction or cognizance over the Building and/or the Premises, whether now or hereafter in force.

(d) The term "Tenant' shall mean Tenant herein named or (except when a provision applies specifically or exclusively to the named Tenant or the Tenant named herein or the Tenant named in this Lease) any assignee or other successor in interest (immediate or remote) of Tenant herein named, which at the time in question is the owner of Tenant's estate and interest granted by this Lease; but the foregoing provisions of this subsection shall not be construed to permit any assignment of this Lease or to relieve Tenant herein named or any assignee or other successor in interest (whether immediate or remote) of Tenant herein named from the full and prompt payment, performance and observance of the covenants, obligations and conditions to be paid, performed and observed by Tenant under this Lease.

(e) The term "Landlord' shall mean only the owner at the time in question of Landlord's interest in the Land or a lease of the Land and the Building or a lease thereof so that in the event of any transfer or transfers of Landlord's interest in the Land or a lease thereof or the Building or a lease thereof, the transferor shall be and hereby is relieved and freed of all obligations of Landlord under this Lease accruing after such transfer, and it shall be deemed, without further agreement that such transferee has assumed and agreed to perform and observe all obligations of Landlord herein during the period it is the holder of Landlord's interest under this Lease,

(f) The terms "herein", hereof and "hereunder", and words of similar import, shall be construed to refer to this Lease as a whole, and not to any particular article or section, unless expressly so stated.

(g) The term "and/or" when applied to one or more matters or things shall be construed to apply to any one or more or all thereof as the circumstances warrant at the time in question.

(h) The term "person" shall mean any natural person or persons, a partnership, a corporation, and any other form of business or legal association or entity.

(i) Intentionally Omitted.

(j) The term "Interest Rate," when used in this Lease, shall mean an interest rate equal to three (3%) percent above the so-called "Prime Rate" of interest established and approved by Bank of America, or its successors, from time to time, but in no event greater than the highest lawful rate from time to time in effect.

(k) The term "Business Days" shall mean all days except Saturdays, Sundays and any holidays described in Section 15.02 hereof.

(l) The term "Business Hours" shall mean the hours from 8:00 A.M. to 6 P.M.

35.06. Upon the expiration or other termination of this Lease neither party shall have any further obligation or liability to the other except as otherwise expressly provided in this Lease and except for such obligations as by their nature or under the circumstances can only be, or by the provisions of this Lease, may be, performed after such expiration or other termination; and, in any event, unless otherwise expressly provided in this Lease, any liability for a payment (including, without limitation, Additional Charges under Article 3 hereof) which shall have accrued to or with respect to any period ending at the time of expiration or other termination of this Lease but for which Landlord has not sent Tenant a bill or made any claim or demand shall survive the expiration or other termination of this Lease for a period of one (1) year except as expressly set forth in this Lease to the contrary and except as pertains to claims by either party against the other for contribution or indemnification or both arising out of third-party claims against Landlord or Tenant, as the case may be.

35.07. If Tenant shall request Landlord's consent and Landlord shall fail or refuse to give such consent, Tenant shall not be entitled to any damages for any withholding by Landlord of its consent, it being intended that Tenant's sole remedy shall be an action for specific performance, arbitration or expedited arbitration to the extent such arbitration is expressly provided for in this Lease, and that such remedy shall be available only in those cases where Landlord has expressly agreed in writing not to unreasonably withhold or delay its consent or where as a matter of law Landlord may not unreasonably withhold or delay its consent. Notwithstanding the foregoing, the provisions of this Section 35.07 shall not apply in any instance in which Landlord has withheld or delayed its consent in bad faith with respect to any consent that Landlord is asked to grant in accordance with this Lease and which such consent is not, in accordance with this Lease, to be unreasonably withheld or delayed.

35.08. If any Superior Mortgagee shall require any modification(s) of this Lease, Tenant shall, at Landlord's request, promptly execute and deliver to Landlord such instruments effecting such modification(s) as Landlord shall require, provided that such modification(s) do not adversely affect any of Tenant s rights under this Lease; it being understood that, for purposes of this Section 35.08, a requested modification to this Lease which would obligate Tenant to deliver a notice to the Superior Mortgagee under certain circumstances, which such notice obligation may exceed the then notice obligations of Tenant under this Lease, shall not be considered a modification that "adversely affects" the Tenant's rights under this Lease.

35.09. If an excavation shall be made upon land adjacent to or under the Building, or shall be authorized to be made, Tenant shall afford to the person causing or authorized to cause such excavation, license to enter the Premises for the purpose of performing such work as said person shall deem necessary or desirable to preserve and protect the Building from injury or damage to support the same by proper foundations, without any claim for damages or liability against Landlord and without reducing or otherwise affecting Tenant's obligations under this Lease except as expressly set forth in Section 13.03 hereof; it being understood that Landlord shall not enter into any agreement or do anything else that would exculpate any such parties performing such work from any liability they may have to Tenant pursuant to law.

35.10. Tenant shall not place a load upon any floor of the Premises which exceeds fifty (50) pounds per square foot unless such floor shall be properly reinforced. Landlord shall not unreasonably withhold its consent to a request by Tenant to permit any floors in the Premises or any portions of such floors to be reinforced by Tenant at Tenant's expense. All heavy material and/or equipment must be placed by Tenant, at Tenant's expense, so as to distribute the weight or support the same appropriately. Business machines and mechanical equipment shall be placed and maintained by Tenant, at Tenant's expense, in settings sufficient to absorb and prevent vibration and noise. If the Premises be or become infested with vermin as a result of the use or any misuse or neglect of the Premises by Tenant, its agents, employees, visitors or licensees, Tenant shall at Tenant's expense cause the same to be exterminated from time to time and shall employ such exterminators and such exterminating company or companies as shall be reasonably approved by Landlord.

35.11. The submission by Landlord of this Lease in draft form shall be deemed submitted solely for Tenant's consideration and not for acceptance and execution. Such submission shall have no binding force or effect and shall confer no rights nor impose any obligations, including brokerage obligations, on either party unless and until both Landlord and Tenant shall have executed this Lease and duplicate originals thereof shall have been delivered to the respective parties.

35.12. Irrespective of the place of execution or performance, this Lease shall be governed by and construed in accordance with the laws of the State of New York. If any provisions of this Lease or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, the remainder of this Lease and the application of that provision to other persons or circumstances shall not be affected but rather shall be enforced to the extent permitted by law. The table of contents, captions, headings and titles in this Lease are solely for convenience of references and shall not affect its interpretation. This Lease shall be construed without regard to any presumption or other rule requiring construction against the party causing this Lease to be drafted. Each covenant, agreement, obligation or other provision of this Lease on Landlord's or Tenant's part to be performed, shall, unless specifically provided to the contrary, be deemed and construed as a separate and independent covenant of Landlord or Tenant, not dependent on any other provision of this Lease. All terms and words used in this Lease, shall be deemed to include any other number and any other gender as the context may require.

35.13. If under the terms of this Lease Tenant is obligated to pay Landlord a sum in addition to the Fixed Rent under the Lease and no payment period therefor is specified, Tenant shall pay Landlord the amount due, as Additional Charges, within thirty (30) days after being billed.

35.14. Intentionally Omitted.

35.15. Landlord and Tenant represent and warrant (each with respect to itself):

(a) That there are no actions, suits or proceedings pending or, to the knowledge of either, threatened against or affecting either, at law or in equity or before any

Federal, state, municipal or governmental department, commission, board, bureau, agency or instrumentality which would impair its ability to perform its obligations under this Lease;

(b) That this Lease has been duly authorized, executed and delivered and constitutes its legal, valid and binding obligation subject to bankruptcy, insolvency, reorganization, rehabilitation, moratorium or other similar laws affecting creditors' rights generally, general principles of equity and to approval by Tenant's Board of Directors; and

(c) That the consummation of the transactions hereby contemplated and the performance of this Lease will not result in any breach or violation of, or constitute a default under any Superior Lease, Superior Mortgage, lease, bank loan or credit agreement to which it is a party.

35.16. Tenant acknowledges that it has no rights to any development rights, "air rights" or comparable rights appurtenant to the Building, and consents, without further consideration, to any utilization of such rights by Landlord and agrees to promptly execute and deliver any instruments which may be reasonably requested by Landlord, including instruments merging zoning lots, evidencing such acknowledgment and consent. The provisions of this Section 35.16 shall be deemed to be and shall be construed as an express waiver by Tenant of any interest Tenant may have as a "party in interest" (as such quoted term is defined in Section 12-10 Zoning Lot of the Zoning Resolution of the City of New York) in the Building.

35.17. In connection with any examination by Tenant of Landlord's books and records, Tenant agrees to treat, and to instruct its employees, accountants and agents to treat, all information as confidential and not disclose it to any other Person unless required by law; and Tenant will confirm or cause its agents and accountants to confirm such agreement in a separate written agreement if requested by Landlord.

35.18. Except as otherwise indicated in this Lease, Landlord agrees that wherever in this Lease Landlord's consent is required not to be unreasonably withheld, such consent shall also not be unreasonably delayed.

ARTICLE 36

Back-up AC System

36.01. Tenant shall have the right, at no additional charge, to maintain the currently existing emergency back-up dry cooler air conditioning system (the "Back-up AC System") for the Tenant's computer room on the fourteenth floor of the Building in the same area in which the Back-up AC system currently exists and the piping and duct work connecting the Back-up AC System directly to the louvers. Landlord shall have the right in its sole discretion at its sole cost and expense to move or at Landlord's expense to cause the Tenant to move and reinstall the equipment (with attendant ductwork, piping and electric) for the Back-up AC System up to 25 feet from the center point of the installation to another location in the Building, provided that such location shall be one in which the Back-up AC System can properly function throughout the

term of this Lease. Landlord must fully restore at no cost to Tenant the Back-up AC System so that it functions at least as affectively as it did prior to its being moved. Except in the case of an emergency, Landlord agrees that such movement shall occur at a time when the Back-up AC System is not likely to be needed and that is otherwise mutually satisfactory and shall be with advance notice to Tenant. Tenant represents that the Back-up AC System will be used for emergency back-up for the computer room in the event the primary systems servicing such space are not functional and for no other purpose.

36.02. Tenant shall be solely responsible for the cost and expense of installation, operation, repair and maintenance of the Back-up AC System, including any necessary piping, ductwork and electricity. The Back-up AC System shall be maintained and operated in compliance with all applicable all statutes, rules, and governmental regulation and good engineering practices. Tenant shall indemnify and hold Landlord harmless in accordance with Article 18 of the Lease as a result of any breach of the foregoing.

36.03. Access to the 14th Floor and the Back-up AC System shall be: (i) only in the presence of a representative of the Landlord, which Landlord shall endeavor to make available upon reasonable notice (such as one to two hours, but Tenant shall endeavor to give longer notice), and (ii) only on business days and during business hours, except in the event of an emergency which requires access to the Back-up AC System, in which case Landlord shall use commercially reasonable efforts to provide immediate access, provided that Tenant shall pay Landlord's charges for overtime personnel if such overtime or additional personnel were required as a result of Tenant's access. An emergency shall include, without limitation, any malfunction of the Building's cooling system.

ARTICLE 37

Extension of Term

37.01. Subject to the provisions hereof, Tenant shall continue to lease the Premises and extend the term of this Lease for an additional term (such additional term is hereinafter called the "Extension Term") commencing on the day following the Expiration Date (hereinafter called the "Commencement Date of the Extension Term") and expiring on September 30, 2019 (hereinafter called the "Expiration Date of the Extension Term") if Tenant and/or its "affiliates" have any office in Manhattan.

37.02. In the event Tenant does not in good faith based upon its and/or its affiliates' business operations require to lease the entire Premises during the Extension Term and Tenant and/or its affiliates do not anticipate to lease, sublease, license or otherwise occupy any office space in any other location or building in Manhattan during the Extension Term then on or prior to December 31, 2014, Tenant shall give Landlord written notice (hereinafter called the "Extension Notice") of its and its affiliates' anticipated office needs for the Extension Term stating the number of useable square feet (and the corresponding number of rentable square feet calculated with a 25% loss factor) it estimates that it requires and the number of all employees it is projected to retain. In the event Tenant fails to timely deliver the Extension Notice on or prior to December 31, 2014, Landlord shall notify Tenant in writing (the "Landlord Notice") and, in the event Tenant fails to then deliver the Extension Notice within ten (10) days

after delivery of the Landlord Notice (to be delivered by hand (against a signed receipt) in accordance with Section 29.01 hereof), Tenant shall be deemed to be leasing the entire Premises during the Extension Term pursuant to the provisions hereof and such failure shall not affect the validity and obligation of Tenant's extension of the Term of this Lease pursuant hereto. In the event Tenant does not in good faith require to lease the entire Premises during the Extension Term then Tenant and/or its affiliates shall not lease, sublease, license or occupy any office space in any other location or building in Manhattan during the Extension Term and the portion of the Premises to be leased by Tenant during the Extension Term shall be designated by Tenant in the Extension Notice as one or more contiguous full floors comprising the Premises up to the four (4) floors comprising the Premises. To the extent Tenant does not lease the entire Premises during the Extension Term pursuant hereto, the floor(s) of the Premises not being retained by Tenant will be surrendered by Tenant pursuant to the terms and conditions hereof beginning with the highest floor of the Premises (i.e., the 18th floor).

37.03. The Fixed Rent payable by Tenant to Landlord during the Extension Term shall be a sum equal to the fair market rent for the Premises (or such full floor portion(s) thereof being retained) as determined as of the date occurring six (6) months prior to the Commencement Date of the Extension Term (such date is hereinafter called the "Determination Date") and which determination shall include the proposed Fixed Rent for the Extension Term and the basis upon which it was calculated and shall be made by Landlord in writing to Tenant ("Landlord's Determination") pursuant to the provisions hereof, but such Fixed Rent shall in no event be less than the Fixed Rent and Additional Charges (i.e. not less than Tenant's fully escalated rent) in effect under this Lease for the last month of the Term (without giving effect to any temporary abatement of Fixed Rent under the provisions of this Lease). In determining the fair market rent, all relevant factors shall be considered including, but not limited to, a) the fact that the Premises have been built out and their then current condition and b) the provisions of Article 3 of this Lease including, without limitation the Basic Tax and the Base Wage Rate, each of which are based on the calendar 2011 base year and both the Base Wage Rate and Base Tax shall continue to be utilized without change during the Extension Term.

(a) Tenant shall have the right by written notice to Landlord ("Tenant's Objection Notice") to object to Landlord's Determination within thirty (30) days (time being of the essence) following delivery of Landlord's Determination, timely failing which shall be deemed that Tenant has accepted Landlord's Determination. In the event Landlord timely receives from Tenant, Tenant's Objection Notice, Landlord and Tenant shall endeavor to agree as to the amount of the fair market rent for the Premises pursuant to the provisions of Section 37.03 hereof, during the thirty (30) day period following the date of Tenant's Objection Notice. In the event that Landlord and Tenant cannot agree as to the amount of the fair market rent within such thirty (30) day period following the date of Tenant's Objection Notice, then Landlord or Tenant may initiate the appraisal process provided for herein by giving notice to that effect to the other, and the party so initiating the appraisal process (such party hereinafter called the "Initiating Party") shall specify in such notice the name and address of the person designated to act as an arbitrator on its behalf. Within thirty (30) days after the designation of such arbitrator, the other party (hereinafter called the "Other Party") shall give notice to the Initiating Party specifying the name and address of the qualified independent third party designated to act as an arbitrator on its behalf. If the Other Party fails to notify the Initiating Party of the

appointment of its arbitrator within the time above specified, then the appointment of the second arbitrator shall be made in the same manner as hereinafter provided for the appointment of a third arbitrator in a case where the two arbitrators appointed hereunder and the parties are unable to agree upon such appointment. The two arbitrators so chosen shall meet within ten (10) days after the second arbitrator is appointed and if, within sixty (60) days after the second arbitrator is appointed, the two arbitrators shall not agree, they shall together appoint a third arbitrator. In the event of their being unable to agree upon such appointment within eighty (80) days after the appointment of the second arbitrator, the third arbitrator shall be selected by the parties themselves if they can agree thereon within a further period of fifteen (15) days. If the parties do not so agree, then either party, on behalf of both and on notice to the other, may request such appointment by the American Arbitration Association (or organization successor thereto) in New York City in accordance with its rules then prevailing.

(b) Each party shall pay the fees and expenses of the one of the two original arbitrators appointed by or for such party, and the fees and expenses of the third arbitrator and all other expenses (not including the attorneys fees, witness fees and similar expenses of the parties which shall be borne separately by each of the parties) of the arbitration shall be borne by the parties equally.

(c) The third arbitrator shall determine the fair market rent of the Premises, which determination shall be within the range of the determinations of the first and second arbitrators only, and render a written certified report of his or her determination to both Landlord and Tenant within sixty (60) days of the appointment of the first two arbitrators or sixty (60) days from the appointment of the third arbitrator if such third arbitrator is appointed pursuant to this paragraph; and the fair market rent, so determined, shall be applied to determine the Fixed Rent pursuant to this Section 37.03.

(d) Each of the arbitrators selected as herein provided shall have at least ten (10) years experience in the leasing and renting of office space in similar office buildings in downtown Manhattan.

(e) In the event Landlord or Tenant initiates the appraisal process and as of the Commencement Date of the Extension Term the amount of the fair market rent has not been determined, Tenant shall continue to pay the Fixed Rent and Additional Charges in effect for the last month of the Term until such time as the fair market rent is determined by the parties or the Arbitrator and within thirty (30) days after the Fixed Rent for the Extension Term is finally determined, Tenant shall pay Landlord the difference, if any, between the amount of Fixed Rent paid during the Extension Term and the amount that should have been paid.

37.04. If Landlord notifies Tenant that the Fixed Rent for the Extension Term shall be equal to the Fixed Rent and Additional Charges in effect under this Lease for the last month of the Term (without giving effect to any temporary abatement thereof), then the provisions of this Section 37.03 shall be inapplicable and have no force or effect.

37.05. Except as provided in this Article 37, Tenant's occupancy of the Premises during the Extension Term shall be on the same terms and conditions as are in effect immediately prior to the expiration of the Term, provided, however, Tenant shall have no further right to extend the term of this Lease pursuant to this Article 37.

37.06. In the event Tenant leases less than all of the Premises during the Extension Term, pursuant hereto, Tenant's Operating Payments, Tenant's Proportionate Share and Condenser Water Tonnage shall be proportionately adjusted based on the floor or floors that is not leased as follows:

Floor Surrendered	Applicable Reductio Ton
15th Floor	73.5
16th Floor	21.0
17th Floor	21.5
18th Floor	20.5

37.07. In the event Tenant surrenders one or more floors of the Premises pursuant to this Article 37, Landlord shall, at its sole cost and expense, be responsible for the removal of any currently existing internal staircase and restoration of the slab between the remaining floor(s) and surrendered floor(s) of the Premises including, but not limited to, repairing the surrounding area to match so there is no indication that the staircase existed. Landlord will use commercially reasonable efforts to complete such work as soon as reasonably practicable after the date Tenant has surrendered any such portion of the Premises in accordance herewith in a manner that will not unreasonably disturb Tenant's use of the Premises in accordance with Section 2.02 hereof; provided however Tenant shall reasonably cooperate with Landlord in all respects until such work is completed.

37.08. If Tenant extends the Term for the Extension Term pursuant to this Article 37, the phrases "Term", "the term of this Lease" or "the term hereof as used this Lease, shall be construed to include, when practicable, the Extension Term and the term "Premises" shall be mean the Premises, or such floor(s) comprising the Premises as delineated by Tenant in the Extension Notice.

37.09 Notwithstanding anything contained herein to the contrary, Landlord shall have the right, in its sole and absolute discretion, at any time during the Term up until February 15, 2015, to eliminate the Extension Term and Tenant's rights pursuant to this Article 37 upon thirty (30) days notice to Tenant in which event the Lease (i) will not be extended for the Extension Term and (ii) will expire on the Expiration Date, unless sooner terminated pursuant to the terms and conditions hereof.

37.10 Notwithstanding anything contained herein to the contrary, in the event Tenant does not lease the entire Premises during the Extension Term pursuant to the terms and conditions hereof and Tenant and/or its affiliates lease, sublease, license or otherwise occupy any office space in any other location or building in Manhattan during the Extension Term, then Tenant shall be deemed to have leased the entire Premises during the Extension Term and shall be liable hereunder for the entire Premises during the Extension Term (including without limitation for all Fixed Rent and Additional Charges payable hereunder for the entire Premises as determined pursuant to the terms of this Article 37) less such amounts as Landlord actually collects from tenants of the Premises and shall be deemed to be in default under this Lease, entitling Landlord to all damages and remedies available to it pursuant to the Lease, law and equity. Notwithstanding the foregoing, Landlord shall not be obligated to find another tenant for the Premises or charge such other tenant, the fair market rent.

ARTICLE 38

Landlord's Work

38.01. Tenant acknowledges that it is currently in possession of the Premises, is fully acquainted with the condition of the Premises and the Building and agrees to continue in and accept possession of the Premises and all Building systems in their then "as-is" physical condition on the Effective Date, it being understood and agreed that Landlord shall not be required to perform any work, supply any materials or incur any expense to prepare the Premises for Tenant's continued occupancy except Landlord, or its designated agent, shall perform the work expressly set forth on Exhibit C annexed hereto (such work to be performed pursuant to Exhibit C is herein called "Landlord's Work").

ARTICLE 39

Arbitration

39.01. (a) Either party may request arbitration of any matter in dispute wherein arbitration is expressly provided in this Lease as the appropriate remedy (i.e., in Sections 3.08 and 37.08 hereof). The arbitration shall, except where the procedure set forth in Article 7 is specified, be conducted, to the extent consistent with this Article 39, in accordance with the then prevailing rules of the American Arbitration Association (or any organization successor thereto) in the City and County of New York. The arbitrator(s) shall be disinterested person(s) having at least 10 years of experience in the County of New York in a calling connected with the dispute. In rendering any decision or award hereunder, the arbitrator(s) shall not add to, subtract from or otherwise modify the provisions of this Lease.

(b) The fees and expenses of the arbitrator(s) and all other expenses (not including the attorneys' fees, witness fees and similar expenses of the parties) of the arbitration shall be borne by the parties equally.

(c) Such arbitration shall be conducted as follows: Within fifteen (15) Business Days next following the giving of any notice by Landlord or Tenant stating that wishes a dispute to be determined by arbitration, wherein arbitration is expressly provided for in this

Lease as an appropriate remedy, Landlord and Tenant shall each give notice to the other setting forth the name and address of an arbitrator designated by the party giving such notice. If either party shall fail to give notice of such designation within said fifteen (15) Business Days, then the arbitrator chosen by the other side shall make the determination alone. If the two (2) arbitrators shall fail to agree upon the designation of a third arbitrator within twenty (20) Business Days after the designation of the second arbitrator then either party may apply to the American Arbitration Association for the designation of such arbitrator and if such organization is unable to refuse to act within twenty (20) Business Days then either party may apply to the supreme court in New York County of to any other court having jurisdiction for the designation of such arbitrator. The three arbitrators shall conduct such - hearing as they deem appropriate, making their determination in writing and giving notice to Landlord and Tenant of their determination as soon as practicable and if possible, within thirty (30) Business Days after the designation of the third arbitrator. The concurrence of two (2) arbitrators or, in the event no two (2) of the arbitrators shall render a concurrent determination, then the determination of the third arbitrator designated shall be binding upon Landlord and Tenant. Judgment upon any decision rendered in any arbitration held pursuant to the Article 39 shall be final and binding upon Landlord and Tenant, whether or not a judgment shall be entered in any court.

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Lease as of the day and year first above written.

WITNESS:

ONE STATE STREET, LLC,
Landlord

By:

Authorized Representative

WITNESS:

AMBAC ASSURANCE CORPORATION,
Tenant

By:

Tenant's Federal Identification Number: _____

EXHIBIT A

Description of the Land

ALL those certain lot, pieces or parcel of land, situate, lying and being in the Borough of Manhattan, City of New York, County of New York, State of New York, bounded and described as follows:

BEGINNING at the corner formed by the intersection of the northerly side of State Street with the westerly side of Whitehall Street; running;

Thence northerly along the westerly side of Whitehall Street 211 feet 4 1/8 inches to the southerly side of Pearl Street;

Thence westerly along the southerly side of Pearl Street on a line which forms an angle of 101 degrees, 38 minutes, 00 seconds on its southerly side with the westerly side of Whitehall Street 73 feet 7 3/8 inches;

Thence southerly along a line which forms an angle of 90 degrees, 23 minutes, 00 seconds on its easterly side with the last mentioned course and along said line of Pearl Street, 1 foot;

Thence westerly along a line which forms an angle of 86 degrees, 13 minutes, 30 seconds on its southerly side with the last mentioned course and along the said southerly side of Pearl Street 19 feet 10 5/8 inches;

Thence westerly along a line which forms an angle of 183 degrees, 58 minutes, 40 seconds on its southerly side with the last mentioned course and along the southerly side of Pearl Street 21 feet 3 3/4 inches to a point at or opposite the center of a party wall standing partly on the premises hereby described and partly on the premises adjoining on the west;

Thence southerly along a line which forms an angle of 89 degrees, 33 minutes, 00 seconds on its easterly side with the last mentioned course and nearly the entire distance through the center of aforesaid party wall 109 feet 3 1/4 inches.

EXHIBIT B

Floor Plans of the Premises

See Attached

EXHIBIT B

Floor Plan of Premises

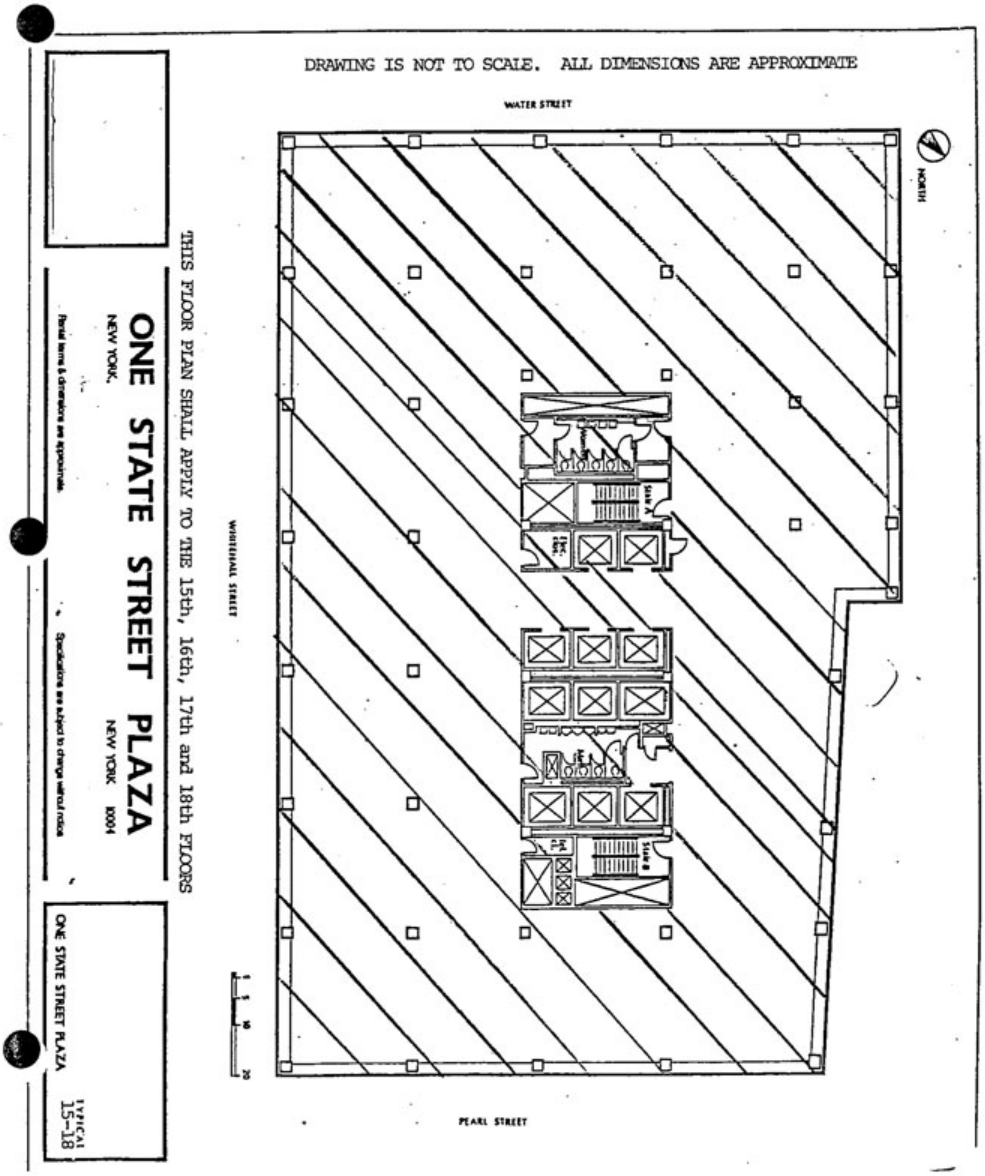

EXHIBIT C

Landlord's Work

Landlord shall be responsible for removing any currently existing internal staircase between the eighteenth (18th) floor portion of the Premises and the nineteenth (19th) floor of the Building and restoring any portion of the slab of the nineteenth (19th) floor affected by such removal including, but not limited to, repairing the surrounding areas to match, so there is no indication that the staircase existed.

EXHIBIT D

Building Rules and Regulations

If and to the extent that any of the provisions of the Building Rules and Regulations set forth hereinbelow conflict or are otherwise inconsistent with any of the provisions of the body of the Lease, whether or not such conflict or inconsistency is expressly noted hereinbelow, the provisions of the body of the Lease shall prevail.

1. The sidewalks, entrances, driveways, passages, courts, elevators, vestibules, stairways, corridors or halls shall no: be obstructed or encumbered by any Tenant or used for any purpose other than for ingress or egress from the Premises and for delivery of merchandise and equipment using elevators and passageways reasonably designated for such delivery by Landlord. There shall not be used in any space, or in the public hall of the Building, either by any Tenant or by jobbers or others in the delivery or receipt of merchandise, any hand trucks, except those equipped with rubber tires and sideguards.

2. The water and wash closets and plumbing fixtures shall not be used for any purposes other than those for which they were designed or constructed and no sweepings, rubbish, rags, acids or other substances shall be deposited therein, and the expense of any breakage, stoppage, or damage resulting from the violation of this rule shall be borne by the Tenant if, but only if, caused by Tenant or its agents, employees or visitors.

3. No carpet, rug or other article shall be hung or shaken out of any window of the Building, and no Tenant shall sweep or throw or permit to be swept or thrown from the Premises any dirt or other substances into any of the corridors or halls, elevators, or out of the doors or windows or stairways of the Building and Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in any manner prohibited by Section 2.04 of this Lease. No animals (except seeing-eye dogs) or birds shall be kept in or about the Building. Smoking or carrying lighted cigars or cigarettes in the elevators of the Building is prohibited.

4. No awnings or other projections shall be attached to the outside walls of the Building without the prior written consent of Landlord.

5. Subject to the provisions of Article 16 of this Lease, no sign, advertisement, notice or other lettering shall be exhibited, inscribed, painted or affixed by any Tenant on any part of the outside of the Premises or the Building or on the inside of the Premises if the same is visible from the outside of the Premises without the prior written consent of Landlord, except that the name of Tenant may appear on the entrance doors of the Premises and provided that Tenant is the only tenant or occupant of a particular floor in the Building, Tenant may affix a sign or lettering visible from the elevator cabs serving such floor. In the event of the violation of the foregoing by Tenant which shall continue for five (5) days after Landlord shall have given Tenant a notice of such violation, Landlord may remove same without any liability, and may charge the expense incurred by such removal to Tenant or tenants violating this rule.

6. Subject to Article 11 and the Alteration Rules and Regulations, except in connection with normal interior decorating, no Tenant shall mark, paint, drill into, or in any way

deface any part, of the Premises or the building of which they form a part, except as otherwise permitted under the Lease. No boring, cutting or stringing of wires shall be permitted, except with the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed.

7. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by any Tenant, nor shall any changes be made in existing locks or mechanism thereof unless, in either such case, copies of all keys therefor are provided to Landlord upon installation or change by Tenant. Each Tenant must, upon the termination of his tenancy, restore to Landlord all keys of stores, offices and toilet rooms, either furnished to, or otherwise procured by, such Tenant.

8. Freight, furniture, business equipment, merchandise and bulky matter of any description (other than mail, packages and such other materials as Tenant routinely receives in the normal course of its business provided the same is not delivered by use of dollies, hand trucks and the like) shall be delivered to and removed from the Premises only on the freight elevators and through the service entrance and corridors, and, to the extent that the same shall unreasonably deprive other tenants in the Building of the use of the freight elevator, only after Business Hours. Landlord reserves the right to inspect all freight (other than mail, packages or such other materials as Tenant routinely receives in the normal course of its business) brought into the Building and to exclude from the Building all freight (other than mail, packages or such other materials as Tenant routinely receives in the normal course of its business) which violates any of these Rules and Regulations or the Lease of which these Rules and Regulations are a part. During Tenant's move-in period, Landlord shall use reasonable efforts to accommodate Tenant's needs to bring freight into its Premises during regular business hours.

9. Canvassing, soliciting and peddling in the Building is prohibited and each Tenant shall cooperate to prevent the same.

10. Landlord, reserves the right to exclude from the Building between the hours of 6 p.m. and 8 a.m. and at all hours on Sundays and Holidays all persons who do not present a Pass to the Building signed by Landlord or are not accompanied by an employee of Tenant. Each Tenant shall be responsible for all persons for whom he requests such pass and shall be liable to Landlord for all acts of such person to the extent provided in the Lease.

11. Landlord shall have the right reasonably exercised to prohibit any advertising by Tenant which specifically identifies the Building or the Premises, which in Landlord's opinion, reasonably exercised, impairs the reputation of the Building or its desirability as a building for offices, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

12. Tenant shall not bring or permit to be brought or kept in or on the Premises, any inflammable, combustible or explosive fluid, material, chemical or substance except those substance commonly used for office purposes, or cause or permit any odors of cooking or other processes, or any objectionable odors to permeate in or emanate from the Premises.

13. Tenant agrees to abide by all reasonable rules and regulations issued by the Landlord which are consistent with the Lease with respect to air-conditioning and ventilation services. If Tenant requires air-conditioning or ventilation after 6:00 P.M., Tenant shall give telephonic notice to the Building superintendent prior to 4:00 p.m. in the case of services required on weekdays, and prior to 4:00 p.m. on the Friday prior in the case of after hours service required on weekends or on holiday Mondays and prior to 4:00 p.m. on the day prior in the case of after hours service required on other holidays or weekends following Fridays which are holidays. Overtime freight elevator service will be requested on the same basis.

14. Tenant shall not move any heavy safe, heavy machinery, heavy equipment, bulky matter, or heavy fixtures into or cut of the Building except in compliance with all applicable laws and regulations, including the load limitations set forth in the Certificate of Occupancy, and except with Landlord's prior written consent to the manner in which Tenant proposes to accomplish such move, which consent shall not be unreasonably withheld or delayed. If such heavy safe, heavy machinery, heavy equipment, bulky matter or heavy fixtures requires special handling, all work in connection therewith shall comply with the Administrative Code of the City of New York and all other laws and regulations applicable thereto and shall be done during such hours as Landlord may reasonably designate.

EXHIBIT E

Alteration Rules and Regulations

1. All costs and expenses in connection with or arising out of the performance of any Alteration made by Tenant shall be borne by Tenant and all payments thereof shall be made by Tenant promptly as they become due, and evidence of such payments shall be furnished to Landlord on request. At no time shall Tenant do or permit anything to be done whereby Landlord's property may be subject to any mechanic's or other liens or encumbrances arising out of any Alteration; and Landlord's consent herein shall not be deemed to constitute any consent or permission to do anything which may create or be the basis of any lien or charge against the estate of the Landlord in the Premises or the real estate of which they are a tart. If a mechanic's lien is filed due to acts of Tenant or Tenant's agent, at any time so requested by Landlord, Tenant will, at Tenant's expense, provide and furnish Landlord, at Tenant's election, either (a) surety company bond, or (b) court order discharging lien, or (c) other form or protection against any such lien or encumbrance which may be filed, or (d) secure the release and/or discharge of any claim alleged to constitute such lien or encumbrance and will hold Landlord harmless against the same, and upon Tenant's failure to comply herewith the same may be furnished by Landlord.

2. Landlord may refer Tenant's mechanical plans to a consultant selected by Landlord, and, in such event, Tenant agrees to pay the reasonable cost of such service. Tenant agrees further to comply with all reasonable changes and requirements that may be recommended by Landlord's consultant.

3. Tenant will perform any Alteration in a safe and lawful manner, and as provided in Article 11, using contractors chosen by Tenant and reasonably approved by Landlord in accordance with the Lease and complying with applicable laws and all requirements and-regulations of municipal and other governmental or duly constituted bodies exercising authority, and this compliance shall include the filing of plans and other documents as required, and the procuring of any required licenses or permits, prior to commencement of any Alteration. Upon completion of any Alteration, Tenant shall submit to the Landlord all approvals issued by the Department of Buildings in connection therewith.

4. Landlord shall have no responsibility for or in connection with any Alteration other than the Landlord's Work.

EXHIBIT F

Office Cleaning Specifications

1. GENERAL OFFICE AREAS:

(A) Nightly

1. Damp mop all stone ceramic tile, terrazzo and other types of unwaxed floors.
2. Sweep all vinyl, asphalt, rubber and similar types of floors using an approved chemically treated cloth.
3. Vacuum clean all carpeted areas. Sweep all private stairways and vacuum if carpeted.
4. Hand dust and wipe clean with damp or chemically treated cloth all furniture, file cabinets, fixtures, window sills, convector enclosures tops and wash said sills and tops if necessary.
5. Dust all telephones as necessary.
6. Dust all chair rails, trim, etc.
7. Remove all gum and foreign matter on site.
8. Empty and clean all waste receptacles and remove waste paper and waste materials to a designated area.
9. Damp dust interiors of all waste disposal receptacles.
10. Empty and wipe clean all ash trays and screen all sand urns.
11. Wash clean all water fountains and water coolers.
12. Spot clean all glass furniture tops.
13. Remove fingermarks and dust doors of elevator hatchways.

(B) Periodic

1. Hand dust all louvers and other ventilating louvers within reach once per week.
2. Dust all baseboards once per week.
3. Wipe clean all bright work weekly.
4. Wash floors in public stairwells once per week.

5. Move and vacuum clean once per week underneath all furniture that can be moved.
6. Dust all picture frames, charts and similar hangings quarterly which were not reached in nightly cleaning.
7. Dust all vertical surfaces such as walls, partitions, doors and other surfaces not reached in nightly cleaning, quarterly.
8. Dust exterior of lighting fixtures quarterly.
9. Dust all venetian blinds quarterly.
10. Dust quarterly all air-conditioning louvers, grills, etc. not reached in nightly cleaning.
11. Vacuum clean peripheral induction units quarterly.
12. Clean all windows, inside and outside, quarterly. At the same time wipe clean window frames and metal trim.

2. TOILETS:

(A) Nightly

1. Wash all floors.
2. Wash all mirrors and powder shelves.
3. Wash all bright work.
4. Wash all plumbing fixtures.
5. Wash and disinfect all toilet seats, both sides.
6. Scour, wash and disinfect all basins, bowls, urinals throughout all toilets.
7. Empty paper towel receptacles and remove paper to designated area.
8. Fill toilet tissues holders (tissue to be furnished at Tenant's expense).
9. Fill soap dispenser systems and fill paper towel dispensers (towels and soap to be furnished at Tenant's expense).
10. Empty and clean sanitary disposal receptacles.
11. Clean and wash receptacles and dispensers nightly.

12. Remove fingermarks from painted surfaces.

13. Coin operated sanitary napkin dispensers will be installed and serviced by cleaning contractor.

(B) Periodic

1. Clean and wash all partitions once a week.

2. Scrub floors once every two weeks.

3. Hand dust, clean and wash all tile walls once each month.

4. High dusting to be done once each month which includes lights, walls and grills.

5. Wash toilet lighting fixtures as often as necessary but no less than twice per year.

3. GENERAL:

(A) Landlord may substitute for any of the methods or devices set forth in this Cleaning Schedule, such other methods or devices as in Landlord's reasonable judgment will achieve substantially the same results.

(B) As used in this Cleaning Schedule "nightly" means five nights a week, Monday through Friday, during regular cleaning hours (between 6:00 p.m. and 8:00 a.m.).

(C) Tenant shall provide, or pay for, all electricity for lighting and power and all hot and cold water required in the Tenant's premises during regular cleaning hours.

(D) All cleaning operations in the Tenant's premises will be scheduled to use a minimum number of lights. Upon completion of cleaning all lights will be turned off. All entrance doors will be kept locked during the entire cleaning operation.

EXHIBIT G

NDA Form

UBS REAL ESTATE SECURITIES INC.,
(Lender)

- and -

AMBAC ASSURANCE CORPORATION
(Tenant)

SUBORDINATION, NON-DISTURBANCE
AND ATTORNMENT AGREEMENT

Dated:	_____,2011
Location:	One State Street Plaza
Section:	
Block:	
Lot:	
County:	New York

PREPARED BY AND UPON
RECORDATION RETURN TO:

Thacher Proffitt & Wood LLP
Two World Financial Center
New York, New York 10281
Attention: Donald F. Simone, Esq.
File No.: 20862-

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (the "Agreement") is made as of the _____ day of _____ , 2011, by and between **UBS REAL ESTATE SECURITIES INC.,** a Delaware corporation, as lender, having an address at 1285 Avenue of the Americas, New York, New York 10019, or an affiliate thereof ("Lender") and **AMBAC ASSURANCE CORPORATION,** a Wisconsin corporation, having an address at One State Street Plaza, New York, New York 10004 ("Tenant").

RECITALS:

A. Lender is the present owner and holder of a certain mortgage and security agreement (together with any and all extensions, renewals, substitutions, replacements, amendments, modifications and/or restatements thereof, the "Security Instrument") dated _____ __, 20__ , given by Landlord (defined below) to Lender which encumbers the fee estate of Landlord in certain premises described in Exhibit A attached hereto (the "Property") and which secures the payment of certain indebtedness owed by Landlord to Lender evidenced by a certain promissory note dated _____, __ 20__ , given by Landlord to Lender (the note together with all extensions, renewals, modifications, substitutions and amendments thereof shall collectively be referred to as the "Note");

B. Tenant is the holder of a leasehold estate in a portion of the Property under and pursuant to the provisions of a certain lease dated _____, 2011 between One State Street, LLC, as landlord ("Landlord") and Tenant, as tenant, (such lease, as modified and amended as set forth herein being hereinafter referred to as the "Lease"); and

C. Tenant has agreed to subordinate the Lease to the Security Instrument and to the lien thereof and Lender has agreed to grant non-disturbance to Tenant under the Lease on the terms and conditions hereinafter set forth.

AGREEMENT:

For good and valuable consideration, Tenant and Lender agree as follows:

1. SUBORDINATION. The Lease and all of the terms, covenants and provisions thereof and all rights, remedies and options of Tenant thereunder are and shall at all times continue to be subject and subordinate in all respects to the terms, covenants and provisions of the Security Instrument and to the lien thereof, including without limitation, all renewals, increases, modifications, spreaders, consolidations, replacements and extensions thereof and to all sums secured thereby and advances made thereunder with the same force and effect as if the Security Instrument had been executed, delivered and recorded prior to the execution and delivery of the Lease.

2. NON-DISTURBANCE. If any action or proceeding is commenced by Lender for the foreclosure of the Security Instrument or the sale of the Property, Tenant shall not be named as a party therein unless such joinder shall be required by law, provided, however, such joinder shall not result in the termination of the Lease or disturb the Tenant's possession or use of the premises demised thereunder, and the sale of the Property in any such action or proceeding and the exercise by Lender of any of its other rights under the Note or the Security Instrument

shall be made subject to all rights of Tenant under the Lease, provided that at the time of the commencement of any such action or proceeding or at the time of any such sale or exercise of any such other rights (a) the Lease shall be in full force and effect and (b) Tenant shall not be in default beyond applicable notice and cure periods under any of the monetary terms, covenants or conditions of the Lease or of this Agreement on Tenant's part to be observed or performed.

3. ATTORNMENT. If Lender or any other subsequent purchaser of the Property shall become the owner of the Property by reason of the foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or by reason of any other enforcement of the Security Instrument (Lender or such other purchaser being hereinafter referred as "Purchaser"), and the conditions set forth in Section 2 above have been met, the Lease shall not be terminated or affected thereby but shall continue in full force and effect as a direct lease between Purchaser and Tenant upon all of the terms, covenants and conditions set forth in the Lease and in that event, Tenant agrees to attorn to Purchaser and Purchaser by virtue of such acquisition of the Property shall be deemed to have agreed to accept such attornment, provided, however, that Purchaser shall not be (a) liable for the failure of any prior landlord (any such prior landlord, including Landlord, being hereinafter referred to as a "Prior Landlord") to perform any obligations of Prior Landlord under the Lease, unless continuing, which have accrued prior to the date on which Purchaser shall become the owner of the Property, (b) subject to any offsets, defenses, abatements or counterclaims which shall have accrued in favor of Tenant against any Prior Landlord prior to the date upon which Purchaser shall become the owner of the Property, (c) liable for the return of rental security deposits, if any, paid by Tenant to any Prior Landlord in accordance with the Lease unless such sums are actually received by Purchaser, (d) bound by any payment of rents, additional rents or other sums which Tenant may have paid more than one (1) month in advance to any Prior Landlord unless (i) such sums are actually received by Purchaser or (ii) such prepayment shall have been expressly approved of by Purchaser or (e) bound by any agreement terminating or amending or modifying the rent, term, commencement date or other material term of the Lease, or any voluntary surrender of the premises demised under the Lease, made without Lender's or Purchaser's prior written consent prior to the time Purchaser succeeded to Landlord's interest. In the event that any liability of Purchaser does arise pursuant to this Agreement or the Lease, such liability shall be limited and restricted to Purchaser's interest in the Property and shall in no event exceed such interest.

4. NOTICE TO TENANT. After notice is given to Tenant by Lender that the Landlord is in default under the Note and the Security Instrument and that the rentals under the Lease should be paid to Lender pursuant to the terms of the assignment of leases and rents executed and delivered by Landlord to Lender in connection therewith, Tenant shall thereafter pay to Lender or as directed by the Lender, all rentals and all other monies due or to become due to Landlord under the Lease and Landlord hereby expressly authorizes Tenant to make such payments to Lender and hereby releases and discharges Tenant from any liability to Landlord on account of any such payments.

5. NOTICE TO LENDER AND RIGHT TO CURE. Tenant shall notify Lender of any default by Landlord under the Lease and agrees that, notwithstanding any provisions of the Lease to the contrary, no notice of cancellation thereof or of an abatement shall be effective unless Lender shall have received notice of default giving rise to such cancellation or abatement and shall have failed within sixty (60) days after receipt of such notice to cure such default, or if

such default cannot be cured within sixty (60) days, shall have failed within sixty (60) days after receipt of such notice to commence and thereafter diligently pursue any action necessary to cure such default. Notwithstanding the foregoing, Lender shall have no obligation to cure any such default.

6. NOTICES. All notices or other written communications hereunder shall be deemed to have been properly given (i) upon delivery, if delivered in person or by facsimile transmission with receipt acknowledged by the recipient thereof and confirmed by telephone by sender, (ii) one (1) Business Day (hereinafter defined) after having been deposited for overnight delivery with any reputable overnight courier service, or (iii) three (3) Business Days after having been deposited in any post office or mail depository regularly maintained by the U.S. Postal Service and sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Tenant: AMBAC Assurance Corporation
One State Street Plaza
New York, New York, 10004
Attention: Diana Adams
Facsimile No._____
with a copy to
Dewery & LeBoeuf LLP
1301 Avenue of the Americas
New York, New York,
Attention: Stuart M. Saft, Esq.

If to Leader: USBS Real Estate Securities Inc.
1285 Avenue of the Americas
New York, New York, 10019
Attention: Jeffrey N.Lavine
Facsimile No.: (212) 713-4062
with a copy to
Thacher Proffitt & Wood LLP
Two World Financial Center
New York, New York, 10281
Attention: Donald. Simone, Esq
Facsimile No: (212) 912-7751

or addressed as such party may from time to time designate by written notice to the other parties. For purposes of this Section 6, the term Business Day shall mean a day on which commercial banks are not authorized or required by law to close in the state where the Property is located. Either party by notice to the other may designate additional or different addresses for subsequent notice or communication.

7. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of Lender, Tenant and Purchaser and their respective successors and assigns.

8. GOVERNING LAW. This Agreement shall be deemed to be a contract entered into pursuant to the laws of the State where the Property is located and shall in all respects be governed, construed, applied and enforced in accordance with the laws of the State where the Property is located.

9. MISCELLANEOUS. This Agreement may not be modified in any manner or terminated except by an instrument in writing executed by the parties hereto. If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision. This Agreement may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. This Agreement may be executed in several counterparts, each of which counterparts shall be deemed an original instrument and all of which together shall constitute a single Agreement. The failure of any party hereto to execute this Agreement, or any counterpart hereof, shall not relieve the other signatories from their obligations hereunder. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

10. LENDER AFFILIATE. The Loan may be originated in the name of an affiliate of Lender, and in such event, the term "Lender" under this agreement shall be deemed to refer to such affiliate.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, Lender and Tenant have duly executed this Agreement as of the date first above written.

LENDER:
UBS REAL ESTATE SECURITIES INC.,
a Delaware corporation
By: _____
Name:
Title:

TENANT:
AMBAC ASSURANCE CORPORATION
a Wisconsin corporation
By: _____
Name:
Title:

The undersigned accepts and agrees to the provisions of Section 4 hereof:
LANDLORD:
ONE STATE STREET, LLC,
a New York limited liability company
By: _____
Name:
Title:

ACKNOWLEDGMENTS

(To be attached)

EXHIBIT A

(Description of Property)

The parcel of real property, the improvements thereon and all personal property owned by Landlord known as One State Street Plaza, New York, New York 10004.

EXHIBIT H

Intentionally Omitted

EXHIBIT I

Intentionally Omitted

EXHIBIT J

Intentionally Omitted

EXHIBIT K

Sample Porter's Wage Calculation

2011 PORTER'S WAGE RATE W/OUT FRINGES

	Porters 8 (40 Hours)	Cleaners 6 (30 Hours)
Base Wage Rage	22.648	22.648
One-half combined total		**22.648**

EXHIBIT L

Substitute Buildings

	Block	Lot
2-8 Broadway	11	1
52-56 Broadway	22	28
58-80 Broadway	23	7
20-24 Broad Street	23	50
37-43 Wall Street	26	14
4-10 Hanover Square	31	1
107-13 Wall Street	35	10
88 Pine Street	38	17
140 Broadway	48	1
98-6 William Street	68	36

EXHIBIT M

Alternate Buildings

		Block	Lot
1.	29 Whitehall Street	10	14
2.	41-45 Broadway	20	9
3.	77 Water Street	33	1
4.	180 Maiden Lane	37	23
5.	100 Wall Street	38	1
6.	160 Water Street	70	43

EXHIBIT N

Heat and Air-Conditioning Specifications -

During all times that the Landlord is required to provide air-conditioning, the base building air-conditioning shall be capable of maintaining an interior space condition of not more than 78 degrees F dry bulb, 50% relative humidity for the following design conditions:

1. Outside air temperature not to exceed 89 degrees F dry bulb, 76 degrees F wet bulb.
2. Occupancy of the space not exceeding 1 person per 100 usable square feet.
3. Actual electric usage for lighting and general power not exceeding 6.0 watts per usable square foot.

During all times that the Landlord is required to provide heat, the base building heating system shall be capable of maintaining an interior space condition of 72 degrees F dry bulb for the following design conditions:

1. Outside air temperature not less than 15 degrees F dry bulb.

EXHIBIT O

Intentionally Omitted

EXHIBIT P

Security Procedures -

1. Anyone seeking to enter the elevators in AMBAC's elevator bank at any time (hereinafter called "Off-Hours") other than during Business Hours of Business Days shall be challenged and required to "sign in" at the concierge/security desk and such persons, if claiming to be an AMBAC employee must display corporate ID or if not must display some other reasonable form of identification. Once such AMBAC invitees or employees comply, such persons shall then either be accompanied to the elevator by a member of AMBAC's personnel or must be in possession of an AMBAC ID otherwise access to the Building will be denied.

2. AMBAC, at AMBAC's election and expense and upon prior approval by Landlord as to size, design and location, may install near the elevators in AMBAC's elevator bank area in the lobby of the Building, a security camera to video tape those entering the elevator to go to AMBAC's Premises during Off- Hours. AMBAC, at AMBAC's sole cost and expense, shall maintain, and if necessary, repair or replace such video cameras.

3. Landlord agrees to store for up to two (2) weeks video tapes of all those who "signed in" at the concierge/security desk during Off-Hours. At AMBAC's request, Landlord will permit AMBAC to review such video tapes. In addition, at AMBAC's request, Landlord will show AMBAC the list of all those who "signed in" at the concierge/security desk seeking to enter AMBAC's Premises during the previous weekend.

4. Landlord agrees to instruct the employees employed at the security/concierge desk to observe and to confirm that all those "signing in" in order to enter the Building during Off-Hours in fact proceed to the elevator bank in the lobby corresponding to the portion of the Building they stated they wished to enter.

EXHIBIT 12.01

Ambac Financial Group, Inc.
Ratio of Earnings to Fixed Charges
(In thousands, except ratios)

	Years Ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Earnings:					
Pre-tax income from continuing operations	($ 753,001)	$ 724,905	($ 5,618,343)	($ 5,154,749)	$ 1,210,213
Interest expense	102,278	119,626	114,226	85,740	75,294
Portion of rentals deemed to be interest	3,324	3,366	3,286	3,297	3,322
Earnings	($ 647,399)	$ 847,897	($ 5,500,831)	($ 5,065,712)	$ 1,288,829
Fixed Charges:					
Interest Expense	$ 102,278	$ 119,626	$ 114,226	$ 85,740	$ 75,294
Portion of rentals deemed to be interest	3,324	3,366	3,286	3,297	3,322
Fixed Charges	$ 105,602	$ 122,992	$ 117,512	$ 89,037	$ 78,616
Ratio of earnings to fixed charges	-6.1	6.9	-46.8	-56.9	16.4

EXHIBIT 21.01

List of Subsidiaries of Ambac Financial Group, Inc.

The following is a list of significant and other subsidiaries of Ambac Financial Group, Inc. The state of incorporation of each subsidiary is included in parentheses after its name.

Ambac Assurance Corporation (Wisconsin)

Ambac Assurance UK Limited (United Kingdom Insurance Company)

Ambac Capital Corporation (Delaware)

Ambac Capital Funding, Inc. (Delaware)

Ambac Credit Products, LLC (Delaware)

Ambac Investments, Inc. (Delaware)

Ambac Financial Services, LLC (Delaware)

Ambac Capital Services, LLC (Delaware)

Everspan Financial Guarantee Corp. (Wisconsin)

EXHIBIT 23.01

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Ambac Financial Group, Inc.:

We consent to the incorporation by reference in the registration statements of Ambac Financial Group, Inc. on Form S-8 (Nos. 333-152479, 333-110145 and 333-52449) of our reports dated March 16, 2011, with respect to the consolidated balance sheets of Ambac Financial Group, Inc. and subsidiaries (Debtor-in-Possession) ("Ambac" or the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and all related financial statement schedules, and the effectiveness of internal control over financial reporting as of December 31, 2010, which reports appear in the December 31, 2010 Form 10-K of Ambac Financial Group, Inc. Our report contains an explanatory paragraph that states that, Ambac filed for relief under Chapter 11 of the U.S. Bankruptcy Code and there are uncertainties inherent in the bankruptcy process. The significant deterioration of the guaranteed portfolio coupled with the inability to write new financial guarantees has adversely impacted the business, results of operations and financial condition of the Company's operating subsidiary, Ambac Assurance Corporation. Ambac Assurance Corporation is subject to significant regulatory oversight by the Office of the Commissioner of Insurance of the State of Wisconsin, including the recent establishment and rehabilitation of a segregated account of Ambac Assurance Corporation. Additionally, the Company has limited liquidity. Such factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements and financial statement schedules do not include any adjustments that might result from the outcome of this uncertainty. Our report also refers to the change in the method of accounting for qualifying special purpose entities and variable interest entities due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board as of January 1, 2010, the change in the method of evaluating other-than-temporary impairments on securities due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board as of April 1, 2009, and the change in method of accounting for financial guarantee contracts due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board as of January 1, 2009. Also our report refers to the fact that the Company began applying additional accounting and financial reporting guidance applicable to Debtors-in-Possession on November 8, 2010.

/s/ KPMG LLP

New York, New York
March 16, 2011

EXHIBIT 31.1

Ambac Financial Group, Inc.
Certifications

I, David W. Wallis, certify that:

1. I have reviewed this Annual Report on Form 10-K of Ambac Financial Group, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a -15(e) and 15d – 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David W. Wallis
David W. Wallis
President and Chief Executive Officer

Date: March 16, 2011

EXHIBIT 31.2

Ambac Financial Group, Inc.
Certifications

I, David Trick, certify that:

1. I have reviewed this Annual Report on Form 10-K of Ambac Financial Group, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a -15(e) and 15d – 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ David Trick
David Trick
Senior Managing Director, Chief Financial Officer and Treasurer

Date: March 16, 2011

EXHIBIT 32.1

Certification of CEO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Ambac Financial Group, Inc. (the "Company") for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David W. Wallis, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David W. Wallis

Name: David W. Wallis
Title: President and Chief Executive Officer
Date: March 16, 2011

EXHIBIT 32.2

Certification of CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Ambac Financial Group, Inc. (the "Company") for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David Trick, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Trick

Name: David Trick
Title: Senior Managing Director, Chief Financial Officer and Treasurer
Date: March 16, 2011

Exhibit 99.2

STATE OF WISCONSIN | CIRCUIT COURT | DANE COUNTY

In the Matter of the Rehabilitation of:

Segregated Account of Ambac Assurance Corporation

Case No. 10 CV 1576

PLAN OF REHABILITATION

**The Commissioner of Insurance of the State of Wisconsin,
as the Court-Appointed Rehabilitator of the Segregated Account
of Ambac Assurance Corporation**

January 24, 2011

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The Commissioner of Insurance of the State of Wisconsin, as the court-appointed Rehabilitator in this case, proposes the following Plan of Rehabilitation for the Segregated Account of Ambac Assurance Corporation pursuant to Wis. Stat. § 645.33(5).

INTRODUCTION TO PLAN

This Plan provides for the orderly run-off and/or settlement of the liabilities allocated to the Segregated Account, as further described in the Disclosure Statement accompanying this Plan. This Plan pertains solely to the Segregated Account, which acts through the Rehabilitator and the Management Services Provider. Pursuant to Wis. Stat. § 611.24(3)(e), the Segregated Account is deemed to be a separate insurer. Except as may be specifically stated herein, in the Disclosure Statement or in the Segregated Account Operational Documents, this Plan does not pertain to the assets or liabilities in the General Account.

ARTICLE 1
DEFINITIONS

The following terms used in this Plan shall have the meanings specified below, and such meanings shall be equally applicable to both the singular and plural forms of such terms, unless the context otherwise requires. Any term used in this Plan, whether or not capitalized, that is not defined in this Plan, but that is defined in the Disclosure Statement or the Act shall have the meaning set forth in the Disclosure Statement or the Act.

1.01 AAC.

Ambac Assurance Corporation.

1.02 ACP.

Ambac Credit Products, LLC.

1.03 Act.

The Wisconsin Insurers Rehabilitation and Liquidation Act, Wis. Stat. § 645.01 *et. seq.*

1.04 Administrative Claims.

Claims for fees, costs and expenses of the administration of the Segregated Account incurred after the Petition Date, including, but not limited to, fees, costs and expenses associated with (i) management services, including all fees and payments pursuant to the Management Services Agreement, (ii) financial advisor, consulting and legal services, including services for OCI and the Rehabilitator, (iii) indemnification under commercially reasonable indemnification agreements of the Segregated Account (as determined by the Rehabilitator in his sole and absolute discretion) with providers of financial, banking, trustee, consulting, legal or other services, (iv) the costs and expenses of preserving or recovering property, or enforcing rights and remedies, in respect of Policies and other liabilities allocated to the Segregated Account (as determined by the Rehabilitator in his sole and absolute discretion), (v) any other fees, costs or expenses that are expressly approved by the Rehabilitator or the Special Deputy Commissioner, and (vi) any other indebtedness or obligations of the Segregated Account entitled to such priority in a liquidation proceeding under Wis. Stat. § 645.68(1).

1.05 Alternative Resolution.

The process defined in Section 3.06 pursuant to which the Rehabilitator may negotiate a resolution of certain Claims.

1.06 Business Day.

A day other than a Saturday, Sunday or any other day on which commercial banks in New York, New York are authorized or required by law to close.

1.07 Cash.

Legal tender of the United States of America payable in immediately available funds, such as a wire transfer, bank or cashier's check.

1.08 Cash Percentage.

The percentage of the amount of a Permitted Policy Claim to be satisfied through the payment of Cash, which percentage shall be 25% on the Effective Date, and may be adjusted from time to time thereafter pursuant to Section 7.02 of this Plan.

1.09 Claim.

Any right to payment from the Segregated Account, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, equitable, legal, secured, or unsecured, and regardless of when such right arises.

1.10 Commissioner.

The Commissioner of Insurance of the State of Wisconsin.

1.11 Confirmation Date.

The date on which the Confirmation Order is entered on the docket of the Court.

1.12 Confirmation Hearing Date.

The date or dates of the hearing on confirmation of this Plan.

1.13 Confirmation Order.

The order of the Court confirming this Plan under Wis. Stat. § 645.33(5).

1.14 Cooperation Agreement.

The Cooperation Agreement, by and between the Segregated Account and AAC, effective March 24, 2010.

1.15 Court.

The Circuit Court for Dane County, State of Wisconsin.

1.16 Determination Date.

The fifteenth (15th) day of each month (or, if any such day is not a Business Day, the immediately following Business Day), subject to change in the sole and absolute discretion of the Rehabilitator.

1.17 Disallowed Claim.

A Claim that has been determined by the Rehabilitator or the Management Services Provider to constitute a Duplicate Claim or a Late Claim, or that the Rehabilitator or the Management Services Provider has otherwise determined should not be allowed, in each case in accordance with the provisions of Section 4.06 of this Plan.

1.18 Disclosure Statement.

The Disclosure Statement of the Segregated Account filed with the Court on October 8, 2010 that relates to and accompanies this Plan.

1.19 Disputed Claim.

A Claim as to which an Objection has been raised by the Rehabilitator or the Management Services Provider and which has not been released, satisfied, terminated, commuted or otherwise extinguished or become a Permitted Claim or a Disallowed Claim.

1.20 Distributions.

The distributions to be made in accordance with this Plan on account of Permitted Claims, consisting of, as the case may be: (a) Cash, (b) Surplus Notes, (c) Junior Surplus Notes and (d) any other distributions to Holders of Permitted Claims under the terms and provisions of this Plan.

1.21 Duplicate Claim.

Any Claim with respect to which the Rehabilitator has determined, in the Rehabilitator's sole and absolute discretion, that (i) the payment obligation of the Segregated Account under the provisions of the underlying instrument or contract giving rise to such Claim or (ii) the underlying risk of loss insured pursuant to the provisions of the Policy or other instrument(s) or contract(s) giving rise to such Claim, has, in either case, been released, satisfied (whether by Distributions made by the Segregated Account on account of another Claim or otherwise), terminated, commuted or otherwise extinguished, or is the subject of, or is, a Pending Claim, a Disputed Claim, a Late Claim, a Disallowed Claim or a Permitted Claim that has already been honored by the Segregated Account pursuant to the provisions hereof.

1.22 Effective Date.

The day on which this Plan shall be effective, as designated by the Rehabilitator, which shall be no later than thirty (30) days following the later of: (a) the first Business Day on which no stay of the Confirmation Order is in effect and (b) the first Business Day on which all conditions in Article 5 of this Plan have been satisfied or have been waived in accordance with this Plan.

1.23 Exhibit.

An exhibit annexed to this Plan.

1.24 Final Order.

An order or judgment entered by the Court, which has not been reversed, vacated, or stayed, that may no longer be appealed from or otherwise reviewed or reconsidered, as a result of which such order or judgment shall have become final and non-appealable.

1.25 Fiscal Agency Agreement.

The Fiscal Agency Agreement between the Segregated Account and the Fiscal Agent, which provides the mechanism for issuing the Surplus Notes under Section 4.04(d) of this Plan, the form of which is attached hereto as Exhibit A.

1.26 Fiscal Agent.

The Bank of New York Mellon, as fiscal agent under the Fiscal Agency Agreement (or any successor thereto).

1.27 General Account.

The general account of AAC.

1.28 General Claims.

All Claims which are not Administrative Claims or Policy Claims, and are not otherwise entitled to priority under the Act or an order of the Court, including, but not limited to, (i) any Claim submitted by One State Street, LLC or its successor or assignee arising from the disputed contingent liability of the Segregated Account, if any, under the long-term lease with One State Street, LLC, effective January 1, 1992 and amended as of August 1, 1997, and (ii) any Claim submitted under a reinsurance agreement allocated to the Segregated Account, as identified in Exhibit F to the Plan of Operation.

1.29 Holder.

Any Person holding a Claim against the Segregated Account, including, in the case of a Policy Claim, the named beneficiary of the related Policy.

1.30 Injunction.

The Order for Temporary Injunctive Relief entered by the Court on March 24, 2010.

1.31 Junior Surplus Note.

The 5.1% unsecured interest-bearing surplus notes to be issued by the Segregated Account to the Holders of Permitted General Claims, substantially in the form attached hereto as Exhibit D.

1.32 Late Claim.

Other than in the case of excusable neglect (as determined by the Rehabilitator in his sole and absolute discretion), any Claim determined by the Rehabilitator to not have been submitted in compliance with the provisions of this Plan within one hundred twenty (120) days of the later of (i) the Effective Date and (ii) the earliest date on which such Claim, if it had been submitted, would have satisfied all of the requirements to be considered a Permitted Claim.

1.33 Lien.

A charge against or interest in property to secure payment of a debt or performance of an obligation.

1.34 Management Services Agreement.

The Management Services Agreement between the Segregated Account and AAC, as Management Services Provider, effective March 24, 2010.

1.35 Management Services Provider.

AAC or any successor Management Services Provider under the Management Services Agreement.

1.36 No-action Letter Request.

The letter submitted on behalf of the Segregated Account to the Division of Corporation Finance of the SEC requesting that the Division of Corporation Finance confirm via letter that no enforcement action will be recommended to the SEC relative to the issuance of the Surplus Notes in accordance with Section 4.04(d) of this Plan in reliance upon the exemption

from the registration requirements of Section 5 of the Securities Act provided by Section 3(a)(10) of the Securities Act.

1.37 No-action Letter.

Letter(s) received by or on behalf of the Segregated Account from the Division of Corporation Finance of the SEC confirming that no enforcement action will be recommended to the SEC relative to the issuance of the Surplus Notes in accordance with Section 4.04(d) of this Plan.

1.38 Objection.

Any dispute or objection with respect to a Claim, as contemplated by Section 4.06 of this Plan.

1.39 OCI.

The Office of the Commissioner of Insurance of the State of Wisconsin.

1.40 Payment Date.

The date during each month on which Permitted Policy Claims shall be paid in accordance with Article 4 of this Plan. The Payment Date shall be the twentieth (20^{th}) day of each month (or, if any such day is not a Business Day, the immediately following Business Day), subject to change in the sole and absolute discretion of the Rehabilitator.

1.41 Pending / Pending Claim.

A Claim submitted by a Holder which is under evaluation by the Rehabilitator or the Management Services Provider, and which is not, or has not become, a Permitted Claim, a Disputed Claim, a Late Claim, a Duplicate Claim or a Disallowed Claim.

1.42 Permitted / Permitted Claim.

A Claim (other than a Late Claim, a Disputed Claim, a Pending Claim, a Duplicate Claim or a Disallowed Claim) submitted by a Holder in compliance with the provisions hereof and determined by the Rehabilitator or the Management Services Provider to be a matured, non-contingent due and payable obligation according to the provisions of the applicable Policy and/or any other underlying instrument(s) or contract(s) giving rise to or governing such Claim. Permitted Claims shall not include any Claim in respect of (i) any interest on such Claim to the extent accruing or maturing on or after the Petition Date, (ii) punitive, consequential, special or exemplary damages, (iii) any fine, penalty, tax or forfeiture, including, but not limited to, default or penalty interest purported to be imposed on the Claim or on the related insured obligation, if any, that would be in violation of the Injunction, or (iv) that portion of any loss for which indemnification is provided by other benefits or advantages recovered or recoverable by the Holder. In addition, a Permitted Claim shall not include any Claim the Holder of which in respect of such Claim, or any party to the transaction relating to such Claim, is in violation of this Plan or the Injunction.

1.43 Person.

An individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, an estate, a trust, an unincorporated organization, a government or any political subdivision thereof, or any other entity.

1.44 Petition Date.

March 24, 2010, the date on which OCI commenced the Proceeding.

1.45 Plan.

This Plan of Rehabilitation for the Segregated Account and all supplements and Exhibits hereto, as the same may be amended or modified as set forth herein and in accordance with the Act.

1.46 Plan Documents.

The Fiscal Agency Agreement, Form of Surplus Note, Form of Junior Surplus Note and Proof of Policy Claim Form, as the same may be amended or modified as set forth herein and in accordance with the Act.

1.47 Plan of Operation.

The Plan of Operation of the Segregated Account.

1.48 Policy.

Any financial guaranty insurance policy, surety bond or other similar guarantee allocated to the Segregated Account pursuant to the Plan of Operation.

1.49 Policy Claim.

A Claim under a Policy or Policies.

1.50 Proceeding.

The legal proceeding, currently styled as In the Matter of the Rehabilitation of: Segregated Account of Ambac Assurance Corporation, Case No. 10 CV 1576, pending in the Court.

1.51 Proof of Policy Claim Form.

The form attached hereto as Exhibit C to be used by the Holder of a Policy Claim to submit such Policy Claim to the Management Services Provider in accordance with Section 4.04(a), as such form may be amended from time to time in the sole and absolute discretion of the Rehabilitator.

1.52 Rehabilitation Order.

The Order for Rehabilitation entered in the Proceeding on March 24, 2010.

1.53 Rehabilitator.

The Commissioner, as the court-appointed rehabilitator of the Segregated Account.

1.54 Reinsurance Agreement.

The Aggregate Excess of Loss Reinsurance Agreement between the Segregated Account and AAC, entered into as of March 24, 2010.

1.55 SEC.

The Securities and Exchange Commission.

1.56 Secured Note.

The Secured Note issued by AAC to the Segregated Account on March 24, 2010.

1.57 Securities Act.

The Securities Act of 1933, as now in effect or hereafter amended.

1.58 Segregated Account.

The Segregated Account of Ambac Assurance Corporation, established pursuant to the Plan of Operation in accordance with Wis. Stat. § 611.24(2).

1.59 Segregated Account Operational Documents.

The documents and agreements pertaining to the establishment and operation of the Segregated Account, including, but not limited to, the Plan of Operation, the Secured Note, the Reinsurance Agreement, the Management Services Agreement and the Cooperation Agreement.

1.60 Special Deputy Commissioner.

The Special Deputy Commissioner of the Segregated Account appointed by the Rehabilitation Order.

1.61 Surplus Notes.

The 5.1% unsecured interest-bearing surplus notes to be issued by the Segregated Account to the Holders of Permitted Policy Claims, substantially in the form attached hereto as Exhibit B. For the avoidance of doubt, Surplus Notes shall not include the Junior Surplus Notes.

1.62 Surplus Note Percentage.

The percentage of the amount of a Permitted Policy Claim satisfied through the issuance of a Surplus Note, which percentage shall be 75% on the Effective Date, and may be adjusted from time to time thereafter pursuant to Section 7.02 of this Plan.

1.63 Website.

The website established by the Rehabilitator for policyholders at www.ambacpolicyholders.com, which makes available for viewing and download the key documents described herein and in the Disclosure Statement, including, but not limited to, this Plan, the Plan Documents and the Segregated Account Operational Documents.

1.64 Wis. Stat. §_____.

The Wisconsin Statutes (2007-08), as amended.

ARTICLE 2
TREATMENT OF CLAIMS GENERALLY

2.01 Administrative Claims.

Unless the Holder of a Permitted Administrative Claim and the Rehabilitator or the Management Services Provider agree to a different treatment in accordance with Section 3.06

of this Plan, each Holder of a Permitted Administrative Claim shall receive, in full satisfaction of such Permitted Administrative Claim, Cash equal to the amount of such Permitted Administrative Claim, in accordance with the procedures set forth in Section 4.03 below.

2.02 Policy Claims.

Unless the Holder of a Permitted Policy Claim and the Rehabilitator or the Management Services Provider agree to a different treatment in accordance with Section 3.06 of this Plan, each Holder of a Permitted Policy Claim shall receive, in full satisfaction of such Permitted Policy Claim, (i) Cash equal to the amount of such Permitted Policy Claim multiplied by the Cash Percentage and (ii) a Surplus Note (or beneficial interest therein), the principal amount of which is equal to the amount of such Permitted Policy Claim multiplied by the Surplus Note Percentage, in accordance with the procedures set forth in Section 4.04 of this Plan. Payment by AAC of a Policy Claim relating to an obligation of ACP under the related credit default swap shall be deemed payment by ACP of its obligations under such credit default swap. Nothing in this Plan shall cause to inure to the benefit of any Holder of a Policy Claim any greater right than that which would have existed were the Segregated Account not in rehabilitation.

2.03 General Claims.

Unless the Holder of a General Claim and the Rehabilitator or the Management Services Provider agree to a different treatment in accordance with Section 3.06 of this Plan, each Holder of a Permitted General Claim shall receive, in full satisfaction of such Permitted General Claim, a Junior Surplus Note, the principal amount of which is equal to the amount of such Permitted General Claim, in accordance with the procedures set forth in Section 4.05 of this Plan.

ARTICLE 3
MEANS FOR IMPLEMENTATION OF PLAN

3.01 Continued Existence of the Segregated Account.

The Segregated Account will continue to exist after the Effective Date with all the powers under applicable law, without prejudice to any right to terminate such existence under applicable law after the Effective Date. The Segregated Account Operational Documents shall remain in full force and effect according to their respective terms after the Effective Date, until terminated in accordance with their respective terms.

3.02 Rehabilitator.

The Commissioner shall remain the appointed Rehabilitator of the Segregated Account. Any successor(s) to the Commissioner shall automatically assume this appointment as Rehabilitator of the Segregated Account, with all the powers and duties described herein. The Rehabilitator shall have the full powers and authority granted pursuant to Wis. Stat. §§ 645.33 to 645.35 and all other applicable laws as are reasonable and necessary to fulfill the duties and responsibilities under the Rehabilitation Order and this Plan, including, but not limited to, the power and authority to interpret the terms and conditions of this Plan in order to carry out the purposes and effects of this Plan. In furtherance thereof, the Rehabilitator has the authority to issue to all interested Persons guidelines or further directions as may be necessary or appropriate from time to time in his sole and absolute discretion in order to carry out the purposes and effects of this Plan.

3.03 Special Deputy Commissioner.

The Special Deputy Commissioner and any successor appointed by the Rehabilitator pursuant to Wis. Stat. § 645.33 for the purposes of carrying out the rehabilitation shall have all of the powers of the Rehabilitator under Wis. Stat. §§ 645.33 to 645.35 and all

other applicable laws as are reasonable and necessary to fulfill such duties and responsibilities as are set forth in the Rehabilitation Order and this Plan.

3.04 Management Services Provider.

Subject to the oversight of the Rehabilitator and the Special Deputy Commissioner, the Management Services Provider shall continue to manage the Segregated Account pursuant to the terms of the Management Services Agreement and the Cooperation Agreement.

3.05 Administration of this Plan.

After the Effective Date, the Management Services Provider shall perform those responsibilities, duties, and obligations set forth in this Plan on behalf of the Segregated Account. To the extent that the manner of performance is not specified in this Plan, the Management Services Agreement, the Cooperation Agreement, or any guidelines issued by the Rehabilitator or the Special Deputy Commissioner under any of the foregoing, the Management Services Provider shall have the discretion to carry out and perform all other obligations or duties imposed on it by this Plan or by law in any manner it so chooses, as long as such performance is consistent with the purposes and effects of this Plan, as determined by the Rehabilitator in his sole and absolute discretion.

3.06 Alternative Resolutions of Claims.

Nothing in this Plan shall limit the ability of the Rehabilitator to resolve any Claim through the arrangement, negotiation, effectuation and execution of an amendment, restructuring, refinancing, purchase, repurchase, termination, settlement, commutation, tender, synthetic commutation or tear-up, or any similar transaction that results in the extinguishment or reduction of the Segregated Account's liability, in respect of, as applicable, (i) all or part of the

Policy or Policies, (ii) all or part of the underlying obligation or obligations insured by such Policy or Policies or (iii) the underlying instrument, contract or arrangement, if any, giving rise to such Claim (each, as applicable, an "Alternative Resolution"), subject to the following requirements:

(a) each Alternative Resolution must not violate the law and must be equitable to the interests of the Holders of Policy Claims generally, as determined in the sole and absolute discretion of the Rehabilitator; and

(b) the Rehabilitator shall obtain the approval of this Court prior to effectuating any Alternative Resolution that involves the payment of Cash by the Segregated Account in excess of $50 million.

ARTICLE 4
PROCEDURES GOVERNING SUBMISSION OF CLAIMS AND DISTRIBUTIONS

4.01 Claims Administration.

The Management Services Provider will retain responsibility for administering, disputing, objecting to, compromising or otherwise resolving all Claims in accordance with this Plan, subject to the provisions of this Plan and the Segregated Account Operational Documents, together with any guidelines issued by the Rehabilitator or the Special Deputy Commissioner under any of the foregoing, and the specific direction of the Rehabilitator or the Special Deputy Commissioner. Claims under Surplus Notes or Junior Surplus Notes shall not be treated as Administrative Claims, Policy Claims or General Claims for purposes of this Plan.

4.02 Secured Note, Reinsurance Agreement and Cooperation Agreement.

(a) Distributions of Cash in Respect of Permitted Claims.

Promptly following each Determination Date, the Management Services Provider shall, on behalf of the Segregated Account, demand payment from AAC pursuant to

Section 1(a) of the Secured Note in the amount of the Cash to be distributed on the next Payment Date in respect of Permitted Claims. In the event that the Secured Note has been fully drawn, the Management Services Provider shall, on behalf of the Segregated Account, as applicable, render the Monthly Account (as defined in the Reinsurance Agreement) to AAC as reinsurer pursuant to Section 1.05 of the Reinsurance Agreement or demand payment from AAC pursuant to Section 4.02 of the Cooperation Agreement, in each case in accordance with the respective terms thereof.

(b) Payment of Principal and Interest in Respect of Surplus Notes and Junior Surplus Notes.

In the event that OCI has authorized the payment of any interest or principal under any surplus notes issued by the Segregated Account, the Management Services Provider shall, on behalf of the Segregated Account, demand payment from AAC pursuant to Section 1(a) of the Secured Note in the amount of the Cash to be distributed in respect of such surplus notes. In the event that the Secured Note has been fully drawn, the Management Services Provider shall, on behalf of the Segregated Account, as applicable, include the amount of Cash to be distributed in respect of such surplus notes in the Monthly Account rendered to AAC as reinsurer pursuant to Section 1.05 of the Reinsurance Agreement.

4.03 Administrative Claims.

(a) Submission of Administrative Claims.

The Holder of an Administrative Claim shall submit its Administrative Claim to the Management Services Provider or, if directed by the Rehabilitator, to the Rehabilitator, in the same manner as such Holder would submit such Administrative Claim in the ordinary course of business, and in accordance with, and including such information as is required by, the provisions of the underlying instrument(s), contract(s) or arrangement(s) giving rise to such

Administrative Claim, if any. Each such Administrative Claim submitted in accordance with this Section shall be referred to as a Pending Administrative Claim.

(b) Evaluation of Pending Administrative Claims.

The Management Services Provider or, in his sole and absolute discretion, the Rehabilitator shall evaluate each Pending Administrative Claim to determine whether such Pending Administrative Claim is a Permitted Claim or whether an Objection should be raised as to such Administrative Claim in accordance with Section 4.06. The Management Services Provider or the Rehabilitator may ask any Holder to supplement its Pending Administrative Claim with further supporting documentation in order to evaluate such Pending Administrative Claim. Upon the determination by the Management Services Provider or the Rehabilitator that a Pending Administrative Claim constitutes a Permitted Claim, such Administrative Claim shall be considered a Permitted Administrative Claim.

(c) Payment of Administrative Claims.

Subject to the provisions of Section 3.06, the Management Services Provider shall distribute to each Holder of a Permitted Administrative Claim, in accordance with normal business practices and in complete satisfaction of such Permitted Administrative Claim, Cash equal to the dollar amount of such Administrative Claim. Notwithstanding the foregoing, the Management Services Provider may, in its discretion, allow Permitted Administrative Claims to be paid directly by AAC, and such amount shall be deemed to have been paid by the Segregated Account.

4.04 Policy Claims.

(a) Submission of Policy Claims.

The Holder of a Policy Claim, including any Policy Claim arising prior to the Effective Date, shall submit to the Management Services Provider (i) such Policy Claim in accordance with, and including such information as is required by, the provisions of the applicable Policy and any other underlying instrument(s) or contract(s) giving rise to or governing the submission of such Policy Claim and (ii) a completed and executed Proof of Policy Claim Form relating to such Policy Claim. A Holder shall not submit a Claim any earlier than permitted under the relevant Policy or other underlying instrument(s) or contract(s) giving rise to or governing the submission of such Policy Claim. Each such Policy Claim submitted in accordance with this Section shall be referred to as a Pending Policy Claim.

(b) Evaluation of Pending Policy Claims.

The Management Services Provider shall evaluate each Pending Policy Claim to determine whether the amount set forth in the Proof of Policy Claim is a Permitted Claim or whether an Objection should be raised as to such Policy Claim in accordance with Section 4.06. The Management Services Provider may ask any Holder to supplement its Pending Policy Claim with further supporting documentation in order to evaluate such Pending Policy Claim. Upon the determination by the Management Services Provider or the Rehabilitator that a Pending Policy Claim constitutes a Permitted Claim, such Policy Claim shall be considered a Permitted Policy Claim.

(c) Distributions of Cash.

Subject to Section 3.06, the Management Services Provider shall distribute to each Holder of a Permitted Policy Claim Cash equal to the dollar amount of such Permitted Policy Claim multiplied by the Cash Percentage. Such Distribution shall occur on the Payment Date that next follows the Determination Date on which such Claim was determined to be a

Permitted Policy Claim. Such amount shall be paid by the Segregated Account to the account of the Holder specified in the Proof of Policy Claim Form relating to such Policy Claim. Such payment of Cash and the issuance of Surplus Notes, as provided in subsection (d) of this Section 4.04, shall constitute full and complete payment and settlement of such Policy Claim.

(d) Issuance of Surplus Notes.

Subject to Section 3.06, the Segregated Account shall distribute to each Holder of a Permitted Policy Claim Surplus Notes with a principal amount equal to the dollar amount of such Permitted Policy Claim multiplied by the Surplus Note Percentage. Such Distribution shall occur on the Payment Date that next follows the Determination Date on which such Claim was determined to be a Permitted Policy Claim. On or prior to each Payment Date, the Management Services Provider shall, on behalf of the Segregated Account, execute and deposit with the Fiscal Agent a global Surplus Note in the name of The Depository Trust Corporation (or nominee thereof) in principal amount equal to the aggregate dollar amount of Surplus Notes to be issued on such date. A Holder of a Permitted Policy Claim may request in the relevant Proof of Policy Claim Form to receive a certificated Surplus Note in lieu of a beneficial interest in a global Surplus Note, and the principal amount of such global Surplus Note will be reduced by an amount equal to the principal amount of such certificated Surplus Note; provided, that the Management Services Provider may, in its sole and absolute discretion, decline to issue such Surplus Notes in certificated form. Beneficial interests in the Surplus Notes held in global form shall be transferred to the Holders of Permitted Policy Claims in accordance with the rules and procedures of the Fiscal Agent and The Depository Trust Corporation, including any arrangements agreed to with the Segregated Account from time to time, and to the extent received by a Holder acting in its capacity as trustee, shall be transferred by such Holder to the

beneficial holders for whom it is acting as trustee. Each Holder of a Permitted Policy Claim, including a Holder acting in its capacity as trustee, and each party to any instrument(s) or contract(s) (i) pursuant to which a Policy was issued, (ii) which governs the payment of claims under a Policy or (iii) which governs or specifies the subsequent allocation, distribution or disbursement of cash, funds, moneys or other amounts received pursuant to a Policy, including but not limited to, any note, indenture, certificate, servicing agreement or other similar instrument or agreement, shall be required to accept any Surplus Notes (or any beneficial interest therein) issued to such Holder or beneficiary in accordance with this Plan, in lieu of any cash payments required to be made to such Holder or beneficiary in full and complete satisfaction of such cash payment obligation of the Segregated Account in respect of such Permitted Policy Claim, regardless of the existence of any provision in such Policy or any other underlying instrument(s) or contract(s) that would require, or that contemplates, the discharge of the obligations of the Segregated Account through the payment of Cash. Notwithstanding the generality of the foregoing, the Segregated Account or any such Holder or beneficiary acting as a trustee may allocate, distribute or disburse Surplus Notes issued in accordance with this Plan by allocating, distributing or disbursing such Surplus Notes (or any beneficial interest therein) to the beneficial holders of such underlying financial instrument(s) through the relevant custodians holding the positions on behalf of the beneficial holders, and such custodians shall be required to accept and distribute such Surplus Notes to the beneficial holders in accordance with procedures acceptable to the Rehabilitator.

(e) Distributions under Surplus Notes.

As set forth in the Surplus Notes, all payments of principal and interest under the Surplus Notes shall be subject to the prior approval of the Commissioner.

(f) Subsequent Adjustments.

If the Rehabilitator or the Management Services Provider determines that the amount of the Cash received by and/or the principal amount of the Surplus Note credited to the Holder of a Permitted Policy Claim as a Distribution in any given Distribution was incorrect, the Rehabilitator or the Management Services Provider shall adjust the amount of the Cash received and/or the principal amount of the Surplus Note credited in respect of such Policy in one or more subsequent Distributions as necessary to account for such error.

(g) Recoveries and Reimbursements on Policy Claims.

Notwithstanding the Proceeding or any provisions of this Plan, including, but not limited to, the satisfaction of Permitted Policy Claims with Surplus Notes in lieu of Cash, AAC shall be entitled to recover the full amount of all recoveries, reimbursements and other payments and to receive any assets it is owed in its capacity as insurer, surety, credit support provider, credit enhancer, credit default swap counterparty or similar capacities, or as assignee or subrogee, under the applicable Policy and any related underlying instrument(s) or contract(s) governing the priority or distribution of cash recoveries or delivery of assets, unless otherwise waived by AAC and the Management Services Provider or the Rehabilitator or approved by AAC and the Management Services Provider or the Rehabilitator.

(h) Assignment of Rights.

Without prejudice to (i) the terms and provisions of the applicable Policy and any related underlying instrument(s) or contract(s) and (ii) any assignment previously executed, whether pursuant to a Proof of Policy Claim Form or otherwise, upon receipt of a payment with respect to a Permitted Policy Claim, each such Holder shall be deemed to have assigned its rights relating to that payment under the underlying instrument(s) or contract(s) to AAC.

4.05 General Claims.

(a) Submission of General Claims.

The Holder of a General Claim shall submit its General Claim to the Management Services Provider or, if directed, to the Rehabilitator in the same manner as such Holder would submit such General Claim in the ordinary course of business, and in accordance with, and including such information as is required by, the provisions of the underlying instrument(s) or contract(s) giving rise to or governing the submission of such General Claim, if any. A Holder shall not submit a General Claim any earlier than permitted under the relevant instrument(s) or contract(s) giving rise to or governing the submission of such General Claim. Each such General Claim submitted in accordance with this Section shall be referred to as a Pending General Claim.

(b) Evaluation of Pending General Claims.

The Management Services Provider shall evaluate each Pending General Claim to determine whether the Claim is a Permitted Claim or whether an Objection should be raised as to such General Claim in accordance with Section 4.06. The Management Services Provider or the Rehabilitator may ask any Holder to supplement its Pending General Claim with further supporting documentation in order to evaluate such Pending General Claim. Upon the determination by the Management Services Provider or the Rehabilitator that a Pending General Claim constitutes a Permitted Claim, such General Claim shall be considered a Permitted General Claim.

(c) Issuance of Junior Surplus Notes.

Subject to Section 3.06, from time to time, the Management Services Provider shall, on behalf of the Segregated Account, execute and deliver to each Holder of a Permitted

General Claim a Junior Surplus Note in a principal amount equal to the dollar amount of such Permitted General Claim.

4.06 Disputed Claims.

The Rehabilitator or the Management Services Provider may raise an Objection to any Pending Claim in whole or in part on any ground, including, but not limited to, the ground that the Rehabilitator or the Management Services Provider lacks sufficient information to evaluate such Pending Claim, that all or part of such Claim is a Duplicate Claim or that all or part of such Claim is a Late Claim, by providing the Holder of the Claim or the Holder's attorney (as applicable) with written notice of the substance of the Objection. No later than the sixtieth (60^{th}) day after the mailing of such written notice to the Holder, the Holder, if it wishes to dispute such Objection, shall send to the Management Services Provider written responses to the Objection. The responses must clearly set forth all facts and the legal basis, if any, for the opposition and the reasons why the Claim should be a Permitted Claim. If no response is sent by the Holder within such sixty (60) day period, the Claim shall become a Disallowed Claim without order of the Court. If a response is submitted within such sixty (60) day period, the Rehabilitator shall resolve such dispute in accordance with this Plan and communicate such resolution to the Holder. In the event that the Rehabilitator determines that such Disputed Claim is fully or partially a Disallowed Claim, the Holder has the right to file a motion with the Court asserting that the Rehabilitator disallowed such Claim in violation of the provisions of this Plan.

4.07 Setoffs.

The Rehabilitator may set off in whole or in part against any Permitted Claim or any Distribution of Cash, Surplus Notes or Junior Surplus Notes to be made under this Plan on account of such Permitted Claim, all claims, rights, and causes of action of any nature that the

Rehabilitator, AAC or the Segregated Account may have against the Holder of such Permitted Claim that are not otherwise waived, released, or compromised in accordance with the Plan. Neither the failure to effect such a setoff nor the determination that any Claim is Permitted under this Plan will constitute a waiver or release by the Rehabilitator, AAC or the Segregated Account of any such claims, rights, and causes of action, notwithstanding any compulsory counterclaim rules or requirements to the contrary.

ARTICLE 5
CONDITIONS PRECEDENT TO EFFECTIVENESS

5.01 Conditions Precedent to Effectiveness.

Notwithstanding any other provision of this Plan or the Confirmation Order, the Effective Date of this Plan shall not occur, and this Plan shall not be binding on any party, unless and until each of the following conditions has been satisfied:

(a) the Court shall have entered the Confirmation Order, which Confirmation Order shall approve, among other things, the procedural and substantive fairness of the terms and conditions of the issuance of the Surplus Notes under Section 4.04(d) of this Plan, in form and substance reasonably satisfactory to the Rehabilitator and consistent with the representations in the No-action Letter Request, all as determined by the Rehabilitator in the Rehabilitator's sole and absolute discretion;

(b) the Rehabilitator must be in receipt of (i) a No-action Letter in form and substance reasonably satisfactory to the Rehabilitator and, (ii) where possible, and in the Rehabilitator's sole and absolute discretion, no-action letters or written confirmations of the availability of securities registration exemptions from the securities law administrator of each of the fifty states of the United States, the District of Columbia and the Commonwealth of Puerto Rico.

(c) the Segregated Account and the Fiscal Agent shall have executed the Fiscal Agency Agreement;

(d) OCI shall have issued a letter approving the issuance of the Surplus Notes under Section 4.04(d) of this Plan and the Junior Surplus Notes for the purposes set forth in this Plan; and

(e) all other actions, documents and agreements necessary to implement this Plan as of the Effective Date shall have been delivered and all conditions precedent thereto shall have been satisfied or waived, in each case, as determined in the sole and absolute discretion of the Rehabilitator.

5.02 Notification of Effective Date.

Upon satisfaction of all of the conditions set forth in Section 5.01 and in the definition of "Effective Date," the Rehabilitator shall post a notice to the Website advising of the Effective Date of this Plan.

ARTICLE 6
RETENTION OF JURISDICTION

6.01 Retention of Jurisdiction.

Following the Effective Date, the Court shall retain exclusive jurisdiction over this Proceeding in accordance with the Act to ensure that the purposes and intent of this Plan are carried out. Without limiting the generality of the foregoing, the Court shall also expressly retain exclusive jurisdiction: (a) to hear and determine all Objections to Disputed Claims; (b) to hear, determine and enforce all causes of action that may exist against the Segregated Account or against the General Account or AAC or the Management Services Provider in regards to the Segregated Account; and (c) for all purposes pertaining to the treatment or classification of

Claims. The Court shall further retain exclusive jurisdiction for the following additional purposes:

(a) to modify this Plan after the Confirmation Date;

(b) to enter such orders and injunctions as are necessary to enforce the respective title, rights, and powers of the Segregated Account, the terms of this Plan, and to impose such limitations, restrictions, terms, and conditions on such title, rights, and powers as the Court may deem necessary;

(c) to enter an order closing the Proceeding;

(d) to correct any defect, cure any omission, or reconcile any inconsistency in this Plan or in any order of the Court as may be necessary to implement the purposes and intent of this Plan;

(e) to determine any and all motions, applications, and other contested matters that may be pending on the Effective Date;

(f) to consider any amendment or modification of this Plan or any Plan Document;

(g) to determine all controversies, suits, and disputes that may arise in connection with the interpretation, enforcement, or consummation of this Plan;

(h) to consider and act on the compromise and settlement of any Claim against or cause of action by or against the Segregated Account or in relation to Policies and other liabilities allocated to the Segregated Account arising under or in connection with this Plan;

(i) to determine such other matters or proceedings as may be provided for under the Act, this Plan, or in any order or orders of the Court, including, but not limited to, the

Confirmation Order or any order that may arise in connection with this Plan, the Proceeding, or the Confirmation Order; and

(j) to interpret and enforce, and determine all questions and disputes regarding, the injunctions, releases, exculpations, and indemnifications provided for or set forth in this Plan or the Confirmation Order.

ARTICLE 7
ANNUAL REPORTS TO COURT

7.01 Annual Reports.

No later than June 1 of each year, the Rehabilitator shall file a report with the Court advising the Court on the status of the rehabilitation of the Segregated Account. Such report shall:

(a) provide an updated financial analysis showing the estimated liabilities and available claims paying resources of the Segregated Account;

(b) update the Court on the status of the run-off and/or settlement of the liabilities allocated to the Segregated Account;

(c) indicate whether the next scheduled interest payment in respect of the Surplus Notes shall be approved by OCI; and

(d) provide such other information as is required by law, requested by the Court or deemed appropriate by the Rehabilitator.

7.02 Amendments to Cash Percentage and Surplus Note Percentage.

In conjunction with the submission of such annual report, the Rehabilitator may petition the Court to amend this Plan in accordance with Section 10.04 to simultaneously increase the Cash Percentage and decrease the Surplus Note Percentage by corresponding amounts, if, based on the Rehabilitator's analysis of the estimated liabilities and available claims

paying resources of the Segregated Account, the Rehabilitator has determined, in his sole and absolute discretion, that such an amendment is equitable to the interests of the Holders of Policy Claims generally. In determining whether such an amendment is equitable to the interests of the Holders of Policy Claims generally, the Rehabilitator shall consider whether, in conjunction with any such amendment, outstanding Surplus Notes should be partially redeemed, pre-paid, or called.

ARTICLE 8
DISCHARGE, RELEASE AND INJUNCTION

8.01 Discharge, Release and Injunction.

Except as may otherwise be provided herein, the Distributions in respect of a Permitted Claim under this Plan shall be in complete exchange for, and in full and unconditional settlement, satisfaction, discharge and release of such Claim, and shall effect a full and complete release, discharge, and termination of any Liens, or other claims, interests, or encumbrances upon the Segregated Account and AAC with respect to such Claim and only such Claims. In addition, upon final determination in accordance with this Plan that a Claim is a Disallowed Claim, such determination shall effect a full and complete release, discharge and termination of any Liens, other claims, interests, or encumbrances upon the Segregated Account and AAC with respect to such Claim. Other than as expressly provided for in this Plan, all Holders of Claims are precluded from asserting against the Segregated Account, the General Account or AAC, or their respective successors or property or any of their respective current or former members, shareholders, affiliates, officers, directors, employees or agents, any Claims, obligations, rights, causes of action or liabilities, based upon any act, omission, transaction, or other activity of any kind or nature, made in connection with, or arising out of, the Segregated Account, AAC or the General Account with respect to the Segregated Account, the Proceeding, this Plan (and the

Confirmation Order related thereto), the consummation of this Plan, or the administration of this Plan or the property to be distributed under this Plan, other than claims of intentional fraud or willful misconduct. Except as otherwise provided in this Plan, and except as otherwise agreed by the Rehabilitator or the Management Services Provider, all Holders of Claims shall be permanently barred and enjoined from asserting against the Segregated Account, the General Account or AAC, or their respective successors or property or any of their respective current or former members, shareholders, affiliates, officers, directors, employees or agents, any of the following actions on account of such Claim: (i) commencing or continuing in any manner any action or other proceeding on account of such Claim, or the property to be distributed under the terms of this Plan, other than to enforce any right to Distribution to such Holders under this Plan; (ii) enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree, or order against the Segregated Account, the General Account or AAC or any of the property to be distributed under the terms of this Plan, other than as permitted under sub-paragraph (i) above; (iii) creating, perfecting, or enforcing any Lien or other encumbrance against property of the Segregated Account, the General Account or AAC, or any property to be Distributed under the terms of this Plan; (iv) asserting any right of setoff, subrogation, or recoupment of any kind, directly or indirectly, against any obligation due to the Segregated Account, the General Account or AAC, or any property of the Segregated Account, the General Account or AAC, or any direct or indirect transferee of any property of, or successor in interest to, the Segregated Account, the General Account or AAC as prohibited by Wis. Stat. § 645.56; and (v) acting or proceeding in any manner, in any place whatsoever, that does not conform to, or comply with, the provisions of this Plan.

8.02 Discharge, Release and Injunction With Regard to Holders and Sub-Trustee/Agents.

Each Holder acting on its own behalf or acting in its capacity as a trustee and/or agent for the beneficial holder(s) of any underlying financial instrument(s) insured by a Policy, and any party to the Transaction Documents assigned or delegated in whole or in part duties relating to submitting or processing payment of Policy Claims under the related Transaction Documents (each a "Sub-Trustee/Agent"), shall submit any claim for payment under such Policy in accordance with the provisions of the Plan by completing and submitting the Proof of Policy Claim Form in full (in the form approved by the Rehabilitator), including the selection of the delivery method for the payment in Surplus Notes. Actions taken in compliance with the Plan by any such Holder or Sub-Trustee/Agent shall not be deemed to be a violation of any provision in, or duty arising out of, the applicable Policy or related Transaction Documents. The Segregated Account shall indemnify any such Holder acting in its capacity as a trustee and/or agent for the beneficial holder(s) of any underlying financial instrument(s) insured by a Policy, and any such Sub-Trustee/Agent (each an "Indemnified Party") for any reasonable and documented out-of-pocket losses and costs, including reasonable attorney fees, incurred in defending any lawsuit, action, or similar formal legal proceeding arising out of their compliance with the Plan (excluding losses and costs resulting from the negligence, gross negligence or other misconduct of such Indemnified Parties, provided, however, that for purposes of this indemnity, compliance with the Plan shall not be deemed to constitute negligence, gross negligence, or misconduct) (each a "Third Party Liability"), provided (a) no amounts shall be payable by the Segregated Account to any Indemnified Party to the extent that the same shall be reimbursable to them under or pursuant to the Transaction Documents and (b) any Indemnified Party making a claim for

indemnification shall have used its best efforts to cause any such lawsuit, action or similar formal legal proceeding to be brought before the Dane County Circuit Court as part of this Proceeding.

Any indemnification obligation of the Segregated Account under this provision shall further be subject to the following: promptly upon receipt by any Indemnified Party of notice of any claim or of the commencement or threatened commencement of any action against the Indemnified Party which may constitute a Third-Party Liability, such Indemnified Party will cause notice to be given to the Segregated Account in writing of such claim or such commencement or threatened commencement of action or proceeding, together with a copy of any documents received by the Indemnified Party in connection therewith. In the event that any such claim or action shall be asserted against an Indemnified Party, the Indemnified Party shall consent to the intervention by the Segregated Account in any such suit in order to defend against said claim and/or shall tender to the Segregated Account control of the defense and settlement of such claim or action, and shall cooperate with the Segregated Account in such defense and settlement. The Segregated Account shall at all times have the right to employ counsel to represent both the Indemnified Party and the Segregated Account in any claim or action or proceeding, whether or not the Segregated Account has requested intervention or tender of control; provided that in the event the Segregated Account's counsel or the Indemnified Party's counsel determines that there is a legal conflict of interest between the Segregated Account and such Indemnified Party, and neither the Segregated Account nor such Indemnified Party is willing to waive such conflict, then such Indemnified Party shall be entitled to retain one separate counsel, acceptable to the Segregated Account. Until the Segregated Account requests the control of the defense and settlement of such claim or action or unless the Segregated Account has otherwise employed counsel to represent both the Segregated Account and such

Indemnified Party, such Indemnified Party shall have the right to employ its own counsel with respect to such lawsuit, action or similar formal legal proceeding, whose reasonable fees and expenses shall be Third-Party Liabilities (provided that the Segregated Account shall in no event be liable for the legal fees and expenses of more than one firm). Such Indemnified Party giving notice and, if requested, tendering defense of the lawsuit or action required by this paragraph are conditions to the Segregated Account's indemnification obligations hereunder. Further, the Segregated Account shall have no liability for any settlement of any lawsuit or action for which the Segregated Account otherwise agrees herein to indemnify an Indemnified Party unless written notice of such proposed settlement shall have been furnished to the Segregated Account, and the Segregated Account in its sole discretion shall have consented in writing to such settlement.

All persons and entities are enjoined and restrained from commencing or prosecuting any actions, claims, lawsuits or other formal legal proceedings in any state, federal or foreign court, administrative body or other tribunal other than the Court against: (i) any Holder acting in its capacity as a trustee and/or agent for the beneficial holder(s) of any underlying financial instrument(s) insured by a Policy, in respect of such Holder's compliance with the Plan; and/or (ii) any Sub-Trustee/Agent, in respect of such Sub-Trustee Agent's compliance with the Plan. The Court shall have exclusive jurisdiction over such actions, claims, or lawsuits, which must be raised by motion or other filing in the Proceeding.

ARTICLE 9
IMMUNITY AND INDEMNIFICATION OF THE REHABILITATOR, EMPLOYEES, AND CONSULTANTS

9.01 Beneficiaries of Immunity and Indemnification.

The following Persons are entitled to protection under this part of this Plan: OCI, the Rehabilitator, the Special Deputy Commissioner, the Segregated Account, AAC and the General Account, and the Management Services Provider, and each of their respective current and former members, shareholders, affiliates, officers, directors, employees and agents (including any attorneys, financial advisors, investment bankers, consultants and other professionals retained by such Persons, and any other advisors or experts with whom OCI, the Rehabilitator or the Special Deputy Commissioner consults, as contemplated by Wis. Stat. § 645.33(3)).

9.02 Immunity and Indemnification.

All Persons identified in Section 9.01 shall have official immunity and shall be immune from suit and liability, both personally and in their official capacities, for any act or omission made in connection with, or arising out of, the Segregated Account, AAC or the General Account with respect to the Segregated Account, the Proceeding, this Plan (and the Confirmation Order related thereto), the consummation of this Plan, or the administration of this Plan or the property to be distributed under this Plan, whether prior to or following the commencement of the Proceeding, with the sole exception of acts or omissions resulting from intentional fraud or willful misconduct as determined by a Final Order and, in all respects, such Persons shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities, if any, under this Plan. If any legal action is commenced against any Person identified in Section 9.01, whether against that Person personally or in an official capacity, alleging property damage, property loss, personal injury or other civil liability caused by or resulting from any act or omission made in connection with, or arising out of, the Segregated Account, AAC or the General Account with respect to the Segregated Account, the Proceeding,

this Plan (and the Confirmation Order related thereto), the consummation of this Plan, or the administration of this Plan or the property to be distributed under this Plan, that Person shall be indemnified by the Segregated Account for all expenses, attorney's fees, judgments, settlements, decrees or amounts due and owing or paid in satisfaction of or incurred in the defense of such legal action, unless it is determined by a Final Order that the alleged act or omission was caused by intentional fraud or willful misconduct. Any indemnification for expense payments, judgments, settlements, decrees, attorneys' fees, surety bond premiums or other amounts paid or to be paid by the Segregated Account pursuant to this part of this Plan shall be considered a Permitted Administrative Claim. Nothing contained in or implied by this part of this Plan shall operate, or be construed or applied to deprive any Person identified in Section 9.01 of any immunity, indemnity, benefits of law, rights or any defense otherwise available.

ARTICLE 10
GENERAL PROVISIONS

10.01 Governing Law.

The rights and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Wisconsin, without giving effect to the principles of conflicts of law thereof.

10.02 Prior Orders and Agreements.

Unless modified by this Plan, the prior orders of this Court shall remain in full force and effect throughout the period of administration of this Plan. These orders include, without limitation, the Rehabilitation Order and the Injunction. Nothing in this Plan alters prior agreements or arrangements approved by the Rehabilitator with respect to the Segregated Account or any liability in respect of any Policy or other liability allocated to the Segregated Account.

10.03 Revocation or Withdrawal of this Plan.

The Rehabilitator reserves the right to revoke or withdraw this Plan prior to the Confirmation Date. If the Rehabilitator so revokes or withdraws this Plan, then this Plan shall be null and void and, in such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Segregated Account or any other Person, or to prejudice in any manner the rights of the Segregated Account or any other Person in any further proceedings involving the Segregated Account.

10.04 Amendment and Modification of this Plan.

The Rehabilitator may in his sole and absolute discretion alter, amend, or modify this Plan, the Segregated Account Operational Documents or the Disclosure Statement at any time prior to the Confirmation Hearing Date. Following the Confirmation Date, the Rehabilitator may seek the approval of the Court to alter, amend, or modify this Plan or the Plan Documents with such notice and hearing as the Court prescribes pursuant to Wis. Stat. § 645.33(5).

10.05 Termination of Rehabilitation.

The Rehabilitator may at any time petition the Court for an order terminating the rehabilitation of the Segregated Account if rehabilitation has been accomplished and the grounds for rehabilitation no longer exist.

10.06 Successors and Assigns.

The rights, benefits, and obligations of any Person named or referred to in this Plan shall be binding upon, and shall inure to the benefit of, the heirs, executors, administrators, successors, or assigns of such Person.

10.07 Rules of Interpretation.

For purposes of this Plan: (i) whenever from the context it is appropriate, each term, whether stated in the singular or the plural, shall include both the singular and the plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine, feminine, and the neuter gender; (ii) any reference in this Plan to a contract, instrument, release, indenture, or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (iii) any reference in this Plan to an existing document or Exhibit filed, or to be filed, shall mean such document or Exhibit, as it may have been or may be amended, modified, or supplemented in accordance with its terms; (iv) unless otherwise specified, all references in this Plan to Sections and Articles are references to Sections and Articles of this Plan; (v) the words "herein" and "hereto" refer to this Plan in its entirety rather than to a particular portion of this Plan; and (vi) captions and headings to Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of this Plan.

10.08 Implementation.

The Rehabilitator and Management Services Provider shall take all steps, and execute all documents including appropriate releases, necessary to effectuate the provisions contained in this Plan.

10.09 Inconsistency.

In the event of any inconsistency between this Plan and the Disclosure Statement, the provisions of this Plan shall govern.

10.10 No Admissions.

Notwithstanding anything herein to the contrary, nothing contained in this Plan shall be deemed an admission by any Person with respect to any matter set forth herein.

10.11 Filing of Additional Documents.

On or before the Effective Date, the Rehabilitator may file with the Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan.

EXHIBIT A
FORM OF FISCAL AGENCY AGREEMENT

FISCAL AGENCY AGREEMENT

between

THE SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION

Issuer

and

THE BANK OF NEW YORK MELLON

Fiscal Agent

Dated as of March [•], 2011

5.1% Surplus Notes scheduled to mature on June 7, 2020

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FISCAL AGENCY AGREEMENT (this "Agreement"), dated as of March [•], 2011, between the SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION (and any successor in interest thereto, the "Issuer") and THE BANK OF NEW YORK MELLON, a New York banking corporation, as Fiscal Agent (as defined herein). The Exhibits attached hereto shall be deemed to be a part of this Agreement.

Recitals

A. Ambac Assurance Corporation, a Wisconsin domiciled financial guaranty insurance corporation (including any successor in interest thereto, "AAC"), established the Issuer on March 24, 2010 pursuant to Section 611.24(2) of the Wisconsin Statutes with the approval of the Wisconsin Office of the Commissioner of Insurance and in accordance with the Plan of Operation for the Segregated Account of Ambac Assurance Corporation adopted by the Board of Directors of AAC, as amended from time to time.

B. The Issuer is the subject of an order for rehabilitation under Chapter 645 of the Wisconsin Statutes (the "Proceeding"), pursuant to which the rehabilitator of the Issuer under the Proceeding appointed by the rehabilitation court (including such rehabilitator's successors, the "Rehabilitator") has assumed control of the management of the Issuer and is conducting the business of the Issuer in accordance with a Plan of Rehabilitation approved on January 24, 2011 by the rehabilitation court pursuant to Section 645.33(5) of the Wisconsin Statutes (as amended, restated, supplemented or otherwise modified from time to time, the "Plan of Rehabilitation"). At all times while the Issuer is subject to the Proceeding, the term "Issuer" as used herein shall be deemed to include, and the Issuer shall act exclusively through, the Rehabilitator or the Rehabilitator's designee.

1. The Notes.

(a) General. Subject to the terms and conditions of the Plan of Rehabilitation, the aggregate principal amount of 5.1% Surplus Notes of the Issuer (the "Notes") that may be authenticated and delivered under this Agreement from time to time is unlimited. Claims based upon the Notes will rank below all Indebtedness, Policy Claims and Prior Claims (each as defined in the Notes). The payment by the Issuer of principal and interest on the Notes shall be conditioned upon the payment restrictions set forth in paragraphs 4 and 10 of the Notes (the "Payment Restrictions"). The Notes are scheduled to mature on June 7, 2020 (the "Scheduled Maturity Date"). Any reference herein to the term "scheduled maturity date" or other date for the payment of principal of the Notes shall include (i) the date, if any, fixed for redemption in accordance with paragraph 15 of the Notes and (ii) the date upon which any state or federal agency obtains an order or

grants approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or the general account of Ambac Assurance Corporation (the "General Account"), excluding, for the avoidance of doubt, any Excluded Order. "Excluded Order" means any order or approval of the type described in clause (ii) above entered or granted prior to the date hereof or any such order or approval entered or granted on or after the date hereof in the Proceeding, except to the extent that any such order or approval by its express terms provides for the acceleration of the maturity of the Notes or otherwise designates the scheduled maturity date or other maturity date or date for the payment of principal of the Notes.

(b) Forms of Notes. The Notes are being issued by the Issuer pursuant to, and subject to the terms and conditions of, the Plan of Rehabilitation. All Notes shall be issued substantially in the form attached hereto as either Exhibit A or B, as applicable, and shall be executed manually, in facsimile or portable document format on behalf of the Issuer by any of, (i) while the Issuer is subject to the Proceeding, the Rehabilitator or a designee of the Rehabilitator (including any management service provider) and, (ii) while the Issuer is not subject to the Proceeding, the Issuer's Chief Executive Officer, President, Executive Vice President or Chief Financial Officer (the persons specified in the foregoing (i) and (ii), as applicable, the "Authorized Officers"), notwithstanding that such officers, or any of them, shall have ceased, for any reason, to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of any such Note. The Notes also may have such (A) additional provisions, omissions, variations or substitutions as are not inconsistent with the provisions of this Agreement and (B) letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with this Agreement, any law or with any rules made pursuant thereto or with the rules of any securities exchange, insurance regulatory or other governmental agency or depositary therefor or as may, consistently herewith, be determined by the Authorized Officer executing such Notes, in the case of both (A) and (B), as conclusively evidenced by the proper execution of such Notes by any such Authorized Officer. All Notes shall be otherwise identical except as to denomination, issue date and as otherwise provided herein.

(c) Book-Entry Provisions. This Section 1(c) shall apply to all Notes evidencing all or part of the Notes that are registered in the name of The Depository Trust Company (the "U.S. Depositary") or a nominee thereof ("Global Notes"). The Issuer may execute and, upon the Issuer's request, the Fiscal Agent shall, in accordance with this Section 1(c) and with Section 3, authenticate and deliver one or more Global Notes, which (A) shall be registered in the name of the U.S. Depositary or its nominee, (B) shall be retained by the Fiscal Agent as custodian for the U.S. Depositary and (C) shall bear legends substantially to the following effect:

"UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IN EXCHANGE FOR THIS NOTE OR ANY PORTION HEREOF IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN."

"THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE FISCAL AGENCY AGREEMENT REFERRED TO HEREINAFTER. THIS GLOBAL NOTE MAY NOT BE EXCHANGED, IN WHOLE OR IN PART, FOR A NOTE REGISTERED IN THE NAME OF ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES SET FORTH IN SECTION 5 OF THE FISCAL AGENCY AGREEMENT, AND MAY NOT BE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN SECTION 6(c) OF THE FISCAL AGENCY AGREEMENT. BENEFICIAL INTERESTS IN THIS GLOBAL NOTE MAY NOT BE TRANSFERRED EXCEPT IN ACCORDANCE WITH SECTION 6(c) OF THE FISCAL AGENCY AGREEMENT."

Neither any members of, or participants in, the U.S. Depositary ("Agent Members") nor any other persons on whose behalf Agent Members may act (including, without limitation, Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*, Luxembourg and account holders and participants therein) shall have any rights under this Fiscal Agency Agreement with respect to any Global Note registered in the name of the U.S. Depositary or any nominee thereof, or under any such Global Note, and the U.S. Depositary or such nominee, as the case may be, may be treated by the Issuer, the Fiscal Agent and any agent of the Issuer or the Fiscal Agent as the absolute owner and holder of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing

herein shall prevent the Issuer, the Fiscal Agent or any agent of the Issuer or the Fiscal Agent from giving effect to any written certification, proxy or other authorization furnished by the U.S. Depositary or such nominee, as the case may be, or impair, as between the U.S. Depositary, its Agent Members and any other person on whose behalf an Agent Member may act, the operation of customary practices of such persons governing the exercise of the rights of a holder of any Note.

(d) Persons Deemed Owners. The Issuer, the Fiscal Agent and any agent of the Issuer or the Fiscal Agent may treat the person in whose name a Note is registered as the absolute owner and holder of such Note for all purposes whatsoever, and none of the Issuer, the Fiscal Agent and any agent of any of them shall be affected by notice to the contrary. Any reference herein and in any Note to the term "holder" of a Note or "registered holder" shall be to the person in whose name a Note is registered in the register maintained for such purposes pursuant to Section 6 hereof.

(e) Denominations. The Notes shall be issuable in minimum denominations of $1 and integral multiples of $1 in excess thereof.

2. Fiscal Agent; Other Agents. The Issuer hereby appoints The Bank of New York Mellon, acting through its corporate trust office at 101 Barclay Street, Floor 8W, New York, New York 10286, Attention: Corporate Finance Group (the "Corporate Trust Office"), as fiscal agent of the Issuer in respect of the Notes upon the terms and subject to the conditions herein set forth, and The Bank of New York Mellon hereby accepts such appointment. The Bank of New York Mellon, and any successor or successors as such fiscal agent qualified and appointed in accordance with Section 10 hereof, are herein called the "Fiscal Agent." The Fiscal Agent shall have the powers and authority granted to and conferred upon it in the Notes and hereby and such further powers and authority to act on behalf of the Issuer as may be mutually agreed upon by the Issuer and the Fiscal Agent. The Fiscal Agent shall keep a copy of this Agreement available for inspection during normal business hours at its Corporate Trust Office. The Fiscal Agent or any Paying Agent (as defined below) shall also act as Transfer Agent (as defined below). All of the terms and provisions with respect to such powers and authority contained in the Notes are subject to and governed by the terms and provisions hereof.

The Issuer may, at its discretion, appoint one or more agents (a "Paying Agent" or "Paying Agents") for the payment, to the extent permitted under the Payment Restrictions, of the principal of and any interest on the Notes, and one or more agents (a "Transfer Agent" or "Transfer Agents") for the transfer and exchange of Notes, at such place or places as the Issuer may determine; provided, however, that the Issuer shall at all times maintain a Paying Agent and Transfer Agent in the Borough of Manhattan, The City of New York (which Paying Agent and Transfer Agent may be the Fiscal Agent). The Issuer hereby initially appoints the Fiscal Agent at its Corporate Trust Office as

Paying Agent, Transfer Agent, authenticating agent and securities registrar, and the Fiscal Agent hereby accepts such appointments. The Transfer Agent shall act as a securities registrar and there shall be kept at the office of the Transfer Agent a register in which, subject to such reasonable regulations as the Issuer may prescribe, the Issuer shall provide for the registration of Notes and the registration of transfers or exchanges of Notes. The Issuer shall promptly notify the Fiscal Agent of the name and address of any other Paying Agent or Transfer Agent appointed by it and of the country or countries in which a Paying Agent or Transfer Agent may act in that capacity, and will notify the Fiscal Agent of the resignation or termination of any such Paying Agent or Transfer Agent. Subject to the provisions of Section 10(c) hereof, the Issuer may vary or terminate the appointment of any such Paying Agent or Transfer Agent at any time and from time to time upon giving not less than 90 days' notice to such Paying Agent or Transfer Agent, as the case may be, and to the Fiscal Agent. The Issuer shall cause written notice of any resignation, termination or appointment of the Fiscal Agent or any Paying Agent or Transfer Agent and of any change in the office through which any such Agent will act to be provided to holders of Notes as soon as reasonably practicable following the Issuer's receipt of notice thereof.

3. Authentication. The Fiscal Agent is authorized from time to time, upon receipt of Notes duly executed on behalf of the Issuer and in accordance with the written order or orders of the Issuer signed on its behalf by an Authorized Officer, which order or orders shall include confirmation that all conditions precedent to the authentication of such Notes have been met and that authentication of such Notes is authorized and permitted by this Agreement, to manually authenticate and deliver Notes in accordance with the provisions therein and hereinafter set forth.

The Fiscal Agent may, with the consent of the Issuer, appoint by an instrument or instruments in writing, one or more agents (which may include itself) for the authentication of the Notes and, with such consent, vary or terminate any such appointment upon written notice and approve any change in the office through which any authenticating agent acts. The Issuer (by written notice to the Fiscal Agent and the authenticating agent whose appointment is to be terminated) may also terminate any such appointment at any time. The Fiscal Agent hereby agrees to solicit written acceptances from the entities concerned (in form and substance satisfactory to the Issuer) of such appointments. In its acceptance of such appointment, each such authenticating agent shall agree to act as an authenticating agent pursuant to the terms and conditions of this Agreement.

4. Payment and Cancellation.

(a) Payment. For so long as the Fiscal Agent is acting as a Paying Agent hereunder, the Issuer, subject to the Payment Restrictions, shall provide to the Fiscal

Agent, or such other Paying Agent if the Fiscal Agent is no longer acting as a Paying Agent, in immediately available funds on or prior to 11:00 a.m., New York time, on each date on which a payment of principal of or any interest on the Notes shall be payable, as set forth in the text of the Notes, such amounts, in U.S. dollars, as are necessary (with any amounts then held by the Fiscal Agent and available for the purpose) to make such payment, and the Issuer hereby authorizes and directs the Fiscal Agent from funds so provided to it to make or cause to be made payment of the principal of and any interest, as the case may be, on the Notes in the manner, at the times and for the purposes set forth herein and in the text of said Notes; provided that the Issuer will not provide any such funds to the Fiscal Agent prior to such time as the relevant payment of principal or interest is approved by the Commissioner of Insurance of the State of Wisconsin or any successor thereto (the "Commissioner"). Permitted payments of principal of or any interest on the Notes to the persons (the "registered holders") in whose names such Notes are registered on the register maintained pursuant to Section 6 hereof at the close of business on the record dates designated in the text of the Notes will be made (i) by wire transfer of immediately available funds to an account maintained by the payee with a bank as specified in the text of the Notes if such registered holder gives notice to the Fiscal Agent, not less than 15 days (or such fewer days as the Fiscal Agent may accept at its discretion) prior to the date on which such payments are scheduled to be made, of the account to which payment is to be made or, (ii) if no such notice is given, by mailing a check to the payee at the address reflected in the register maintained pursuant to Section 6 hereof. Unless the designation of the payee's account to which payment is to be made is revoked, any such designation made by such holder with respect to such Notes shall remain in effect with respect to any future payments with respect to such Notes payable to such holder. The Issuer shall pay any reasonable administrative costs in connection with making any such payments. The Fiscal Agent shall arrange directly with any other Paying Agent who may have been appointed by the Issuer pursuant to the provisions of Section 2 hereof for the payment, subject to the Payment Restrictions, from funds so paid by the Issuer of the principal of and any interest on the Notes in the manner, at the times and for the purposes set forth herein and in the text of said Notes. Notwithstanding the foregoing, the Issuer may provide directly to a Paying Agent (other than the Fiscal Agent) funds for the payment, subject to the Payment Restrictions, of the principal thereof and interest payable thereon under an agreement with respect to such funds containing substantially the same terms and conditions set forth in this Section 4(a) and in Section 9(b) hereof; and the Fiscal Agent shall have no responsibility with respect to any funds so provided by the Issuer to any such Paying Agent. To the extent that the Fiscal Agent is not acting as Paying Agent, references to the Fiscal Agent in this Section 4(a) shall include the Paying Agent in such capacity.

Funds received by the Paying Agent will be applied first to the amounts then due to the Paying Agent, Transfer Agent and Fiscal Agent under Section 9(a) and then to the principal of and interest on the Notes.

Payments of principal of and interest on the Notes shall be made in the manner set forth in the Notes, including the Payment Restrictions set forth therein.

For any amounts due and payable under the Notes that are approved by the Commissioner in accordance with this Section 4(a) and which are due and payable under the Secured Note dated as of March 24, 2010, from Ambac Assurance Corporation to the Issuer (the "Secured Note") or the Aggregate Excess of Loss Reinsurance Agreement, dated as of March 24, 2010, by and between Ambac Assurance Corporation and the Issuer (the "Aggregate Excess of Loss Reinsurance Agreement"), as the case may be, the Issuer undertakes to demand payment under the Secured Note or the Aggregate Excess of Loss Reinsurance Agreement, as the case may be, against Ambac Assurance Corporation.

(b) Cancellation. All Notes delivered to the Fiscal Agent (or any other agent appointed by the Issuer pursuant to Section 2 hereof) for payment, redemption or registration of transfer or exchange as provided herein or in the Notes shall be marked "cancelled" and, in the case of any other such agent, forwarded to the Fiscal Agent. All such Notes shall be disposed of by the Fiscal Agent in accordance with its customary procedures or by such other person as may be jointly designated by the Issuer and the Fiscal Agent, which, upon the Issuer's written instructions, shall thereupon furnish certificates of such disposition to the Issuer.

5. Global Notes.

(a) Exchange for Certificated Notes. Notwithstanding any other provisions of this Agreement or the Notes, a Global Note shall not be exchanged in whole or in part for a Note registered in the name of any person other than the U.S. Depositary or one or more nominees thereof; provided that a Global Note may also be exchanged for Notes registered in the names of any person designated by the U.S. Depositary in the event that such exchange is permitted by applicable law and (i) the U.S. Depositary has notified the Issuer that it is unwilling or unable to continue as U.S. Depositary for such Global Note or the U.S. Depositary has ceased to be a "clearing agency" registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Issuer fails to appoint a successor depositary within 90 days of receiving such notice, (ii) an event described in paragraph 14(a) or the first sentence of paragraph 14(b) of the Notes has occurred and is continuing with respect to the Notes or (iii) a request for certificates has been made upon 60 days' prior written notice given to the Fiscal Agent in accordance with the U.S. Depositary's customary procedures and a copy of such notice has been received by the Issuer from the Fiscal Agent. Any Global Note exchanged pursuant to clause (i) above shall be so exchanged in whole and not in part and any Global Note exchanged pursuant to clause (ii) or (iii) above may be exchanged in whole or from time to time in part as directed by the U.S. Depositary. Any Note issued in exchange for a Global Note or any portion thereof shall be a Global Note; provided that any such Note so issued that is registered in the name of a person other than the U.S. Depositary or a

nominee thereof shall be in the form of certificated securities in definitive, fully registered form without interest coupons, substantially in the form attached as Exhibit A hereto, with such applicable legends as are provided in Exhibit A ("Certificated Notes").

(b) Notes Issued in Exchange for Global Notes. Notes issued in exchange for a Global Note or any portion thereof shall be issued in definitive, fully registered form, without interest coupons, shall have an aggregate principal amount equal to that of such Global Note or portion thereof to be so exchanged, shall be registered in such names and be in such authorized denominations as the U.S. Depositary shall designate and shall bear the applicable legends provided for herein. Any Global Note to be exchanged in whole shall be surrendered by the U.S. Depositary to the Transfer Agent located in the Borough of Manhattan, The City of New York, to be so exchanged. With regard to any Global Note to be exchanged in part, either such Global Note shall be so surrendered to the Transfer Agent for exchange or, if the Fiscal Agent is acting as custodian for the U.S. Depositary or its nominee with respect to such Global Note, the principal amount thereof shall be reduced, by an amount equal to the portion thereof to be so exchanged, by means of an appropriate adjustment made on the records of the Fiscal Agent. Upon any such surrender or adjustment, the Fiscal Agent shall authenticate and deliver the Note duly executed by the Issuer in connection with such exchange to or upon the order of the U.S. Depositary or an authorized representative thereof.

(c) Authorization by Registered Holder. Subject to the provisions of Section 1(c) above, the registered holder may grant proxies and otherwise authorize any person, including Agent Members and persons that may hold interests through Agent Members, to take any action which a registered holder of a Note is entitled to take under this Fiscal Agency Agreement or the Notes.

(d) Certificated Notes Made Available. In the event of the occurrence of any of the events specified in paragraph (a) of this Section 5, the Issuer will promptly make available to the Fiscal Agent a reasonable supply of executed Certificated Notes.

6. Registration, Transfer and Exchange of Notes.

(a) General. The Fiscal Agent, as agent of the Issuer for this purpose, shall maintain at its Corporate Trust Office in the Borough of Manhattan, The City of New York, a register of Notes for the registration of Notes and the transfers and exchanges thereof. Subject to the provisions of this Section 6, upon presentation for the registration, transfer or exchange of any Note at the office of any Transfer Agent accompanied by a written instrument of transfer or exchange in the form reasonably approved by the Issuer (it being understood that, until notice to the contrary is given to holders of Notes, the Issuer shall be deemed to have approved the form of instrument of transfer or exchange, if any, printed on any Note), executed by the registered holder, in person or by such holder's attorney thereunto duly authorized in writing, such Note shall be transferred

upon the register for the Notes, and a new Note shall be authenticated and issued in the name of the transferee. No transfer shall be effected under this Agreement or the Notes until, and such transferee shall succeed to the rights of the transferor only upon, final acceptance and registration of transfer by the Fiscal Agent, as Transfer Agent, or by the Transfer Agent if the Fiscal Agent is not so serving, in the register.

(b) Transfers of Certificated Notes. To permit registrations of transfers and exchanges, the Fiscal Agent or Transfer Agent shall communicate to the Issuer any request from a holder of a Note to so transfer or exchange and the Issuer shall execute and the Fiscal Agent (or an authenticating agent appointed pursuant to Section 3) shall authenticate and deliver such Certificated Note. No service charge shall be made for any registration of transfer or exchange, but the Issuer and the Fiscal Agent may require payment by the holder of a Note of a sum sufficient to cover any transfer tax or other governmental charge payable in connection with any registration of transfer or exchange.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Issuer, subject to the Payment Restrictions, evidencing the same debt, and the applicable provisions of this Agreement shall apply equally thereto, as to the Notes surrendered upon such registration of transfer or exchange.

Upon the receipt by the Fiscal Agent, as Transfer Agent, at its Corporate Trust Office in The City of New York of (i) a Certificated Note accompanied by a written and executed instrument of transfer or exchange as provided in Section 6(a), (ii) written instructions from an Agent Member directing the Fiscal Agent to credit or cause to be credited to a specified Agent Member's account a beneficial interest in a Global Note having a principal amount equal to the principal amount of the Certificated Note so transferred and (iii) a written order containing information regarding the account of the Agent Member to be credited with such beneficial interest, the Fiscal Agent shall cancel such Certificated Note and shall instruct the U.S. Depositary to increase the principal amount of the applicable Global Note by the principal amount of the Certificated Note so transferred, and to credit or cause to be credited to the account of the person specified in such instructions a beneficial interest in such Global Note having a principal amount equal to the principal amount of the Certificated Note so transferred.

(c) Transfers of Global Notes and Interests Therein. Notwithstanding any other provision of this Agreement or the Notes, transfers of a Global Note, in whole or in part, shall be made only in accordance with this Section 6(c). A Global Note may not be transferred, in whole or in part, to any person other than the U.S. Depositary or a nominee thereof, and no such transfer to any such other person may be registered; provided that this Section 6(c) shall not prohibit any transfer of a Note that is issued in exchange for a Global Note but is not itself a Global Note. No transfer of a Note to any person shall be effective under this Agreement or the Notes unless and until such Note has been registered in the name of such person. The transfer and exchange of any beneficial

interest in Global Notes shall be effected through the U.S. Depositary in accordance with this Agreement (including applicable restrictions on transfer set forth herein, if any) and the procedures of the U.S. Depositary therefor and nothing in this Section 6(c) shall prohibit or render ineffective any transfer of a beneficial interest in a Global Note effected in accordance with the other provisions of this Section 6(c). In the event that a Global Note, any portion thereof or a beneficial interest therein is exchanged for Notes other than Global Notes, such other Notes may in turn be exchanged (on transfer or otherwise) for Notes that are not Global Notes or for beneficial interests in a Global Note (if any is then outstanding) only in accordance with such procedures, which shall be substantially consistent with the provisions of Section 6(b).

(d) Registration of Transfers and Exchanges. Successive registrations of transfers and exchanges as aforesaid may be made from time to time as desired, and each such registration shall be noted on the securities register. No service charge shall be made to a holder for any registration of transfer or exchange of the Notes, but the Fiscal Agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith and any other amounts required to be paid by the provisions of the Notes.

(e) Information from Transfer Agent. Any Transfer Agent appointed pursuant to Section 2 hereof shall provide to the Fiscal Agent such information as the Fiscal Agent may reasonably require in connection with the delivery by such Transfer Agent of Notes upon transfer or exchange of Notes.

(f) Periods of Non-registration. No Transfer Agent shall be required to make registrations of transfer or exchange of Notes during any periods designated in the text of the Notes as periods during which such registration of transfer and exchanges need not be made.

(g) Repurchases by Issuer. With the prior approval of the Commissioner, the Issuer and any person that constitutes an affiliate of the Issuer within the meaning of the Securities Act of 1933, as amended (the "Act"), may at any time purchase Notes in the open market or otherwise at any price, for its own account or the account of others. Any Note so purchased by the Issuer or any such affiliate for its own account shall not thereafter be re-issued or resold, except pursuant to an exemption from registration under the Act.

7. Redemption. Subject to the Payment Restrictions, including the prior approval of the Commissioner, the Notes may be redeemed, as a whole or in part, at the option of the Issuer at any time and from time to time, at the Redemption Price set forth in paragraph 15 of the Notes. The Notes may not be redeemed at the option of a holder thereof.

(a) Notice to Fiscal Agent. If the Issuer elects to redeem Notes pursuant to paragraph 15 of the Notes, it shall notify the Fiscal Agent in writing of the date designated for redemption, the aggregate principal amount of Notes to be redeemed, the Redemption Price (as defined in the Notes) and that such redemption is being made pursuant to paragraph 15 of the Notes. The Issuer shall give each notice to the Fiscal Agent provided for in this Section not less than 45 days (unless a shorter period is acceptable to the Fiscal Agent) nor more than 60 days before the date designated for redemption.

(b) Selection of Notes to be Redeemed. If less than all the Notes are to be redeemed, each Outstanding Note shall be redeemed, pro rata; provided that if at the time of redemption such Notes are registered as a Global Note, the U.S. Depositary for such Global Note shall determine, in accordance with its procedures, the principal amount of such Notes to be redeemed held by each holder of a beneficial interest in such Global Note. The Fiscal Agent shall notify the Issuer promptly of the Notes or portion thereof selected to be redeemed. Notwithstanding any provision hereof or of the Notes to the contrary, any redemption of the Notes hereunder shall be pro rata with any other surplus or contribution notes or similar obligations issued from time to time by the Issuer or the General Account (or any successor or assign thereof in respect of such notes or similar obligations), in each case except to the extent that any such notes or similar obligations are, by their express terms, subordinated to the Notes.

(c) Notice of Redemption; Effect of Notice. Notices to redeem Notes shall be given by the Fiscal Agent on behalf of and at the expense of the Issuer in the manner provided in paragraph 15 of the Notes. The effect of such notice shall be as set forth in such paragraph 15.

(d) Notes Redeemed in Part. Any Note which is to be redeemed only in part shall be surrendered with, if the Issuer or the Fiscal Agent so requires, due endorsement by, or a written instrument of transfer in form reasonably satisfactory to the Issuer and the Fiscal Agent duly executed by, the holder thereof or such holder's attorney duly authorized in writing, and the Issuer shall execute, and the Fiscal Agent shall authenticate and deliver to the holder of such Note without service charge, a new registered Note or Notes, of any authorized denomination as requested by such holder, and as permitted by Section 1(d) of this Agreement, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

8. Delivery of Certain Information. At any time when the Issuer is not subject to Section 13 or 15(d) of the Exchange Act, upon the request of a holder of a Note or beneficial interest in a Global Note, the Issuer shall promptly furnish or cause to be furnished Rule 144A Information (as defined below) to such holder, or to a prospective purchaser of such Note or interest designated by such holder, in order to permit compliance by such holder with Rule 144A under the Act in connection with the resale of

such Note by such holder. "Rule 144A Information" shall be such information as is specified pursuant to paragraph (d)(4) of Rule 144A under the Act (or any successor provision thereto), as such provisions (or successor provision) may be amended from time to time.

9. Conditions of Fiscal Agent's Obligations. The Fiscal Agent accepts its obligations herein set forth upon the terms and conditions hereof, including the following, to all of which the Issuer agrees and all of which are applicable to the Notes and the holders from time to time thereof:

(a) Compensation and Indemnity. The Fiscal Agent shall be entitled to such compensation as agreed from time to time in writing with the Issuer for all services rendered by it, and the Issuer agrees promptly to pay such compensation and to reimburse the Fiscal Agent for the reasonable out-of-pocket expenses (including reasonable counsel fees and expenses) incurred by it in connection with or arising out of its services hereunder, or the issuance of the Notes and their offering and sale. The Issuer also agrees to indemnify the Fiscal Agent for, and to hold it harmless against, any loss, damages, claim, liability or expense, incurred without bad faith, negligence, fraud or willful misconduct, arising out of or in connection with its acting as Fiscal Agent, Transfer Agent or Paying Agent hereunder, as well as the reasonable costs and expenses actually incurred by the Fiscal Agent of defending against any claim of liability in the premises. The Issuer undertakes to pursue all of its payment rights under each of the Secured Note dated as of March 24, 2010, from Ambac Assurance Corporation to the Issuer and the Cooperation Agreement, dated as of March 24, 2010, by and between Ambac Assurance Corporation and the Issuer against Ambac Assurance Corporation for any amounts due to the Fiscal Agent pursuant to this Agreement. The obligations of the Issuer under this Section 9(a) shall survive payment of all the Notes, the resignation or removal of the Fiscal Agent or the termination of this Agreement.

(b) Agency. In acting under this Agreement and in connection with the Notes, the Fiscal Agent is acting solely as agent of the Issuer and does not assume any responsibility for the correctness of the recitals in the Notes (except for the correctness of the statement in its certificate of authentication thereon) or any obligation or relationship of agency or trust, for or with any of the owners or holders of the Notes, except that all funds held by the Fiscal Agent for the payment of principal of and any interest on the Notes, to the extent permitted under the Payment Restrictions, shall be held in trust for such owners or holders, as the case may be, as set forth herein and in the Notes; provided, however, that monies held in respect of the Notes remaining unclaimed at the end of two years after such principal and such interest shall have become payable in accordance with the Payment Restrictions (whether at the Scheduled Maturity Date or otherwise) and monies sufficient therefor shall have been duly made available for payment shall, together with any interest made available for payment thereon, be repaid to the Issuer. Upon such repayment, the aforesaid trust with respect to the Notes shall terminate and all

liability of the Fiscal Agent and Paying Agents with respect to such funds shall thereupon cease.

(c) Advice of Counsel. The Fiscal Agent and any Paying Agent or Transfer Agent appointed by the Issuer pursuant to Section 2 hereof may consult with their respective counsel or other independent counsel satisfactory to them (to the extent such consultation is contemplated by the terms of this Agreement, at the expense of the Issuer), and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by them hereunder, provided, that such action is without bad faith, negligence, fraud or willful misconduct on its part and in accordance with such advice or opinion.

(d) Reliance. The Fiscal Agent and any Paying Agent or Transfer Agent appointed by the Issuer pursuant to Section 2 hereof each shall be protected and shall incur no liability for or in respect of any action taken or thing suffered by it in reliance upon any Note, notice, direction, consent, certificate (including a certificate of an Authorized Officer delivered to the Fiscal Agent), affidavit, statement, or other paper or document believed by it, acting without bad faith, negligence, fraud or willful misconduct on its part, to be genuine and to have been passed upon or signed by the proper parties.

(e) Interest in Notes, etc. The Fiscal Agent, any Paying Agent or Transfer Agent appointed by the Issuer pursuant to Section 2 hereof and their respective officers, directors and employees may become the owners of, or acquire any interest in, any Notes, with the same rights that they would have if they were not the Fiscal Agent, such other Paying Agent or Transfer Agent or such person, and may engage or be interested in any financial or other transaction with the Issuer, and may act on, or as depositary, trustee or agent for, any committee or body of holders of Notes or other obligations of the Issuer, as freely as if they were not the Fiscal Agent, such other Paying Agent or Transfer Agent or such person.

(f) Non-Liability for Interest. Subject to any agreement between the Issuer and the Fiscal Agent to the contrary, the Fiscal Agent shall not be under any liability for interest on monies at any time received by it pursuant to any of the provisions of this Agreement or the Notes.

(g) Certifications. Whenever in the administration of this Agreement the Fiscal Agent shall deem it desirable that a matter of fact be proved or established prior to taking, suffering or omitting any action hereunder, the Fiscal Agent (unless other evidence be herein specifically prescribed) may, in the absence of bad faith, negligence, fraud or willful misconduct on its part, rely upon a certificate signed by an Authorized Officer and delivered to the Fiscal Agent as to such matter of fact.

(h) No Implied Obligations. The duties and obligations of the Fiscal Agent, the Transfer Agent and the Paying Agent with respect to matters governed by this Agreement shall be determined solely by the express provisions hereof, and none of the Fiscal Agent, the Transfer Agent or the Paying Agent shall be liable except for the performance of such duties and obligations as are specifically set forth in this Agreement and the Notes, as applicable, and no implied covenants or obligations shall be read into this Agreement or the Notes against the Fiscal Agent, the Transfer Agent or the Paying Agent and the Fiscal Agent, the Transfer Agent and the Paying Agent shall be protected and incur no liability in respect of any action taken or omitted to be taken hereunder by the Fiscal Agent, the Transfer Agent or the Paying Agent without bad faith, negligence, fraud or willful misconduct on its part. Nothing in this Agreement shall be construed to require the Fiscal Agent, the Transfer Agent or the Paying Agent to advance or expend their own funds or take any action that may, in their opinion, expose them to any liability unless they receive indemnity satisfactory to them.

(i) Enforceability of Rights. The rights, privileges, protections, immunities and benefits given to the Fiscal Agent, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Fiscal Agent in each of its capacities hereunder, and each agent, custodian and other person employed to act hereunder.

(j) Agents. The Fiscal Agent may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys or custodians.

(k) Damages. In no event shall the Fiscal Agent be liable, directly or indirectly, for any special, indirect or consequential damages, even if the Fiscal Agent has been advised of the possibility of such damages.

(l) Recitals. The recitals contained in this Agreement and in the Notes (except the Fiscal Agent's certificates of authentication) shall be taken as the statements of the Issuer and the Fiscal Agent does not assume any responsibility for the correctness of the same. The Fiscal Agent does not make any representation (other than with respect to itself) as to the validity or sufficiency of this Agreement or the Notes, except for the Fiscal Agent's due authorization, execution and delivery of this Agreement. The Fiscal Agent shall not be accountable for the use or application by the Issuer of any of the Notes or the proceeds thereof.

(m) Occurrences Beyond Reasonable Control. In no event shall the Fiscal Agent be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God,

and interruptions, loss or malfunctions of utilities, communications or computer (software or hardware) services; it being understood that the Fiscal Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(n) Default of the Issuer. Except as specifically set forth in this Agreement, the Fiscal Agent shall not have any duty or responsibility in case of any default by the Issuer in the performance of its obligations (including, without limiting the generality of the foregoing, any duty or responsibility to accelerate all or any of the Notes or to initiate or to attempt to initiate any proceedings at law or otherwise or to make any demand for the payment thereof upon the Issuer).

10. Resignation, Removal and Appointment of Successor.

(a) Fiscal Agent and Paying Agent. The Issuer agrees, for the benefit of the holders from time to time of the Notes, that there shall at all times be a Fiscal Agent hereunder which shall be a bank or trust company organized and doing business under the laws of the United States of America or the State of New York, in good standing and having an established place of business in the Borough of Manhattan, The City of New York, and authorized under such laws to exercise corporate trust powers, until all the Notes authenticated and delivered hereunder (i) shall have been delivered to the Fiscal Agent for cancellation or (ii) have become payable, with the approval of the Commissioner, and monies sufficient to pay the full principal of and any interest remaining unpaid on the Notes shall have been made available for payment and either paid or returned to the Issuer as provided herein and in such Notes.

(b) Resignation and Removal. The Fiscal Agent may at any time resign by giving written notice to the Issuer of such intention on its part, specifying the date on which its desired resignation shall become effective; provided that such date shall not be less than 60 days from the date on which such notice is given, unless the Issuer agrees to accept shorter notice. The Fiscal Agent hereunder may be removed at any time by the filing with it of an instrument in writing signed on behalf of the Issuer and specifying such removal and the date when it shall become effective. Notwithstanding the dates of effectiveness of resignation or removal, as the case may be, to be specified in accordance with the preceding sentences, such resignation or removal shall take effect only upon the appointment by the Issuer, as hereinafter provided, of a successor Fiscal Agent (which, to qualify as such, shall for all purposes hereunder be a bank or trust company organized and doing business under the laws of the United States of America or of the State of New York, in good standing and having and acting through an established place of business in the Borough of Manhattan, The City of New York, authorized under such laws to exercise corporate trust powers and having a combined capital and surplus in excess of $50,000,000) and the acceptance of such appointment by such successor Fiscal Agent. Upon its resignation or removal, the Fiscal Agent shall be entitled to payment by the

Issuer pursuant to Section 9 hereof of compensation for services rendered and to reimbursement of reasonable out-of-pocket expenses incurred hereunder. If a successor Fiscal Agent does not take office within 60 days after the retiring Fiscal Agent provides written notice of its intent to resign or is removed, the retiring Fiscal Agent at the expense of the Issuer, the Issuer or the holders of at least 10% in aggregate principal amount of the Notes then Outstanding (as defined in Section 11(d) herein) may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent.

(c) Successors. In case at any time the Fiscal Agent (or any Paying Agent if such Paying Agent is the only Paying Agent located in a place where, by the terms of the Notes or this Agreement, the Issuer is required to maintain a Paying Agent) shall resign, or shall be removed, or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or shall file a voluntary petition in bankruptcy or make an assignment for the benefit of its creditors or consent to the appointment of a receiver of all or any substantial part of its property, or shall admit in writing its inability to pay or meet its debts as they severally mature, or if a receiver of it or of all or any substantial part of its property shall be appointed, or if an order of any court shall be entered approving any petition filed by or against it under the provisions of applicable receivership, bankruptcy, insolvency or other similar legislation, or if any public officer shall take charge or control of it or of its property or affairs, for the purpose of rehabilitation, liquidation, conservation or dissolution, a successor Fiscal Agent or Paying Agent, as the case may be, qualified as aforesaid (in the case of the Fiscal Agent), shall be appointed by the Issuer by an instrument in writing, filed with the successor Fiscal Agent or Paying Agent, as the case may be, and the predecessor Fiscal Agent or Paying Agent, as the case may be. Upon the appointment as aforesaid of a successor Fiscal Agent or Paying Agent, as the case may be, and acceptance by such successor of such appointment, the Fiscal Agent or Paying Agent, as the case may be, so succeeded shall cease to be Fiscal Agent or Paying Agent, as the case may be, hereunder. If no successor Fiscal Agent or other Paying Agent, as the case may be, shall have been so appointed by the Issuer and shall have accepted appointment as hereinafter provided, and, in the case of such other Paying Agent, if such other Paying Agent is the only Paying Agent located in a place where, by the terms of the Notes or this Agreement, the Issuer is required to maintain a Paying Agent, then any holder of a Note who has been a bona fide holder of a Note for at least six months (which Note, in the case of such other Paying Agent, is referred to in this sentence), on behalf of such holder and all others similarly situated, or the Fiscal Agent, may petition any court of competent jurisdiction for the appointment of a successor fiscal or paying agent, as the case may be. The Issuer shall give prompt written notice to each other Paying Agent of the appointment of a successor Fiscal Agent.

(d) Acknowledgement. Any successor Fiscal Agent appointed hereunder shall execute, acknowledge and deliver to its predecessor and to the Issuer an instrument accepting such appointment hereunder. Upon delivery of such instrument, such successor Fiscal Agent, without any further act, deed or conveyance, shall become vested

with all the authority, rights, powers, trusts, immunities, duties and obligations of such predecessor with like effect as if originally named as Fiscal Agent hereunder and all provisions hereof shall be binding on such successor Fiscal Agent. Furthermore, upon delivery of such instrument, such predecessor, upon payment of its compensation and reimbursement of its disbursements then unpaid, shall thereupon become obligated to transfer, deliver and pay over, and such successor Fiscal Agent shall be entitled to receive, all monies, securities, books, records or other property on deposit with or held by such predecessor as Fiscal Agent hereunder. Upon delivery of such property, such predecessor Fiscal Agent shall become entitled to payment by the Issuer of its compensation and reimbursement of its disbursements then unpaid from such successor Fiscal Agent.

(e) Merger, Consolidation, etc. Any bank or trust company into which the Fiscal Agent hereunder may be merged, or resulting from any merger or consolidation to which the Fiscal Agent shall be a party, or to which the Fiscal Agent shall sell or otherwise transfer all or substantially all the agency and trust business of the Fiscal Agent; provided that it shall be qualified as aforesaid, shall be the successor Fiscal Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto.

11. Meetings and Amendments.

(a) Calling of Meeting, Notice and Quorum. A meeting of holders of Notes may be called at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Agreement or the Notes to be made, given or taken by holders of Notes or to modify, amend or supplement the terms of the Notes or this Agreement as hereinafter provided, and subject to the requirement hereinafter set forth that the Issuer and the Fiscal Agent may, only with the prior approval of the Commissioner, modify, amend or supplement this Agreement or the terms of the Notes or give consents or waivers or take other actions with respect thereto. The Fiscal Agent may at any time call a meeting of holders of Notes for any such purpose to be held at such time and at such place in the Borough of Manhattan, The City of New York as the Fiscal Agent shall determine. Notice of every meeting of holders of Notes, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given as provided in the terms of the Notes, not less than 30 nor more than 60 days prior to the date fixed for the meeting (provided that, in the case of any meeting to be reconvened after adjournment for lack of a quorum, such notice shall be so given not less then 15 nor more than 60 days prior to the date fixed for such meeting). In case at any time the Issuer or the holders of at least 10% in aggregate principal amount of the Outstanding Notes (as defined in subsection (d) of this Section) shall have requested the Fiscal Agent to call a meeting of the holders of Notes for any such purpose, by written request setting forth in

reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof.

To be entitled to vote at any meeting of holders of Notes, a person shall be a holder of Outstanding Notes or a person duly appointed by an instrument in writing as proxy for such a holder. The persons entitled to vote a majority in principal amount of the Outstanding Notes shall constitute a quorum. The Fiscal Agent may make such reasonable and customary regulations consistent herewith as it shall deem advisable for any meeting of holders of Notes with respect to the proof of the appointment of proxies in respect of holders of Notes, the record date for determining the registered holders of Notes who are entitled to vote at such meeting (which date shall be designated by the Fiscal Agent and set forth in the notice calling such meeting hereinabove referred to and which shall be not less than 15 nor more than 60 days prior to such meeting; provided that nothing in this paragraph shall be construed to render ineffective any action taken by holders of the requisite principal amount of Outstanding Notes on the date such action is taken), the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

(b) Approval. (i) At any meeting of holders of Notes duly called and held as specified above, upon the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than a majority in aggregate principal amount of the Notes then Outstanding, or (ii) with the written consent of the holders of not less than a majority in aggregate principal amount of the Notes then Outstanding, in each case (i) or (ii) the Issuer and the Fiscal Agent may, with the prior approval of the Commissioner, modify, amend or supplement the terms of the Notes or this Agreement in any way, and the holders of Notes may make, take or give any request, demand, authorization, direction, notice, consent, waiver (including waiver of future compliance or past failure to perform) or other action provided by this Agreement or the Notes to be made, given or taken by holders of Notes; provided that no such action, modification, amendment or supplement, however effected, may, without the consent of the holder of each Note affected thereby, (A) change the Scheduled Interest Payment Date (as defined in the Notes) or Scheduled Maturity Date of the principal of or any installment of interest on any Note, (B) reduce the principal amount of any Note or the interest rate thereon, (C) change the currency in which, or the required place at which, payment with respect to interest or principal in respect of the Notes is payable, (D) change the Issuer's obligations under Section 8 hereof in any manner adverse to the interests of the holder of a Note, (E) impair the right of a holder of a Note to institute suit for the enforcement of any payment, if such payment is permitted under the Payment Restrictions, on or with respect to any Note, (F) modify the provisions of paragraph 10 of the Notes in a manner adverse to the holders of the Notes, (G) reduce the above-stated percentage of the principal

amount of Outstanding Notes, the vote or consent of the holders of which is necessary to modify, amend or supplement this Agreement or the terms and conditions of the Notes or to make, take or give any request, demand, authorization, direction, notice, consent, waiver (including waiver of any future compliance or past failure to perform) or other action provided hereby or thereby to be made, taken or given, (H) reduce the percentage of aggregate principal amount of Outstanding Notes necessary to constitute a quorum at any meeting of holders of Notes at which a resolution is adopted, or (I) change the restrictions on payment of principal of or interest on or redemption payment with respect to the Notes in a manner adverse to the holders of the Notes.

The Issuer and the Fiscal Agent may, with the prior approval of the Commissioner, without the vote or consent of any holder of Notes, amend this Agreement or the Notes for the purpose of (a) adding to the covenants of the Issuer for the benefit of the holders of Notes, (b) surrendering any right or power conferred upon the Issuer, (c) securing the Notes, (d) evidencing the succession of another entity to the Issuer and the assumption by such successor of the covenants and obligations of the Issuer herein and in the Notes as permitted by this Agreement and the Notes, (e) modifying the restrictions on, and procedures for, resale and other transfers of the Notes to the extent required by any change in applicable law or regulation, or the interpretation thereof, or in practices relating to the resale or transfer of restricted securities generally, (f) accommodating the issuance, if any, of Notes in book-entry or certificated form and matters related thereto which do not adversely affect the interest of any Note holder in any material respect, (g) curing any ambiguity or correcting or supplementing any defective provision contained herein or in the Notes in a manner which does not adversely affect the interest of any Note holder in any material respect, or (h) effecting any amendment which the Issuer and the Fiscal Agent may determine is necessary or desirable and which shall not adversely affect the interest of any Note holder.

It shall not be necessary for the vote or consent of the holders of Notes to approve the particular form of any proposed modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action, but it shall be sufficient if such vote or consent shall approve the substance thereof.

The Fiscal Agent shall receive an opinion of counsel in connection with any amendment or supplement entered into hereunder stating that all conditions precedent to such amendment or supplement have been fulfilled and that the Fiscal Agent's entering into such amendment or supplement is authorized and permitted under this Agreement.

(c) Binding Nature of Amendments, Notices, Notations, etc. Any instrument given by or on behalf of any holder of a Note in connection with any consent to or vote

for any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action shall be irrevocable once given and shall be conclusive and binding on all subsequent holders of such Note or any Note issued directly or indirectly in exchange or substitution therefor or in lieu thereof. Any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action taken, made or given in accordance with Section 11(b) hereof shall be conclusive and binding on all holders of Notes, whether or not they have given such consent or cast such vote or were present at any meeting, and whether or not notation of such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action is made upon the Notes. Notice of any modification or amendment of, supplement to, or request, demand, authorization, direction, notice, consent, waiver or other action with respect to the Notes or this Agreement (other than for purposes of curing any ambiguity or of curing, correcting or supplementing any defective provision hereof or thereof) shall be given to each holder of Notes affected thereby, in all cases as provided in the Notes.

Notes authenticated and delivered after the effectiveness of any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action may bear a notation in the form approved by the Fiscal Agent and the Issuer as to any matter provided for in such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action. New Notes modified to conform, in the opinion of the Fiscal Agent and the Issuer, to any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action taken, made or given in accordance with Section 11(b) hereof may be prepared and executed by the Issuer, authenticated by the Fiscal Agent and delivered in exchange for Outstanding Notes.

(d) "Outstanding" Defined. For purposes of the provisions of this Agreement and the Notes, any Note authenticated and delivered pursuant to this Agreement shall, as of any date of determination, be deemed to be "Outstanding," except:

(i) Notes theretofore cancelled by the Fiscal Agent or delivered to the Fiscal Agent for cancellation;

(ii) Notes which have been called for redemption in accordance with their terms or which have become payable, to the extent permitted under the Payment Restrictions, at the Scheduled Maturity Date or otherwise, and with respect to which, in each case, monies sufficient to pay the principal thereof and any interest thereon shall have been paid; and

(iii) Notes paid under Section 12 of the Notes or in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to this Agreement;

provided, however, that in determining whether the holders of the requisite principal amount of Outstanding Notes are present at a meeting of holders of Notes for quorum purposes or have consented to or voted in favor of any request, demand, authorization, direction, notice, consent, waiver, amendment, modification or supplement hereunder, the principal amount of any Notes that are beneficially owned by the Issuer or any of its Affiliates, or the voting of which the Issuer or any of its Affiliates has the right to direct with respect to such request, demand, authorization, direction, notice, consent, waiver, amendment, modification or supplement, shall be disregarded in such calculation (in both the numerator and the denominator). The Fiscal Agent shall incur no liability for failing to disregard any Note owned directly or indirectly by the Issuer or any Affiliate of the Issuer in the absence of actual knowledge of that circumstance by a corporate trust officer of the Fiscal Agent responsible for the administration of this Agreement.

As used herein, an "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

As used herein, "Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof, or any other entity of any kind.

12. Remedies. Holders of Notes may enforce this Agreement or the Notes only in the manner set forth below.

(a) Acceleration of Maturity. In the event that any state or federal agency shall obtain an order or grant approval (excluding any Excluded Order) for the rehabilitation, liquidation, conservation, dissolution, receivership or any similar action of the Issuer or the General Account (including, without limitation, under Chapter 645 of the Wisconsin Statutes), the Notes will upon the obtaining of such an order or the granting of such approval immediately mature in full without any action on the part of the Fiscal Agent or any holder of the Notes, with payment thereon being subject to the Payment Restrictions, and any restrictions imposed as a consequence of, or pursuant to, such proceedings. Notwithstanding any other provision of this Agreement or the Notes, in no event shall the Fiscal Agent or any holder of the Notes be entitled to declare the

Notes to immediately mature or otherwise be immediately payable, except that payments approved by the Commissioner but unpaid may become immediately payable in accordance with clause (b) below.

(b) Failure to Pay or Perform Other Obligations. In the event that the Commissioner approves in whole or in part a payment of any interest on or principal of, or any redemption payment with respect to, any Notes and the Issuer fails to pay the full amount of such approved payment on the date such amount is scheduled to be paid, such approved amount will be immediately payable on such date without any action on the part of the Fiscal Agent or any holder of Notes. In the event that the Issuer fails to perform any of its other obligations hereunder or under the Notes (or otherwise abide by any of the other terms hereof or of the Notes), each holder of the Notes may pursue any available remedy to enforce the performance of any provision of such Notes or this Agreement; provided, however, that such remedy shall in no event include the right to declare the Notes immediately payable, except for payments approved by the Commissioner, and shall in no circumstances be inconsistent with the provisions of applicable law. A delay or omission by any Note holder in exercising any right or remedy accruing as a result of the Issuer's failure to perform its obligations hereunder or under the Notes (or otherwise abide by any of the other terms hereof or of the Notes) and the continuation thereof shall not impair such right or remedy or constitute a waiver of or acquiescence in such non-performance by the Issuer. To the extent permitted by law, no remedy is exclusive of any other remedy and all remedies are cumulative.

(c) Rights of Holders. Notwithstanding any other provision of this Agreement or the Notes, the right of any holder of Notes to receive payment of the principal of and interest on such holder's Notes on or after the respective scheduled payment or scheduled maturity dates expressed in such Notes, or to bring suit for the enforcement of any such payment on or after such respective scheduled payment or scheduled maturity dates, in each case subject to such payment on such dates having received the approval of the Commissioner pursuant to the Payment Restrictions, is absolute and unconditional and shall not be impaired or affected without the consent of such holder.

13. Governing Law. **THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WISCONSIN. THE COMMISSIONER'S EXERCISE OF REGULATORY AUTHORITY, INCLUDING APPROVAL OF PAYMENTS ON THE NOTES, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WISCONSIN (OR, IF THE COMMISSIONER IS NO LONGER THE PRIMARY REGULATOR OF THE FINANCIAL CONDITION OF THE ISSUER, THE LAW OF SUCH JURISDICTION OF THE PRIMARY REGULATOR OF THE FINANCIAL CONDITION OF THE ISSUER), AND THE PARTIES TO THIS AGREEMENT**

AND HOLDERS OF NOTES SHALL SUBMIT ANY DISPUTES RELATED TO THE EXERCISE OF SUCH REGULATORY AUTHORITY TO THE EXCLUSIVE JURISDICTION OF THE CIRCUIT COURT IN DANE COUNTY, WISCONSIN, OR, SO LONG AS ANY PROCEEDING IS PENDING IN WISCONSIN AS TO THE ISSUER UNDER CHAPTER 645 OF THE WISCONSIN STATUTES, THEN TO THAT CASE AND COURT.

14. Notices. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing, including by email, shall specify this Agreement by name and date and shall identify the Notes, and if sent to the Fiscal Agent shall be delivered or transmitted by facsimile to it at The Bank of New York Mellon, 101 Barclay Street, Floor 7W, New York, New York 10286, Attention: Dealing & Trading Unit, fax: 212-815-2830, and if sent to the Issuer, with respect to notices of payments and written confirmations of wire transfers, shall be delivered or transmitted by facsimile to it at The Segregated Account of Ambac Assurance Corporation, c/o Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004, Attention: First Vice President—Cash Management, fax: 212-208-3507, and if sent to the Issuer, with respect to all other communications, shall be delivered or transmitted by facsimile to it at The Segregated Account of Ambac Assurance Corporation, c/o Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004, Attention: Chief Financial Officer, fax: 212-208-3416. The foregoing addresses for notices or communications may be changed by written notice given by the addressee to each party hereto, and the addressee's address shall be deemed changed for all purposes from and after the giving of such notice.

Notices shall be deemed received by the Fiscal Agent only upon actual receipt by the Fiscal Agent. If the Fiscal Agent shall receive any notice or demand addressed to the Issuer by the holder of a Note, the Fiscal Agent shall promptly forward such notice or demand to the Issuer.

15. Severability. In case any provision in this Agreement or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

16. Headings. The section headings herein are for convenience of reference only and shall not affect the construction hereof.

17. Counterparts. This Agreement may be executed in one or more counterparts, and by each party separately on a separate counterpart, and each such counterpart when executed and delivered shall be deemed to be an original. Such counterparts shall together constitute one and the same instrument.

18. Interpretation. The provisions of this Agreement shall be construed to the greatest extent possible as consistent with the provisions of the Notes, and, to the extent the terms of this Agreement conflict with the terms of the Notes, the terms of the Notes shall govern. In the event that any provision of this Agreement or of the Notes shall conflict with the Plan of Rehabilitation, the Plan of Rehabilitation shall govern.

19. Waiver of Jury Trial. EACH OF THE FISCAL AGENT AND THE ISSUER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

20. USA Patriot Act. The parties hereto acknowledge that, in accordance with Section 326 of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (as amended, modified or supplemented from time to time, the "USA Patriot Act"), the Fiscal Agent, like all financial institutions, is required to obtain, verify, and record information that identifies each person or legal entity that opens an account. The parties to this Agreement agree that they will provide the Fiscal Agent with such information as the Fiscal Agent may request in order for the Fiscal Agent to satisfy the requirements of the USA Patriot Act.

IN WITNESS WHEREOF, the parties hereto have executed this Fiscal Agency Agreement as of the date first above written.

SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION,
By: Ambac Assurance Corporation, as Manager
By: _____
Name:
Title:

THE BANK OF NEW YORK MELLON
as Fiscal Agent
By: _____
Name:
Title:

EXHIBIT A

FORM OF CERTIFICATED NOTE

ANY PERSON ACQUIRING THIS NOTE AS A TRANSFEREE OF THE ORIGINAL REGISTERED HOLDER OF THIS NOTE OR ANY SUBSEQUENT REGISTERED HOLDER OF THIS NOTE IS DEEMED TO MAKE A REPRESENTATION TO THE ISSUER AND THE FISCAL AGENT AS SET FORTH IN PARAGRAPH 9 HEREOF.

ALL PAYMENTS OF PRINCIPAL AND INTEREST ON THIS NOTE MAY ONLY BE MADE WITH THE PRIOR APPROVAL OF THE COMMISSIONER OF INSURANCE OF THE STATE OF WISCONSIN OR ANY SUCCESSOR THERETO (THE "COMMISSIONER").

SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION

5.1% Surplus Note scheduled to mature on June 7, 2020

No. R-____ $_____

The SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION, a Wisconsin domiciled financial guaranty insurance corporation (and any successor in interest thereto, the "Issuer"), for value received, hereby promises to pay, subject to the Payment Restrictions (as defined in paragraph 1 of the reverse side of this Note), to _____, or registered assigns, the principal sum of _____ United States dollars ($_____) on June 7, 2020 (the "Scheduled Maturity Date"), and to pay interest thereon, subject to the Payment Restrictions, including the approval of the Commissioner, from [•], 2011 or from the most recent Scheduled Interest Payment Date to which interest has been paid or duly provided for, annually in arrears on June 7 in each year and on the date the Notes are scheduled to mature, commencing June 7, 2011 (each, a "Scheduled Interest Payment Date"), at the rate of 5.1% per annum, until the principal hereof is paid or duly provided for. Any reference herein to the term "scheduled maturity date" or other date for the payment of principal of the Notes shall include (i) the date, if any, fixed for redemption thereof in accordance with paragraph 15 hereof and (ii) the date upon which any state or federal agency obtains an order or grants approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or the General Account (other than any Excluded Order). As specified on the reverse hereof, all payments of principal of or interest on this Note may be made only with the prior approval of the Commissioner. The interest so payable, and punctually paid or duly provided for, on any Scheduled Interest Payment Date shall be paid, in accordance with the terms of the Fiscal Agency Agreement hereinafter referred to, to the person (the "registered holder") in whose name this Note (or one or more predecessor Notes) is registered at the close of business on May 20 (whether or not a Business Day, as defined herein), as the case may be (each, a "Regular Record Date"), next preceding such Scheduled Interest Payment Date. Interest on the Notes shall be calculated on the basis of a 360-day year of twelve months of 30 days each. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the registered holder on such Regular Record Date and shall be paid to the person in whose name this Note (or one or more predecessor Notes) is registered at the close of business on a special record date for the payment of such interest to be fixed by the Issuer, notice whereof shall be given to registered holders of the Notes not less than 15 days prior to such special record date.

Principal of this Note shall be payable against surrender hereof at the Corporate Trust Office of the Fiscal Agent hereinafter referred to and at the offices of such other Paying Agents as the Issuer shall have appointed pursuant to the Fiscal Agency Agreement. Payments of principal of the Notes shall be made only against surrender of the Notes; provided that in the case of payment of only a portion of principal, the Issuer shall execute a new registered Note or Notes in aggregate principal amount equal to and in exchange for the remaining portion of the principal of the Note so surrendered. Payments of interest on this Note will be made, in accordance with the foregoing and subject to applicable laws and regulations, (i) by wire transfer of immediately available funds to an account maintained by the person entitled thereto with a bank if such registered holder gives notice to the Fiscal Agent, not less than 15 days (or such fewer days as the Fiscal Agent may accept at its discretion) prior to the applicable scheduled payment date or scheduled maturity date hereof, of the payee's account to which payment is to be made or (ii) if no such notice is given, by mailing a check on or before the scheduled payment date of such payment to the person entitled thereto at such person's address appearing on the aforementioned register. Unless the designation of the payee's account to which payment is to be made is revoked, any such designation made by such holder with respect to such Notes of the payee's account to which payment is to be made shall remain in effect with respect to any future payments with respect to such Notes payable to such holder. The Issuer agrees that until this Note has been delivered to the Fiscal Agent for cancellation, or monies sufficient to pay the full principal of and interest remaining unpaid on this Note have been made available for payment and either paid or returned to the Issuer as provided herein, it will at all times maintain offices or agencies in the Borough of Manhattan, The City of New York for the payment of the principal of and interest on the Notes as herein provided.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

This Note may be executed by the Issuer by manual, facsimile or portable document format signatures, and such signatures may be executed on separate counterparts.

Unless the certificate of authentication hereon has been executed by the Fiscal Agent by manual signature, this Note shall not be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed.

Dated: _____

SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION,
By: Ambac Assurance Corporation, as Manager
By: _____
Name:
Title:

This is one of the Notes referred to in the within-mentioned Fiscal Agency Agreement.

THE BANK OF NEW YORK MELLON
as Fiscal Agent
By: _____
Authorized Officer

FORM OF REVERSE

1. General. This Note is one of a duly authorized issue of 5.1% Surplus Notes scheduled to mature on June 7, 2020 of the Issuer (herein called the "Notes"), unlimited in aggregate principal amount (subject to the terms and conditions of the Plan of Rehabilitation). The Issuer and The Bank of New York Mellon have entered into a Fiscal Agency Agreement, dated as of March [•], 2011 (such instrument, as it may be duly amended from time to time, is herein called the "Fiscal Agency Agreement"), which provides for the mechanism for issuing the Notes and, inter alia, sets forth certain duties of the Fiscal Agent in connection therewith. As used herein, the term "Fiscal Agent" includes any successor fiscal agent under the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and available for inspection at the Corporate Trust Office of the Fiscal Agent in the Borough of Manhattan, The City of New York. Holders of Notes are referred to the Fiscal Agency Agreement for a statement of the terms thereof, including those relating to transfer, payment, exchanges and certain other matters. The Fiscal Agent or any Paying Agent shall also act as Transfer Agent and securities registrar.

Capitalized definitional terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Fiscal Agency Agreement. The terms of the Notes include those stated in the Fiscal Agency Agreement. The Notes are subject to all such terms, and holders of the Notes are referred to the Fiscal Agency Agreement for a statement of such terms. Holders of Notes may enforce the Notes only in accordance with the Fiscal Agency Agreement.

The Notes are direct and unsecured obligations of the Issuer and, subject to the payment restrictions contained in paragraphs 4 and 10 hereof (the "Payment Restrictions"), are scheduled to mature on June 7, 2020.

Any reference herein to the term "scheduled maturity date" or other date for the payment of principal of the Notes shall include (i) the date, if any, fixed for redemption thereof in accordance with paragraph 15 hereof and (ii) the date upon which any state or federal agency obtains an order or grants approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or the General Account (other than any Excluded Order).

2. Form of Notes. The Notes are issuable only in fully registered form without coupons.

3. Registration, Transfer and Exchange. The Issuer shall maintain, in the Borough of Manhattan, The City of New York, a Transfer Agent where Notes may be

registered or surrendered for registration of transfer or exchange. The Issuer has initially appointed the Fiscal Agent at its Corporate Trust Office as its Transfer Agent. The Issuer shall cause the Transfer Agent to act as a securities registrar and shall cause to be kept at the office of the Transfer Agent a register in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Notes and registration of transfers and exchanges of Notes. The Issuer reserves the right to vary or terminate the appointment of the Transfer Agent or to appoint additional or other Transfer Agents or to approve any change in the office through which any Transfer Agent acts; provided that there shall at all times be a Transfer Agent in the Borough of Manhattan, The City of New York. The Issuer shall cause written notice of any resignation, termination or appointment of the Fiscal Agent or any Paying Agent or Transfer Agent and of any change in the office through which any such Agent shall act to be provided to holders of Notes.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, the transfer of a Note is registrable on the aforementioned register upon surrender of such Note at any Transfer Agent duly endorsed by, or accompanied by a written instrument of transfer in form reasonably satisfactory to the Issuer duly executed by, the registered holder thereof or such holder's attorney duly authorized in writing. Upon such surrender of this Note for registration of transfer, the Issuer shall execute, and the Fiscal Agent shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes, dated the date of authentication thereof, of any authorized denominations and of a like aggregate principal amount.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, at the option of the registered holder upon request confirmed in writing, Notes may be exchanged for Notes of any authorized denominations and aggregate principal amount upon surrender of the Notes to be exchanged at the office of any Transfer Agent. Whenever any Notes are so surrendered for exchange, the Issuer shall execute, and the Fiscal Agent shall authenticate and deliver, the Notes which the registered holder making the exchange is entitled to receive. Any registration of transfer or exchange shall be effected upon the Issuer being reasonably satisfied with the documents of title and identity of the person making the request and subject to the restrictions set forth in this Note and/or the Fiscal Agency Agreement and such reasonable regulations as the Issuer may from time to time agree with the Fiscal Agent.

Notes may be redeemed by the Issuer, in whole or in part, but only to the extent permitted by the Payment Restrictions, including the prior approval of the Commissioner, and in accordance with paragraph 15 hereof. In the event of a partial redemption, the Issuer shall not be required (i) to register the transfer of or exchange any Note during a period beginning at the opening of business 15 days before the date notice is given identifying the Notes to be redeemed, or (ii) to register the transfer or exchange of any Note, or portion thereof, called for redemption.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits, as the Notes surrendered upon such registration of transfer or exchange. No service charge shall be made for any registration of transfer or exchange, but the Issuer and the Fiscal Agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith, other than an exchange in connection with the partial redemption of a Note not involving any registration of a transfer.

Prior to due presentment of this Note for registration of transfer, the Issuer, the Fiscal Agent and any agent of the Issuer or the Fiscal Agent may treat the person in whose name this Note is registered as the absolute owner hereof for all purposes, whether or not this Note be overdue, and neither the Issuer nor the Fiscal Agent nor any such agent shall be affected by notice to the contrary.

4. Restrictions on Payment. (a) Notwithstanding anything to the contrary set forth herein or in the Fiscal Agency Agreement, any payment of principal of, interest on or any monies owing with respect to this Note, whether at the scheduled payment date or scheduled maturity date specified herein or otherwise, may be made only with the prior approval of the Commissioner. If the Commissioner does not approve the making of any payment of principal of or interest on this Note on the scheduled payment date or scheduled maturity date thereof, as specified herein, the scheduled payment date or scheduled maturity date, as the case may be, shall be extended and such payment, together with interest accrued with respect thereto as contemplated by the immediately following two sentences, shall be made by the Issuer on the next following Business Day (as defined below) on which the Issuer shall have the approval of the Commissioner to make such payment together with such interest. Interest will continue to accrue, compounded on each anniversary of the original scheduled payment date or scheduled maturity date, on any such unpaid principal through the actual date of payment at the rate of interest stated on the face hereof. Interest will accrue, compounded on each anniversary of the original scheduled payment date, on interest (or any portion thereof) with respect to which the scheduled payment date has been extended, during the period of such extension, at the rate of interest per annum applicable to principal hereunder. If the Commissioner approves a payment of principal of or interest on the Notes in an amount that is less than the full amount of principal of and interest on the Notes then scheduled to be paid in respect of the Notes, payment of such partial amount shall be made pro rata among Note holders.

(b) Any payment of principal of or interest on any Note as to which the approval of the Commissioner has been obtained and which is not punctually paid or duly provided for on the scheduled payment date or scheduled maturity date thereof, as set forth herein (such payment being referred to as an "Unpaid Amount"), subject to the provisions of section 14(b), will forthwith cease to be payable to the registered holder of

this Note on the relevant record date designated herein, and such Unpaid Amount, together with interest thereon accrued at the rate of interest per annum applicable to principal hereunder, compounded on each anniversary of the original scheduled payment date or scheduled maturity date, will instead be payable to the registered holder of this Note on a subsequent special record date. The Issuer shall fix the special record date and payment date for the payment of any Unpaid Amount. At least 15 days before the special record date, the Issuer shall mail to each holder of the Notes and the Fiscal Agent a notice that states the special record date, payment date and amount of interest or principal to be paid. On the payment date set forth in such notice, the Paying Agent shall pay the amount of interest or principal to be so paid to each holder of the Notes in the manner set forth in Section 4(a) of the Fiscal Agency Agreement.

5. Payment. (a) For so long as the Fiscal Agent is acting as a Paying Agent hereunder, the Issuer, subject to the Payment Restrictions, shall provide to the Fiscal Agent, or such other Paying Agent if the Fiscal Agent is no longer acting as a Paying Agent, in immediately available funds on or prior to 11:00 a.m., New York time, on each date on which a payment of principal of or any interest on this Note is payable, as set forth herein, such amounts, in U.S. dollars, as are necessary (with any amounts then held by the Fiscal Agent and available for the purpose) to make such payment, and the Issuer hereby authorizes and directs the Fiscal Agent from funds so provided to it to make or cause to be made payment of the principal of and any interest, as the case may be, on this Note as set forth herein and in the Fiscal Agency Agreement. Payments of principal of or any interest on the Notes will be made (i) by wire transfer of immediately available funds to an account maintained by the payee with a bank if such registered holder gives notice to the Fiscal Agent, not less than 15 days (or such fewer days as the Fiscal Agent may accept at its discretion) prior to the date on which such payments are scheduled to be made, of the account to which payment is to be made or (ii) if no such notice is given, by mailing a check to the payee at the address reflected in the securities register maintained pursuant to Section 6 of the Fiscal Agency Agreement. Unless the designation of the payee's account to which payment is to be made is revoked, any such designation made by such holder with respect to such Notes shall remain in effect with respect to any future payments with respect to such Notes payable to such holder. The Issuer shall pay any reasonable administrative costs in connection with making any such payments. The Fiscal Agent shall arrange directly with any other Paying Agent who may have been appointed by the Issuer pursuant to the provisions of Section 2 of the Fiscal Agency Agreement for the payment, subject to the Payment Restrictions, from funds so paid by the Issuer of the principal of and any interest on this Note. Any monies held in respect of this Note remaining unclaimed at the end of two years after such principal and such interest shall have become payable in accordance with the Payment Restrictions (whether at the Scheduled Maturity Date or otherwise) and monies sufficient therefor shall have been duly made available for payment shall, together with any interest made available for payment thereon, be repaid to the Issuer and upon such repayment all liability of the Fiscal Agent with respect thereto shall cease, without, however, limiting in any way any

obligation the Issuer may have to pay the principal of and interest on this Note, subject to the Payment Restrictions. To the extent that the Fiscal Agent is not acting as Paying Agent, references to the Fiscal Agent in this Section 5(a) shall include the Paying Agent in such capacity.

(b) In any case where the scheduled payment date or scheduled maturity date of any Note shall be at any place of payment a day on which banking institutions are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close, then payment of principal or interest need not be made on such date at such place but may be made on the next succeeding day at such place which is not a day on which banking institutions in the applicable jurisdiction are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close (a "Business Day"), with the same force and effect as if made on the scheduled payment date or scheduled maturity date thereof, and no interest shall accrue on the amount of such payment for the period after such date, if such payment is so made.

6. Duties and Taxes. The Issuer shall pay all stamp and other duties, if any, which may be imposed by the United States of America or any governmental entity or any political subdivision thereof or taxing authority of or in the foregoing with respect to the Fiscal Agency Agreement or the initial issuance of this Note. All payments will be made by the Issuer without withholding or deduction for or on account for any present or future tax, duty, assessment or other governmental charge of whatever nature imposed or levied by any government or any political subdivision or taxing authority thereof or therein, unless such withholding or deduction is required by law. The Issuer shall not be required to make any additional payment with respect to any withholding or deduction so required.

7. Covenants. For so long as any of the Notes remain Outstanding or any amount remains unpaid on any of the Notes,

(a) Except with respect to transactions covered by paragraph 8 hereof, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, material rights (charter and statutory) and material franchises pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act; provided, however, that the Issuer shall not be required to preserve any such right or franchise if the Rehabilitator or AAC's Board of Directors, as applicable, shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Issuer and that the Issuer has used its reasonable best efforts to not disadvantage in any material respect the holders of the Notes.

(b) The Issuer will not be or become an open-end investment company, unit investment trust, face-amount certificate company or any other entity that is or is required

to be registered under Section 8 of the Investment Company Act of 1940, as amended (the "Investment Company Act").

(c) (i) While the Issuer is subject to the Proceeding, the Rehabilitator will seek to, and (ii) while the Issuer is not subject to the Proceeding, the Issuer shall use its best efforts (provided that such best efforts do not require the Issuer to raise additional capital or indebtedness) to, obtain the approval of the Commissioner for the payment by the Issuer of interest on and principal of the Notes on the scheduled payment dates or scheduled maturity dates thereof, and, in the event any such approval has not been obtained for any such payment at or prior to the scheduled payment date or scheduled maturity date thereof, as the case may be, to continue to use its best efforts (provided that such best efforts do not require the Issuer to raise additional capital or indebtedness) to obtain such approval promptly thereafter. Not less than 45 days prior to the scheduled payment date or scheduled maturity date thereof (excluding any such scheduled maturity date which arises as a result of the obtaining of an order or the granting of approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer), the Issuer will seek the approval of the Commissioner to make each payment of interest on and principal of the Notes. In addition, the Issuer shall notify in writing or cause to be notified in writing each holder of the Notes and the Fiscal Agent no later than five Business Days prior to the scheduled payment date for interest on or the scheduled maturity date for principal of any Note (excluding any such scheduled maturity date which arises as a result of the obtaining of an order or the granting of approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer) in the event that the Commissioner has not then approved the making of any such payment on such scheduled payment date or such scheduled maturity date, and thereafter, if such payment has been approved by the Commissioner, shall promptly notify in writing or cause to be notified in writing each holder of the Notes and the Fiscal Agent of such approval and of the fact that, notwithstanding such approval, the Issuer shall have failed to make any such payment on any such scheduled payment date or such scheduled maturity date.

(d) For any amounts due and payable under the Notes that are approved by the Commissioner in accordance with Section 4(a) of the Fiscal Agency Agreement and which are due and payable under the Secured Note dated as of March 24, 2010, from Ambac Assurance Corporation to the Issuer (the "Secured Note") or the Aggregate Excess of Loss Reinsurance Agreement, dated as of March 24, 2010, by and between Ambac Assurance Corporation and the Issuer (the "Aggregate Excess of Loss Reinsurance Agreement"), as the case may be, the Issuer undertakes to demand payment under the Secured Note or the Aggregate Excess of Loss Reinsurance Agreement, as the case may be, against Ambac Assurance Corporation.

8. Merger or Consolidation. For so long as any of the Notes remain Outstanding or any amounts remain unpaid on any of the Notes, the Issuer may merge or consolidate with or into any other corporation or sell, convey, transfer or otherwise

dispose of all or substantially all of its assets to any person, firm or corporation, if (i) (A) in the case of a merger or consolidation, the Issuer is the surviving corporation or (B) in the case of a merger or consolidation where the Issuer is not the surviving corporation and in the case of any such sale, conveyance, transfer or other disposition, the successor corporation is either Ambac Assurance Corporation (or its successor) or a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation expressly assumes by supplemental fiscal agency agreement all the obligations of the Issuer under the Notes and the Fiscal Agency Agreement, (ii) at the time of any such merger or consolidation, or such sale, conveyance, transfer or other disposition, the Issuer shall not have failed to make payment of interest on or principal of, or any redemption payment with respect to, the Notes after having received the Commissioner's prior approval to make such payment and (iii) the Issuer has delivered to the Fiscal Agent an officer's certificate stating that such merger, consolidation, sale, conveyance, transfer or other disposition complies with this paragraph and that all conditions precedent herein provided for relating to such transaction have been complied with. In the event of the assumption by a successor corporation of the obligations of the Issuer as provided in clause (i)(B) of the immediately preceding sentence, such successor corporation shall succeed to and be substituted for the Issuer hereunder and under the Fiscal Agency Agreement and all such obligations of the Issuer shall terminate.

9. ERISA. No employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or plan or other arrangement that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or any entity whose underlying assets are considered to include "plan assets" of such employee benefit plans or arrangements (each, a "Plan"), or governmental, church or foreign plan subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law"), and no person acting on behalf of or investing "plan assets" of a Plan or a plan subject to a Similar Law, may acquire this Note as a transferee of the original registered holder of this Note or any subsequent registered holder of this Note, unless the acquisition and holding of the Note is exempt under one or more of Prohibited Transaction Class Exemptions 96-23, 95-60, 91-38, 90-1 or 84-14 (or any amendment thereof) or Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code or another applicable exemption from the prohibitions under Section 406 of ERISA and Section 4975 of the Code or, in the case of a governmental, church or foreign plan subject to Similar Law, such acquisition and holding do not violate any Similar Law. The acquisition by any person of this Note other than the original registered holder of this Note shall constitute a representation by such person to the Issuer and the Fiscal Agent that either (i) such person is not a Plan or a plan subject to Similar Law and is not acquiring the Note on behalf of or with "plan assets" of any Plan or any plan subject to Similar Law or (ii) its acquisition and holding of the Note or any interest therein are covered under an applicable exemption from the prohibitions under Section 406 of ERISA and Section 4975 of the Code. The restrictions on acquisitions of the Notes set

forth in this paragraph 9 are in addition to those otherwise set forth in Section 6 of the Fiscal Agency Agreement and under applicable law or, in the case of a plan subject to Similar Law, do not violate such Similar Law.

10. Subordination. (a) The Issuer agrees, and each Note holder by accepting a Note agrees, that the indebtedness evidenced by the Notes is subordinated in right of payment, to the extent and in the manner provided in this paragraph, to the prior payment in full of all Indebtedness, Policy Claims and Prior Claims (each as hereinafter defined).

(b) Upon any distribution to creditors of the Issuer in any rehabilitation, liquidation, conservation or dissolution or similar proceeding relating to the Issuer or its property, the priority of claims of Note holders shall be determined in accordance with Section 645.68 of the Wisconsin Statutes (together with any successor provision, and as may be hereafter amended from time to time, "Section 645.68"). In a proceeding commenced under Chapter 645 of the Wisconsin Statutes, claims for interest on, principal of, or any redemption payment with respect to, the Notes constitute Class 10 claims under Section 645.68, as currently in effect. If the Commissioner approves a payment of principal of or interest on the Notes in an amount that is less than the full amount of principal of and interest on the Notes then scheduled to be paid in respect of the Notes, payment of such partial amount shall be made pro rata among Note holders as their interests may appear.

(c) If a distribution is made to Note holders that, because of this paragraph, should not have been made to them, the Note holders who receive the distribution shall pay it over to the Issuer.

(d) The Issuer shall promptly notify the Fiscal Agent and the Paying Agent of any facts known to the Issuer that would cause a payment of principal of or interest on the Notes to violate paragraph 10(b).

(e) This paragraph defines the relative rights of Note holders, on the one hand, and holders of any other claims, on the other hand. Nothing in this Note or the Fiscal Agency Agreement shall (i) impair, as between the Issuer and Note holders, the obligation of the Issuer which is, subject to the Payment Restrictions, absolute and unconditional to pay principal of and interest on the Notes in accordance with their terms; (ii) affect the relative rights of Note holders and creditors of the Issuer, other than holders of Policy Claims, Indebtedness or Prior Claims; or (iii) prevent the Fiscal Agent or any Note holder from exercising any available remedies upon a breach by the Issuer of its obligations hereunder, subject to the rights of holders of Policy Claims, Indebtedness or Prior Claims to receive distributions otherwise payable to Note holders.

(f) No right of any holder of Policy Claims, Indebtedness or Prior Claims to enforce the subordination of the indebtedness evidenced by the Notes shall be impaired by any act or failure to act by the Issuer or by its failure to comply with the terms of this Fiscal Agency Agreement.

(g) Each holder of Notes, by acceptance thereof, authorizes and directs the Fiscal Agent on its behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this paragraph and appoints the Fiscal Agent its attorney-in-fact for any and all such purposes.

As used herein, "Indebtedness" of the Issuer shall mean (i) all existing or future indebtedness of the Issuer for borrowed money; (ii) all existing or future indebtedness for borrowed money of other persons, the payment of which is guaranteed by the Issuer; (iii) all existing or future obligations of the Issuer under any agreement obligating the Issuer to cause another person to maintain a minimum level of net worth, or otherwise to ensure the solvency of such person; and (iv) all other claims or amounts owed, to the extent that the payment of principal of and interest on, or any redemption payment with respect to, the Notes would be required by law to be subordinated to the prior payment of any such claim or amount in the event of a distribution of claims pursuant to Section 645.68. Any indebtedness of the Issuer, which, by its express terms or other contract, is subordinated in right of payment to, or ranks equally with, the Notes shall not constitute Indebtedness. Any other surplus or contribution notes or similar obligations of the Issuer shall not constitute Indebtedness and will rank *pari passu* with, or be subordinated to, the Notes. Any surplus or contribution notes or similar obligations of Ambac Assurance Corporation will rank *pari passu* with the Notes unless the terms thereof expressly state that such notes are subordinated to the Notes.

As used herein, "Policy Claims" shall mean all existing or future claims of policyowners, beneficiaries and insureds arising from and within the coverage of, and not in excess of the applicable limits of, any and all existing or future policies, endorsements, riders and other contracts of insurance, annuity contracts (including, without limitation, guaranteed investment contracts and funding agreements) issued, assumed or renewed by the Issuer on or prior to the date hereof or hereafter created, all claims under separate account agreements to the extent such claims are not fully discharged by the assets held by the Issuer in the applicable separate accounts and all claims of any guaranty corporation or association of the State of Wisconsin or any other jurisdiction against the Issuer.

As used herein, "Prior Claims" shall mean all other claims against the Issuer, which, in the event of a rehabilitation, liquidation, conservation, dissolution or similar proceeding relating to the Issuer pursuant to Section 645.68, would have priority over claims with respect to the Notes. Under Section 645.68 as currently in effect, such other claims include: (i) costs and expenses of administration during conservation,

rehabilitation, liquidation or similar proceedings, including but not limited to actual and necessary costs of preserving or recovering the assets of the insurer, compensation for all services rendered in the liquidation; necessary filing fees, fees and mileage payable to witnesses, and reasonable attorney fees; (ii) all claims under policies for losses incurred, including third party claims and federal, state and local government claims, except the first $200 of losses otherwise payable to any claimant under this clause (ii) other than the federal government; (iii) claims of the federal government not included under clause (ii), interest at the legal rate compounded annually on all claims in the class under this clause (iii), and on all claims of the federal government in the class under clause (ii), from the date of the petition for liquidation or the date on which the claim becomes due, whichever is later, until the date on which the dividend is declared; (iv) claims against the Issuer that are not under policies and that are for liability for bodily injury or for injury to or destruction of tangible property; (v) debts due to employees (with the exception of officers) for services performed, not to exceed $1,000 to each employee which have been earned within one year before the filing of the petition for liquidation, which shall be in lieu of any other similar priority authorized by law as to wages or compensation of employees, provided, however, that if there are no claims of the federal government, the claims in clause (v) have priority over all claims under clauses (ii) to (xi); (vi) claims under non-assessable policies for unearned premiums and other premium refunds and the first $200 of loss excepted by the deductible provision under clause (ii); (vii) all other claims, including claims of any state or local government, not falling within other clauses and claims, including those of any state or local governmental body, for a penalty or forfeiture, but only to the extent of the pecuniary loss sustained from the act, transaction or proceeding out of which the penalty or forfeiture arose, with reasonable and actual costs occasioned thereby; (viii) claims based solely on judgments; (ix) interest at the legal rate compounded annually on all claims in the classes under clauses (i) to (viii), except for claims of the federal government in the classes under clauses (ii) and (iii), from the date of the petition for liquidation or the date on which the claim becomes due, whichever is later, until the date on which the dividend is declared; and (x) pursuant to subdivision (8) of Section 645.68, the remaining claims or portions of claims not already paid, with interest calculated in accordance with clause (viii).

11. Delivery of Certain Information. For so long as any of the Notes remain Outstanding or any amount remains unpaid on any of the Notes, the Issuer shall, in accordance with Rule 144A under the Act, comply with the terms of the agreements set forth in Section 8 of the Fiscal Agency Agreement.

12. Mutilation, Destruction, Loss, etc. In case this Note shall become mutilated, defaced, destroyed, lost or stolen, the Issuer will execute and upon the Issuer's request the Fiscal Agent shall authenticate and deliver a new Note, having a number not contemporaneously outstanding, of like tenor (including the same date of issuance) and equal principal amount, registered in the same manner, bearing interest from the date to which interest has been paid on this Note, in exchange and substitution for this Note

(upon surrender and cancellation thereof if mutilated or defaced) or in lieu of and substitution for this Note. In the case where this Note is destroyed, lost or stolen, the applicant for a substituted Note shall furnish to the Issuer such security or indemnity as may be reasonably required by it to save it harmless, and, in every case of destruction, loss or theft of this Note, the applicant shall also furnish to the Issuer reasonable satisfactory evidence of the destruction, loss or theft of this Note and of the ownership thereof; provided, however, that if the registered holder hereof is, in the reasonable judgment of the Issuer, an institution of recognized responsibility, such holder's written agreement of indemnity shall be deemed to be satisfactory for the issuance of a new Note in lieu of and substitution for this Note. The Fiscal Agent shall authenticate any such substituted Note and deliver the same only upon written request or authorization of the Issuer. Upon the issuance of any substituted Note, the Issuer and the Fiscal Agent may require the payment by the registered holder thereof of a sum sufficient to cover fees and expenses connected therewith. In case this Note has matured or is about to mature and shall become mutilated or defaced or be destroyed, lost or stolen, the Issuer may, subject to the Payment Restrictions, instead of issuing a substitute Note, pay or authorize the payment of the same (without surrender thereof except if this Note is mutilated or defaced) upon compliance by the registered holder with the provisions of this paragraph 12 as hereinabove set forth.

13. Amendments. Section 11 of the Fiscal Agency Agreement, which Section is hereby incorporated mutatis mutandis by reference herein, provides that, with certain exceptions as therein provided and with the consent of the holders of not less than a majority in aggregate principal amount of the Notes then Outstanding or by written consent of such percentage in aggregate principal amount of the Notes then Outstanding, the Issuer and the Fiscal Agent may, with the prior approval of the Commissioner, modify, amend or supplement the Fiscal Agency Agreement or the terms of the Notes or may give consents or waivers or take other actions with respect thereto. Any such modification, amendment, supplement, consent, waiver or other action shall be conclusive and binding on the holder of this Note and on all future holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange heretofore or in lieu hereof, whether or not notation thereof is made upon this Note. The Fiscal Agency Agreement and the terms of the Notes may, with the prior approval of the Commissioner, be modified or amended by the Issuer and the Fiscal Agent, without the consent of any holders of Notes, for the purpose of (a) adding to the covenants of the Issuer for the benefit of the holders of Notes, or (b) surrendering any right or power conferred upon the Issuer, or (c) securing the Notes, or (d) evidencing the succession of another corporation to the Issuer and the assumption by such successor of the covenants and obligations of the Issuer herein and in the Fiscal Agency Agreement as permitted by the Notes and the Fiscal Agency Agreement, or (e) modifying the restrictions on, and procedures for, resale and other transfers of the Notes to the extent required by any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or transfer of restricted securities generally, or (f) accommodating

the issuance, if any, of Notes in book-entry or certificated form and matters related thereto which do not adversely affect the interest of any Note holder in any material respect, or (g) curing any ambiguity or correcting or supplementing any defective provision contained herein or in the Fiscal Agency Agreement in a manner which does not adversely affect the interest of any Note holder in any material respect, or (h) effecting any amendment which the Issuer and the Fiscal Agent may determine is necessary or desirable and which shall not adversely affect the interest of any Note holder, to all of which each holder of any Note, by acceptance thereof, consents.

14. Remedies. Holders of Notes may enforce the Fiscal Agency Agreement or the Notes only in the manner set forth below.

(a) In the event that any state or federal agency shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or Ambac Assurance Corporation (other than an Excluded Order), the Notes will upon the obtaining of such an order or the granting of such approval immediately mature in full without any action on the part of the Fiscal Agent or any holder of the Notes, with payment thereon being subject to the Payment Restrictions, and any restrictions imposed as a consequence of, or pursuant to, such proceedings. Notwithstanding any other provision of this Note or the Fiscal Agency Agreement, in no event shall the Fiscal Agent or any holder of the Notes be entitled to declare the Notes to immediately mature or otherwise be immediately payable.

(b) In the event that the Commissioner approves in whole or in part a payment of any interest on or principal of, or any redemption payment with respect to, any Notes and the Issuer fails to pay the full amount of such approved payment on the date such amount is scheduled to be paid, such approved amount will be immediately payable on such date without any action on the part of the Fiscal Agent or any holder of Notes. In the event that the Issuer fails to perform any of its other obligations hereunder or under the Fiscal Agency Agreement, each holder of the Notes may pursue any available remedy to enforce the performance of any provision of such Notes or the Fiscal Agency Agreement; provided, however, that such remedy shall in no event include the right to declare the Notes immediately payable, and shall in no circumstances be inconsistent with the provisions of applicable law. A delay or omission by any Note holder in exercising any right or remedy accruing as a result of the Issuer's failure to perform its obligations hereunder or under the Fiscal Agency Agreement and the continuation thereof shall not impair such right or remedy or constitute a waiver of or acquiescence in such non-performance by the Issuer. To the extent permitted by law, no remedy is exclusive of any other remedy and all remedies are cumulative.

(c) Notwithstanding any other provision of this Note or the Fiscal Agency Agreement, the right of any holder of Notes to receive payment of the principal of and interest on such holder's Notes on or after the respective scheduled payment or scheduled

maturity dates expressed in such Notes, or to bring suit for the enforcement of any such payment on or after such respective scheduled payment or scheduled maturity dates, in each case subject to such payment on such dates having received the approval of the Commissioner pursuant to the Payment Restrictions, including the approval of the Commissioner, is absolute and unconditional and shall not be impaired or affected without the consent of the holder.

15. Optional Redemption. (a) Subject to the Payment Restrictions, including the prior approval of the Commissioner, the Notes are subject to redemption, as a whole or in part, at the option of the Issuer at any time and from time to time, with no less than 30 and no more than 60 days' prior written notice to the holder of the Note, at a redemption price (the "Redemption Price") equal to 100% of the aggregate principal amount of the Notes to be redeemed plus any accrued but unpaid interest (including interest on interest); provided, that the Issuer shall not redeem any Notes unless it also redeems a pro rata amount of any other surplus notes of the Issuer outstanding at the time of such redemption. The Notes may not be redeemed at the option of any Note holder. Notice of any redemption pursuant to this paragraph 15(a) will be given to holders of the Notes as set forth below. Interest installments due on this Note on or prior to a redemption date will be payable to the holder of this Note of record at the close of business on the relevant record date, all as provided in the Fiscal Agency Agreement.

(b) In the case of any partial redemption of Notes, each Outstanding Note shall be redeemed pro rata; provided that if at the time of redemption such Notes are registered as a Global Note, the U.S. Depositary for such Global Note shall determine, in accordance with its procedures, the principal amount of such Notes to be redeemed held by each holder of a beneficial interest in such Global Note.

(c) Notices to redeem Notes shall be given to holders of Notes in writing mailed, first-class postage prepaid, to each holder of registered Notes, or portions thereof, so to be redeemed, at such holder's address as it appears in the securities register. Such notice will be given once not more than 60 days nor less than 30 days prior to the date fixed for redemption. If by reason of the suspension of regular mail service, or by reason of any other cause, it shall be impracticable to give notice to the holders of Notes in the manner prescribed herein, then such notification in lieu thereof as shall be made by the Issuer or by the Fiscal Agent on behalf of and at the instruction of the Issuer shall constitute sufficient provision of such notice, if such notification shall, so far as may be practicable, approximate the terms and conditions of the mailed notice in lieu of which it is given. Neither the failure to give notice nor any defect in any notice given to any particular holder of a Note shall affect the sufficiency of any notice with respect to other Notes. Notices to redeem Notes shall specify the date fixed for redemption, the Redemption Price or the manner of calculation thereof, the place or places of payment, that payment will be made upon presentation and surrender of the Notes to be redeemed (or portion thereof in the case of a partial redemption), that interest accrued to the date

fixed for redemption (unless the date of redemption is a Scheduled Interest Payment Date) will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue if the Notes are so redeemed. In addition, in the case of a partial redemption, such notice shall specify the Notes called for redemption and the aggregate principal amount of the Notes to remain Outstanding after the redemption.

(d) If notice of redemption has been given in the manner set forth in paragraph 15(c) hereof, the Notes so to be redeemed shall be payable in full on the date specified in such notice and upon presentation and surrender of the Notes at the place or places specified in such notice, the Notes shall be paid and redeemed by the Issuer at the places and in the manner and currency herein specified and at the Redemption Price. From and after the redemption date, if monies for the redemption of Notes called for redemption shall have been made available at the Corporate Trust Office of the Fiscal Agent for redemption on the redemption date, the Notes called for redemption shall cease to bear interest, and the only right of the holders with respect to such Notes or portion thereof being redeemed shall be to receive payment of the Redemption Price. If monies for the redemption of the Notes are not made available for payment until after the redemption date, the Notes called for redemption shall not cease to bear interest until such monies have been so made available.

(e) Any Note which is to be redeemed only in part shall be surrendered with, if the Issuer or the Fiscal Agent so requires, due endorsement by, or a written instrument of transfer in form reasonably satisfactory to the Issuer and the Fiscal Agent duly executed by, the holder thereof or such holder's attorney duly authorized in writing, and the Issuer shall execute, and the Fiscal Agent shall authenticate and deliver to the holder of such Note without service charge, a new registered Note or Notes, of any authorized denomination as requested by such holder, and as permitted by Section 1(d) of the Fiscal Agency Agreement, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

16. Obligations Not Impaired. No reference herein to the Fiscal Agency Agreement and no provision of this Note or of the Fiscal Agency Agreement shall alter or impair the obligation of the Issuer, subject to the Payment Restrictions, to pay the principal of and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

17. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WISCONSIN. THE COMMISSIONER'S EXERCISE OF REGULATORY AUTHORITY, INCLUDING APPROVAL OF PAYMENTS ON THIS NOTE, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WISCONSIN (OR, IF THE COMMISSIONER IS NO LONGER THE PRIMARY REGULATOR OF THE FINANCIAL

CONDITION OF THE ISSUER, THE LAW OF SUCH JURISDICTION OF THE PRIMARY REGULATOR OF THE FINANCIAL CONDITION OF THE ISSUER), AND THE PARTIES TO THE FISCAL AGENCY AGREEMENT AND HOLDERS OF THIS NOTE SHALL SUBMIT ANY DISPUTES RELATED TO THE EXERCISE OF SUCH REGULATORY AUTHORITY TO THE EXCLUSIVE JURISDICTION OF THE CIRCUIT COURT IN DANE COUNTY, WISCONSIN, OR, SO LONG AS ANY PROCEEDING IS PENDING IN WISCONSIN AS TO THE ISSUER UNDER CHAPTER 645 OF THE WISCONSIN STATUTES, THEN TO THAT CASE AND COURT.

EXHIBIT B

FORM OF GLOBAL NOTE

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IN EXCHANGE FOR THIS NOTE OR ANY PORTION HEREOF IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE FISCAL AGENCY AGREEMENT REFERRED TO HEREINAFTER. THIS GLOBAL NOTE MAY NOT BE EXCHANGED, IN WHOLE OR IN PART, FOR A NOTE REGISTERED IN THE NAME OF ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES SET FORTH IN SECTION 5 OF THE FISCAL AGENCY AGREEMENT, AND MAY NOT BE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN SECTION 6(C) OF THE FISCAL AGENCY AGREEMENT. BENEFICIAL INTERESTS IN THIS GLOBAL NOTE MAY NOT BE TRANSFERRED EXCEPT IN ACCORDANCE WITH SECTION 6(C) OF THE FISCAL AGENCY AGREEMENT.

ANY PERSON ACQUIRING THIS NOTE AS A TRANSFEREE OF THE ORIGINAL REGISTERED HOLDER OF THIS NOTE OR ANY SUBSEQUENT REGISTERED HOLDER OF THIS NOTE IS DEEMED TO MAKE A REPRESENTATION TO THE ISSUER AND THE FISCAL AGENT AS SET FORTH IN PARAGRAPH 9 HEREOF.

ALL PAYMENTS OF PRINCIPAL AND INTEREST ON THIS NOTE MAY ONLY BE MADE WITH THE PRIOR APPROVAL OF THE COMMISSIONER OF INSURANCE OF THE STATE OF WISCONSIN OR ANY SUCCESSOR THERETO (THE "COMMISSIONER").

SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION

5.1% Surplus Note scheduled to mature on June 7, 2020

CUSIP NO.:_____ ISIN NO.:_____ COMMON CODE:_____

No. R _____ $_____

The SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION, a Wisconsin domiciled financial guaranty insurance corporation (and any successor in interest thereto, the "Issuer"), for value received, hereby promises to pay, subject to the Payment Restrictions (as defined in paragraph 1 of the reverse side of this Note), to Cede & Co., or registered assigns, the principal sum of _____ United States dollars ($_____), or such other amount (not to exceed [•] dollars ($[•]) when taken together with all of the Issuer's Notes issued and outstanding in definitive certificated form or in the form of another Global Note) as may from time to time represent the principal amount of the Issuer's Notes in respect of which beneficial interests are held through the U.S. Depositary in the form of a Global Note, on June 7, 2020 (the "Scheduled Maturity Date"), and to pay interest thereon, subject to the Payment Restrictions, including the approval of the Commissioner, from [•], 2011 or from the most recent Scheduled Interest Payment Date to which interest has been paid or duly provided for, annually in arrears on June 7 in each year and on the date the Notes are scheduled to mature, commencing June 7, 2011 (each, a "Scheduled Interest Payment Date"), at the rate of 5.1% per annum, until the principal hereof is paid or duly provided for. Any reference herein to the term "scheduled maturity date" or other date for the payment of principal of the Notes shall include (i) the date, if any, fixed for redemption thereof in accordance with paragraph 15 hereof and (ii) the date upon which any state or federal agency obtains an order or grants approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or the General Account (other than any Excluded Order). As specified on the reverse hereof, all payments of principal of or interest on this Note may be made only with the prior approval of the Commissioner. The interest so payable, and punctually paid or duly provided for, on any Scheduled Interest Payment Date shall be paid, in accordance with the terms of the Fiscal Agency Agreement hereinafter referred to, to the person (the "registered holder") in whose name this Note (or one or more predecessor Notes) is registered at the close of business on May 20 (whether or not a Business Day, as defined herein), as the case may be (each, a "Regular Record Date"), next preceding such Scheduled Interest Payment Date. Interest on the Notes shall be calculated on the basis of a 360-day year of twelve months of 30 days each. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the registered holder on such Regular Record Date and shall be paid to the person in whose name this Note (or one or more predecessor Notes) is registered at the close of business on a special record date for the payment of such interest to be fixed by the Issuer, notice whereof shall be given to registered holders of the Notes not less than 15 days prior to such special record date.

Principal of this Note shall be payable against surrender hereof at the Corporate Trust Office of the Fiscal Agent hereinafter referred to and at the offices of such other Paying Agents as the Issuer shall have appointed pursuant to the Fiscal Agency Agreement. Payments of principal of the Notes shall be made only against surrender of the Notes; provided that in the case of payment of only a portion of principal, the Issuer shall execute a new registered Note or Notes in aggregate principal amount equal to and in exchange for the remaining portion of the principal of the Note so surrendered. Payments of interest on this Note will be made, in accordance with the foregoing and subject to applicable laws and regulations, (i) by wire transfer of immediately available funds to an account maintained by the person entitled thereto with a bank if such registered holder gives notice to the Fiscal Agent, not less than 15 days (or such fewer days as the Fiscal Agent may accept at its discretion) prior to the applicable scheduled payment date or scheduled maturity date hereof, of the payee's account to which payment is to be made or (ii) if no such notice is given, by mailing a check on or before the scheduled payment date of such payment to the person entitled thereto at such person's address appearing on the aforementioned register. Unless the designation of the payee's account to which payment is to be made is revoked, any such designation made by such holder with respect to such Notes of the payee's account to which payment is to be made shall remain in effect with respect to any future payments with respect to such Notes payable to such holder. The Issuer agrees that until this Note has been delivered to the Fiscal Agent for cancellation, or monies sufficient to pay the full principal of and interest remaining unpaid on this Note have been made available for payment and either paid or returned to the Issuer as provided herein, it will at all times maintain offices or agencies in the Borough of Manhattan, The City of New York for the payment of the principal of and interest on the Notes as herein provided.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

This Note may be executed by the Issuer by manual, facsimile or portable document format signatures, and such signatures may be executed on separate counterparts.

Unless the certificate of authentication hereon has been executed by the Fiscal Agent by manual signature, this Note shall not be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed.

Dated: _____

SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION,
By: Ambac Assurance Corporation, as Manager
By: _____
Name:
Title:

This is one of the Notes referred to in the within-mentioned Fiscal Agency Agreement.

THE BANK OF NEW YORK MELLON
as Fiscal Agent
By: _____
Authorized Officer

FORM OF REVERSE

1. General. This Note is one of a duly authorized issue of 5.1% Surplus Notes scheduled to mature on June 7, 2020 of the Issuer (herein called the "Notes"), unlimited in aggregate principal amount (subject to the terms and conditions of the Plan of Rehabilitation). The Issuer and The Bank of New York Mellon have entered into a Fiscal Agency Agreement, dated as of March [•], 2011 (such instrument, as it may be duly amended from time to time, is herein called the "Fiscal Agency Agreement"), which provides for the mechanism for issuing the Notes and, inter alia, sets forth certain duties of the Fiscal Agent in connection therewith. As used herein, the term "Fiscal Agent" includes any successor fiscal agent under the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and available for inspection at the Corporate Trust Office of the Fiscal Agent in the Borough of Manhattan, The City of New York. Holders of Notes are referred to the Fiscal Agency Agreement for a statement of the terms thereof, including those relating to transfer, payment, exchanges and certain other matters. The Fiscal Agent or any Paying Agent shall also act as Transfer Agent and securities registrar.

Capitalized definitional terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Fiscal Agency Agreement. The terms of the Notes include those stated in the Fiscal Agency Agreement. The Notes are subject to all such terms, and holders of the Notes are referred to the Fiscal Agency Agreement for a statement of such terms. Holders of Notes may enforce the Notes only in accordance with the Fiscal Agency Agreement.

The Notes are direct and unsecured obligations of the Issuer and, subject to the payment restrictions contained in paragraphs 4 and 10 hereof (the "Payment Restrictions"), are scheduled to mature on June 7, 2020.

Any reference herein to the term "scheduled maturity date" or other date for the payment of principal of the Notes shall include (i) the date, if any, fixed for redemption thereof in accordance with paragraph 15 hereof and (ii) the date upon which any state or federal agency obtains an order or grants approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or the General Account (other than any Excluded Order).

2. Form of Notes. The Notes are issuable only in fully registered form without coupons.

3. Registration, Transfer and Exchange. The Issuer shall maintain, in the Borough of Manhattan, The City of New York, a Transfer Agent where Notes may be registered or surrendered for registration of transfer or exchange. The Issuer has initially appointed the Fiscal Agent at its Corporate Trust Office as its Transfer Agent. The Issuer

shall cause the Transfer Agent to act as a securities registrar and shall cause to be kept at the office of the Transfer Agent a register in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Notes and registration of transfers and exchanges of Notes. The Issuer reserves the right to vary or terminate the appointment of the Transfer Agent or to appoint additional or other Transfer Agents or to approve any change in the office through which any Transfer Agent acts; provided that there shall at all times be a Transfer Agent in the Borough of Manhattan, The City of New York. The Issuer shall cause written notice of any resignation, termination or appointment of the Fiscal Agent or any Paying Agent or Transfer Agent and of any change in the office through which any such Agent shall act to be provided to holders of Notes.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, the transfer of a Note is registrable on the aforementioned register upon surrender of such Note at any Transfer Agent duly endorsed by, or accompanied by a written instrument of transfer in form reasonably satisfactory to the Issuer duly executed by, the registered holder thereof or such holder's attorney duly authorized in writing. Upon such surrender of this Note for registration of transfer, the Issuer shall execute, and the Fiscal Agent shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes, dated the date of authentication thereof, of any authorized denominations and of a like aggregate principal amount.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, at the option of the registered holder upon request confirmed in writing, Notes may be exchanged for Notes of any authorized denominations and aggregate principal amount upon surrender of the Notes to be exchanged at the office of any Transfer Agent. Whenever any Notes are so surrendered for exchange, the Issuer shall execute, and the Fiscal Agent shall authenticate and deliver, the Notes which the registered holder making the exchange is entitled to receive. Any registration of transfer or exchange shall be effected upon the Issuer being reasonably satisfied with the documents of title and identity of the person making the request and subject to the restrictions set forth in this Note and/or the Fiscal Agency Agreement and such reasonable regulations as the Issuer may from time to time agree with the Fiscal Agent.

Notes may be redeemed by the Issuer, in whole or in part, but only to the extent permitted by the Payment Restrictions, including the prior approval of the Commissioner, and in accordance with paragraph 15 hereof. In the event of a partial redemption, the Issuer shall not be required (i) to register the transfer of or exchange any Note during a period beginning at the opening of business 15 days before the date notice is given identifying the Notes to be redeemed, or (ii) to register the transfer or exchange of any Note, or portion thereof, called for redemption.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits, as the Notes surrendered upon such registration of transfer or exchange. No service charge shall be made for any registration of transfer or exchange, but the Issuer

and the Fiscal Agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith, other than an exchange in connection with the partial redemption of a Note not involving any registration of a transfer.

Prior to due presentment of this Note for registration of transfer, the Issuer, the Fiscal Agent and any agent of the Issuer or the Fiscal Agent may treat the person in whose name this Note is registered as the absolute owner hereof for all purposes, whether or not this Note be overdue, and neither the Issuer nor the Fiscal Agent nor any such agent shall be affected by notice to the contrary.

4. Restrictions on Payment. (a) Notwithstanding anything to the contrary set forth herein or in the Fiscal Agency Agreement, any payment of principal of, interest on or any monies owing with respect to this Note, whether at the scheduled payment date or scheduled maturity date specified herein or otherwise, may be made only with the prior approval of the Commissioner. If the Commissioner does not approve the making of any payment of principal of or interest on this Note on the scheduled payment date or scheduled maturity date thereof, as specified herein, the scheduled payment date or scheduled maturity date, as the case may be, shall be extended and such payment, together with interest accrued with respect thereto as contemplated by the immediately following two sentences, shall be made by the Issuer on the next following Business Day (as defined below) on which the Issuer shall have the approval of the Commissioner to make such payment together with such interest. Interest will continue to accrue, compounded on each anniversary of the original scheduled payment date or scheduled maturity date, on any such unpaid principal through the actual date of payment at the rate of interest stated on the face hereof. Interest will accrue, compounded on each anniversary of the original scheduled payment date, on interest (or any portion thereof) with respect to which the scheduled payment date has been extended, during the period of such extension, at the rate of interest per annum applicable to principal hereunder. If the Commissioner approves a payment of principal of or interest on the Notes in an amount that is less than the full amount of principal of and interest on the Notes then scheduled to be paid in respect of the Notes, payment of such partial amount shall be made pro rata among Note holders.

(b) Any payment of principal of or interest on any Note as to which the approval of the Commissioner has been obtained and which is not punctually paid or duly provided for on the scheduled payment date or scheduled maturity date thereof, as set forth herein (such payment being referred to as an "Unpaid Amount"), subject to the provisions of section 14(b), will forthwith cease to be payable to the registered holder of this Note on the relevant record date designated herein, and such Unpaid Amount, together with interest thereon accrued at the rate of interest per annum applicable to principal hereunder, compounded on each anniversary of the original scheduled payment date or scheduled maturity date, will instead be payable to the registered holder of this Note on a subsequent special record date. The Issuer shall fix the special record date and payment date for the payment of any Unpaid Amount. At least 15 days before the special record date, the Issuer shall mail to each holder of the Notes and the Fiscal Agent a notice

that states the special record date, payment date and amount of interest or principal to be paid. On the payment date set forth in such notice, the Paying Agent shall pay the amount of interest or principal to be so paid to each holder of the Notes in the manner set forth in Section 4(a) of the Fiscal Agency Agreement.

5. Payment. (a) For so long as the Fiscal Agent is acting as a Paying Agent hereunder, the Issuer, subject to the Payment Restrictions, shall provide to the Fiscal Agent, or such other Paying Agent if the Fiscal Agent is no longer acting as a Paying Agent, in immediately available funds on or prior to 11:00 a.m., New York time, on each date on which a payment of principal of or any interest on this Note is payable, as set forth herein, such amounts, in U.S. dollars, as are necessary (with any amounts then held by the Fiscal Agent and available for the purpose) to make such payment, and the Issuer hereby authorizes and directs the Fiscal Agent from funds so provided to it to make or cause to be made payment of the principal of and any interest, as the case may be, on this Note as set forth herein and in the Fiscal Agency Agreement. Payments of principal of or any interest on the Notes will be made (i) by wire transfer of immediately available funds to an account maintained by the payee with a bank if such registered holder gives notice to the Fiscal Agent, not less than 15 days (or such fewer days as the Fiscal Agent may accept at its discretion) prior to the date on which such payments are scheduled to be made, of the account to which payment is to be made or (ii) if no such notice is given, by mailing a check to the payee at the address reflected in the securities register maintained pursuant to Section 6 of the Fiscal Agency Agreement. Unless the designation of the payee's account to which payment is to be made is revoked, any such designation made by such holder with respect to such Notes shall remain in effect with respect to any future payments with respect to such Notes payable to such holder. The Issuer shall pay any reasonable administrative costs in connection with making any such payments. The Fiscal Agent shall arrange directly with any other Paying Agent who may have been appointed by the Issuer pursuant to the provisions of Section 2 of the Fiscal Agency Agreement for the payment, subject to the Payment Restrictions, from funds so paid by the Issuer of the principal of and any interest on this Note. Any monies held in respect of this Note remaining unclaimed at the end of two years after such principal and such interest shall have become payable in accordance with the Payment Restrictions (whether at the Scheduled Maturity Date or otherwise) and monies sufficient therefor shall have been duly made available for payment shall, together with any interest made available for payment thereon, be repaid to the Issuer and upon such repayment all liability of the Fiscal Agent with respect thereto shall cease, without, however, limiting in any way any obligation the Issuer may have to pay the principal of and interest on this Note, subject to the Payment Restrictions. To the extent that the Fiscal Agent is not acting as Paying Agent, references to the Fiscal Agent in this Section 5(a) shall include the Paying Agent in such capacity.

(b) In any case where the scheduled payment date or scheduled maturity date of any Note shall be at any place of payment a day on which banking institutions are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close, then payment of principal or interest need not be made on such

date at such place but may be made on the next succeeding day at such place which is not a day on which banking institutions in the applicable jurisdiction are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close (a "Business Day"), with the same force and effect as if made on the scheduled payment date or scheduled maturity date thereof, and no interest shall accrue on the amount of such payment for the period after such date, if such payment is so made.

6. Duties and Taxes. The Issuer shall pay all stamp and other duties, if any, which may be imposed by the United States of America or any governmental entity or any political subdivision thereof or taxing authority of or in the foregoing with respect to the Fiscal Agency Agreement or the initial issuance of this Note. All payments will be made by the Issuer without withholding or deduction for or on account for any present or future tax, duty, assessment or other governmental charge of whatever nature imposed or levied by any government or any political subdivision or taxing authority thereof or therein, unless such withholding or deduction is required by law. The Issuer shall not be required to make any additional payment with respect to any withholding or deduction so required.

7. Covenants. For so long as any of the Notes remain Outstanding or any amount remains unpaid on any of the Notes,

(a) Except with respect to transactions covered by paragraph 8 hereof, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, material rights (charter and statutory) and material franchises pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act; provided, however, that the Issuer shall not be required to preserve any such right or franchise if the Rehabilitator or AAC's Board of Directors, as applicable, shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Issuer and that the Issuer has used its reasonable best efforts to not disadvantage in any material respect the holders of the Notes.

(b) The Issuer will not be or become an open-end investment company, unit investment trust, face-amount certificate company or any other entity that is or is required to be registered under Section 8 of the Investment Company Act of 1940, as amended (the "Investment Company Act").

(c) (i) While the Issuer is subject to the Proceeding, the Rehabilitator will seek to, and (ii) while the Issuer is not subject to the Proceeding, the Issuer shall use its best efforts (provided that such best efforts do not require the Issuer to raise additional capital or indebtedness) to, obtain the approval of the Commissioner for the payment by the Issuer of interest on and principal of the Notes on the scheduled payment dates or scheduled maturity dates thereof, and, in the event any such approval has not been obtained for any such payment at or prior to the scheduled payment date or scheduled maturity date thereof, as the case may be, to continue to use its best efforts (provided that such best efforts do not require the Issuer to raise additional capital or indebtedness) to obtain such approval promptly thereafter. Not less than 45 days prior to the scheduled

payment date or scheduled maturity date thereof (excluding any such scheduled maturity date which arises as a result of the obtaining of an order or the granting of approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer), the Issuer will seek the approval of the Commissioner to make each payment of interest on and principal of the Notes. In addition, the Issuer shall notify in writing or cause to be notified in writing each holder of the Notes and the Fiscal Agent no later than five Business Days prior to the scheduled payment date for interest on or the scheduled maturity date for principal of any Note (excluding any such scheduled maturity date which arises as a result of the obtaining of an order or the granting of approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer) in the event that the Commissioner has not then approved the making of any such payment on such scheduled payment date or such scheduled maturity date, and thereafter, if such payment has been approved by the Commissioner, shall promptly notify in writing or cause to be notified in writing each holder of the Notes and the Fiscal Agent of such approval and of the fact that, notwithstanding such approval, the Issuer shall have failed to make any such payment on any such scheduled payment date or such scheduled maturity date.

(d) For any amounts due and payable under the Notes that are approved by the Commissioner in accordance with Section 4(a) of the Fiscal Agency Agreement and which are due and payable under the Secured Note dated as of March 24, 2010, from Ambac Assurance Corporation to the Issuer (the "Secured Note") or the Aggregate Excess of Loss Reinsurance Agreement, dated as of March 24, 2010, by and between Ambac Assurance Corporation and the Issuer (the "Aggregate Excess of Loss Reinsurance Agreement"), as the case may be, the Issuer undertakes to demand payment under the Secured Note or the Aggregate Excess of Loss Reinsurance Agreement, as the case may be, against Ambac Assurance Corporation.

8. Merger or Consolidation. For so long as any of the Notes remain Outstanding or any amounts remain unpaid on any of the Notes, the Issuer may merge or consolidate with or into any other corporation or sell, convey, transfer or otherwise dispose of all or substantially all of its assets to any person, firm or corporation, if (i) (A) in the case of a merger or consolidation, the Issuer is the surviving corporation or (B) in the case of a merger or consolidation where the Issuer is not the surviving corporation and in the case of any such sale, conveyance, transfer or other disposition, the successor corporation is either Ambac Assurance Corporation (or its successor) or a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation expressly assumes by supplemental fiscal agency agreement all the obligations of the Issuer under the Notes and the Fiscal Agency Agreement, (ii) at the time of any such merger or consolidation, or such sale, conveyance, transfer or other disposition, the Issuer shall not have failed to make payment of interest on or principal of, or any redemption payment with respect to, the Notes after having received the Commissioner's prior approval to make such payment and (iii) the Issuer has delivered to the Fiscal Agent an officer's certificate stating that such merger, consolidation, sale, conveyance, transfer or other disposition complies with this paragraph and that all conditions precedent herein provided for relating to such transaction have been complied

with. In the event of the assumption by a successor corporation of the obligations of the Issuer as provided in clause (i)(B) of the immediately preceding sentence, such successor corporation shall succeed to and be substituted for the Issuer hereunder and under the Fiscal Agency Agreement and all such obligations of the Issuer shall terminate.

9. ERISA. No employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or plan or other arrangement that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or any entity whose underlying assets are considered to include "plan assets" of such employee benefit plans or arrangements (each, a "Plan"), or governmental, church or foreign plan subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law"), and no person acting on behalf of or investing "plan assets" of a Plan or a plan subject to a Similar Law, may acquire this Note as a transferee of the original registered holder of this Note or any subsequent registered holder of this Note, unless the acquisition and holding of the Note is exempt under one or more of Prohibited Transaction Class Exemptions 96-23, 95-60, 91-38, 90-1 or 84-14 (or any amendment thereof) or Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code or another applicable exemption from the prohibitions under Section 406 of ERISA and Section 4975 of the Code or, in the case of a governmental, church or foreign plan subject to Similar Law, such acquisition and holding do not violate any Similar Law. The acquisition by any person of this Note other than the original registered holder of this Note shall constitute a representation by such person to the Issuer and the Fiscal Agent that either (i) such person is not a Plan or a plan subject to Similar Law and is not acquiring the Note on behalf of or with "plan assets" of any Plan or any plan subject to Similar Law or (ii) its acquisition and holding of the Note or any interest therein are covered under an applicable exemption from the prohibitions under Section 406 of ERISA and Section 4975 of the Code. The restrictions on acquisitions of the Notes set forth in this paragraph 9 are in addition to those otherwise set forth in Section 6 of the Fiscal Agency Agreement and under applicable law or, in the case of a plan subject to Similar Law, do not violate such Similar Law.

10. Subordination. (a) The Issuer agrees, and each Note holder by accepting a Note agrees, that the indebtedness evidenced by the Notes is subordinated in right of payment, to the extent and in the manner provided in this paragraph, to the prior payment in full of all Indebtedness, Policy Claims and Prior Claims (each as hereinafter defined).

(b) Upon any distribution to creditors of the Issuer in any rehabilitation, liquidation, conservation or dissolution or similar proceeding relating to the Issuer or its property, the priority of claims of Note holders shall be determined in accordance with Section 645.68 of the Wisconsin Statutes (together with any successor provision, and as may be hereafter amended from time to time, "Section 645.68"). In a proceeding commenced under Chapter 645 of the Wisconsin Statutes, claims for interest on, principal of, or any redemption payment with respect to, the Notes constitute Class 10 claims under Section 645.68, as currently in effect. If the Commissioner approves a payment of principal of or interest on the Notes in an amount that is less than the full amount of

principal of and interest on the Notes then scheduled to be paid in respect of the Notes, payment of such partial amount shall be made pro rata among Note holders as their interests may appear.

(c) If a distribution is made to Note holders that, because of this paragraph, should not have been made to them, the Note holders who receive the distribution shall pay it over to the Issuer.

(d) The Issuer shall promptly notify the Fiscal Agent and the Paying Agent of any facts known to the Issuer that would cause a payment of principal of or interest on the Notes to violate paragraph 10(b).

(e) This paragraph defines the relative rights of Note holders, on the one hand, and holders of any other claims, on the other hand. Nothing in this Note or the Fiscal Agency Agreement shall (i) impair, as between the Issuer and Note holders, the obligation of the Issuer which is, subject to the Payment Restrictions, absolute and unconditional to pay principal of and interest on the Notes in accordance with their terms; (ii) affect the relative rights of Note holders and creditors of the Issuer, other than holders of Policy Claims, Indebtedness or Prior Claims; or (iii) prevent the Fiscal Agent or any Note holder from exercising any available remedies upon a breach by the Issuer of its obligations hereunder, subject to the rights of holders of Policy Claims, Indebtedness or Prior Claims to receive distributions otherwise payable to Note holders.

(f) No right of any holder of Policy Claims, Indebtedness or Prior Claims to enforce the subordination of the indebtedness evidenced by the Notes shall be impaired by any act or failure to act by the Issuer or by its failure to comply with the terms of this Fiscal Agency Agreement.

(g) Each holder of Notes, by acceptance thereof, authorizes and directs the Fiscal Agent on its behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this paragraph and appoints the Fiscal Agent its attorney-in-fact for any and all such purposes.

As used herein, "Indebtedness" of the Issuer shall mean (i) all existing or future indebtedness of the Issuer for borrowed money; (ii) all existing or future indebtedness for borrowed money of other persons, the payment of which is guaranteed by the Issuer; (iii) all existing or future obligations of the Issuer under any agreement obligating the Issuer to cause another person to maintain a minimum level of net worth, or otherwise to ensure the solvency of such person; and (iv) all other claims or amounts owed, to the extent that the payment of principal of and interest on, or any redemption payment with respect to, the Notes would be required by law to be subordinated to the prior payment of any such claim or amount in the event of a distribution of claims pursuant to Section 645.68. Any indebtedness of the Issuer, which, by its express terms or other contract, is subordinated in right of payment to, or ranks equally with, the Notes shall not constitute Indebtedness. Any other surplus or contribution notes or similar obligations of the Issuer shall not constitute Indebtedness and will rank *pari passu* with, or be

subordinated to, the Notes. Any surplus or contribution notes or similar obligations of Ambac Assurance Corporation will rank *pari passu* with the Notes unless the terms thereof expressly state that such notes are subordinated to the Notes.

As used herein, "Policy Claims" shall mean all existing or future claims of policyowners, beneficiaries and insureds arising from and within the coverage of, and not in excess of the applicable limits of, any and all existing or future policies, endorsements, riders and other contracts of insurance, annuity contracts (including, without limitation, guaranteed investment contracts and funding agreements) issued, assumed or renewed by the Issuer on or prior to the date hereof or hereafter created, all claims under separate account agreements to the extent such claims are not fully discharged by the assets held by the Issuer in the applicable separate accounts and all claims of any guaranty corporation or association of the State of Wisconsin or any other jurisdiction against the Issuer.

As used herein, "Prior Claims" shall mean all other claims against the Issuer, which, in the event of a rehabilitation, liquidation, conservation, dissolution or similar proceeding relating to the Issuer pursuant to Section 645.68, would have priority over claims with respect to the Notes. Under Section 645.68 as currently in effect, such other claims include: (i) costs and expenses of administration during conservation, rehabilitation, liquidation or similar proceedings, including but not limited to actual and necessary costs of preserving or recovering the assets of the insurer, compensation for all services rendered in the liquidation; necessary filing fees, fees and mileage payable to witnesses, and reasonable attorney fees; (ii) all claims under policies for losses incurred, including third party claims and federal, state and local government claims, except the first $200 of losses otherwise payable to any claimant under this clause (ii) other than the federal government; (iii) claims of the federal government not included under clause (ii), interest at the legal rate compounded annually on all claims in the class under this clause (iii), and on all claims of the federal government in the class under clause (ii), from the date of the petition for liquidation or the date on which the claim becomes due, whichever is later, until the date on which the dividend is declared; (iv) claims against the Issuer that are not under policies and that are for liability for bodily injury or for injury to or destruction of tangible property; (v) debts due to employees (with the exception of officers) for services performed, not to exceed $1,000 to each employee which have been earned within one year before the filing of the petition for liquidation, which shall be in lieu of any other similar priority authorized by law as to wages or compensation of employees, provided, however, that if there are no claims of the federal government, the claims in clause (v) have priority over all claims under clauses (ii) to (xi); (vi) claims under non-assessable policies for unearned premiums and other premium refunds and the first $200 of loss excepted by the deductible provision under clause (ii); (vii) all other claims, including claims of any state or local government, not falling within other clauses and claims, including those of any state or local governmental body, for a penalty or forfeiture, but only to the extent of the pecuniary loss sustained from the act, transaction or proceeding out of which the penalty or forfeiture arose, with reasonable and actual costs occasioned thereby; (viii) claims based solely on judgments; (ix) interest at the legal

rate compounded annually on all claims in the classes under clauses (i) to (viii), except for claims of the federal government in the classes under clauses (ii) and (iii), from the date of the petition for liquidation or the date on which the claim becomes due, whichever is later, until the date on which the dividend is declared; and (x) pursuant to subdivision (8) of Section 645.68, the remaining claims or portions of claims not already paid, with interest calculated in accordance with clause (viii).

11. Delivery of Certain Information. For so long as any of the Notes remain Outstanding or any amount remains unpaid on any of the Notes, the Issuer shall, in accordance with Rule 144A under the Act, comply with the terms of the agreements set forth in Section 8 of the Fiscal Agency Agreement.

12. Mutilation, Destruction, Loss, etc. In case this Note shall become mutilated, defaced, destroyed, lost or stolen, the Issuer will execute and upon the Issuer's request the Fiscal Agent shall authenticate and deliver a new Note, having a number not contemporaneously outstanding, of like tenor (including the same date of issuance) and equal principal amount, registered in the same manner, bearing interest from the date to which interest has been paid on this Note, in exchange and substitution for this Note (upon surrender and cancellation thereof if mutilated or defaced) or in lieu of and substitution for this Note. In the case where this Note is destroyed, lost or stolen, the applicant for a substituted Note shall furnish to the Issuer such security or indemnity as may be reasonably required by it to save it harmless, and, in every case of destruction, loss or theft of this Note, the applicant shall also furnish to the Issuer reasonable satisfactory evidence of the destruction, loss or theft of this Note and of the ownership thereof; provided, however, that if the registered holder hereof is, in the reasonable judgment of the Issuer, an institution of recognized responsibility, such holder's written agreement of indemnity shall be deemed to be satisfactory for the issuance of a new Note in lieu of and substitution for this Note. The Fiscal Agent shall authenticate any such substituted Note and deliver the same only upon written request or authorization of the Issuer. Upon the issuance of any substituted Note, the Issuer and the Fiscal Agent may require the payment by the registered holder thereof of a sum sufficient to cover fees and expenses connected therewith. In case this Note has matured or is about to mature and shall become mutilated or defaced or be destroyed, lost or stolen, the Issuer may, subject to the Payment Restrictions, instead of issuing a substitute Note, pay or authorize the payment of the same (without surrender thereof except if this Note is mutilated or defaced) upon compliance by the registered holder with the provisions of this paragraph 12 as hereinabove set forth.

13. Amendments. Section 11 of the Fiscal Agency Agreement, which Section is hereby incorporated mutatis mutandis by reference herein, provides that, with certain exceptions as therein provided and with the consent of the holders of not less than a majority in aggregate principal amount of the Notes then Outstanding or by written consent of such percentage in aggregate principal amount of the Notes then Outstanding, the Issuer and the Fiscal Agent may, with the prior approval of the Commissioner, modify, amend or supplement the Fiscal Agency Agreement or the terms of the Notes or may give consents or waivers or take other actions with respect thereto. Any such

modification, amendment, supplement, consent, waiver or other action shall be conclusive and binding on the holder of this Note and on all future holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange heretofore or in lieu hereof, whether or not notation thereof is made upon this Note. The Fiscal Agency Agreement and the terms of the Notes may, with the prior approval of the Commissioner, be modified or amended by the Issuer and the Fiscal Agent, without the consent of any holders of Notes, for the purpose of (a) adding to the covenants of the Issuer for the benefit of the holders of Notes, or (b) surrendering any right or power conferred upon the Issuer, or (c) securing the Notes, or (d) evidencing the succession of another corporation to the Issuer and the assumption by such successor of the covenants and obligations of the Issuer herein and in the Fiscal Agency Agreement as permitted by the Notes and the Fiscal Agency Agreement, or (e) modifying the restrictions on, and procedures for, resale and other transfers of the Notes to the extent required by any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or transfer of restricted securities generally, or (f) accommodating the issuance, if any, of Notes in book-entry or certificated form and matters related thereto which do not adversely affect the interest of any Note holder in any material respect, or (g) curing any ambiguity or correcting or supplementing any defective provision contained herein or in the Fiscal Agency Agreement in a manner which does not adversely affect the interest of any Note holder in any material respect, or (h) effecting any amendment which the Issuer and the Fiscal Agent may determine is necessary or desirable and which shall not adversely affect the interest of any Note holder, to all of which each holder of any Note, by acceptance thereof, consents.

14. Remedies. Holders of Notes may enforce the Fiscal Agency Agreement or the Notes only in the manner set forth below.

(a) In the event that any state or federal agency shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or Ambac Assurance Corporation (other than an Excluded Order), the Notes will upon the obtaining of such an order or the granting of such approval immediately mature in full without any action on the part of the Fiscal Agent or any holder of the Notes, with payment thereon being subject to the Payment Restrictions, and any restrictions imposed as a consequence of, or pursuant to, such proceedings. Notwithstanding any other provision of this Note or the Fiscal Agency Agreement, in no event shall the Fiscal Agent or any holder of the Notes be entitled to declare the Notes to immediately mature or otherwise be immediately payable.

(b) In the event that the Commissioner approves in whole or in part a payment of any interest on or principal of, or any redemption payment with respect to, any Notes and the Issuer fails to pay the full amount of such approved payment on the date such amount is scheduled to be paid, such approved amount will be immediately payable on such date without any action on the part of the Fiscal Agent or any holder of Notes. In the event that the Issuer fails to perform any of its other obligations hereunder or under the Fiscal Agency Agreement, each holder of the Notes may pursue any available remedy to enforce the performance of any provision of such Notes or the Fiscal Agency

Agreement; provided, however, that such remedy shall in no event include the right to declare the Notes immediately payable, and shall in no circumstances be inconsistent with the provisions of applicable law. A delay or omission by any Note holder in exercising any right or remedy accruing as a result of the Issuer's failure to perform its obligations hereunder or under the Fiscal Agency Agreement and the continuation thereof shall not impair such right or remedy or constitute a waiver of or acquiescence in such non-performance by the Issuer. To the extent permitted by law, no remedy is exclusive of any other remedy and all remedies are cumulative.

(c) Notwithstanding any other provision of this Note or the Fiscal Agency Agreement, the right of any holder of Notes to receive payment of the principal of and interest on such holder's Notes on or after the respective scheduled payment or scheduled maturity dates expressed in such Notes, or to bring suit for the enforcement of any such payment on or after such respective scheduled payment or scheduled maturity dates, in each case subject to such payment on such dates having received the approval of the Commissioner pursuant to the Payment Restrictions, including the approval of the Commissioner, is absolute and unconditional and shall not be impaired or affected without the consent of the holder.

15. Optional Redemption. (a) Subject to the Payment Restrictions, including the prior approval of the Commissioner, the Notes are subject to redemption, as a whole or in part, at the option of the Issuer at any time and from time to time, with no less than 30 and no more than 60 days' prior written notice to the holder of the Note, at a redemption price (the "Redemption Price") equal to 100% of the aggregate principal amount of the Notes to be redeemed plus any accrued but unpaid interest (including interest on interest); provided, that the Issuer shall not redeem any Notes unless it also redeems a pro rata amount of any other surplus notes of the Issuer outstanding at the time of such redemption. The Notes may not be redeemed at the option of any Note holder. Notice of any redemption pursuant to this paragraph 15(a) will be given to holders of the Notes as set forth below. Interest installments due on this Note on or prior to a redemption date will be payable to the holder of this Note of record at the close of business on the relevant record date, all as provided in the Fiscal Agency Agreement.

(b) In the case of any partial redemption of Notes, each Outstanding Note shall be redeemed pro rata; provided that if at the time of redemption such Notes are registered as a Global Note, the U.S. Depositary for such Global Note shall determine, in accordance with its procedures, the principal amount of such Notes to be redeemed held by each holder of a beneficial interest in such Global Note.

(c) Notices to redeem Notes shall be given to holders of Notes in writing mailed, first-class postage prepaid, to each holder of registered Notes, or portions thereof, so to be redeemed, at such holder's address as it appears in the securities register. Such notice will be given once not more than 60 days nor less than 30 days prior to the date fixed for redemption. If by reason of the suspension of regular mail service, or by reason of any other cause, it shall be impracticable to give notice to the holders of Notes in the manner prescribed herein, then such notification in lieu thereof as shall be made by the

Issuer or by the Fiscal Agent on behalf of and at the instruction of the Issuer shall constitute sufficient provision of such notice, if such notification shall, so far as may be practicable, approximate the terms and conditions of the mailed notice in lieu of which it is given. Neither the failure to give notice nor any defect in any notice given to any particular holder of a Note shall affect the sufficiency of any notice with respect to other Notes. Notices to redeem Notes shall specify the date fixed for redemption, the Redemption Price or the manner of calculation thereof, the place or places of payment, that payment will be made upon presentation and surrender of the Notes to be redeemed (or portion thereof in the case of a partial redemption), that interest accrued to the date fixed for redemption (unless the date of redemption is a Scheduled Interest Payment Date) will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue if the Notes are so redeemed. In addition, in the case of a partial redemption, such notice shall specify the Notes called for redemption and the aggregate principal amount of the Notes to remain Outstanding after the redemption.

(d) If notice of redemption has been given in the manner set forth in paragraph 15(c) hereof, the Notes so to be redeemed shall be payable in full on the date specified in such notice and upon presentation and surrender of the Notes at the place or places specified in such notice, the Notes shall be paid and redeemed by the Issuer at the places and in the manner and currency herein specified and at the Redemption Price. From and after the redemption date, if monies for the redemption of Notes called for redemption shall have been made available at the Corporate Trust Office of the Fiscal Agent for redemption on the redemption date, the Notes called for redemption shall cease to bear interest, and the only right of the holders with respect to such Notes or portion thereof being redeemed shall be to receive payment of the Redemption Price. If monies for the redemption of the Notes are not made available for payment until after the redemption date, the Notes called for redemption shall not cease to bear interest until such monies have been so made available.

(e) Any Note which is to be redeemed only in part shall be surrendered with, if the Issuer or the Fiscal Agent so requires, due endorsement by, or a written instrument of transfer in form reasonably satisfactory to the Issuer and the Fiscal Agent duly executed by, the holder thereof or such holder's attorney duly authorized in writing, and the Issuer shall execute, and the Fiscal Agent shall authenticate and deliver to the holder of such Note without service charge, a new registered Note or Notes, of any authorized denomination as requested by such holder, and as permitted by Section 1(d) of the Fiscal Agency Agreement, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

16. Obligations Not Impaired. No reference herein to the Fiscal Agency Agreement and no provision of this Note or of the Fiscal Agency Agreement shall alter or impair the obligation of the Issuer, subject to the Payment Restrictions, to pay the principal of and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

17. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WISCONSIN. THE COMMISSIONER'S EXERCISE OF REGULATORY AUTHORITY, INCLUDING APPROVAL OF PAYMENTS ON THIS NOTE, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WISCONSIN (OR, IF THE COMMISSIONER IS NO LONGER THE PRIMARY REGULATOR OF THE FINANCIAL CONDITION OF THE ISSUER, THE LAW OF SUCH JURISDICTION OF THE PRIMARY REGULATOR OF THE FINANCIAL CONDITION OF THE ISSUER), AND THE PARTIES TO THE FISCAL AGENCY AGREEMENT AND HOLDERS OF THIS NOTE SHALL SUBMIT ANY DISPUTES RELATED TO THE EXERCISE OF SUCH REGULATORY AUTHORITY TO THE EXCLUSIVE JURISDICTION OF THE CIRCUIT COURT IN DANE COUNTY, WISCONSIN, OR, SO LONG AS ANY PROCEEDING IS PENDING IN WISCONSIN AS TO THE ISSUER UNDER CHAPTER 645 OF THE WISCONSIN STATUTES, THEN TO THAT CASE AND COURT.

EXHIBIT B
FORM OF SURPLUS NOTE

Included as Exhibits A and B to the Fiscal Agency Agreement contained in Exhibit A hereof.

EXHIBIT C

PROOF OF POLICY CLAIM FORM

Date: [_____]

Ambac Assurance Corporation,
as Management Services Provider of
the Segregated Account of Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004
Attention: Claims Processing
Email: claimsprocessing@ambac.com
Facsimile: (212) 208-3404

Reference Policy Number: [_____]

Reference is made to (i) the Plan of Rehabilitation of the Segregated Account of Ambac Assurance Corporation, as approved by the Circuit Court of Dane County, Wisconsin on January 24, 2011 (the "Plan of Rehabilitation"), (ii) the attached claim schedule, which includes detailed information about the claim made pursuant to this Proof of Policy Claim From (the "Claim Schedule") and (iii) the Policy issued by Ambac Assurance Corporation ("Ambac"), identified above and on the Claim Schedule (the "Policy"), with respect to the insured obligation identified on the Claim Schedule (the "Insured Obligation"). Terms capitalized herein and not otherwise defined shall have the meanings ascribed to such terms in or pursuant to the Plan of Rehabilitation or the Policy, as the case may be, unless the context otherwise requires.

The undersigned hereby certifies as follows:

1. The undersigned is a Holder under the Policy and is entitled, pursuant to the provisions of the Policy, to submit a claim of the "Total Claim Amount" set forth on the Claim Schedule with respect to the Insured Obligation (the "Total Claim Amount") .
2. The information set forth on the Claim Schedule is true, correct and complete.
3. The "Total Claim Amount" set forth on Claim Schedule with respect to the Insured Obligation (the "Total Claim Amount") is due for payment pursuant to the terms of the Policy and the contracts and instruments relating to or governing the Insured Obligation.
4. The undersigned has not previously made a claim or demand for payment under the Policy in respect of amounts due on the Insured Obligation on the "Distribution Date" indicated on the Claim Schedule, except as otherwise

specified in an addendum to this Proof of Policy Claim Form submitted by the Holder herewith.

5. The undersigned hereby requests, as contemplated in Section 4.04(c) of the Plan of Rehabilitation, that the portion of the Total Claim Amount to be paid by the Segregated Account in Cash be made to the following account by bank wire transfer of federal or other immediately available funds:

   Bank Name: [_____]
   ABA #: [_____]
   Acct #: [_____]
   Reference: [_____]

6. [*Complete the following if the Holder is a trustee and/or agent for the beneficial holder of the Insured Obligation:*] The undersigned hereby agrees that, following receipt of any cash payment by the Segregated Account in respect of the Total Claim Amount, it shall (i) cause such funds to be distributed in accordance with the provisions of the underlying instrument or contract relating to the Insured Obligation, and (ii) maintain an accurate record of such payments with respect to the Insured Obligation and the corresponding claim on the Policy and proceeds thereof.

7. The undersigned has submitted to Ambac a Surplus Note Payment Schedule with respect to the Policy in the form attached to the Guidelines Under Plan of Rehabilitation (Claims Processing for Policy Claims) dated as of February 18, 2011 as Exhibit A, and the information set forth in such Surplus Note Payment Schedule continues to be true, correct and complete.

8. [*If the Policy requires the Holder to submit a claim or demand for payment in a specified form or to have satisfied certain conditions, include the following:*] [The undersigned has duly completed and submitted to Ambac a claim or demand for payment in the form specified by the Policy, a copy of which is attached hereto, and all other conditions to the receipt of the Total Claim Amount have been satisfied, and the amount claimed therein is equal to the Total Claim Amount.]

Without prejudice to (i) the terms and provisions of the Policy and any other related underlying instrument(s) or contract(s) and (ii) any assignment previously executed, whether pursuant to a Proof of Policy Claim Form or otherwise, the undersigned [*include the following, if applicable:*] [, in its capacity as trustee and on behalf of the beneficial owners of the Insured Obligation], hereby assigns to Ambac all of its rights, title and interests [*include the following, if applicable:*] [, including rights, title and interests held by it on behalf of the beneficial owners of the Insured Obligation,] with respect to the Insured Obligation, to the extent of any payments by the Segregated Account with respect to such Insured Obligation; the foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to Ambac or the Segregated Account in respect of such payments. The undersigned shall take such action and

deliver such instruments as may be reasonably requested or required by Ambac or the Segregated Account to effectuate the purpose or provisions of the foregoing assignment.

The undersigned hereby acknowledges that the issuance of Surplus Notes by the Segregated Account in lieu of any Cash payments required to be made to the undersigned or any beneficial owner on whose behalf the undersigned is presenting this Proof of Policy Claim Form constitutes full and complete satisfaction of such payment obligation of the Segregated Account in respect of such claim, regardless of the existence of any provision in the Policy or any other underlying instrument or contract that would require, or that contemplates, the discharge of the obligations of the Segregated Account through the payment of Cash or otherwise.

ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD THE SEGREGATED ACCOUNT, THE REHABILITATOR OR OTHER PERSON FILES A STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO, COMMITS A FRAUDULENT ACT, WHICH MAY BE SUBJECT TO CIVIL AND/OR CRIMINAL PENALTY.

[ ],
as Holder
By: _____
Name:
Title:

CLAIM SCHEDULE

Party submitting Claim:
Insured Obligation (name of bond/other):
Policy #:
Distribution Date:*
Claim Period:**
Total Claim Amount:

CUSIP	Short Name	Principal Claim Amount	Interest Claim Amount	Total Claim Amount	Record Date (Cash and Surplus Notes):***

Total

* Distribution Date is the date on which principal and/or interest is due for payment with respect to the Insured Obligation.

Please use a different Proof of Policy Claim Form and Claim Schedule for each Distribution Date.

** Claim Period is the period for which payments are due on the Distribution Date.

*** Complete only if option 2 under "Payments in Surplus Notes" is selected on the Surplus Note Payment Schedule relating to this Claim.

The record date will be used for distributions of cash and Surplus Notes to beneficial owners of the Insured Obligation.

To complete this field, insert either (A) "most recent record date" if the distributions of cash and Surplus Notes are to be made to the holders of record of the Insured Obligation at the time such distributions are made or (B) a specific historical date if the distributions are to be made to holders of record as of a prior date. The same record date should be used for distributions of cash and Surplus Notes relating to a given CUSIP for a given Claim Period.

EXHIBIT D
FORM OF JUNIOR SURPLUS NOTE

THIS 5.1% JUNIOR SURPLUS NOTE SCHEDULED TO MATURE ON JUNE 7, 2020 (THIS "NOTE") (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM SUCH REGISTRATION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT (TOGETHER WITH ANY SUCCESSOR PROVISION AND AS SUCH MAY BE HEREAFTER AMENDED FROM TIME TO TIME, "RULE 144A") OR REGULATION S UNDER THE SECURITIES ACT (TOGETHER WITH ANY SUCCESSOR PROVISION THERETO, AND AS SUCH MAY BE HEREAFTER AMENDED FROM TIME TO TIME, "REGULATION S").

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT, AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("QUALIFIED INSTITUTIONAL BUYER") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO ANY OTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, SUBJECT TO THE DELIVERY OF REASONABLY SATISFACTORY EVIDENCE TO THE ISSUER ESTABLISHING SUCH EXEMPTION, WHICH MAY INCLUDE AN OPINION OF COUNSEL, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ALL OTHER APPLICABLE JURISDICTIONS.

ANY PERSON ACQUIRING THIS NOTE IS DEEMED TO MAKE A REPRESENTATION TO THE ISSUER AS SET FORTH IN PARAGRAPH 4 HEREOF.

ALL PAYMENTS OF PRINCIPAL AND INTEREST ON THIS NOTE MAY ONLY BE MADE WITH THE PRIOR APPROVAL OF THE COMMISSIONER OF INSURANCE OF THE STATE OF WISCONSIN OR ANY SUCCESSOR THERETO (THE "COMMISSIONER").

JUNIOR SURPLUS NOTE

ISSUED BY

THE SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION

JSN-_____ $[_____]

THE SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION (and any successor in interest thereto, the "Issuer") for value received, hereby promises to pay, subject to the Payment Restrictions (as defined below), to _____, the principal sum of _____ United States dollars ($_____) on June 7, 2020 (the "Scheduled Maturity Date"), and to pay interest thereon, subject to the Payment Restrictions, including the approval of the Commissioner of Insurance of the State of Wisconsin or any successor thereto (the "Commissioner"), from [ ] or from the most recent Scheduled Interest Payment Date to which interest has been paid or duly provided for, annually in arrears on June 7 in each year and on the date this Note is scheduled to mature, commencing June 7, [ ] (each, a "Scheduled Interest Payment Date"), at the rate of 5.1% per annum, until the principal hereof is paid or duly provided for. Any reference herein to the term "scheduled maturity date" or other date for the payment of principal of this Note shall include (i) the date, if any, fixed for redemption thereof in accordance with paragraph 5 hereof and (ii) the date upon which any state or federal agency obtains an order or grants approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or the general account of Ambac Assurance Corporation, excluding, for the avoidance of doubt, any Excluded Order. "Excluded Order" means any order or approval of the type described in clause (ii) above entered or granted prior to the date hereof or any such order or approval entered or granted on or after the date hereof in the rehabilitation proceeding under Chapter 645 of the Wisconsin Statutes pending with respect to the Issuer as of the date hereof (the "Proceeding"), except to the extent that any such order or approval by its express terms provides for the acceleration of the maturity of this Note or otherwise designates the scheduled maturity date or other maturity date or date for the payment of principal of this Note. The payment by the Issuer of principal and interest on this Note shall be conditioned upon the payment restrictions set forth in paragraphs 2 and 3 of this Note (the "Payment Restrictions"). Interest on this Note shall be calculated on the basis of a 360-day year of twelve months of 30 days each.

Payment of principal of and interest on this Note shall be subject to the following conditions:

1. Payment. Payments of principal of this Note shall be made only against surrender of this Note; provided that in the case of payment of only a portion of principal, the Issuer shall execute a new Note in principal amount equal to and in exchange for the remaining portion of the principal of the Note so surrendered. Payments of interest on this Note will be made, in accordance with the foregoing and subject to applicable laws and regulations, (i) by wire transfer of immediately available funds to an account maintained by the person entitled thereto with a bank if such registered holder gives notice to the Issuer, not less than 15 days (or such fewer days as the Issuer may accept at its discretion) prior to the applicable scheduled payment date or

scheduled maturity date hereof, of the payee's account to which payment is to be made, or (ii) if no such notice is given, by mailing a check on or before the scheduled payment date of such payment to the person entitled thereto at such person's address as provided to the Issuer. Unless the designation of the payee's account to which payment is to be made is revoked, any such designation made by such holder with respect to this Note of the payee's account to which payment is to be made shall remain in effect with respect to any future payments with respect to this Note payable to such holder. In any case where the scheduled payment date or scheduled maturity date of this Note shall be at any place of payment a day on which banking institutions are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close, then payment of principal or interest need not be made on such date at such place but may be made on the next succeeding day at such place which is not a day on which banking institutions in the applicable jurisdiction are not carrying out transactions in U.S. dollars or are authorized or obligated by law or executive order to close (a "Business Day"), with the same force and effect as if made on the scheduled payment date or scheduled maturity date thereof, and no interest shall accrue on the amount of such payment for the period after such date, if such payment is so made.

2. Restrictions on Payment. Notwithstanding anything to the contrary set forth herein, any payment of principal of, interest on or any monies owing with respect to this Note, whether at the scheduled payment date or scheduled maturity date specified herein or otherwise, may be made only with the prior approval of the Commissioner. If the Commissioner does not approve the making of any payment of principal of or interest on this Note on the scheduled payment date or scheduled maturity date thereof, as specified herein, the scheduled payment date or scheduled maturity date, as the case may be, shall be extended and such payment, together with interest accrued with respect thereto as contemplated by the immediately following two sentences, shall be made by the Issuer on the next following Business Day on which the Issuer shall have the approval of the Commissioner to make such payment together with such interest. Interest will continue to accrue, compounded on each anniversary of the original scheduled payment date or scheduled maturity date, on any such unpaid principal through the actual date of payment at the rate of interest stated in the first paragraph hereof. Interest will accrue, compounded on each anniversary of the original scheduled payment date, on interest (or any portion thereof) with respect to which the scheduled payment date has been extended, during the period of such extension, at the rate of interest per annum applicable to principal hereunder.

3. Subordination. (a) The Issuer agrees, and each holder of this Note by accepting this Note agrees, that the indebtedness evidenced by this Note is subordinated in right of payment, to the extent and in the manner provided in this paragraph, to the prior payment in full of all Indebtedness, Policy Claims and Prior Claims (each as hereinafter defined).

(b) No payment of interest on or principal of this Note shall be made until all existing and future Indebtedness, Policy Claims and Prior Claims have been paid in full, including upon any distribution to creditors of the Issuer in any rehabilitation, liquidation, conservation or dissolution or similar proceeding relating to the Issuer or its property.

(c) If a distribution is made to a holder of this Note that, because of this paragraph 3, should not have been made to it, such holder shall pay such distribution over to the Issuer.

(d) This paragraph 3 defines the relative rights of a holder of this Note, on the one hand, and holders of any other claims, on the other hand. Nothing in this Note shall (i) impair, as between the Issuer and such holder, the obligation of the Issuer which is, subject to the Payment Restrictions, absolute and unconditional to pay principal of and interest on this Note in accordance with its terms; (ii) affect the relative rights of such holder and creditors of the Issuer, other than holders of Policy Claims, Indebtedness or Prior Claims; or (iii) prevent any holder of this Note from exercising any available remedies upon a breach by the Issuer of its obligations hereunder, subject to the rights of holders of Policy Claims, Indebtedness or Prior Claims to receive distributions otherwise payable to such holder.

(e) No right of any holder of Policy Claims, Indebtedness or Prior Claims to enforce the subordination of the indebtedness evidenced by this Note shall be impaired by any act or failure to act by the Issuer or by its failure to comply with the terms of this Note.

As used herein, "Indebtedness" shall mean (i) all existing or future surplus notes of the Issuer; (ii) all existing or future indebtedness of the Issuer for borrowed money; (iii) all existing or future indebtedness for borrowed money of other persons, the payment of which is guaranteed by the Issuer; (iv) all existing or future obligations of the Issuer under any agreement obligating the Issuer to cause another person to maintain a minimum level of net worth, or otherwise to ensure the solvency of such person; (v) all other claims or amounts owed, to the extent that the payment of principal of and interest on, or any redemption payment with respect to, this Note would be required by law to be subordinated to the prior payment of any such claim or amount in the event of a distribution of claims pursuant to Section 645.68 of the Wisconsin Statutes (together with any successor provision, and as may be hereafter amended from time to time, "Section 645.68"); and (vi) any surplus or contribution notes or similar obligations of Ambac Assurance Corporation, unless the terms thereof expressly state that such notes are *pari passu* with or subordinated to this Note. Any indebtedness of the Issuer, which, by its express terms or other contract, is subordinated in right of payment to, or ranks equally with, this Note shall not constitute Indebtedness. Any other junior surplus notes or similar obligations of the Issuer shall not constitute Indebtedness and will rank *pari passu* with, or be subordinated to, this Note.

As used herein, "Policy Claims" shall mean all existing or future claims of policyowners, beneficiaries and insureds arising from and within the coverage of, and not in excess of the applicable limits of, any and all existing or future policies, endorsements, riders and other contracts of insurance, annuity contracts (including, without limitation, guaranteed investment contracts and funding agreements) issued, assumed or renewed by the Issuer on or prior to the date hereof or hereafter created, all claims under separate account agreements to the extent such claims are not fully discharged by the assets held by the Issuer in the applicable separate accounts and all claims of any guaranty corporation or association of the State of Wisconsin or any other jurisdiction against the Issuer.

As used herein, "Prior Claims" shall mean all other claims against the Issuer, which, in the event of a rehabilitation, liquidation, conservation, dissolution or similar proceeding relating to the Issuer pursuant to Section 645.68, would have priority over claims with respect to this Note. Under Section 645.68 as currently in effect, such other claims include: (i) costs and expenses of administration during conservation, rehabilitation, liquidation or similar proceedings, including but not limited to actual and necessary costs of preserving or recovering the assets of the Issuer, compensation for all services rendered in the liquidation; necessary filing fees, fees and mileage payable to witnesses, and reasonable attorney fees; (ii) all claims under policies for losses incurred, including third party claims and federal, state and local government claims, except the first $200 of losses otherwise payable to any claimant under this clause (ii) other than the federal government; (iii) claims of the federal government not included under clause (ii), interest at the legal rate compounded annually on all claims in the class under this clause (iii), and on all claims of the federal government in the class under clause (ii), from the date of the petition for liquidation or the date on which the claim becomes due, whichever is later, until the date on which the dividend is declared; (iv) claims against the Issuer that are not under policies and that are for liability for bodily injury or for injury to or destruction of tangible property; (v) debts due to employees (with the exception of officers) for services performed, not to exceed $1,000 to each employee which have been earned within one year before the filing of the petition for liquidation, which shall be in lieu of any other similar priority authorized by law as to wages or compensation of employees, provided, however, that if there are no claims of the federal government, the claims in clause (v) have priority over all claims under clauses (ii) to (x); (vi) claims under non-assessable policies for unearned premiums and other premium refunds and the first $200 of loss excepted by the deductible provision under clause (ii); (vii) all other claims, including claims of any state or local government, not falling within other clauses and claims, including those of any state or local governmental body, for a penalty or forfeiture, but only to the extent of the pecuniary loss sustained from the act, transaction or proceeding out of which the penalty or forfeiture arose, with reasonable and actual costs occasioned thereby; (viii) claims based solely on judgments; (ix) interest at the legal rate compounded annually on all claims in the classes under clauses (i) to (viii), except for claims of the federal government in the classes under clauses (ii) and (iii), from the date of the petition for liquidation or the date on which the claim becomes due, whichever is later, until the date on which the dividend is declared; and (x) pursuant to subdivision (8) of Section 645.68, the remaining claims or portions of claims not already paid, with interest calculated in accordance with clause (ix).

4. ERISA. No employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or plan or other arrangement that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or any entity whose underlying assets are considered to include "plan assets" of such employee benefit plans or arrangements (each, a "Plan"), or governmental, church or foreign plan subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law"), and no person acting on behalf of or investing "plan assets" of a Plan or a plan subject to a Similar Law, may acquire this Note, unless the acquisition and holding of this Note is exempt under one or more of Prohibited Transaction Class Exemptions 96-23, 95-60, 91-38, 90-1 or 84-14 (or any amendment thereof) or Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code or another applicable exemption from the prohibitions under Section 406 of ERISA and Section 4975 of the Code or, in the case of a

governmental, church or foreign plan subject to Similar Law, such acquisition and holding do not violate any Similar Law. The acquisition by any person of this Note shall constitute a representation by such person to the Issuer that either (i) such person is not a Plan or a plan subject to Similar Law and is not acquiring this Note on behalf of or with "plan assets" of any Plan or any plan subject to Similar Law or (ii) its acquisition and holding of this Note or any interest therein are covered under an applicable exemption from the prohibitions under Section 406 of ERISA and Section 4975 of the Code. The restrictions on acquisitions of this Note set forth in this paragraph 4 are in addition to those under applicable law or, in the case of a plan subject to Similar Law, do not violate such Similar Law.

5. Optional Redemption. (a) Subject to the Payment Restrictions, including the prior approval of the Commissioner, and the provisions of paragraph 3(b), this Note is subject to redemption, as a whole or in part, at the option of the Issuer at any time and from time to time, with no less than 30 and no more than 60 days' prior written notice to the holder of this Note, at a redemption price (the "Redemption Price") equal to 100% of the principal amount to be redeemed plus any accrued but unpaid interest (including interest on interest). This Note may not be redeemed at the option of any holder hereof.

(b) Notices to redeem this Note shall be given to the holder of this Note in writing mailed, first-class postage prepaid, at such holder's address as provided to the Issuer. Such notice will be given once not more than 60 days nor less than 30 days prior to the date fixed for redemption. If by reason of the suspension of regular mail service, or by reason of any other cause, it shall be impracticable to give notice to the holder of this Note in the manner prescribed herein, then such notification in lieu thereof as shall be made by the Issuer shall constitute sufficient provision of such notice, if such notification shall, so far as may be practicable, approximate the terms and conditions of the mailed notice in lieu of which it is given. Notices to redeem this Note shall specify the date fixed for redemption, the Redemption Price or the manner of calculation thereof, the place or places of payment, that payment will be made upon presentation and surrender of this Note (or portion thereof in the case of a partial redemption), that interest accrued to the date fixed for redemption (unless the date of redemption is a Scheduled Interest Payment Date) will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue if this Note is so redeemed. In addition, in the case of a partial redemption, such notice shall specify the portion of this Note called for redemption and the principal amount of this Note to remain outstanding after the redemption.

(c) If notice of redemption has been given in the manner set forth in paragraph 5(b) hereof, this Note (or portion thereof to be so redeemed) shall be payable in full on the date specified in such notice and upon presentation and surrender of this Note at the place or places specified in such notice, this Note (or portion thereof to be so redeemed) shall be paid and redeemed by the Issuer at the places and in the manner and currency herein specified and at the Redemption Price. From and after the redemption date, this Note (or portion thereof to be so redeemed) shall cease to bear interest, and the only right of the holder with respect to this Note (or portion thereof to be so redeemed) shall be to receive payment of the Redemption Price.

(d) Any Note which is to be redeemed only in part shall be surrendered to the Issuer with, if the Issuer so requires, due endorsement by, or a written instrument of transfer in form reasonably satisfactory to the Issuer duly executed by, the holder thereof or such holder's

attorney duly authorized in writing, and the Issuer shall execute and deliver to such holder without service charge, a new note in principal amount equal to and in exchange for the unredeemed portion of the principal of the note so surrendered.

6. Remedies. A holder of this Note may enforce this Note only in the manner set forth below.

(a) In the event that any state or federal agency shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer (other than an Excluded Order), this Note will upon the obtaining of such an order or the granting of such approval immediately mature in full without any action on the part of the holder of this Note, with payment thereon being subject to the Payment Restrictions, and any restrictions imposed as a consequence of, or pursuant to, such proceedings. Notwithstanding any other provision of this Note, in no event shall any holder of this Note be entitled to declare this Note to immediately mature or otherwise be immediately payable.

(b) In the event that the Commissioner approves a payment of any interest on or principal of, or any redemption payment with respect to, this Note, in whole or in part, and the Issuer fails to pay the full amount of such approved payment on the date such amount is scheduled to be paid, such approved amount will be immediately payable on such date without any action on the part of any holder of this Note. In the event that the Issuer fails to perform any of its other obligations hereunder, the holder of this Note may pursue any available remedy to enforce the performance of any provision of this Note; provided, however, that such remedy shall in no event include the right to declare this Note immediately payable, and shall in no circumstances be inconsistent with the provisions of applicable law or the Payment Restrictions. A delay or omission by any holder of this Note in exercising any right or remedy accruing as a result of the Issuer's failure to perform its obligations hereunder and the continuation thereof shall not impair such right or remedy or constitute a waiver of or acquiescence in such non-performance by the Issuer. To the extent permitted by law, no remedy is exclusive of any other remedy and all remedies are cumulative.

(c) Notwithstanding any other provision of this Note, the right of any holder of this Note to receive payment of the principal of and interest on this Note on or after the respective scheduled payment or scheduled maturity dates, or to bring suit for the enforcement of any such payment on or after such respective scheduled payment or scheduled maturity dates, in each case subject to the Payment Restrictions, including the approval of the Commissioner, is absolute and unconditional and shall not be impaired or affected without the consent of the holder.

7. No Recourse. No recourse under or upon any obligation, covenant, or agreement contained in this Note, or for any claim based thereon or otherwise in respect thereof, shall be had against Ambac Assurance Corporation or any shareholder, officer, or director, as such, past, present, or future, of the Issuer or of any successor corporation, either directly or through any trustee, receiver, or any other person; it being expressly understood that this Note is solely an obligation of the Issuer, and that any and all personal liability, and any and all rights and claims against Ambac Assurance Corporation or every such shareholder, officer, or director, as such,

are hereby expressly waived and released by every holder hereof by the acceptance of this Note and as a part of the consideration for the issue hereof.

8. No Offsetting or Security Interest. The obligation of the Issuer under this Note may not be offset by the holder of this Note or be subject to recoupment by the holder of this Note with respect to any liability or obligation owed to the Issuer. No security agreement or interest, whether existing on the date of this Note or subsequently entered into, applies to the obligation under this note.

9. Amendments. No modification of this Note is effective and no other agreement may modify or supersede the terms of this Note, whether existing on the date of this Note or subsequently entered into, unless the modification or agreement is approved in writing by each of the Commissioner, the Issuer and the holder of this Note.

10. Governing Law. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WISCONSIN. THE COMMISSIONER'S EXERCISE OF REGULATORY AUTHORITY, INCLUDING APPROVAL OF PAYMENTS ON THIS NOTE, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WISCONSIN (OR, IF THE COMMISSIONER IS NO LONGER THE PRIMARY REGULATOR OF THE FINANCIAL CONDITION OF THE ISSUER, THE LAW OF SUCH JURISDICTION OF THE PRIMARY REGULATOR OF THE FINANCIAL CONDITION OF THE ISSUER), AND THE ISSUER AND THE HOLDER OF THIS NOTE SHALL SUBMIT ANY DISPUTES RELATED TO THE EXERCISE OF SUCH REGULATORY AUTHORITY TO THE EXCLUSIVE JURISDICTION OF THE CIRCUIT COURT IN DANE COUNTY, WISCONSIN, OR, SO LONG AS ANY PROCEEDING IS PENDING IN WISCONSIN AS TO THE ISSUER UNDER CHAPTER 645 OF THE WISCONSIN STATUTES, THEN TO THAT CASE AND COURT.

11. Mutilation, Destruction, Loss, etc. In case this Note shall become mutilated, defaced, destroyed, lost or stolen, the Issuer will execute and deliver a new note of like tenor (including the same date of issuance) and equal principal amount, registered in the same manner, bearing interest from the date to which interest has been paid on this Note, in exchange and substitution for this Note (upon surrender and cancellation thereof if mutilated or defaced) or in lieu of and substitution for this Note. In the case where this Note is destroyed, lost or stolen, the applicant for a substituted note shall furnish to the Issuer such security or indemnity as may be reasonably required by it to save it harmless, and, in every case of destruction, loss or theft of this Note, the applicant shall also furnish to the Issuer reasonable satisfactory evidence of the destruction, loss or theft of this Note and of the ownership thereof; provided, however, that if the registered holder hereof is, in the reasonable judgment of the Issuer, an institution of recognized responsibility, such holder's written agreement of indemnity shall be deemed to be satisfactory for the issuance of a new note in lieu of and substitution for this Note. Upon the issuance of any substituted note, the Issuer may require the payment by the registered holder thereof of a sum sufficient to cover fees and expenses connected therewith. In case this Note has matured or is about to mature and shall become mutilated or defaced or be destroyed, lost or stolen, the Issuer may, subject to the Payment Restrictions, instead of issuing a substitute note, pay or authorize

the payment of the same (without surrender thereof except if this Note is mutilated or defaced) upon compliance by the registered holder with the provisions of this paragraph 11 as hereinabove set forth.

12. Severability. In case any provision in this Note shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be duly executed.

Dated: _____
SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION,
By: Ambac Assurance Corporation, as Manager
By: _____
Name:
Title: