



2011 Quarterly Operating Supplement

Q3

Share Price	\$ 0.06
Market capitalization	\$ 19.4 million
Net loss	\$(75.5) million
Net loss per diluted share	\$(0.25)

Company Profile

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 Financial Group, Inc.’s common stock trades in the over-the-counter market under ticker symbol ABKFQ.

Ambac's principal operating subsidiary, Ambac Assurance Corporation, is a guarantor of public finance and structured finance obligations.

Company Information

Corporate headquarters are located at:

Ambac Financial Group, Inc.
One State Street Plaza
New York, New York 10004
(212) 668-0340
(212) 509-9190 (fax)
www.ambac.com

Investor Relations Contact:
Michael Fitzgerald
(212) 208-3222
(212) 208-3108 (fax)
mfitzgerald@ambac.com

To obtain a copy of Ambac Financial Group, Inc.’s latest annual or quarterly report filed with the Securities and Exchange Commission or the most recent Annual Report to Stockholders, please visit our website at www.ambac.com.

Ambac Financial Group, Inc.

Quarterly Operating Supplement

Third Quarter 2011

Table of Contents

Key Financial Data.....	1
Claims-Paying Resources and Statutory Financial Ratios.....	2
Roll-forward of Statutory Capital and Surplus.....	3
Ratio of Net Claims Presented.....	4
Estimated Future Gross RMBS Claim Payments (Recoveries).....	4
Summary of Net Insurance Loss Reserves (GAAP) and Credit Derivative Impairments	5
Summary of Below Investment Grade Exposures	5
Net Insurance Premiums Earned and Fees on Credit Derivatives (GAAP).....	6
Net Unearned Premium Amortization and Estimated Future Installment Premiums (GAAP)	6
Fixed Income Investment Portfolio	7
Rating Distribution of Investment Portfolio.....	7
Expense Analysis (GAAP)	8
Historical Financial Guarantee Exposures Outstanding.....	9
Geographic Distribution of Financial Guarantee Exposures Outstanding	10
Rating Distribution of Net Financial Guarantee Exposures Outstanding.....	10
Largest Domestic Public Finance Exposures	11
Largest Structured Finance Exposures	12
Largest International Finance Exposures.....	12
Net Exposure Amortization.....	13

Note 1: Internal Ambac Assurance credit ratings contained in this Supplement are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance. In cases where Ambac Assurance 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 Assurance credit ratings are subject to revision at anytime and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has insured 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.

Note 2: Information contained in this report is unaudited.

Key Financial Data
(Dollars in millions except share data)

	3Q 2011	2Q 2011	1Q 2011	2010	2009	2008	2007
Summary GAAP Financial Data:							
Statement of Operations:							
Financial Guarantee:							
Credit enhancement production (non-GAAP)	\$ -	\$ -	\$ -	\$ -	\$ -	\$95	1,414
Net premiums earned	102	99	92	546	797	1,023	841
Net investment income	82	88	72	324	483	480	460
Change in fair value of credit derivatives	5	24	(9)	60	3,813	(4,031)	(5,928)
Gain (loss) gain on variable interest entities (VIEs)	55	2	(6)	(617)	7	-	n/a
Loss and loss expenses	(60)	196	920	719	2,815	2,228	256
Underwriting and operating expenses	40	12	42	198	176	216	139
Financial Services ⁽¹⁾ :							
Revenue	(207)	(58)	26	(72)	(136)	123	452
Expenses	5	3	5	31	47	248	432
Reorganization items	9	6	25	32	-	-	-
Net loss attributable to Ambac Financial Group, Inc.	(76)	(102)	(819)	(753)	(15)	(5,609)	(3,248)
Net loss per diluted share attributable to AFG, Inc. common shareholders	(\$0.25)	(\$0.34)	(\$2.71)	(\$2.56)	(\$0.05)	(\$22.31)	(\$31.56)
Balance Sheets:							
Total non-VIE investments	7,063	7,080	6,983	6,853	8,703	10,293	18,396
Premium receivable	2,103	1,925	2,291	2,423	3,718	29	n/a
Subrogation recoverable	714	740	797	714	903	10	n/a
Total VIE assets	16,684	17,071	16,176	17,931	3,277	n/a	n/a
Total assets	27,627	27,940	27,410	29,047	18,886	17,260	23,565
Unearned premium reserve	3,521	3,409	3,822	4,008	5,687	2,382	3,124
Loss and loss expense reserve	6,359	6,445	6,297	5,289	4,772	2,276	484
Obligations under investment, repurchase and payment agreements	590	590	717	806	1,291	3,358	8,706
Long-term debt ⁽²⁾	220	217	211	208	1,632	1,624	1,389
Liabilities subject to compromise ⁽²⁾	1,707	1,707	1,708	1,695	-	-	-
Ambac Financial Group, Inc. stockholders' (deficit) equity	(2,835)	(2,728)	(2,748)	(2,009)	(2,288)	(3,782)	2,280
Summary Statutory Data of Ambac Assurance:							
Invested assets	\$5,865	\$5,985	\$6,067	\$5,943	\$8,009	\$10,397	\$10,581
Loss and loss expense reserve	3,155	3,120	2,739	2,478	1,141	1,169	110
Estimated impairment losses on credit derivatives	-	-	-	-	3,842	3,352	757
Capital and surplus	273	476	801	1,027	802	1,554	3,316
Qualified statutory capital	868	1,042	1,338	1,540	1,154	3,484	6,422
Total claims-paying resources	\$7,654	\$7,939	\$7,975	\$7,877	\$10,790	\$13,501	\$14,512
Net par outstanding	\$285,995	\$299,683	\$310,480	\$318,854	\$390,406	\$434,310	\$524,025
Net debt service outstanding	\$456,037	\$476,948	\$495,006	\$509,429	\$619,566	\$695,954	\$833,303

1) Financial Services revenues exclude other-than-temporary losses, net realized investment gains/losses, net mark-to-market gains/losses on non-trading derivatives and net mark-to-market gains/losses on total return swaps.

2) Long-term debt for 2010 and beyond represents surplus notes issued by Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation. Long-term debt for all years excludes the portion of long-term debt associated with variable interest entities. Long-term debt associated with Ambac Financial Group, Inc. for 2010 and beyond is included under liabilities subject to compromise on the Consolidated Balance Sheets.

Ambac Assurance

Claims-Paying Resources ⁽¹⁾ and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	September 30, 2011	December 31, 2010
Contingency reserve.....	\$594,448	\$512,604
Capital and Surplus ⁽²⁾	273,116	1,026,920
Qualified statutory capital.....	867,564	1,539,524
Unearned premiums.....	1,774,243	1,934,462
Losses and loss adjustment expenses.....	3,154,801	2,478,435
Policyholders' reserves.....	5,796,608	5,952,421
Present Value of Future Installment Premiums ⁽³⁾	847,294	987,166
Ambac Assurance UK Ltd. Claims-Paying Resources ⁽⁴⁾	1,010,289	937,391
Total Claims-Paying Resources.....	\$7,654,191	\$7,876,978
Net financial guarantees in force ⁽⁵⁾	\$456,036,680	\$509,428,738
Claims-Paying Ratio ⁽⁶⁾	60 : 1	65 : 1
Gross financial guarantees in force.....	\$498,068,861	\$554,700,426
Gross par outstanding.....	\$310,575,380	\$345,127,082
	Third Quarter 2011	Full Year 2010
Ambac Assurance statutory financial ratios:		
Loss ratio ⁽⁷⁾	17.5%	248.0%
Expense ratio ⁽⁸⁾	75.0%	54.6%

- 1) Total claims-paying resources quantifies total resources available to pay claims.
- 2) Surplus Notes with a par value of \$2,089 million and \$2,050 million are included in the September 30, 2011 and December 31, 2010 capital and surplus, respectively. The Surplus Notes rank senior to Ambac's equity investment in Ambac Assurance. There is residual value to Ambac in Ambac Assurance only to the extent that funds remain at Ambac Assurance after the payment of claims under outstanding financial guaranty policies and the redemption, repurchase or repayment in full of the Surplus Notes and Ambac Assurance's auction market preferred shares.
- 3) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts (excluding Ambac UK) and credit derivatives. Present value calculations utilize Ambac internal estimates discounted at 5.1%.
- 4) Ambac UK's claims paying resources will become available to Ambac Assurance only to the extent Ambac UK receives approval from its regulator to dividend monies to Ambac Assurance.
- 5) Includes Ambac UK net financial guarantees in force of \$44,577,108 and \$46,311,475 as of September 30, 2011 and December 31, 2010, respectively.
- 6) Claims-paying Ratio is net financial guarantees in force divided by total claims-paying resources.
- 7) Loss ratio represents statutory net incurred losses divided by statutory net earned premiums for Ambac Assurance.
- 8) Expense ratio represents statutory underwriting expenses (including reinsurance commissions) divided by net premiums written for Ambac Assurance.

Ambac Assurance

Rollforward of Statutory Capital and Surplus

(in thousands)

	For the nine months ended September 30, 2011	For the year ended December 31, 2010
Surplus to Policyholders, beginning of period	\$ 1,026,920	\$ 801,869
Net loss ⁽¹⁾	(653,205)	(1,471,903)
Issuance of surplus notes - general account	-	2,000,000
Issuance of surplus notes - segregated account ⁽²⁾	3,000	50,000
Issuance of junior surplus notes - segregated account ⁽²⁾	36,082	-
Change in contingency reserves	(81,459)	(159,271)
Change in investment in subsidiaries	7,386	(165,233)
Preferred stock activity	-	(817)
Unrealized (loss) gain on non-impaired, BIG investments	(30,276)	5,951
Other changes in surplus	(35,332)	(33,676)
Surplus to Policyholders, end of period	<u>\$ 273,116</u>	<u>\$ 1,026,920</u>

- 1) Net loss includes incurred losses under commutations in 2011. The Segregated Account commuted two insurance policies (\$494.95 million of par outstanding) with a cash payment of \$11 million and the issuance of segregated account surplus notes with a par value of \$3 million. These policies did not have loss reserves prior to commutation and accordingly \$14 million is included in net loss.
- 2) In May 2011, the Segregated Account issued junior surplus notes with a par value of \$36,082 in connection with a settlement agreement to terminate Ambac's existing headquarters office lease with One State Street LLC.

Ratio of Net Claims Presented

(\$ Thousands)	YTD 2011	2010	2009	2008	2007
Net claims presented and paid (recovered) - Insurance ⁽¹⁾	(\$48,300)	\$290,519	\$1,458,498	\$571,012	(\$2,128)
Net claims presented and not paid - Insurance ⁽²⁾	1,039,787	1,411,445	-	-	-
Net Credit Derivatives payments	-	(263)	47,749	7,153	-
Net Credit Derivatives commutation payments ⁽³⁾	-	4,589,107	1,380,628	1,850,000	-
Total net claims presented for payment	\$991,488	\$6,290,808	\$2,886,875	\$2,428,165	(\$2,128)
Net insurance premiums and credit derivative fees	\$306,501	\$577,195	\$846,001	\$1,085,482	\$917,895
Ratio of net claims presented ⁽⁴⁾	323.5%	1089.9%	341.2%	223.7%	-0.2%

Estimated Future Gross RMBS Claim Payments (Recoveries) ⁽⁵⁾

(\$ Thousands)	
2011	567,956
2012 ⁽⁶⁾	1,282,438
2013 ⁽⁶⁾	(1,881,851)
2014	562,161
2015	247,464
2016	162,803
2011	567,956
2012-2016	373,014
2017-2021	306,874
2022-2026	25,006
2027-2031	(25,343)
After 2031	555,507
Total	<u>\$ 1,803,013</u>

1) Net claims presented and paid (recovered) are net of subrogation received of \$84.0 million, \$107.9 million, \$72.2 million, \$11.7 million, and \$27.9 million for the nine months ended September 30, 2011, and full years ended December 31, 2010, 2009, 2008, and 2007, respectively. Includes the issuance of surplus notes at par value in the amount of \$3.0 million and \$50.0 million for nine months ended September 30, 2011 and the year ended December 31, 2010.

2) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated certain policies to the Segregated Account. Claims on Segregated Account Policies remain subject to a payment moratorium until a Segregated Account Rehabilitation Plan becomes effective. Claims presented and not paid are included in our net insurance reserves. Please see discussion in Ambac's December 31, 2010 Form 10-K.

3) 2010 credit derivative commutation payments include the issuance of surplus notes by Ambac Assurance at par in the amount of \$2.0 billion.

4) Ratio of net claims presented is net claims presented for payment divided by net premiums earned and other credit enhancement fees.

5) Represents management's estimate of future loss obligations, net of recoveries. Actual payments or recoveries may differ from estimates.

6) Net of estimated recoveries of \$2,648.1 million in 2013 for breaches of representation and warranties on certain RMBS transactions.

Summary of Net Insurance Loss Reserves (GAAP) and Credit Derivative Impairments

(\$ Thousands)	09/30/11	12/31/10	12/31/09	12/31/08
Total insurance reserves ⁽¹⁾	5,485,980	4,424,450	3,777,321	2,129,758
Estimated credit impairment losses on credit derivatives ⁽²⁾	40,719	22,055	4,208,198	3,740,202
Total impairment losses	5,526,699	4,446,505	7,985,519	5,869,960
Mark-to-market reserve (asset) on credit derivatives ⁽²⁾	174,451	199,629	(1,168,707)	4,491,955
Mark-to-market reserve on total return swaps	-	-	-	77,960
Grand total net insurance loss reserves and credit derivatives	<u>\$5,701,150</u>	<u>\$4,646,134</u>	<u>\$6,816,812</u>	<u>\$10,439,875</u>

Summary of Below Investment Grade Exposures ⁽³⁾

(\$ Millions)	Segregated Account Net Par Outstanding	Total Net Par Outstanding	Total Impairment Losses ⁽⁴⁾
Public Finance:			
Transportation Revenue	\$505	\$1,175	\$228
Housing	-	952	0
Tax Backed	-	799	18
General Obligation	-	308	4
Health Care	-	101	-
Other	-	593	(1)
Total Public Finance	<u>505</u>	<u>3,928</u>	<u>249</u>
Structured Finance:			
Mortgage-Backed & Home Equity - First Lien & Other	13,031	13,031	2,929
Mortgage-Backed & Home Equity - Second Lien	9,107	9,107	745
Student Loans	10,137	10,137	990
Other	173	2,947	614
Total Structured Finance	<u>32,448</u>	<u>35,222</u>	<u>5,278</u>
International Finance:			
		2,833	-
Total	<u>\$32,953</u>	<u>\$41,983</u>	<u>\$5,527</u>

- 1) As a result of the claim moratorium on the Segregated Account of Ambac Assurance by the Rehabilitator, \$2,451.2 million of claims have been presented and not paid. Total insurance reserves are inclusive of claims presented and not paid.
- 2) Total net mark-to-market losses are \$215,170 as of September 30, 2011, \$221,684 as of December 31, 2010, \$3,039,491 as of December 31, 2009 and \$ 8,232,157 as of December 31, 2008 and are reported on the consolidated balance sheet under derivative liabilities and derivative assets.
- 3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated certain insurance policies to the Segregated Account. Please see discussion in Ambac's December 31, 2010 Form 10-K.
- 4) Claims presented and not paid are included in our net insurance reserves.

Net Insurance Premiums Earned and Fees on Credit Derivatives (GAAP)

2011 (\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Public Finance	\$42,400	\$42,541	\$40,359		\$125,300
Structured Finance	29,691	25,034	22,123		76,848
International Finance	19,778	20,365	20,738		60,881
Total Normal Insurance Premiums Earned	91,869	87,940	83,220	-	263,029
Accelerated Premiums Earned	(70)	11,331	18,835		30,096
Total Premiums Earned	\$91,799	\$99,271	\$102,055	-	\$293,125
Fees on credit derivative contracts ⁽¹⁾	\$5,323	\$4,224	\$3,829		\$13,376
Total Premiums Earned eliminated in consolidation ⁽²⁾	\$10,977	\$15,553	\$13,525	-	\$40,055

2010 (\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance	\$45,181	\$45,037	\$44,363	\$43,822	\$178,403
Structured Finance	40,587	43,566	42,383	38,308	164,844
International Finance	27,325	24,094	26,335	19,825	97,579
Total Normal Insurance Premiums Earned	113,093	112,697	113,081	101,955	440,826
Accelerated Premiums Earned	12,138	54,308	30,004	8,699	105,149
Total Premiums Earned	\$125,231	\$167,005	\$143,085	\$110,654	\$545,975
Fees on credit derivative contracts ⁽¹⁾	\$9,661	\$11,812	\$4,862	\$4,885	\$31,220
Total Premiums Earned eliminated in consolidation ⁽²⁾	\$17,717	\$13,707	\$(803)	\$13,244	\$43,865

Net Unearned Premium Amortization and Estimated Future Installment Premiums (GAAP)

(\$ Millions)	Net Unearned Premium Amortization ⁽³⁾	Fees on Credit Derivative Contracts	Estimated Net Future Installments ⁽⁴⁾
2011 (4th Qtr)	70.0	4.0	39.4
2012	260.0	14.1	147.1
2013	235.3	11.6	134.1
2014	218.9	6.9	119.7
2015	207.0	3.4	107.2
2016	196.3	2.5	100.1
2011 (4th Qtr)	70.0	4.0	39.4
2012-2016	1,117.5	38.5	608.2
2017-2021	823.5	10.2	412.0
2022-2026	591.5	0.4	284.7
2027-2031	392.3	-	194.3
After 2031	296.6	-	177.0
Total	\$3,291.4	\$53.1	\$1,715.6

- 1) Fees on credit derivative contracts are included in "Realized gains and losses and other settlements on credit derivative contracts" on the consolidated statement of operations.
- 2) Represents total premiums earned excluded from "Total net premiums earned" on the consolidated statement of operations pertaining to VIEs consolidated in accordance with ASU 2009-17. Please see discussion in Ambac's September 30, 2011 Form 10-Q
- 3) Represents unearned premium amounts for both upfront and installment paying policies, net of deferred ceded premiums, which is reported separately as an asset on the Consolidated Balance Sheet. Depicts amortization of existing guaranteed portfolio, assuming no advance refunding as of Septemebr 30, 2011. Actual future installments may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. The unearned premium amortization disclosed in the above table consider the use of contractual lives for many bond types that do not have homogeneous pools of underlying collateral, which results in a higher unearned premium than if expected lives were considered. If those bond types are retired early as a result of rate step-ups or other early retirement provision incentives for the issuer, premium earnings may be negative in the period of call or refinancing.
- 4) Represents management's estimate of future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments excludes amounts eliminated as a result of the Consolidations Accounting Standard (\$356.4 million). Please see discussion in Ambac's September 30, 2011 Form 10-Q.

Fixed Income Investment Portfolio

As of September 30, 2011

INCOME ANALYSIS BY TYPE OF SECURITY	Fair	Amortized	Pre-tax	YTD GAAP
Investment category (\$ thousands)	Value	Cost	Yield to	Investment
			Maturity ⁽¹⁾	Income
Financial Guarantee investments:				
Long-term investments				
U.S. government obligations	341,867	337,095	1.19%	2,686
U.S. agency obligations	83,458	77,437	4.24%	2,471
Municipal obligations ⁽²⁾	1,998,339	1,868,082	5.19%	72,802
Foreign obligations	95,457	90,469	4.12%	2,989
Corporate obligations	1,006,125	959,329	4.45%	30,349
Mortgage and asset-backed securities	1,859,407	1,565,933	11.22%	130,370
Total long-term investments	<u>5,384,653</u>	<u>4,898,345</u>	7.76%	241,667
Short-term investments	775,243	775,235	0.16%	1,354
Other ⁽³⁾	100	100		539
Total Financial Guarantee investments	<u>6,159,996</u>	<u>5,673,680</u>	6.72%	243,560
Investment expenses				(2,343)
Financial Guarantee net investment income				<u>241,217</u>
Financial Services investments: ⁽⁴⁾				
Long-term investments				
U.S. government obligations	34,851	34,306		
U.S. agency obligations	4,353	3,845		
Corporate obligations	111,573	117,707		
Mortgage and asset-backed securities	703,543	685,260		
Total long-term investments	<u>854,320</u>	<u>841,118</u>		
Short-term investments	2,600	2,600		
Total Financial Services investments	<u>856,920</u>	<u>843,718</u>		
Corporate investments:				
Short-term investments	46,283	46,283		
Total Corporate investments	<u>46,283</u>	<u>46,283</u>		
Total Investments	<u>\$7,063,199</u>	<u>\$6,563,681</u>		

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO ⁽⁵⁾⁽⁶⁾

Rating	Percent of Investment Portfolio		
	Fin. Guar.	Fin. Services	Combined
AAA	26%	58%	30%
AA	33	16	31
A	19	<1	17
BBB	8	5	8
Below investment grade ⁽⁷⁾	14	21	14
Not rated	<1	-	<1
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Duration of Financial Guarantee investment portfolio			3.3

- 1) "Yield to maturity" refers to the rate of interest to be earned over the expected remaining life of the investments in the portfolio, and is calculated based on current cost basis, estimated future cash flows and call schedules. Actual maturities may differ from stated maturities because borrowers may have the right to call or prepay obligations. For floating rate positions "yield to maturity" is based on the current interest rate and not forward rates.
- 2) Includes taxable and tax-exempt municipal obligations with a fair value of \$503,646 and \$1,494,693 respectively.
- 3) Includes income earned on loans, which are classified separately on the balance sheet.
- 4) Financial Services investments relate primarily to the investment agreement business.
- 5) Ratings are based on the lower of Standard & Poor's or Moody's rating. If guaranteed, rating represents the higher of the underlying or wrapped rating.
- 6) Rating distribution is calculated based on amortized cost.
- 7) Includes RMBS bonds purchased as part of our loss remediation strategy.

Expense Analysis (GAAP)

2011					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee operating expenses:					
Compensation	\$ 16,612	\$ (805)	\$ 14,276	\$	30,083
Non-compensation	16,644	941	15,621		33,206
Gross operating expenses	33,256	136	29,897	-	63,289
Ceding commissions and change in deferred acquisition costs . . .	9,120	11,700	10,443		31,263
Total Financial Guarantee operating expenses	42,376	11,836	40,340	-	94,552
Financial Services operating expenses	2,614	2,707	2,719		8,040
Corporate and other operating expenses	477	990	1,801		3,268
Total operating expenses, net of deferred expenses.	\$ 45,466	\$ 15,533	\$ 44,860	\$ -	\$ 105,859
Total gross operating expenses	\$ 36,347	\$ 3,833	\$ 34,417	\$ -	\$ 74,597
Reorganization costs	\$ 24,805	\$ 6,470	\$ 8,519	\$ -	\$ 39,794
Total gross expenses	\$ 61,151	\$ 10,303	\$ 42,936	\$ -	\$ 114,390

2010					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Financial Guarantee operating expenses:					
Compensation	\$ 21,222	\$ 16,268	\$ 14,997	\$ 15,109	\$ 67,596
Non-compensation ⁽¹⁾	16,829	32,949	21,118	20,890	91,786
Gross operating expenses	38,051	49,218	36,115	35,999	159,382
Ceding commissions and change in deferred acquisition costs . . .	12,445	9,714	5,085	11,797	39,041
Total Financial Guarantee operating expenses	50,496	58,932	41,200	47,796	198,423
Financial Services operating expenses	3,627	3,124	3,460	3,529	13,740
Corporate and other operating expenses ⁽¹⁾	11,948	12,645	13,695	4,014	42,302
Total operating expenses, net of deferred expenses.	\$ 66,070	\$ 74,701	\$ 58,354	\$ 55,339	\$ 254,464
Total gross operating expenses	\$ 53,625	\$ 64,987	\$ 53,269	\$ 43,542	\$ 215,423
Reorganization costs	\$ -	\$ -	\$ -	\$ 31,980	\$ 31,980
Total gross expenses	\$ 53,625	\$ 64,987	\$ 53,269	\$ 75,522	\$ 247,403

Historical Financial Guarantee Exposures Outstanding ⁽¹⁾

(\$ Millions Net Par Value)	September 30,	December 31,			Segregated Account September 30, 2011
	2011	2010	2009	2008	
Public Finance:					
Lease and tax backed	\$61,651	\$65,843	\$73,081	\$77,060	\$10
General obligation	44,802	48,241	54,047	58,296	11
Utility	23,709	26,360	30,835	32,166	405
Transportation	19,558	20,722	22,501	22,306	865
Higher education	14,182	15,279	16,577	17,959	-
Housing	9,169	9,878	10,247	10,862	-
Health care	8,654	9,603	11,987	15,115	87
Other	2,336	3,423	3,892	4,457	-
Total Public Finance	184,061	199,349	223,167	238,221	1,378
Structured Finance:					
Mortgage-backed & home equity	24,397	27,488	32,407	36,995	24,397
Student loan	10,276	11,408	14,518	16,644	10,135
Investor-owned utilities	9,318	10,685	13,212	14,650	389
Other CDOs	8,495	11,463	18,313	19,988	578
Asset-backed and conduits	4,867	10,005	16,455	25,443	39
CDO of ABS >25% MBS	-	-	16,718	23,190	-
Other	2,358	2,750	3,092	3,499	416
Total Structured Finance	59,711	73,799	114,715	140,409	35,954
International Finance ⁽²⁾:					
Investor-owned and public utilities	10,558	10,861	10,388	8,492	-
Asset-backed and conduits	10,057	10,738	13,691	16,383	74
Sovereign/sub-sovereign	7,475	7,119	6,859	5,980	-
Transportation	5,951	6,744	7,584	6,870	261
Other CDOs	5,200	6,775	9,083	12,784	1,073
Mortgage-backed & home equity	1,444	1,898	3,386	3,669	326
Other	1,538	1,571	1,533	1,502	-
Total International Finance	42,223	45,706	52,524	55,680	1,734
Grand Total	\$285,995	\$318,854	\$390,406	\$434,310	\$39,066
Percent of Total Net Par Outstanding					
Public Finance	64.3%	62.5%	57.2%	54.9%	3.5%
Structured Finance	20.9%	23.2%	29.4%	32.3%	92.0%
International Finance	14.8%	14.3%	13.4%	12.8%	4.5%
Total Net Par Outstanding	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Included in the above exposures are structured credit derivatives. Total structured credit derivative net par outstanding amounted to \$15,281, \$18,766, \$43,276 and \$53,918 at September 30, 2011 and December 31, 2010, 2009 and 2008, respectively.

(2) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	September 30,		December 31,			
	2011	%	2010	2009	2008	2007
Domestic:						
California	\$37,081	13.0%	\$39,210	\$43,388	\$45,343	\$53,434
New York	18,969	6.6%	20,944	22,865	25,972	31,923
Florida	14,745	5.2%	15,910	17,816	18,724	22,462
Texas	13,740	4.8%	14,776	16,941	17,674	19,898
New Jersey	9,771	3.4%	10,415	11,654	12,204	14,309
Illinois	8,783	3.1%	9,351	10,472	10,544	12,592
Massachusetts	5,971	2.1%	6,576	8,255	8,184	10,338
Pennsylvania	5,561	1.9%	6,036	7,405	10,879	13,444
Colorado	5,309	1.9%	5,786	6,392	6,818	7,570
Washington	5,265	1.8%	5,710	6,124	6,249	6,874
Mortgage and asset-backed	29,264	10.2%	37,493	48,862	62,438	79,485
Other states	89,313	31.2%	100,941	137,708	153,601	179,322
Total Domestic	243,772	85.2%	273,148	337,882	378,630	451,651
International:						
United Kingdom	22,870	8.0%	22,215	22,840	20,151	27,207
Australia	5,129	1.8%	6,292	6,034	4,952	6,400
Italy	3,486	1.2%	3,674	3,821	2,843	3,017
Austria	995	0.3%	999	1,149	905	491
Turkey	664	0.2%	848	1,842	1,913	1,995
Internationally diversified	6,172	2.2%	7,793	9,914	14,937	16,550
Other international	2,907	1.0%	3,885	6,924	9,979	16,714
Total International	42,223	14.8%	45,706	52,524	55,680	72,374
Grand Total	\$285,995	100.0%	\$318,854	\$390,406	\$434,310	\$524,025

Rating Distribution of Net Financial Guarantee Exposures Outstanding ⁽¹⁾

As of September 30, 2011

Rating	Percentage of Guaranteed Portfolio		
	Public Finance	Structured and International	Total
AAA	<1	3	1
AA	31	10	23
A	54	23	43
BBB	13	25	18
BIG	2	39	15
	100	100	100

(1) Based upon Ambac ratings. See Note 1 on the Table of Contents page.

Largest Domestic Public Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	AADS ⁽²⁾	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$208.8	\$3,080	1.1%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	\$164.1	2,062	0.7%
Washington State - GO	AA	\$143.7	1,810	0.6%
Bay Area Toll Authority, CA Toll Bridge Revenue ⁽³⁾	AA -	\$84.9	1,663	0.6%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	\$149.2	1,624	0.6%
MTA, NY, Transportation Revenue (Farebox) ⁽³⁾	A	\$92.4	1,447	0.5%
New Jersey Turnpike Authority Revenue	A	\$85.1	1,264	0.4%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	\$94.4	1,248	0.4%
Massachusetts Commonwealth - GO	AA	\$87.3	1,219	0.4%
Los Angeles Unified School District, CA - GO	AA -	\$83.8	1,072	0.4%
South Carolina Transportation Infrastructure Bank Revenue	A	\$76.0	1,038	0.4%
Central Texas Turnpike, System Revenue	BBB +	\$104.4	986	0.3%
Port Authority of New York & New Jersey, Consolidated Revenue	AA -	\$70.9	917	0.3%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A	\$54.2	860	0.3%
New York City, NY - GO	AA	\$46.9	846	0.3%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	\$75.3	846	0.3%
Puerto Rico Highways & Transportation Authority, Transportation Revenue ⁽³⁾	BBB +	\$50.8	826	0.3%
Puerto Rico Sales Tax Financing Corporation	A +	\$170.9	805	0.3%
New Jersey Economic Development Authority - School Facilities Construction	A +	\$50.7	802	0.3%
New York City, NY Water and Sewer System Revenue	AA -	\$53.1	797	0.3%
University of California Board of Regents, General Revenue	AA -	\$45.8	771	0.3%
Chicago, IL - GO	A +	\$37.3	762	0.3%
Cook County, IL - GO	AA	\$52.2	686	0.2%
Hawaii State - GO	AA	\$57.0	667	0.2%
New York Convention Center Development Corporation, Hotel Fee Revenue	A -	\$43.6	651	0.2%
Total:			<u>\$28,749</u>	<u>10.1%</u>

1) See Note 1 on the Table of Contents page.

2) Average Annual Debt Service, net of reinsurance.

3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated a portion of this transaction to the Segregated Account.

Largest Structured Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
CDO of ABS < 25% MBS	A +	\$1,723	0.6%
Iowa Student Loan Liquidity Corporation Revenue Bonds ⁽²⁾	BIG	1,467	0.5%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 ⁽²⁾	BIG	1,425	0.5%
Vermont Student Assistance Corporation Revenue Bonds ⁽²⁾	BIG	1,291	0.5%
The National Collegiate Student Loan Trust 2007-4 ⁽²⁾	BIG	1,023	0.4%
The National Collegiate Student Loan Trust 2007-3 ⁽²⁾	BIG	1,003	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 ⁽²⁾	BIG	969	0.3%
Ballantyne Re Plc ⁽³⁾	BIG	900	0.3%
Cendant Rental Car Funding	BIG	820	0.3%
Spirit Master Funding	BBB	785	0.3%
Michigan Higher Education Student Loan Authority ⁽²⁾	BIG	758	0.3%
Timberlake Financial, LLC	BBB -	620	0.2%
Privately Placed RMBS Transaction ⁽²⁾	BIG	573	0.2%
Progress Energy Carolinas, INC	A -	558	0.2%
Countrywide Asset-Backed Certificates Trust 2005-16 ⁽²⁾	BIG	553	0.2%
Countrywide Revolving Home Equity Loan Trust 2005-F ⁽²⁾	BIG	543	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 ⁽²⁾	BIG	538	0.2%
Option One Mortgage Loan Trust 2007-FXD1 ⁽²⁾	BIG	530	0.2%
Ares XI CLO, Ltd.	AA +	508	0.2%
Massachusetts Educational Financing Authority Revenue Bonds ⁽²⁾	BIG	504	0.2%
National Collegiate Master Student Loan Trust I ⁽²⁾	BIG	496	0.2%
Local Insight Media LLC	BIG	492	0.2%
CenterPoint Energy Inc.	BBB	476	0.2%
Countrywide Asset Backed Certificates Trust 2005-17 ⁽²⁾	BIG	475	0.2%
Impac CMB Trust Series 2005-7 ⁽²⁾	BIG	457	0.2%
Total:		<u>\$19,487</u>	<u>6.8%</u>

Largest International Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation ⁽³⁾	A +	\$2,052	0.7%
Telereal Securitisation plc ⁽³⁾	A -	1,730	0.6%
Romulus Finance s.r.l. ⁽³⁾	BIG	1,507	0.5%
Punch Taverns Finance plc-UK Pub Securitisation ⁽³⁾	BIG	1,233	0.4%
Regione Campania ⁽³⁾	BBB +	1,174	0.4%
Channel Link Enterprises ⁽³⁾	BBB -	1,155	0.4%
Aspire Defence Finance plc ⁽³⁾	BBB	1,141	0.4%
National Grid Electricity Transmission ⁽³⁾	A -	1,116	0.4%
Ostregion Investmentgesellschaft NR 1 SA ⁽³⁾	BIG	981	0.3%
Capital Hospitals plc ⁽³⁾	BBB -	937	0.3%
Dampier to Bunbury Natural Gas Pipeline	BBB	868	0.3%
RMPA Services plc ⁽³⁾	BBB +	810	0.3%
Anglian Water ⁽³⁾	A -	779	0.3%
CDO of HY Corporate	AA	759	0.3%
National Grid Gas ⁽³⁾	A -	723	0.3%
Private CMBS Transaction ⁽³⁾	AAA	721	0.3%
Powercor Australia	A -	702	0.2%
Spirit Issuer plc ⁽³⁾	BBB -	699	0.2%
Scotia Gas Networks ⁽³⁾	BBB	699	0.2%
United Energy Distribution	BBB	696	0.2%
CitiPower	A -	672	0.2%
CDO of HY Corporate	AA	656	0.2%
Babcock & Brown Air Funding I Limited	BBB +	652	0.2%
Catalyst Healthcare (Manchester) Financing plc ⁽³⁾	BBB -	651	0.2%
South East Water (Finance) Limited ⁽³⁾	BBB	571	0.2%
Total:		<u>\$23,684</u>	<u>8.3%</u>

1) See Note 1 on the Table of Contents page.

2) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated a portion of this transaction to the Segregated Account.

3) All or a portion of transaction guaranteed by Ambac Assurance UK, Ltd.

Net Exposure Amortization ⁽¹⁾

As of September 30, 2011

(\$ Millions)	Total		Segregated Account	
	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2011 (4th Qtr)	\$6,892	\$449,145	\$1,112	\$54,949
2012	25,301	423,844	4,118	50,831
2013	26,804	397,040	3,035	47,796
2014	23,123	373,917	2,619	45,177
2015	24,569	349,348	2,299	42,878
2016	21,813	327,535	1,980	40,898
2011 (4th Qtr)	\$6,892	\$449,145	\$1,112	\$54,949
2012-2016	121,610	327,535	14,051	40,898
2017-2021	103,319	224,216	7,972	32,926
2022-2026	78,016	146,200	6,950	25,976
2027-2031	59,969	86,231	6,872	19,104
After 2031	86,231	-	19,104	-
Total	<u>\$456,037</u>		<u>\$56,061</u>	

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of September 30, 2011. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.



Ambac Financial Group, Inc.
One State Street Plaza
New York, New York 10004
212-668-0340
212-509-9190 (fax)

▶ www.ambac.com