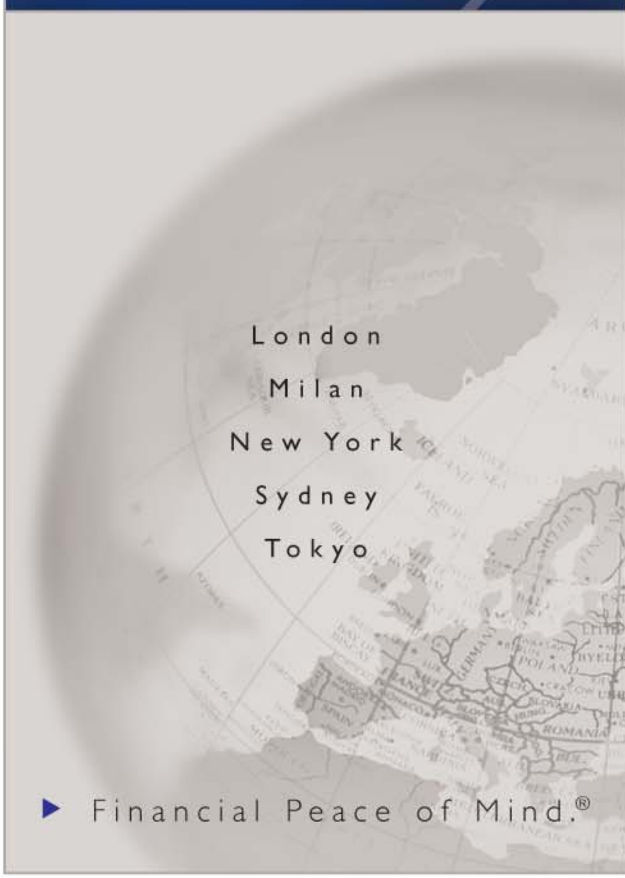
Ambac

2007 Quarterly Operating Supplement

Q2

Financial Highlights

Share price	$87.19
Market capitalization	$8,870 million
Net income	$173.0 million
Net income per diluted share	$1.67
Book value per share	$59.39
Adjusted book value per share	$90.63



Annual Financial and Statistical Data
(Dollars in millions except share data)

	2006	2005	2004	2003	2002 [1]	2001	2000	1999	1998	1997
Summary Financial Data:										
Financial Guarantee:										
Credit enhancement production (non-GAAP)	$1,295	$1,249	$1,288	$1,489	$1,299	$974	$711	$652	$486	$340
Gross premiums written	997	1,096	1,048	1,144	904	683	483	445	361	286
Net premiums/enhancement fees earned	871	866	765	667	500	400	323	268	213	154
Net investment income	424	378	355	321	297	268	241	209	186	160
Loss and loss expenses [2]	20	150	70	53	27	20	15	11	6	3
Underwriting and operating expenses	134	118	107	92	77	68	55	49	47	41
Financial Services [3]:										
Revenue	408	286	225	230	272	274	333	340	302	213
Expenses	372	253	184	208	241	244	295	312	284	202
Net income per diluted share	$8.15	$6.87	$6.53	$5.66	$3.97	$3.97	$3.41	$2.88	$2.37	$2.09
Net income per diluted share growth rate	18.6%	5.2%	15.4%	42.6%	0.0%	16.4%	18.4%	21.5%	13.4%	-19.6%
Return on equity	15.1%	14.4%	15.6%	15.7%	13.1%	15.5%	15.9%	15.0%	12.8%	12.8%
Total investments	17,434	15,592	14,422	13,965	12,539	10,288	8,324	8,963	8,748	6,915
Total assets	20,268	18,546	17,673	16,747	15,356	12,340	10,120	11,345	11,212	8,292
Unearned premium reserve	3,038	2,941	2,779	2,545	2,129	1,780	1,546	1,431	1,294	1,179
Loss and loss expense reserve	220	304	254	189	172	151	132	122	116	103
Obligations under investment, repurchase and payment agreements	8,357	7,253	7,081	7,076	7,283	5,512	4,893	6,140	5,957	4,321
Long-term debt	992	1,192	792	792	617	619	424	424	424	224
Stockholders' equity	6,184	5,383	5,024	4,255	3,625	2,984	2,596	2,019	2,096	1,873
Statutory Data:										
Qualified statutory capital	$6,383	$5,693	$5,264	$4,526	$3,736	$3,262	$2,736	$2,421	$1,936	$1,675
Unearned premium reserve	3,373	3,208	2,972	2,649	2,223	1,860	1,615	1,486	1,334	1,218
Loss and loss expense reserve	42	103	117	55	49	28	31	26	34	50
Policyholders' reserves	9,798	9,004	8,353	7,230	6,008	5,150	4,382	3,933	3,304	2,943
Third party capital support	800	800	800	800	800	800	800	750	555	500
P.V. of future installment premiums	2,405	2,166	2,060	1,556	1,342	987	764	527	309	211
Total claims-paying resources	$13,003	$11,970	$11,213	$9,586	$8,150	$6,937	$5,946	$5,210	$4,168	$3,654
Net par outstanding	$519,043	$479,085	$459,432	$425,854	$379,211	$318,043	$276,252	$240,307	$198,274	$165,601
Net debt service outstanding	$802,694	$726,612	$685,234	$625,564	$557,422	$476,190	$418,386	$374,484	$317,668	$275,931
Financial Ratios:										
Loss and loss expense ratio	2.3%	17.3%	9.1%	8.2%	6.5%	5.3%	4.8%	4.2%	2.8%	1.9%
Underwriting expense ratio	15.3%	13.6%	13.9%	13.8%	15.3%	17.0%	17.1%	18.2%	21.9%	26.4%
Combined ratio	17.6%	30.9%	23.0%	22.0%	21.8%	22.3%	21.9%	22.4%	24.7%	28.3%
Stock Performance:										
Cumulative total return since IPO on 7/91	1338.1%	1134.2%	1205.6%	996.3%	782.5%	802.4%	804.0%	435.0%	512.4%	364.7%
Annual total return	16.5%	-5.5%	19.1%	24.2%	-2.2%	-0.2%	69.0%	-12.6%	31.8%	39.9%
Dividends declared per common share	$0.660	$0.550	$0.470	$0.420	$0.380	$0.340	$0.307	$0.280	$0.253	$0.230
Adjusted book value per share (non-GAAP)	$87.76	$78.47	$71.73	$61.27	$49.84	$42.03	$36.35	$29.79	$28.00	$24.40

(1) Net income was adversely impacted by a writedown of an investment security amounting to $139.7 million, $90.8 million after-tax or $0.83 per diluted share.
(2) Includes losses of ($41.4) million and $91.5 million in 2006 and 2005, respectively, as a result of Hurricane Katrina.
(3) Financial Services revenues exclude 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. Amounts also exclude the discontinued operations of Cadre Financial Services, Inc.

Key Financial Highlights

	Second Quarter 2007	Second Quarter 2006	Six Months 2007	Six Months 2006
KEY FINANCIAL LINES				
Net income ($ millions)	$173.0	$238.6	$386.4	$459.7
Stockholders' equity ($ millions)	$6,041.8	$5,640.8	$6,041.8	$5,640.8
Return on equity	11.5%	17.2%	12.6%	16.7%
Total capitalization (1) ($ millions)	$7,431.0	$6,832.5	$7,431.0	$6,832.5
Debt/total capital (1)	18.7%	17.4%	18.7%	17.4%
Capital ratio(2)	126:1	130:1	126:1	130:1
Financial resources ratio(2)	63:1	63:1	63:1	63:1
Loss ratio (3)	7.2%	5.7%	6.1%	3.0%
Expense ratio (4)	14.0%	14.2%	14.9%	16.1%
Combined ratio(3) (4)	21.2%	19.9%	21.0%	19.1%
Effective tax rates:				
Financial Guarantee:				
Net investment income	12.9%	12.8%	12.9%	13.0%
Realized securities gains	35.0%	35.0%	35.0%	35.0%
Underwriting and other income	35.8%	35.4%	35.7%	35.3%
Total Financial Guarantee	25.4%	27.4%	26.3%	27.6%
Financial Services	34.6%	34.8%	33.2%	35.7%
Other	27.7%	53.6%	34.1%	54.2%
Consolidated total effective tax rate	25.4%	27.0%	25.9%	26.9%
STOCKHOLDER DATA				
Market value per share	$87.19	$81.10	$87.19	$81.10
Net income per share	$1.69	$2.24	$3.73	$4.32
Net income per diluted share	$1.67	$2.22	$3.70	$4.28
OTHER EARNINGS MEASURES (Per diluted share)				
Net income	$1.67	$2.22	$3.70	$4.28
Net realized investment gains	($0.01)	($0.27)	($0.05)	($0.29)
Net mark-to-market losses (gains) on certain derivatives(5)	$0.35	($0.04)	$0.35	($0.09)
Operating earnings (non-GAAP)	$2.01	$1.91	$4.00	$3.90
Refundings, calls and other accelerations, net	($0.25)	($0.21)	($0.48)	($0.32)
Core earnings (non-GAAP)	$1.76	$1.70	$3.52	$3.58
ADJUSTED BOOK VALUE ANALYSIS (Per share)				
Book value	$59.39	$53.22	$59.39	$53.22
After-tax value of:				
Net unearned premium reserve less deferred acquisition costs	15.77	15.47	15.77	15.47
Present value of future installment premiums	15.99	13.72	15.99	13.72
Unrealized loss on investment agreement liabilities	(0.52)	(0.43)	(0.52)	(0.43)
Adjusted book value	$90.63	$81.98	$90.63	$81.98

(1) Excludes the portion of long-term debt associated with variable interest entities of $275.5 million and none at June 30, 2007 and 2006, respectively.

(2) Capital and financial resources ratios (Statutory) and loss, expense and combined ratios (GAAP) relate solely to Financial Guarantee operations.

(3) Loss ratio is computed as insurance loss and loss expense plus credit derivative loss payments divided by net premiums earned and other credit enhancement fees.

(4) Expense ratio is computed as financial guarantee underwriting and operating expenses divided by net premiums earned and other credit enhancement fees.

(5) Includes net mark-to-market gains and losses on credit derivatives, total return swaps and non-trading derivatives in both the Financial Services and the Medium-Term Notes Conduit businesses.

Earnings Analysis
(Dollars in Millions)

	Second Quarter 2007		Second Quarter 2006	
	Pre-tax	After-tax [1]	Pre-tax	After-tax [1]
Net income	$232.1	$173.0	$327.0	$238.6
Financial Guarantee:				
Net realized investment gains	(0.9)	(0.6)	(1.9)	(1.2)
Credit default swaps	56.9	37.0	(5.4)	(3.5)
Non-trading derivatives [2]	(3.7)	(2.0)	0.3	0.2
Total Financial Guarantee	52.3	34.4	(7.0)	(4.5)
Financial Services:				
Net realized investment gains	(0.3)	(0.2)	(41.7)	(26.9)
Non-trading derivatives	(0.3)	(0.2)	0.3	0.2
Total return swaps	1.0	0.6	(1.8)	(1.2)
Total Financial Services	0.4	0.2	(43.2)	(27.9)
Other:				
Net realized gains	-	-	(0.8)	(0.5)
Total Other	-	-	(0.8)	(0.5)
Operating earnings	$284.8	$207.6	$276.0	$205.7

(1) The effective tax rate for all Financial Guarantee adjustments, excluding non-trading derivatives, is 35%. Financial Services net realized gains are taxed at 44.2%, which includes both federal and state income taxes. All non-trading derivatives are taxed at an effective rate of 44.2%. Although total return swaps are part of Financial Services, the mark to market adjustments are taxed at an effective rate of 35%.

(2) Included within the line item "Other income" in the Consolidated Statements of Operations.

For Immediate Release
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AMBAC FINANCIAL GROUP, INC. ANNOUNCES SECOND QUARTER NET INCOME OF $173.0 MILLION, DOWN 27%

Second Quarter Net Income Per Diluted Share of $1.67, down 25%,

Second Quarter Credit Enhancement Production[1] $367.8 million, down 31%

NEW YORK, July 25, 2007--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced second quarter 2007 net income of $173.0 million, or $1.67 per diluted share. This represents a 27% decrease from second quarter 2006 net income of $238.6 million, and a 25% decrease in net income per diluted share from $2.22. The decrease is primarily due to unrealized mark-to-market losses amounting to ($56.9) million, or ($0.36) per diluted share, related to credit derivative exposures in the second quarter 2007. The comparable quarter of 2006 included net realized gains on investment securities of $44.4 million, or $0.27 per diluted share, primarily resulting from cash recoveries received related to a security in the investment agreement portfolio that had been written down in prior years. The second quarter 2007 unrealized mark-to-market losses on credit derivative exposures is the result of unfavorable market pricing of collateralized debt obligations with significant amounts of sub-prime residential mortgage collateral. As further described below, net mark-to-market gains and losses on credit derivatives and net gains and losses from sales of investment securities are excluded from the earnings measures used by research analysts.

Net Income Per Diluted Share

Net income and net income per diluted share are computed in conformity with U.S. generally accepted accounting principles (GAAP). However, many research analysts and investors do not limit their analysis of our earnings to a strictly GAAP basis. In order to assist investors in their understanding of quarterly results, Ambac provides other information.

Earnings measures reported by research analysts exclude the net income impact of net gains and losses from sales of investment securities and mark-to-market gains and losses on credit, total return and non-trading derivative contracts (collectively “net security gains and losses”) and certain other items. Certain research analysts and investors further exclude the net income impact of accelerated premiums earned on guaranteed obligations that have been refunded and other accelerated earnings (“accelerated earnings”). During the second quarter 2007, net security gains and losses had the effect of decreasing net income by ($34.6) million, or ($0.34) on a per diluted share basis. Accelerated earnings had the effect of increasing net income by $25.6 million, or $0.25 per diluted share during the quarter. Table I, below, provides second quarter and six-month comparisons of earnings for 2007 and 2006.

Table I

	Earnings Per Diluted Share					
	Second Quarter			**Six Months**		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Net income per diluted share	$1.67	$2.22	-25%	$3.70	$4.28	-14%
Effect of net security gains	$0.34	($0.31)	n.a.	$0.30	($0.38)	n.a.
Operating earnings [a] [b]	**$2.01**	**$1.91**	**+5%**	**$4.00**	**$3.90**	**+3%**
Effect of accelerated earnings	($0.25)	($0.21)	n.a.	($0.48)	($0.32)	n.a.
Core earnings [b]	$1.76	$1.70	+4%	$3.52	$3.58	-2%

(a) Consensus earnings that are reported by earnings estimate services, such as First Call, are on this basis.
(b) Operating and core earnings are non-GAAP measures. **See footnote 2 on page 11.**

Commenting on the overall results, Ambac Chairman and Chief Executive Officer, Robert J. Genader, noted, "We are pleased with the breadth and quality of our business production in the quarter. Our rigorous and proven approach enabled us to deliver positive results despite the turmoil in the sub-prime mortgage market that resulted in a negative mark-to-market adjustment. Our triple-A business model offers us key advantages, including our ability to hold insured transactions to maturity; no collateral or margin requirements on transactions insured; and, in the unlikely event of default we pay scheduled principal and interest, thereby minimizing liquidity risk." Mr. Genader added, "Looking ahead, the disciplined execution of our strategy positions us well to benefit from the improving business conditions we see, with wider spreads, enhanced credit terms and increased demand for our valuable financial guarantee products."

Revenues

Highlights

- *Credit enhancement production*[1] in the second quarter of 2007 was $367.8 million, down 31% from Ambac's record quarterly production of $531.0 million reported in the second quarter of 2006.

  Credit enhancement production for the six months of 2007 of $677.9 million was 11% lower than credit enhancement production of $764.4 million in the same period of 2006.

  Table II, below, provides the second quarter and six-month comparisons of credit enhancement production by market segment for 2007 and 2006.

Table II

($-millions)	Credit Enhancement Production [1]					
	Second Quarter			**Six Months**		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Public Finance	$ 114.5	$ 132.1	-13%	$ 229.1	$ 231.2	-1%
Structured Finance	159.1	212.8	-25%	294.4	303.5	-3%
International	94.2	186.1	-49%	154.4	229.7	-33%
Total	$ 367.8	$ 531.0	-31%	$ 677.9	$ 764.4	-11%

In public finance, Ambac's premium production decreased even though overall market issuance was up approximately 13%, quarter on quarter. The increase in issuance for the quarter was driven by strong refunding issuance. Ambac's market share of the insured market was approximately 21%, down slightly from 22% in the comparable prior year quarter. Ambac wrote fewer large, structured transactions in the second quarter of 2007 relative to the comparable prior quarter resulting in the decline in credit enhancement production.

U.S. structured finance second quarter credit enhancement production declined from the prior year as the second quarter 2006 production included two large transactions representing 46% of that quarter's total production. Capital market activity in the U.S. continues to be robust and during the current quarter Ambac benefited from strong writings in pooled debt obligations (CDOs) where both pricing and transaction structure have improved significantly since the beginning of the year. Competition from the senior/subordinated market has dissipated significantly in mortgage-related asset classes.

International credit enhancement production also declined relative to an exceptionally strong comparable prior year quarter. Second quarter 2006 international production included two large U.K. transactions that represented almost 48% of the total international production for that quarter. The current quarter saw strong flow in asset backed securitizations. During the quarter Ambac closed deals in seven different countries. Management continues to believe that the broad international markets provide an array of opportunities and will be a driver of short-term and long-term growth for Ambac.

- *Net premiums written* (which represent premiums collected during the period, net of reinsurance) in the second quarter of 2007 of $232.7 million were 9% lower than net premiums written of $255.7 million in the comparable period of 2006. The decrease is primarily a result of lower premiums collected up front in public finance and international finance partially offset by lower premiums ceded to reinsurers during the second quarter 2007. Ceded premiums as a percentage of gross premiums written were 10.9% and 18.4% for the second quarter of 2007 and 2006, respectively. Second quarter 2006 ceded premiums were impacted by the number of large deals utilizing reinsurance capacity.

  Net premiums written for the six months of 2007 of $453.1 million were 6% lower than net premiums written of $483.6 million in the same period of 2006. Excluding the impact of $37.0 million of return premiums from reinsurance cancellations in the first quarter of 2006, net premiums written are up 1%.

  A breakdown of gross premiums written by market segment and ceded premiums for the second quarter and six-month periods of 2007 and 2006 are included below in Table III.

Table III

($-millions)	**Premiums Written**					
	Second Quarter			**Six Months**		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Public Finance	$ 111.7	$ 122.9	-9%	$ 226.1	$ 215.2	+5%
Structured Finance	87.5	90.2	-3%	170.8	169.0	+1%
International	61.9	100.4	-38%	114.1	148.4	-23%
Total Gross Premiums Written	261.1	313.5	-17%	511.0	532.6	-4%
Ceded Premiums Written	(28.4)	(57.8)	-51%	(57.9)	(49.0)	+18%
Net Premiums Written	$ 232.7	$ 255.7	-9%	$ 453.1	$ 483.6	-6%

- *Net premiums earned and other credit enhancement fees* for the second quarter of 2007 were $238.3 million, which represented a 6% increase from the $225.0 million earned in the second quarter of 2006. The increase was driven by higher accelerated premiums from refundings and policy termination fees, as well as higher normal premiums and other credit enhancement fees.

  Net premiums earned include accelerated premiums, which result from refundings, calls and other accelerations recognized during the quarter. Accelerated premiums were $43.0 million in the second quarter of 2007, up 15% from $37.4 million in accelerated premiums in the second quarter of 2006. During the second quarter 2007 and 2006, approximately $31.6 million and $23.9 million, respectively, of the accelerated premiums related to U.S. public finance transactions and the remainder related to U.S. structured finance and international transactions.

  Net premiums earned and other credit enhancement fees for the first half of 2007 were $469.9 million, which represented an 8% increase from the $433.4 million earned in the first half of 2006. Accelerated premiums were $82.8 million for the first half 2007, up 33% from $62.3 million in accelerated premiums for the first half of 2006. Accelerated premiums in 2006 include $7.7 million related to the impact of reinsurance cancellations occurring in the first quarter of 2006.

  A breakdown of net premiums earned and other credit enhancement fees by market sector for 2007 and 2006 are included below in Table IV. Normal net premiums earned exclude accelerated premiums that result from refundings, calls and other accelerations.

Table IV

($-millions)	Net Premiums Earned and Other Credit Enhancement Fees					
	Second Quarter			**Six Months**		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Public Finance	$ 59.1	$ 58.1	+2%	$ 117.5	$ 114.0	+3%
Structured Finance	85.7	77.9	+10%	167.7	154.8	+8%
International	50.5	51.6	-2%	101.9	102.3	0%
Total Normal Premiums/Fees	195.3	187.6	+4%	387.1	371.1	+4%
Accelerated Premiums	43.0	37.4	+15%	82.8	62.3	+33%
Total	$ 238.3	$ 225.0	+6%	$ 469.9	$ 433.4	+8%

Public finance earned premiums, before accelerations, grew 2% this quarter. Earned premium growth in this sector has been negatively impacted by the high level of refunding activity in Ambac's public finance book in recent years, competitive pricing and the mix of business underwritten in recent periods.

Structured finance earned premiums and other credit enhancement fees grew 10%. The rate of growth in structured finance has improved recently, driven by strong premium production in asset classes such as pooled debt obligations and commercial asset-backed securities over the past several quarters.

International earned premiums and other credit enhancement fees decreased 2%. The decrease has resulted from deal terminations and a slow down in deal closings in 2007 relative to the prior year.

- *Net investment income* for the second quarter of 2007 was $113.2 million, representing an increase of 8% from $104.5 million in the comparable period of 2006. This increase was due primarily to growth in the investment portfolio driven by the ongoing collection of financial guarantee premiums and fees.

  Net investment income for the six months of 2007 was $225.3 million, representing an increase of 9% from $206.2 million in the comparable period of 2006, primarily as a result of the reasons provided above.

- *Financial services revenues.* The financial services segment is comprised of the investment agreement business and the derivative products business. Gross interest income less gross interest expense from investment and payment agreements plus results from the derivative products business, excluding net realized investment gains and losses and unrealized gains and losses on total return swaps and non-trading derivative contracts, was $9.2 million in the second quarter of 2007, down 15% from $10.8 million in the second quarter of 2006. The decrease was primarily due to lower revenue from the interest rate swap, total return swap and investment agreement businesses in the second quarter 2007.

  Financial services revenues were $19.9 million in the first half of 2007, down 12% from the $22.5 million of revenues in the first half of 2006 primarily due to the reason provided above.

Expenses

Highlights

- *Financial guarantee expenses* of $50.5 million for the second quarter of 2007 increased 13% from $44.7 million of expenses for the second quarter of 2006. Financial guarantee loss and loss expenses were $17.1 million in the second quarter of 2007, up from $12.8 million in the second quarter of 2006. See "Loss Reserve Activity," below, for additional information on losses. Net underwriting and operating expenses of the financial guarantee sector totaled $33.4 million in the second quarter of 2007, up 5% from $31.9 million in the second quarter of 2006 primarily due to increased compensation expense.

  Financial guarantee expenses of $98.3 million for the first six months of 2007 increased 19% from $82.7 million of expenses for the same period of 2006. The increase results primarily from higher loss expenses during the period.

Loss Reserve Activity

- Case basis loss reserves (loss reserves for exposures that have defaulted) increased $9.6 million during the second quarter of 2007 from $37.7 million at March 31, 2007 to $47.3 million at June 30, 2007. Included in the March 31, 2007 case reserves balance were offsetting receivables for claims previously paid on a European transportation transaction that were deemed by management to be recoverable upon the anticipated successful restructuring of that transaction. The restructuring was finalized during the quarter and the payments due to Ambac were received. Total net claim payments/(receipts) during the quarter amounted to ($7.5) million.

- Active credit reserves ("ACR") are established for probable and estimable losses due to credit deterioration on certain adversely classified insured transactions. The ACR increased by $14.9 million during the quarter, from $188.8 million at March 31, 2007 to $203.7 million at June 30, 2007. The increase was driven primarily by increases in reserves on certain credits primarily within the transportation sector of the U.S. public finance portfolio and to a lesser extent within the non-subprime RMBS sector of the structured finance portfolio, partially offset by favorable credit activity throughout both portfolios.

Other Items

- *Total net securities gains/(losses)* for the second quarter of 2007 were ($52.7) million, consisting of net realized gains on investment securities of $1.2 million, net mark-to-market losses on credit and total return derivatives of ($57.9) million and net mark-to-market gains on non-trading derivative contracts of $4.0 million. During the quarter a net mark-to-market loss amounting to ($56.9) million was recorded related to insured collateralized debt obligations of asset-backed securitizations containing sub-prime mortgage-backed securities as collateral. The negative mark-to-market is driven by current market concerns over the most recent vintages of subprime RMBS and the recent lack of liquidity in the CDO of ABS market resulting in a reduction in market-quoted prices. Ambac's exposure on those transactions all attach at levels senior to the triple-A attachment points as established by the rating agencies.

For the second quarter of 2006, net securities gains/(losses) were $51.0 million, consisting of net realized gains on investment securities of $44.4 million, net mark-to-market gains on credit and total return derivatives of $7.2 million and net mark-to-market losses on non-trading derivative contracts of ($0.6) million. Approximately $38 million of the second quarter 2006 net realized gains on investment securities related to cash recoveries received from a security in the investment agreement portfolio that had been written down in previous years.

Total net securities gains/(losses) for the first half of 2007 were ($49.0) million, consisting of net realized gains on investment securities of $7.8 million, net mark-to-market losses on credit and total return derivatives of ($59.8) million and net mark-to-market gains on non-trading derivative contracts of $3.0 million. For the first half of 2006 net securities gains were $64.4 million, consisting of net realized gains on investment securities of $49.5 million, net mark-to-market gains on credit and total return derivatives of $14.4 million and net mark-to-market gains on non-trading derivative contracts of $0.5 million.

Balance Sheet

Highlights

- Total assets as of June 30, 2007 were $21.06 billion, up 4% from total assets of $20.27 billion at December 31, 2006. The increase was primarily driven by cash generated from operations during the period, partially offset by a decrease in unrealized gains in the investment portfolio due to a rise in long-term interest rates.

- As of June 30, 2007, stockholders' equity was $6.04 billion, a 2% decrease from year-end 2006 stockholders' equity of $6.18 billion. The decrease was primarily the result of the $400 million share buyback and lower Accumulated Other Comprehensive Income driven by higher long-term interest rates, partially offset by net income during the period.

- During the second quarter 2007, Ambac completed the buyback of $400 million of its common stock under its accelerated share buyback program (originally announced on February 12, 2007). The total number of shares purchased under the agreement amounted to 4.46 million shares. Ambac also bought back 194 thousand shares of its common stock at a total cost of $16.9 million during the second quarter that was unrelated to the accelerated share buyback program.

Increased Cash Dividend Declared

At its July 2007 Board meeting, the Board of Directors of Ambac Financial Group Inc. approved a 17% increase in the regular quarterly cash dividend from $0.18 to $0.21 per share of common stock. The dividend is payable on September 5, 2007 to stockholders of record on August 10, 2007. Ambac has declared an increased cash dividend in every year since going public in 1991.

Forward-Looking Statements

This release, in particular the Chairman and Chief Executive Officer's remarks, contains statements about our future results that may be considered "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and the current economic environment. We caution you that these statements are not guarantees of future performance. They involve a number of risks and uncertainties that are difficult to predict. Our actual results could differ materially from those expressed or implied in the forward-looking statements. Among the factors that could cause actual results to differ materially are (1) changes in the economic, credit, or interest rate environment in the United States and abroad; (2) the level of activity within the national and worldwide debt markets; (3) competitive conditions and pricing levels; (4) legislative and regulatory developments; (5) changes in tax laws; (6) the policies and actions of the United States and other governments; (7) changes in capital requirement or other criteria of rating agencies; (8) changes in accounting principles or practices that may impact the Company's reported financial results; (9) the amount of reserves established for losses and loss expenses; (10) default of one or more of the Company's reinsurers; (11) market spreads and pricing on insured pooled debt obligations and other derivative products insured or issued by the Company; (12) prepayment speeds on insured asset-backed securities and other factors that may influence the amount of installment premiums paid to the Company; and (13) other risks and uncertainties that have not been identified at this time. We undertake no obligation to publicly correct or update any forward-looking statement if we later become aware that it is not likely to be achieved, except as required by law.

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Ambac Financial Group, Inc., headquartered in New York City, is a holding company whose affiliates provide financial guarantees and financial services to clients in both the public and private sectors around the world. Ambac's principal operating subsidiary, Ambac Assurance Corporation, a leading guarantor of public finance and structured finance obligations, has earned triple-A ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch, Inc. Ambac Financial Group, Inc. common stock is listed on the New York Stock Exchange (ticker symbol ABK).

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Footnotes

(1) Credit enhancement production, which is not promulgated under GAAP, is used by management, equity analysts and investors as an indication of new business production in the period. Credit enhancement production, which Ambac reports as analytical data, is defined as gross (direct and assumed) up-front premiums plus the present value of estimated installment premiums on insurance policies and structured credit derivatives issued in the period. The discount rate used to measure the present value of estimated installment premiums was 5.4% and 5.6% during the second quarter of 2007 and 2006, respectively. The definition of credit enhancement production used by Ambac may differ from definitions of credit enhancement production (or similar terms) used by other public holding companies of financial guarantors. The following table reconciles credit enhancement production to gross premiums written calculated in accordance with GAAP:

$-millions	**Second Quarter**		**Six Months**	
	2007	**2006**	**2007**	**2006**
Credit enhancement production	$ 368	$ 531	$ 678	$ 764
Present value of estimated installment premiums written on insurance policies and structured credit derivatives issued in the period	(242)	(357)	(440)	(494)
Gross up-front premiums written	$ 126	$ 174	$ 238	$ 270
Gross installment premiums written on insurance policies	135	140	273	263
Gross premiums written	$ 261	$ 314	$ 511	$ 533

(2) Operating earnings and core earnings are not substitutes for net income computed in accordance with GAAP, but are useful measures of performance used by management, equity analysts and investors. Operating earnings measures income from operations excluding the impact of investment portfolio realized gains and losses, mark-to-market gains and losses on credit, total return and non-trading derivative contracts and certain other items. Core earnings further exclude the impact of refundings, calls and other accelerations. The definitions of operating earnings and core earnings used by Ambac may differ from definitions of operating earnings and core earnings used by other public holding companies of financial guarantors.

Consolidated Statements of Operations

($ in Thousands, Except Share Data)	Second Quarter 2007	Second Quarter 2006	Six Months 2007	Six Months 2006
Revenues:				
Financial Guarantee:				
Gross premiums written	$261,139	$313,500	$511,051	$532,558
Ceded premiums written	(28,437)	(57,747)	(57,921)	(48,990)
Net premiums written	$232,702	$255,753	$453,130	$483,568
Normal net premiums earned	$177,983	$173,479	$354,263	$342,736
Accelerated net premiums earned	43,036	37,350	82,762	62,325
Total net premiums earned	221,019	210,829	437,025	405,061
Other credit enhancement fees	17,332	14,155	32,885	28,343
Net premiums earned and other credit enhancement fees	238,351	224,984	469,910	433,404
Net investment income	113,190	104,455	225,254	206,189
Net realized investment gains	881	1,892	1,321	1,513
Net mark-to-market (losses) gains on credit derivative contracts	(56,867)	5,381	(61,991)	7,334
Other income	5,649	3,453	8,505	32,415
Financial Services:				
Investment income	107,903	98,048	213,873	179,983
Derivative products	2,464	3,321	6,070	8,007
Net realized investment gains	310	41,728	6,471	47,231
Net mark-to-market (losses) gains on total return swap contracts	(982)	1,818	2,233	7,041
Net mark-to-market gains (losses) on non-trading derivatives contracts	340	(306)	(159)	(62)
Corporate:				
Net investment income	1,341	3,396	2,922	6,396
Net realized gains	-	791	-	791
Total revenues	412,580	488,961	874,409	930,242
Expenses:				
Financial Guarantee:				
Losses and loss expenses	17,096	12,822	28,518	12,949
Underwriting and operating expenses	33,438	31,865	69,814	69,723
Financial Services:				
Interest from investment and payment agreements	101,124	90,533	200,082	165,498
Other expenses	3,117	3,303	6,405	6,875
Interest	22,091	19,475	41,380	38,950
Corporate	3,664	4,000	6,920	7,643
Total expenses	180,530	161,998	353,119	301,638
Income before income taxes	232,050	326,963	521,290	628,604
Provision for income taxes	59,013	88,393	134,910	168,894
Net income	$173,037	$238,570	$386,380	$459,710
Net income per share	$1.69	$2.24	$3.73	$4.32
Net income per diluted share	$1.67	$2.22	$3.70	$4.28
Weighted average number of shares outstanding	102,557,554	106,485,245	103,600,542	106,462,001
Weighted average number of diluted shares outstanding	103,442,086	107,450,639	104,550,048	107,398,480

Consolidated Balance Sheets

($ in Thousands, Except Share Data)	June 30, 2007	December 31, 2006
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of $17,265,975 in 2007 and $16,484,257 in 2006)	$17,385,817	$16,800,338
Fixed income securities pledged as collateral, at fair value (amortized cost of $293,935 in 2007 and $311,546 in 2006)	285,605	307,101
Short-term investments, at cost (approximates fair value)	291,979	311,759
Other (cost of $38,669 in 2007 and $13,427 in 2006)	39,928	14,391
Total investments	18,003,329	17,433,589
Cash	35,729	31,868
Securities purchased under agreements to resell	270,000	273,000
Receivable for securities sold	48,979	12,857
Investment income due and accrued	183,207	193,199
Reinsurance recoverable on paid and unpaid losses	4,793	3,921
Prepaid reinsurance	322,914	315,498
Deferred acquisition costs	271,235	252,115
Loans	861,364	625,422
Derivative assets	939,658	1,019,339
Other assets	120,533	107,005
Total assets	$21,061,741	$20,267,813
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unearned premiums	$3,061,673	$3,037,544
Losses and loss expense reserve	255,825	220,074
Ceded reinsurance balances payable	19,198	20,084
Obligations under investment and payment agreements	8,395,689	8,202,590
Obligations under investment repurchase agreements	135,465	154,287
Deferred income taxes	183,117	278,622
Current income taxes	49,227	34,781
Long-term debt	1,664,705	991,804
Accrued interest payable	93,855	105,129
Derivative liabilities	675,290	667,066
Other liabilities	317,018	275,670
Payable for securities purchased	168,850	95,973
Total liabilities	15,019,912	14,083,624
Stockholders' equity:		
Preferred stock	-	-
Common stock	1,092	1,092
Additional paid-in capital	829,853	790,168
Accumulated other comprehensive income	69,341	197,576
Retained earnings	5,773,888	5,454,575
Common stock held in treasury at cost	(632,345)	(259,222)
Total stockholders' equity	6,041,829	6,184,189
Total liabilities and stockholders' equity	$21,061,741	$20,267,813
Number of shares outstanding (net of treasury shares)	101,733,454	105,730,553
Book value per share	$59.39	$58.49
Adjusted book value per share	$90.63	$87.76

Financial Guarantees[1][2][3]

($ Thousands)	Second Quarter 2007	Second Quarter 2006	Year to Date 2007	Year to Date 2006
PUBLIC FINANCE:				
Gross Par Guaranteed	$14,651,615	$12,452,714	$28,557,992	$22,438,154
Up-front Premium	$104,971	$116,643	$211,060	$200,973
Installment Premium	6,723	6,274	15,024	14,245
Gross Premium	$111,694	$122,917	$226,084	$215,218
Credit Enhancement Production	$114,487	$132,044	$229,102	$231,195
Net Credit Enhancement Production	$105,839	$110,296	$206,249	$217,206
STRUCTURED FINANCE:				
Gross Par Guaranteed	$19,439,375	$21,553,012	$34,504,992	$38,740,749
Up-front Premium	$11,970	$11,447	$16,279	$16,818
Installment Premium	75,602	78,749	154,529	152,167
Gross Premium	$87,572	$90,196	$170,808	$168,985
Credit Enhancement Production	$159,074	$212,836	$294,424	$303,571
Net Credit Enhancement Production	$149,011	$162,161	$267,705	$252,073
INTERNATIONAL FINANCE:				
Gross Par Guaranteed	$4,924,614	$7,329,799	$7,460,208	$8,617,755
Up-front Premium	$8,925	$45,289	$10,749	$52,336
Installment Premium	52,948	55,098	103,410	96,019
Gross Premium	$61,873	$100,387	$114,159	$148,355
Credit Enhancement Production	$94,269	$186,106	$154,383	$229,675
Net Credit Enhancement Production	$84,706	$135,927	$127,396	$183,856
GRAND TOTAL:				
Gross Par Guaranteed	$39,015,604	$41,335,525	$70,523,192	$69,796,658
Up-front Premium	$125,866	$173,379	$238,088	$270,127
Installment Premium	135,273	140,121	272,963	262,431
Gross Premium	$261,139	$313,500	$511,051	$532,558
Credit Enhancement Production	$367,830	$530,986	$677,909	$764,441
Net Credit Enhancement Production	$339,556	$408,384	$601,350	$653,135

(1) Credit enhancement production (CEP) and net credit enhancement production (NCEP) includes reinsurance assumed of $2.5 million and $15.3 million in the second quarter and six months ended June 2007, respectively, and $5.6 million and $16.2 million in the second quarter and six months ended June 2006, respectively. NCEP is defined as CEP less reinsurance cessions. NCEP for the six months ended June 2006 includes $43.6 million of recaptured reinsurance cessions relating to the cancellation of certain reinsurance contracts.

(2) International Finance includes components of domestic exposure.

(3) CEP and NCEP were discounted at rates of 5.4% in the first and second quarters of 2007 and at 5.1% and 5.6% in the first and second quarters of 2006, respectively.

Normal Premium Earned and Other Credit Enhancement Fees

2007 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
PUBLIC FINANCE:					
Up-front premiums earned	$51,170	$52,005			$103,175
Installment premiums earned	7,182	7,070			14,252
Other credit enhancement fees	16	17			33
Total Public Finance premiums earned	58,368	59,092	-	-	117,460
STRUCTURED FINANCE:					
Up-front premiums earned	4,624	4,492			9,116
Installment premiums earned	67,245	69,487			136,732
Other credit enhancement fees	10,133	11,775			21,908
Total Structured Finance premiums earned	82,002	85,754	-	-	167,756
INTERNATIONAL FINANCE:					
Up-front premiums earned	5,801	5,776			11,577
Installment premiums earned	40,258	39,153			79,411
Other credit enhancement fees	5,404	5,540			10,944
Total International Finance premiums earned	51,463	50,469	-	-	101,932
Total normal premiums earned and other credit enhancement fees	$191,833	$195,315	$0	$0	$387,148

2006 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
PUBLIC FINANCE:					
Up-front premiums earned	$49,304	$51,543	$51,861	$51,463	$204,171
Installment premiums earned	6,541	6,545	6,931	6,841	26,858
Other credit enhancement fees	6	17	17	16	56
Total Public Finance premiums earned	55,851	58,105	58,809	58,320	231,085
STRUCTURED FINANCE:					
Up-front premiums earned	4,673	4,647	4,570	4,569	18,459
Installment premiums earned	64,602	65,993	66,379	67,920	264,894
Other credit enhancement fees	7,637	7,254	9,373	9,709	33,973
Total Structured Finance premiums earned	76,912	77,894	80,322	82,198	317,326
INTERNATIONAL FINANCE:					
Up-front premiums earned	5,386	6,667	5,675	6,391	24,119
Installment premiums earned	38,751	38,084	39,378	38,720	154,933
Other credit enhancement fees	6,545	6,884	5,888	5,635	24,952
Total International Finance premiums earned	50,682	51,635	50,941	50,746	204,004
Total normal premiums earned and other credit enhancement fees	$183,445	$187,634	$190,072	$191,264	$752,415

Effect of Refundings, Calls and Other Accelerations

2007 ($ Thousands, Except Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Earned premium recognized from refundings, calls and other accelerations	$39,726	$43,036			$82,762
Net income effect	$24,658	$25,588			$50,246
Net income per diluted share effect	$0.24	$0.25			$0.48

2006 ($ Thousands, Except Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Earned premium recognized from refundings, calls and other accelerations[1]	$24,975	$37,350	$24,518	$32,125	$118,968
Net income effect	$11,964	$22,784	$14,466	$18,107	$67,321
Net income per diluted share effect	$0.11	$0.21	$0.13	$0.17	$0.63

(1) Includes accelerations relating to credit derivatives of $779 for the third quarter of 2006.

Public Finance New Issuance [1][2]

($ Millions of Par Value)	Total New Issue Market: Issued	Total New Issue Market: Insured	Total New Issue Market: Insured Percent	Insured by Ambac: Insured	Insured by Ambac: Market Share Percent
2007 BY QUARTER					
Second	$123,917	$55,683	44.9%	$11,422	20.5%
First	106,411	55,374	52.0%	13,340	24.1%
2006 BY QUARTER					
Fourth	127,084	$55,453	43.6%	$12,626	22.8%
Third	82,371	41,553	50.4%	9,343	22.5%
Second	109,630	50,485	46.1%	11,240	22.3%
First	69,631	37,314	53.6%	9,902	26.5%
FULL YEAR					
Year-to-date 2007	230,328	111,057	48.2%	24,762	22.3%
2006	388,716	184,805	47.5%	43,111	23.3%
2005	408,266	233,046	57.1%	57,527	24.7%
2004	359,717	194,887	54.2%	44,760	23.0%
2003	383,559	190,641	49.7%	39,200	20.6%
2002	358,569	178,928	49.9%	35,894	20.1%
2001	288,083	134,359	46.6%	32,573	24.2%
2000	200,880	79,305	39.5%	17,185	21.7%
1999	227,741	105,575	46.4%	26,555	25.2%
1998	286,817	145,515	50.7%	29,552	20.3%
1997	220,685	107,468	48.7%	25,405	23.6%
1996	185,210	85,708	46.3%	24,694	28.8%
1995	160,369	68,553	42.7%	16,983	24.8%
1994	165,034	61,512	37.3%	17,437	28.3%
1993	292,249	107,955	36.9%	31,487	29.2%
1992	234,667	80,762	34.4%	24,596	30.5%

(1) Figures are Ambac estimates subject to revisions as new information becomes available. It is compiled from The Bond Buyer.
(2) Data for industry and Ambac is provided on a sale date basis and will not agree with Ambac data in subsequent sections which is provided on a closing date basis.

Net Exposure Amortization[1]

As of June 30, 2007

($ Millions)	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2007 (3rd and 4th Qtrs.)	$41,085	$807,977
2008	49,279	758,698
2009	45,194	713,504
2010	44,509	668,995
2011	44,771	624,224
2012	38,070	586,154
2007 (3rd and 4th Qtrs.)	41,085	807,977
2008-2012	221,823	586,154
2013-2017	175,099	411,055
2018-2022	136,181	274,874
2023-2027	95,763	179,111
After 2027	179,111	-
Total	$849,062	

Net Unearned Premium Amortization and Estimated Future Installment Premiums

As of June 30, 2007

($ Millions)	Net Unearned Premium Amortization [2] Upfront	Installments	Estimated Net Future Installments[3][4]	Total Premium Earnings
2007 (3rd and 4th Qtrs.)	$120.6	$38.5	$224.9	$384.0
2008	226.9	11.7	442.9	681.5
2009	210.3	4.5	392.1	606.9
2010	195.4	2.5	331.3	529.2
2011	181.7	1.9	273.0	456.6
2012	169.0	1.1	221.2	391.3
2007 (3rd and 4th Qtrs.)	120.6	38.5	224.9	384.0
2008-2012	983.3	21.7	1,660.5	2,665.5
2013-2017	673.0	2.5	699.9	1,375.4
2018-2022	439.8	0.4	428.9	869.1
2023-2027	262.0	-	281.8	543.8
After 2027	197.0	-	259.2	456.2
Total	$2,675.7	$63.1	$3,555.2	$6,294.0

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of June 30, 2007. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.

(2) Unearned premium amounts are net of prepaid reinsurance, which is reported separately as an asset on the Consolidated Balance Sheet.

(3) Actual future installments are net of reinsurance and 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.

(4) Includes estimated future receipts on credit derivatives of $342.7 million. Earnings from credit derivatives are included as "Other Credit Enhancement Fees" on the accompanying consolidated statement of operations.

Fixed Income Investment Portfolio

As of June 30, 2007

INCOME ANALYSIS BY TYPE OF SECURITY Investment category ($ thousands)	Fair Value	Amortized Cost	Yield to Maturity (1)	Weighted Average After-Tax Yield	Investment Income
Financial Guarantee investments:					
Long-term investments					
U.S. government obligations	$135,143	$140,646	4.57%	2.97%	$3,511
U.S. agency obligations	379,053	387,869	4.59%	2.98%	9,138
Municipal obligations (2) (3)	7,912,805	7,862,023	4.51%	4.47%	172,971
Foreign obligations	308,599	298,717	4.74%	3.08%	7,415
Corporate obligations	302,694	297,761	6.09%	3.96%	6,971
Mortgage and asset-backed securities	825,620	852,053	4.91%	3.19%	21,790
Total long-term investments	9,863,914	9,839,069	4.60%	4.22%	221,796
Short-term investments (4)	183,124	183,124	5.14%	3.42%	5,247
Other (5)	13,676	12,876			576
Total Financial Guarantee investments	10,060,714	10,035,069	4.61%	4.20%	227,619
Investment expenses					(2,365)
Financial Guarantee net investment income					$225,254
Financial Services investments (6)					
Long-term investments					
U.S. government obligations	13,738	14,089			
U.S. agency obligations	379,561	357,605			
Municipal obligations	478,225	455,912			
Corporate obligations	468,565	459,249			
Mortgage and asset-backed securities	6,467,419	6,433,986			
Total long-term investments	7,807,508	7,720,841			
Short-term investments	19,918	19,918			
Other	25,195	25,195			
Total Financial Services investments	7,852,621	7,765,954			
Corporate investments:					
Short-term investments	88,937	88,937			
Other	1,057	598			
Total Corporate investments	89,994	89,535			
Total Investments	$18,003,329	$17,890,558			

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO (7)

Rating	Percent of Investment Portfolio Fin. Guar.	Fin. Services	Combined
AAA (2) (8)	87	91	89
AA	11	3	8
A	1	5	3
BBB	<1	1	<1
Below investment grade	<1	<1	<1
Not rated	<1	0	<1
	100	100	100

Duration of Financial Guarantee investment portfolio	5.4

(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 purchase price, 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.

(2) Includes municipal bonds which have been advance refunded and defeased with U.S. Treasury and Agency obligations, but not necessarily re-rated by S&P and/or Moody's. Ambac considers the credit quality of these bonds, which have a total fair value of $1,412,967 and comprise approximately 14% of the Financial Guarantee portfolio, to be AAA.

(3) Includes taxable and tax-exempt municipal obligations with a fair value of $144,058 and $7,768,747, respectively.

(4) Includes taxable and tax-exempt short-term investments with a fair value of $171,404 and $11,720, respectively.

(5) Includes investment income on loans and securities purchased under agreements to resell, which are classified separately on the balance sheet.

(6) Financial Services investments relate primarily to the investment agreement business. The goal is to match invested assets to related investment agreement liabilities to earn a net interest spread.

(7) Ratings are based on Standard & Poor's ratings. If unavailable, Moody's rating is used.

(8) Includes U.S. Government and Agency securities which comprise approximately 13% and 9% of the Financial Guarantee and Financial Services portfolios respectively.

Ratio of Net Claims Paid[1]

($ Thousands)	YTD 6/30/07	2006	2005	2004	2003
Net claims paid[2]	($7,608)	$105,568	$86,739	$18,923	$35,280
Net premiums earned and other credit enhancement fees	$469,910	$871,383	$866,415	$764,510	$667,250
Ratio of net claims paid	-1.6%	12.1%	10.0%	2.5%	5.3%

Summary of Net Loss and Credit Reserves

($ Thousands)	6/30/07	12/31/06	12/31/05	12/31/04	12/31/03
Case basis credit reserves	$47,261	$42,458	$103,064	$116,754	$54,698
Active credit reserves	203,707	172,644	197,607	120,802	132,181
Total insurance reserves	250,968	215,102	300,671	237,556	186,879
Mark-to-market reserve (asset) on credit derivatives	53,061	(8,929)	165	13,555	31,308
Mark-to-market asset on total return swaps	(13,272)	(11,195)	(14,718)	(15,968)	(2,360)
Grand total net loss and credit reserves	$290,757	$194,978	$286,118	$235,143	$215,827

Summary of Below Investment Grade Exposures[3]

($ Millions)	Net Par Outstanding
Public Finance:	
Transportation Revenue	$1,232
Health Care	436
General Obligation	291
Tax-Backed	134
University	30
Other	120
Total Public Finance	2,243
Structured Finance:	
Mortgage-Backed & Home Equity	$1,140
Enhanced Equipment Trust Certificates	632
Investor-Owned Utilities	558
Pooled Debt Obligations	69
Total Structured Finance	2,399
International Finance:	
Transportation Revenue	$28
Other	37
Total International Finance	65
Total	$4,707

(1) Ratio of net claims paid is net claims paid divided by net premiums earned and other credit enhancement fees.

(2) Net claims paid includes payments on credit derivatives of $0, $0, $0, $0 and $1.2 million for year-to-date 2007, 2006, 2005, 2004 and 2003, respectively, and are net of salvage received of $22.8 million, $16.7 million, $9.4 million, $33.6 million and $7.5 million for six months 2007, and year-to-date 2006, 2005, 2004 and 2003, respectively.

(3) See Note 3 on the Table of Contents page.

Expense Analysis

2007

($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	$ 36,704	$ 38,085			$ 74,789
Premium taxes	5,554	4,830			10,384
Other non-compensation	6,919	5,962			12,881
Gross underwriting and operating expenses	**49,177**	**48,877**	**-**	**-**	**98,054**
Operating expenses deferred (policy acquisition costs)	(25,656)	(25,490)			(51,146)
Ceding commissions received	(8,085)	(7,525)			(15,610)
Ceding commissions deferred	8,037	7,525			15,562
Amortization of previously deferred expenses and commissions	12,903	10,050			22,953
Total Financial Guarantee underwriting and operating expenses	36,376	33,437	-	-	69,813
Financial Services operating expenses	**3,288**	**3,117**			**6,405**
Corporate operating expenses	**3,256**	**3,664**			**6,920**
Total underwriting and operating expenses, net of deferred expenses	$ 42,920	$ 40,218	$ -	$ -	$ 83,138
Total gross underwriting and operating expenses	**$ 55,721**	**$ 55,658**	**$ -**	**$ -**	**$ 111,379**

2006

($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	$ 40,870	$ 33,368	$ 33,643	$ 34,648	$ 142,529
Premium taxes	4,451	5,420	5,074	4,810	19,755
Other non-compensation	7,547	6,677	7,030	7,709	28,963
Gross underwriting and operating expenses	**52,868**	**45,465**	**45,747**	**47,167**	**191,247**
Operating expenses deferred (policy acquisition costs)	(29,213)	(26,384)	(26,322)	(23,927)	(105,846)
Ceding commissions received	3,426	(14,372)	(6,960)	(8,220)	(26,126)
Ceding commissions deferred	6,920	14,371	6,960	7,993	36,244
Amortization of previously deferred expenses and commissions	3,857	12,785	10,761	10,818	38,221
Total Financial Guarantee underwriting and operating expenses	37,858	31,865	30,186	33,831	133,740
Financial Services operating expenses	**3,572**	**3,303**	**3,119**	**2,395**	**12,389**
Corporate operating expenses	**3,643**	**4,000**	**3,036**	**9,881**	**20,560**
Total underwriting and operating expenses, net of deferred expenses	$ 45,073	$ 39,168	$ 36,341	$ 46,107	$ 166,689
Total gross underwriting and operating expenses	**$ 60,083**	**$ 52,768**	**$ 51,902**	**$ 59,443**	**$ 224,196**

Deferred Expense Ratio Analysis

	6/30/07	12/31/06	12/31/05	12/31/04	12/31/03
Deferred Acquisition Costs	$ 271,235	$ 252,115	$ 226,168	$ 198,142	$ 182,892
Unearned Premium Reserves	$ 3,061,673	$ 3,037,544	2,940,988	2,765,163	2,545,490
Prepaid Reinsurance Premiums	$ (322,914)	$ (315,498)	(303,383)	(297,330)	(325,461)
Present Value of Installment Premiums	2,503,188	2,404,830	2,165,863	2,059,849	1,555,611
Adjusted Deferred Premiums	$ 5,241,947	$ 5,126,876	$ 4,803,468	$ 4,527,682	$ 3,775,640
Deferred Expenses to Adjusted Deferred Premiums Ratio	5.2%	4.9%	4.7%	4.4%	4.8%

Historical Financial Guarantee Exposures Outstanding [1]

($ Millions Net Par Value)	June 30, 2007	December 31, 2006	2005	2004	2003
Public Finance:					
Lease and tax backed	$91,753	$89,042	$82,584	$76,007	$66,326
General obligation	66,767	62,834	57,982	49,394	44,350
Utility	40,251	38,313	36,877	36,326	33,603
Health care	29,288	27,849	26,994	23,977	22,120
Transportation	26,127	24,979	23,718	21,188	18,244
Higher education	22,393	22,068	20,203	18,056	15,778
Housing	10,835	10,996	10,152	9,163	9,014
Other	6,104	6,181	5,556	5,588	5,879
Total Public Finance	293,518	282,262	264,066	239,699	215,314
Structured Finance:					
Pooled debt obligations	50,537	40,568	25,746	16,035	14,248
Mortgage-backed & home equity	47,388	46,239	48,869	53,148	50,819
Asset-backed and conduits	36,819	34,815	32,505	28,858	27,126
Student loan	18,928	18,404	16,538	14,646	12,807
Investor-owned utilities	18,032	17,345	16,398	15,449	14,480
Other	5,238	5,212	4,296	4,318	4,644
Total Structured Finance	176,942	162,583	144,352	132,454	124,124
International Finance[2]:					
Pooled debt obligations	20,533	19,978	23,427	35,831	44,723
Asset-backed and conduits	18,846	17,642	15,151	15,553	12,293
Mortgage-backed & home equity	11,136	11,951	14,627	19,644	17,273
Investor-owned and public utilities	10,885	10,531	8,052	5,965	4,677
Sovereign/sub-sovereign	6,791	6,344	3,585	4,110	2,539
Transportation	6,542	6,524	5,156	5,157	3,908
Other	1,635	1,228	669	1,019	1,003
Total International Finance	76,368	74,198	70,667	87,279	86,416
Grand Total	$546,828	$519,043	$479,085	$459,432	$425,854

Percent of Total Net Par Outstanding					
Public Finance	53.7%	54.4%	55.1%	52.2%	50.6%
Structured Finance	32.3%	31.3%	30.1%	28.8%	29.1%
International Finance	14.0%	14.3%	14.8%	19.0%	20.3%
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 $69,048, $55,460, $43,712, $43,478, and $48,825 at June 30, 2007 and December 31, 2006, 2005, 2004 and 2003, respectively.

(2) International transactions include components of domestic exposure.

Bond Type Distribution of Financial Guarantee Exposures

($ Millions Par Value)	Guaranteed Year-to-Date			
	Gross	%	Net	%
Public Finance:				
Lease and tax backed	$8,109	11.5%	$7,508	11.6%
General obligation	7,981	11.3%	7,301	11.2%
Utility	4,346	6.2%	3,799	5.8%
Health care	2,973	4.2%	2,477	3.8%
Transportation	1,853	2.6%	1,668	2.6%
Higher education	2,222	3.2%	1,928	3.0%
Housing	694	1.0%	660	1.0%
Other	380	0.5%	335	0.5%
Total Public Finance	28,558	40.5%	25,676	39.5%
Structured Finance:				
Pooled debt obligations	14,898	21.1%	14,800	22.8%
Mortgage-backed & home equity	10,919	15.5%	10,028	15.4%
Asset-backed and conduits	6,240	8.8%	5,731	8.8%
Student loan	978	1.4%	933	1.4%
Investor-owned utilities	1,373	1.9%	1,126	1.7%
Other	97	0.1%	87	0.1%
Total Structured Finance	34,505	48.9%	32,705	50.3%
International Finance[1]:				
Pooled debt obligations	1,738	2.5%	1,628	2.5%
Asset-backed and conduits	3,139	4.5%	2,822	4.3%
Mortgage-backed & home equity	735	1.0%	718	1.1%
Investor-owned and public utilities	869	1.2%	442	0.7%
Sovereign/sub-sovereign	363	0.5%	363	0.6%
Transportation	225	0.3%	218	0.3%
Other	391	0.6%	391	0.6%
Total International Finance	7,460	10.6%	6,582	10.1%
Grand Total	$70,523	100.0%	$64,963	100.0%

(1) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures

($ Millions Par Value)	Guaranteed Year-to-Date Gross	%	Net	%	Net Par Outstanding as of June 30, 2007 Net	%
Domestic:						
California	$7,063	10.0%	$6,518	10.0%	$56,220	10.3%
New York	948	1.3%	883	1.4%	33,488	6.1%
Florida	2,174	3.1%	1,935	3.0%	25,147	4.6%
Texas	2,911	4.1%	2,683	4.1%	20,539	3.8%
Pennsylvania	1,085	1.5%	985	1.5%	14,224	2.6%
New Jersey	709	1.0%	661	1.0%	13,651	2.5%
Illinois	1,217	1.7%	917	1.4%	13,427	2.5%
Massachusetts	2,336	3.3%	1,879	2.9%	11,392	2.1%
Ohio	694	1.0%	658	1.0%	8,756	1.6%
Michigan	201	0.3%	201	0.3%	7,457	1.4%
Mortgage and asset-backed	17,159	24.3%	15,759	24.3%	84,207	15.4%
Other states	26,566	37.7%	25,302	38.9%	181,952	33.3%
Total Domestic	63,063	89.4%	58,381	89.9%	470,460	86.0%
International:						
United Kingdom	1,875	2.7%	1,502	2.3%	27,496	5.0%
Australia	617	0.9%	405	0.6%	6,435	1.2%
Germany	656	0.9%	656	1.0%	6,211	1.1%
Japan	525	0.7%	467	0.7%	3,621	0.7%
Italy	326	0.5%	326	0.5%	2,510	0.5%
Internationally diversified	2,242	3.2%	2,217	3.4%	20,476	3.7%
Other international	1,219	1.7%	1,009	1.6%	9,619	1.8%
Total International	7,460	10.6%	6,582	10.1%	76,368	14.0%
Grand Total	$70,523	100.0%	$64,963	100.0%	$546,828	100.0%

Rating Distribution of Net Financial Guarantee Exposures(1)

As of June 30, 2007

Rating	Percentage of Guaranteed Portfolio: Public Finance	Structured and International Finance	Total
AAA	<1	39	18
AA	28	12	20
A	59	20	41
BBB	13	28	20
BIG	<1	<1	<1
	100	100	100

(1) Based upon Ambac ratings. See Note 3 on the Table of Contents page.

Largest Domestic Public Finance Exposures[1]

($ Millions)	Ambac Rating[2]	AADS[3]	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A +	$197.1	$3,076	0.6%
Washington State - GO	AA	$151.9	2,167	0.4%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	$139.7	1,768	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	$105.4	1,724	0.3%
California Department of Water Resources, Power Supply	A	$174.8	1,694	0.3%
Bay Area Toll Authority, CA Toll Bridge Revenue	AA -	$81.3	1,636	0.3%
New Jersey Turnpike Authority Revenue	A	$90.0	1,374	0.3%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	$94.2	1,370	0.3%
New York City, NY - GO	A +	$66.7	1,287	0.2%
Los Angeles Unified School District, CA - GO	AA -	$89.0	1,276	0.2%
Connecticut Housing Finance Authority, Housing Mortgage Finance Program	AAA	$67.7	1,256	0.2%
Citizens Property Insurance Corporation, FL	A -	$118.3	1,213	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	$84.8	1,137	0.2%
Hawaii State - GO	AA	$80.3	1,099	0.2%
South Carolina Transportation Infrastructure Bank Revenue	A	$71.4	1,079	0.2%
Nassau County Interim Finance Authority, NY, Sales Tax Revenue	AA	$85.2	1,037	0.2%
Chicago, IL - GO	A +	$48.3	1,036	0.2%
Massachusetts Commonwealth - GO	AA	$80.7	1,027	0.2%
Massachusetts School Building Authority, MA, Sales Tax	AA	$71.9	1,000	0.2%
Central Texas Turnpike, System Revenue	BBB +	$92.2	970	0.2%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BBB +	$54.5	937	0.2%
New York City, NY Water and Sewer System Revenue	AA	$56.5	891	0.2%
Orlando-Orange County, FL Expressway Authority Revenue	A -	$50.8	861	0.2%
New York State Personal Income Tax Revenue	AA -	$55.7	860	0.2%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A -	$48.8	843	0.2%
Total:			$32,618	6.0%

Largest Domestic Healthcare Exposures

($ Millions)	Ambac Rating[2]	AADS[3]	Net Par Outstanding	% of Total Net Par Outstanding
Sutter Health - California	A +	$24.2	$425	0.1%
Stanford Hospital & Clinics - California	A +	$22.9	388	0.1%
Hoag Memorial Hospital Presbyterian - California	AA -	$19.8	366	0.1%
Ascension Health - Missouri	AA	$27.0	356	0.1%
Memorial Sloan Kettering Cancer Center - New York	AA	$24.5	355	0.1%
Trinity Health - Michigan	AA -	$24.4	352	0.1%
Methodist Hospitals of Dallas - Texas	A +	$19.4	350	0.1%
Children's Hospital - Boston, Massachusetts	AA	$22.9	330	0.1%
Sisters of Mercy Health System - Missouri	AA	$29.2	326	0.1%
Catholic Health East - Pennsylvania	A +	$23.7	325	0.1%
Total:			$3,573	0.7%

(1) Excludes Healthcare exposures.
(2) See Note 3 on the Table of Contents page.
(3) Average Annual Debt Service, net of reinsurance.

Largest Structured Finance Exposures

($ Millions)	Ambac Rating[(1)]	Net Par Outstanding	% of Total Net Par Outstanding
CDO of ABS	AAA	$2,700	0.5%
CDO of ABS	AAA	2,400	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2	BBB +	1,968	0.4%
CDO of ABS	AAA	1,950	0.4%
Iowa Student Loan Liquidity Corporation Revenue Bonds	A	1,900	0.3%
CDO of ABS	AAA	1,875	0.3%
Massachusetts Educational Financing Authority Revenue Bonds	AA	1,793	0.3%
ARG Funding Corporation	BBB	1,777	0.3%
Michigan Higher Education Student Loan Authority	AA	1,774	0.3%
Hertz Vehicle Financing, LLC	BBB	1,744	0.3%
CDO of ABS	AAA	1,676	0.3%
Vermont Student Assistance Corporation Revenue Bonds	A	1,670	0.3%
CDO of ABS	AAA	1,570	0.3%
Capital One Auto Finance Trust, 2006-A	BBB	1,555	0.3%
CDO of ABS	AAA	1,524	0.3%
CDO of ABS	AAA	1,400	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,389	0.3%
CDO of ABS	AAA	1,313	0.2%
Cendant Rental Car Funding	BBB	1,265	0.2%
CDO of ABS	AAA	1,250	0.2%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BBB +	1,247	0.2%
Capital One Auto Finance Trust, 2007-A	BBB	1,244	0.2%
Citibank - Corporate Receivables Corp.	AAA	1,235	0.2%
CDO of ABS	AAA	1,230	0.2%
Synthetic RMBS	AAA	1,217	0.2%
Total:		$40,666	7.4%

Largest International Finance Exposures

($ Millions)	Ambac Rating[(1)]	Net Par Outstanding	% of Total Net Par Outstanding
CDO of IG Corporate	AAA	$2,764	0.5%
Mitchells & Butlers Finance plc-UK Pub Securitisation	A +	2,603	0.5%
Telereal Securitisation plc	A +	2,135	0.4%
CDO of IG Corporate	AAA	1,827	0.3%
CDO of IG Corporate	AAA	1,577	0.3%
Synthetic RMBS	AAA	1,166	0.2%
Punch Taverns Finance plc-UK Pub Securitisation	A	1,152	0.2%
Synthetic RMBS	AAA	1,065	0.2%
TubeLines (Finance) plc	A	1,063	0.2%
Synthetic RMBS	AAA	1,046	0.2%
Romulus Finance s.r.l.	BBB	1,030	0.2%
Metronet Rail BCV and SSL [(2)]	BBB -	1,028	0.2%
Aspire Defence Finance plc	BBB -	1,013	0.2%
Synthetic RMBS	AAA	937	0.2%
Theatre Hospitals	AAA	919	0.2%
RMAC Mortgage Services Limited 2004-NSP2	A -	911	0.2%
Ableco Finance LLC	AA	906	0.2%
Sydney Airport Finance Co. Pty Ltd	BBB	895	0.2%
Private Consumer Asset-Backed Transaction	AA	879	0.2%
RMPA Services plc	BBB	863	0.2%
Spirit Issuer plc	BBB +	827	0.2%
CDO of Corporate Loans	AA	816	0.1%
Synthetic RMBS	AAA	806	0.1%
CDO of IG Corporate	AAA	787	0.1%
CDO of Corporate Loans	AAA	780	0.1%
Total:		$29,795	5.4%

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

(2) Metronet BCV and SSL are separate operating corporate entities with distinguishable risk features. Individually they would not appear on this list, however their exposures are aggregated to reflect common business and financial issues currently confronting each company.

Ambac Assurance Corporation

Statutory Accounting, Financial and Capital Information [1]

($ Thousands, Except Ratios)	June 30, 2007		December 31, 2006
STATUTORY BASIS			
Capital and claim-paying resources:			
Contingency reserve	$2,897,960		$2,685,614
Capital and surplus	3,844,104		3,696,876
Qualified statutory capital	6,742,064		6,382,490
Unearned premiums	3,416,952		3,373,373
Losses and loss adjustment expenses	47,261		42,458
Policyholders' reserves	10,206,277		9,798,321
Third party capital support [2]	800,000		800,000
Present Value of Future Installment Premiums [3]	2,503,188		2,404,830
Total claims paying resources	13,509,465		13,003,151
Net financial guarantees in force	$849,061,604		$802,693,812
Capital ratio [4]	126 : 1		126 : 1
Financial resources ratio [5]	63 : 1		62 : 1
Gross Financial Guarantees in force	$943,159,336		$887,448,486
Gross par outstanding	$601,945,148		$567,577,724

	Second Quarter 2007	Second Quarter 2006	Full Year 2006
Statutory financial ratios:			
Loss ratio [6]	1.0%	18.6%	5.9%
Expense ratio [7]	13.7%	10.6%	15.5%

(1) Information for Ambac Assurance Corporation, Connie Lee Insurance Company, and Ambac Assurance UK Limited are combined for purposes of this schedule.
(2) Third party capital support represents pre-funded capital which provides for the unconditional ability to issue up to $800 million of preferred stock to high quality asset-backed investment vehicles.
(3) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts, credit derivatives and other credit enhancement products. Future premiums are discounted at 5.8% and 5.4% at June 30, 2007 and December 31, 2006, respectively.
(4) Capital Ratio is net financial guarantees in force divided by qualified statutory capital.
(5) Financial Resources Ratio is net financial guarantees in force divided by total claims paying resources.
(6) Loss ratio is statutory net incurred losses divided by statutory net earned premiums.
(7) Expense ratio is statutory underwriting expenses (including reinsurance commissions) divided by net premiums written.

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