Ambac

2007 Quarterly Operating Supplement

Q1

London

Milan

New York

Sydney

Tokyo

Financial Highlights

Share price	$86.39
Market capitalization	$8,792 million
Net income	$213.3 million
Net income per diluted share	$2.02
Book value per share	$58.85
Adjusted book value per share	$89.46

Financial Peace of Mind.℠

Company Profile

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. The principal operating subsidiary, Ambac Assurance Corporation, a leading guarantor of public finance and structured finance obligations, has been assigned triple-A ratings, the highest ratings available from Moody's Investors Services, Inc., Standard & Poor's Ratings Services, and Fitch, Inc. Ambac Financial Group, Inc., through its subsidiaries, also provides investment agreements, interest rate swaps, total return swaps and funding conduits, principally to clients of the financial guarantee business, which include municipalities and their authorities, health care organizations and asset-backed issuers. Ambac Financial Group, Inc. common stock is listed on the New York Stock Exchange (ticker symbol ABK).

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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 call, write or e-mail the Investor Relations Department at the above number or address or download it from our website at www.ambac.com.

Ambac Financial Group, Inc.
Quarterly Operating Supplement
First Quarter 2007

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Note 1: Throughout this Supplement adjusted book value (ABV) per share is reported and analyzed. ABV, is not promulgated in conformity with U.S. generally accepted accounting principles (GAAP) and should not be considered a substitute for actual book value. It is used by management, equity analysts and investors as a measurement of the Company's estimated intrinsic value with no benefit given for ongoing business activity. Management derives adjusted book value by beginning with stockholders' equity (book value) and adding or subtracting the after-tax value of: the net unearned premium reserve; deferred acquisition costs; the present value of estimated net future installment premiums (discounted at 5.4% at March 31, 2007 and December 31, 2006); and the unrealized gain or loss on investment agreement liabilities. The definition of ABV used by the Company may differ from definitions of ABV used by other financial guarantors and should be considered in such context. The adjustments described above will not be realized until future periods and may differ materially from the amounts used in determining ABV.

Note 2: Credit enhancement production (CEP) and net credit enhancement production (NCEP), which are not promulgated under GAAP, should not be considered a substitute for gross or net premiums written. CEP is used by management, equity analysts and investors as an indication of new business production. CEP, which Ambac reports as analytical data, is defined as gross (direct and assumed) up-front premiums written plus the present value of estimated installment premiums written on insurance policies, structured credit derivatives and other credit enhancement products issued in the period (discounted at 5.4% and 5.1% for the quarters ended March 31, 2007 and 2006, respectively). NCEP is defined as CEP less cessions to all reinsurers. The definition of CEP and NCEP used by Ambac may differ from definitions of CEP and NCEP used by other financial guarantors.

Note 3: Internal Ambac 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 has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at 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 4: Information contained in this report is unaudited.

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	$6,398	$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	9,813	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	$13,018	$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

	First Quarter 2007	First Quarter 2006
KEY FINANCIAL LINES		
Net income ($ millions)	$213.3	$221.1
Stockholders' equity ($ millions)	$5,989.2	$5,474.9
Return on equity	14.0%	16.3%
Total capitalization ($ millions)	$7,378.4	$6,666.6
Debt/total capital	18.8%	17.9%
Capital ratio (1)	125:1	127:1
Financial resources ratio (1)	62:1	62:1
Loss ratio (2)	4.9%	0.0%
Expense ratio (3)	15.7%	18.2%
Combined ratio (2) (3)	20.6%	18.2%
Effective tax rates:		
Financial Guarantee:		
Net investment income	13.0%	13.3%
Realized securities gains	35.0%	35.0%
Underwriting and other income	35.6%	35.2%
Total Financial Guarantee	27.0%	27.8%
Financial Services	32.7%	38.2%
Other	28.5%	15.2%
Consolidated total effective tax rate	26.2%	26.7%
STOCKHOLDER DATA		
Market value per share	$86.39	$79.60
Net income per share	$2.04	$2.08
Net income per diluted share	$2.02	$2.06
OTHER EARNINGS MEASURES (Per diluted share)		
Net income	$2.02	$2.06
Net realized investment gains	($0.04)	($0.03)
Net mark-to-market losses (gains) on certain derivatives (4)	$0.02	($0.05)
Other items	$0.00	$0.00
Operating earnings (non-GAAP)	$2.00	$1.98
Refundings, calls and other accelerations, net	($0.24)	($0.11)
Core earnings (non-GAAP)	$1.76	$1.87
ADJUSTED BOOK VALUE ANALYSIS (Per share)		
Book value	$58.85	$51.79
After-tax value of:		
Net unearned premium reserve less deferred acquisition costs	15.73	15.19
Present value of future installment premiums	15.60	13.24
Unrealized loss on investment agreement liabilities	(0.72)	(0.56)
Adjusted book value	$89.46	$79.66

(1) Capital and financial resources ratios (Statutory) and loss, expense and combined ratios (GAAP) relate solely to Financial Guarantee operations.
(2) 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.
(3) Expense ratio is computed as financial guarantee underwriting and operating expenses divided by net premiums earned and other credit enhancement fees.
(4) 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)

	First Quarter 2007		First Quarter 2006	
	Pre-tax	After-tax [1]	Pre-tax	After-tax [1]
Net income……………………………………………	$289.2	$213.3	$301.6	$221.1
Financial Guarantee:				
Net realized investment gains ………………………...	(0.4)	(0.3)	0.4	0.3
Credit default swaps ……………………………………	5.1	3.3	(2.0)	(1.3)
Non-trading derivatives [2]………………………………	0.5	0.3	(0.9)	(0.5)
Total Financial Guarantee………………………….	5.2	3.3	(2.5)	(1.5)
Financial Services:				
Net realized investment gains ……………………….. .	(6.2)	(4.0)	(5.5)	(3.1)
Non-trading derivatives………………………………..	0.5	0.3	(0.2)	(0.1)
Total return swaps…………………………………..	(3.2)	(2.1)	(5.2)	(3.4)
Total Financial Services…………………………….	(8.9)	(5.8)	(10.9)	(6.6)
Operating earnings…………………………………….	$285.5	$210.8	$288.2	$213.0

(1) The effective tax rate for all Financial Guarantee adjustments, excluding non-trading derivatives, is 35%. Financial Services net realized gains include $6.2 million of cash recoveries in the first quarter of 2007, taxed at 35%. All other 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.

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AMBAC FINANCIAL GROUP, INC. ANNOUNCES FIRST QUARTER NET INCOME OF $213.3 MILLION, DOWN 4%

First Quarter Net Income Per Diluted Share of $2.02, down 2%,

First Quarter Credit Enhancement Production[(1)] $310.1 million, up 33%

NEW YORK, April 25, 2007--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced first quarter 2007 net income of $213.3 million, or $2.02 per diluted share. This represents a 4% decrease from first quarter 2006 net income of $221.1 million, and a 2% decrease in net income per diluted share from $2.06 a year earlier.

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 first quarter 2007, net security gains and losses had the effect of increasing net income by $2.5 million, or $0.02 on a per diluted share basis. Accelerated earnings had the effect of increasing net income by $24.7 million, or $0.24 per diluted share during the quarter. Table I, below, provides first quarter comparisons of earnings for 2007 and 2006.

Table I

	Earnings Per Diluted Share First Quarter		
	2007	**2006**	**% Change**
Net income per diluted share	$2.02	$2.06	-2%
Effect of net security gains	($0.02)	($0.08)	n.a.
Operating earnings [(a) (b)]	**$2.00**	**$1.98**	**+1%**
Effect of accelerated earnings	($0.24)	($0.11)	n.a.
Core earnings [(b)]	$1.76	$1.87	-6%

(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, below.

Commenting on the overall results, Ambac Chairman and Chief Executive Officer, Robert J. Genader, noted, "The first quarter evidenced improved business production across all major business sectors relative to the 2006 comparable quarter. Debt issuance and capital markets activity continues to be strong. Importantly, recent evidence of credit spread widening in the mortgage related asset classes should lead to increased demand for our core financial guarantee product, provided of course, that wider spreads continue to prevail."

Revenues

Highlights

- *Credit enhancement production*[1] in the first quarter of 2007 was $310.1 million, up 33% from $233.5 million reported in the first quarter of 2006. Growth was achieved in all three sectors, led by the 49% increase in U.S. structured finance.

  Table II, below, provides the quarterly comparisons of credit enhancement production by market sector for 2007 and 2006.

Table II

($-millions)	Credit Enhancement Production [1] First Quarter 2007	2006	% Change
Public Finance	$114.6	$99.2	+16%
Structured Finance	135.4	90.7	+49%
International	60.1	43.6	+38%
Total	$310.1	$233.5	+33%

In public finance, Ambac's premium production increased primarily due to increased overall market issuance which was up almost 50%, quarter on quarter (as reported by third party sources). The increase in issuance for the quarter was driven by strong new-money and refunding issuance across the full range of municipal products. Ambac's market share of the insured market was approximately 26%. Ambac wrote significantly more tax revenue transactions and fewer health care transactions in the first quarter of 2007 relative to the comparable prior quarter resulting in a decline in average pricing in this product. Ambac's strategy continues to be centered on underwriting the more highly structured transactions in the municipal market.

U.S. structured finance production during the quarter was higher as strong capital market issuance continued into 2007 in the U.S. During the quarter, Ambac benefited from increased writings in utilities, structured insurance and pooled debt obligations (CDOs). Those increased writings were partially offset by lower writings of commercial asset-backed and auto securitizations during the quarter. While business activity in the mortgage-backed securities asset class has recently picked up significantly, Ambac's writings in that product were flat, quarter on quarter. Ambac remains focused on achieving the best risk-rated returns and will remain disciplined until pricing in this product is commensurate with the level of risk. Competition from the senior/subordinated market is starting to ease in MBS and certain types of CDO transactions but remains challenging across most other asset classes of U.S. structured finance.

International production was stronger as Ambac closed two sizable European infrastructure transactions in the current quarter including a guarantee on a major Austrian toll road, the largest Public Private Partnership ("PPP") on the European continent to date. The quarter also saw strong flow in Investor Owned Utilities, pooled debt obligations and asset-backed securitizations. During the quarter, Ambac closed deals in six 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 first quarter of 2007 of $220.4 million were 3% lower than net premiums written of $227.8 million in the comparable period of 2006. The decrease is primarily a result of reinsurance cancellations in the first quarter 2006, as discussed below under "Reinsurance Cancellations". Gross premiums written in the first quarter of 2007 amounted to $249.9 million, representing a 14% increase from $219.0 million in the first quarter 2006. The increase in gross premiums written is primarily attributable to higher U.S. public finance business written during the first quarter of 2007.

- *Ceded premiums written* reduced gross premiums by $29.5 million in the first quarter 2007, compared to a net addition of $8.8 million in the first quarter of 2006. Ceded premiums written in the first quarter 2006 includes the impact of the collection of $37.0 million in return premiums from the cancellations of reinsurance contracts. Excluding the return premiums in 2006, ceded premiums in the first quarter of 2007 increased by 5% from $28.2 million in the first quarter of 2006. Ceded premiums (exclusive of return premiums in 2006) as a percentage of gross premiums written were 11.8% and 12.9% for the first quarter of 2007 and 2006, respectively.

  A breakdown of gross premiums written by market sector and ceded premiums for the first quarter 2007 and 2006 are included below in Table III.

Table III

($-millions)	Premiums Written First Quarter		
	2007	**2006**	**% Change**
Public Finance	$114.4	$92.3	+24%
Structured Finance	83.2	78.8	+6%
International	52.3	47.9	+9%
Total Gross Premiums Written	249.9	219.0	+14%
Ceded Premiums Written	(29.5)	8.8	-
Net Premiums Written	$220.4	$227.8	-3%

- *Net premiums earned and other credit enhancement fees* for the first quarter of 2007 were $231.6 million, which represented an 11% increase from the $208.4 million earned in the first 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 across all sectors.

  Net premiums earned include accelerated premiums, which result from refundings, calls and other accelerations recognized during the quarter. Accelerated premiums were $39.7 million in the first quarter of 2007, up 59% from $25.0 million in accelerated premiums in the first quarter of 2006. During the first quarter 2007, approximately $33.8 million of the accelerated premiums related to U.S. public finance transactions and the remainder related to U.S. structured finance and international transactions.

Accelerated premiums in the first quarter of 2006 include $7.7 million related to the impact of reinsurance cancellations, as discussed below under "Reinsurance Cancellations."

A breakdown of net premiums earned and other credit enhancement fees by market sector for the first quarter 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 First Quarter		
	2007	**2006**	**% Change**
Public Finance	$58.4	$55.8	+5%
Structured Finance	82.0	76.9	+7%
International	51.5	50.7	+2%
Total Normal Premiums / Fees	191.9	183.4	+5%
Accelerated Premiums	39.7	25.0	+59%
Total	$231.6	$208.4	+11%

Public finance earned premiums, before accelerations, grew 5% this quarter. Earned premium growth in this sector remains fairly steady but 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 7%. 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 increased 2%. The increase is an improvement over 2006 when international earned premiums had been on the decline. The improvement is driven primarily by strong business writings across many geographies and asset classes during 2006 and the first quarter 2007.

- *Net investment income* for the first quarter of 2007 was $112.1 million, representing an increase of 10% from $101.7 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.

- *Other income* for the first quarter of 2007 was $2.9 million, significantly lower than $29.0 million reported in the comparable period of 2006. During the first quarter of 2006, Ambac sold three aircraft from a defaulted enhanced equipment trust certificate transaction. The gain on the sale of the aircraft amounted to $25.0 million and was included in "other income" rather than as a loss recovery because the aircraft had been classified as operating assets for the short period of time in which the company took possession of them after the default.

- *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 $10.6 million in the first quarter of 2007, down 9% from $11.7 million in the first quarter of 2006. The decrease was primarily due to lower mark-to-market gains included within derivative products revenues in the first quarter 2007.

Reinsurance Cancellations

- During the first quarter 2006, Ambac cancelled its remaining reinsurance contracts with two reinsurers and recaptured $3.9 billion of par outstanding. Included in ceded premiums in our Consolidated Statement of Operations is $37.0 million in returned premiums from the cancellations, of which approximately $29.3 million was deferred. The difference, $7.7 million, included in accelerated premiums, resulted from the difference between the contractual amount of returned premiums and the associated unearned premium remaining on the previously ceded portion of the underlying guarantees. The net income impact of the cancellations, presented in Table I, above, as part of accelerated premiums, amounted to approximately $2.0 million, or $0.02 per diluted share.

Expenses

Highlights

- *Financial guarantee expenses* of $47.8 million for the first quarter of 2007 increased 26% from $38.0 million of expenses for the first quarter of 2006. Financial guarantee loss and loss expenses were $11.4 million in the first quarter of 2007, up from $0.1 million in the first quarter of 2006. See "Loss Reserve Activity," below, for additional information on losses. Net underwriting and operating expenses of the financial guarantee segment totaled $36.4 million in the first quarter of 2007, down 4% from $37.9 million in the first quarter of 2006 primarily due to additional accruals taken in 2006 under new accounting rules for stock-based compensation for retirement eligible employees.

Loss Reserve Activity

- Case basis loss reserves (loss reserves for exposures that have defaulted) decreased $4.8 million during the first quarter of 2007 from $42.5 million at December 31, 2006 to $37.7 million at March 31, 2007. The decrease was driven by improving conditions on certain credits for which we had previously paid claims. Total net claim payments during the quarter amounted to ($0.1) 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 $16.2 million during the quarter, from $172.6 million at December 31, 2006 to $188.8 million at March 31, 2007. The increase was driven primarily by net increases in reserves on certain credits within the U.S. public finance portfolio.

Other Items

- *Total net securities gains/(losses)* for the first quarter of 2007 were $3.7 million, consisting of net realized gains on investment securities of $6.6 million, net mark-to-market losses on credit and total return derivatives of ($1.9) million and net mark-to-market losses on non-trading derivative contracts of ($1.0) million. Approximately $6.2 million of the net realized gains on investment securities relate to cash recoveries received during the quarter related to a security in the investment agreement portfolio that had recognized impairment losses in prior years. For the first quarter of 2006, net securities gains/(losses) were $13.4 million, consisting of net realized gains on investment securities of $5.1 million, net mark-to-market gains on credit and total return derivatives of $7.2 million and net mark-to-market gains on non-trading derivative contracts of $1.1 million.

Balance Sheet

Highlights

- Total assets as of March 31, 2007 were $20.11 billion, down 1% from total assets of $20.27 billion at December 31, 2006. The decrease was primarily driven by a net draw down from our investment agreement portfolio, partially offset by cash generated from operations during the period.

- On February 12, 2007, Ambac issued $400 million of Directly-Issued Subordinated Capital Securities (DISCS℠). Ambac used the net proceeds from the offering and additional funds to purchase $400 million worth of shares of its common stock. The common stock was purchased through an accelerated share buyback agreement and resulted in 4.26 million shares acquired during the quarter. The total number of additional shares that will ultimately be repurchased under the program will be based on the volume-weighted average share price of the Company's common shares during the term of the accelerated buyback agreement.

- As of March 31, 2007, stockholders' equity was $5.99 billion, a 3% decrease from year-end 2006 stockholders' equity of $6.18 billion. The decrease was primarily the result of the $400 million share buyback, partially offset by net income during the period.

Annual Meeting of Stockholders

As previously announced, the Board of Directors set the 2007 Annual Meeting of Stockholders for Tuesday, May 8, 2007, at 11:30 a.m. in New York City. The record date for determining stockholders entitled to notice of, and to vote at, the annual meeting was the close of business, March 9, 2007.

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 5.1% during the first 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	First Quarter	
	2007	2006
Credit enhancement production	$ 310	$ 233
Present value of estimated installment premiums written on insurance policies and structured credit derivatives issued in the period	(198)	(136)
Gross up-front premiums written	112	97
Gross installment premiums written on insurance policies	138	122
Gross premiums written	$ 250	$ 219

(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 from certain non-trading derivative instruments 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)	First Quarter 2007	First Quarter 2006
Revenues:		
Financial Guarantee:		
Gross premiums written	$249,912	$219,058
Ceded premiums written	(29,484)	8,757
Net premiums written	$220,428	$227,815
Normal net premiums earned	$176,280	$169,257
Accelerated net premiums earned	39,726	24,975
Total net premiums earned	216,006	194,232
Other credit enhancement fees	15,553	14,188
Net premiums earned and other credit enhancement fees	231,559	208,420
Net investment income	112,064	101,734
Net realized investment gains (losses)	440	(379)
Net mark-to-market (losses) gains on credit derivative contracts	(5,124)	1,953
Other income	2,856	28,962
Financial Services:		
Investment income	105,970	81,935
Derivative products	3,606	4,686
Net realized investment gains	6,161	5,503
Net mark-to-market gains on total return swap contracts	3,215	5,223
Net mark-to-market (losses) gains on non-trading derivatives contracts	(499)	244
Corporate:		
Net investment income	1,581	3,000
Net realized gains	-	-
Total revenues	461,829	441,281
Expenses:		
Financial Guarantee:		
Losses and loss expenses	11,422	127
Underwriting and operating expenses	36,376	37,858
Financial Services:		
Interest from investment and payment agreements	98,958	74,965
Other expenses	3,288	3,572
Interest	19,289	19,475
Corporate	3,256	3,643
Total expenses	172,589	139,640
Income before income taxes	289,240	301,641
Provision for income taxes	75,897	80,501
Net income	$213,343	$221,140
Net income per share	$2.04	$2.08
Net income per diluted share	$2.02	$2.06
Weighted average number of shares outstanding	104,643,529	106,438,758
Weighted average number of diluted shares outstanding	105,600,555	107,430,787

Consolidated Balance Sheets

($ in Thousands, Except Share Data)	March 31, 2007	December 31, 2006
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of $16,585,654 in 2007 and $16,484,257 in 2006)	$16,888,069	$16,800,338
Fixed income securities pledged as collateral, at fair value (amortized cost of $455,210 in 2007 and $311,546 in 2006)	452,324	307,101
Short-term investments, at cost (approximates fair value)	270,196	311,759
Other (cost of $13,458 in 2007 and $13,427 in 2006)	14,460	14,391
Total investments	17,625,049	17,433,589
Cash	31,489	31,868
Securities purchased under agreements to resell	-	273,000
Receivable for securities sold	1,743	12,857
Investment income due and accrued	154,614	193,199
Reinsurance recoverable on paid and unpaid losses	4,120	3,921
Prepaid reinsurance	319,310	315,498
Deferred acquisition costs	263,282	252,115
Loans	602,624	625,422
Derivative assets	995,236	1,019,339
Other assets	114,393	107,005
Total assets	$20,111,860	$20,267,813
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unearned premiums	$3,045,911	$3,037,544
Losses and loss expense reserve	231,314	220,074
Ceded reinsurance balances payable	20,888	20,084
Obligations under investment and payment agreements	7,747,778	8,202,590
Obligations under investment repurchase agreements	151,797	154,287
Securities sold under agreement to repurchase	128,000	-
Deferred income taxes	261,448	278,622
Current income taxes	119,258	34,781
Long-term debt	1,389,176	991,804
Accrued interest payable	103,685	105,129
Derivative liabilities	654,070	667,066
Other liabilities	225,090	275,670
Payable for securities purchased	44,266	95,973
Total liabilities	14,122,681	14,083,624
Stockholders' equity:		
Preferred stock	-	-
Common stock	1,092	1,092
Additional paid-in capital	814,223	790,168
Accumulated other comprehensive income	187,605	197,576
Retained earnings	5,626,344	5,454,575
Common stock held in treasury at cost	(640,085)	(259,222)
Total stockholders' equity	5,989,179	6,184,189
Total liabilities and stockholders' equity	$20,111,860	$20,267,813
Number of shares outstanding (net of treasury shares)	101,775,497	105,730,553
Book value per share	$58.85	$58.49
Adjusted book value per share	$89.46	$87.76

Financial Guarantees[1][2][3]

($ Thousands)	First Quarter 2007	First Quarter 2006
PUBLIC FINANCE:		
Gross Par Guaranteed	$13,906,376	$9,985,440
Up-front Premium	$106,089	$84,330
Installment Premium	8,301	7,971
Gross Premium	$114,390	$92,301
Credit Enhancement Production	$114,614	$99,151
Net Credit Enhancement Production	$100,409	$106,910
STRUCTURED FINANCE:		
Gross Par Guaranteed	$15,065,618	$17,187,737
Up-front Premium	$4,309	$5,371
Installment Premium	78,927	73,418
Gross Premium	$83,236	$78,789
Credit Enhancement Production	$135,350	$90,735
Net Credit Enhancement Production	$118,695	$89,912
INTERNATIONAL FINANCE:		
Gross Par Guaranteed	$2,535,594	$1,287,956
Up-front Premium	$1,824	$7,047
Installment Premium	50,462	40,921
Gross Premium	$52,286	$47,968
Credit Enhancement Production	$60,115	$43,569
Net Credit Enhancement Production	$42,690	$47,929
GRAND TOTAL:		
Gross Par Guaranteed	$31,507,588	$28,461,133
Up-front Premium	$112,222	$96,748
Installment Premium	137,690	122,310
Gross Premium	$249,912	$219,058
Credit Enhancement Production	$310,079	$233,455
Net Credit Enhancement Production	$261,794	$244,751

(1) Credit enhancement production (CEP) and net credit enhancement production (NCEP) includes reinsurance assumed of $12.8 million and $10.6 million for the three months ended March 2007 and 2006, respectively. NCEP is defined as CEP less reinsurance cessions. NCEP for the three months ended March 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% and 5.1 % in the first quarter 2007 and 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				$51,170
Installment premiums earned	7,182				7,182
Other credit enhancement fees	16				16
Total Public Finance premiums earned	58,368	-	-	-	58,368
STRUCTURED FINANCE:					
Up-front premiums earned	4,624				4,624
Installment premiums earned	67,245				67,245
Other credit enhancement fees	10,133				10,133
Total Structured Finance premiums earned	82,002	-	-	-	82,002
INTERNATIONAL FINANCE:					
Up-front premiums earned	5,801				5,801
Installment premiums earned	40,258				40,258
Other credit enhancement fees	5,404				5,404
Total International Finance premiums earned	51,463	-	-	-	51,463
Total normal premiums earned and other credit enhancement fees	$191,833	$0	$0	$0	$191,833

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				$39,726
Net income effect	$24,658				$24,658
Net income per diluted share effect	$0.24				$0.24

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					
First	$104,031	$50,756	48.8%	$13,340	26.3%
2006 BY QUARTER					
Fourth	$121,794	$55,453	45.5%	$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	$104,031	$50,756	48.8%	$13,340	26.3%
2006	383,426	184,805	48.2%	43,111	23.3%
2005	408,266	233,046	57.1%	57,527	24.7%
2004	360,020	194,887	54.1%	44,760	23.0%
2003	383,689	190,641	49.7%	39,200	20.6%
2002	358,584	178,928	49.9%	35,894	20.1%
2001	288,270	134,359	46.6%	32,573	24.2%
2000	200,689	79,305	39.5%	17,185	21.7%
1999	227,616	105,575	46.4%	26,555	25.2%
1998	286,692	145,515	50.8%	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 March 31, 2007

($ Millions)	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2007 (2nd, 3rd and 4th Qtrs.)	$54,802	$764,063
2008	47,326	716,737
2009	44,329	672,408
2010	43,274	629,134
2011	43,134	586,000
2012	37,174	548,826
2007 (2nd, 3rd and 4th Qtrs.)	54,802	764,063
2008-2012	215,237	548,826
2013-2017	169,565	379,261
2018-2022	129,256	250,005
2023-2027	89,724	160,281
After 2027	160,281	-
Total	$818,865	

Net Unearned Premium Amortization and Estimated Future Installment Premiums

As of March 31, 2007

	Net Unearned Premium Amortization [2]		Estimated	Total
($ Millions)	Upfront	Installments	Net Future Installments[3][4]	Premium Earnings
2007 (2nd, 3rd, and 4th Qtrs.)	$179.5	$43.7	$326.7	$549.9
2008	222.4	6.7	410.7	639.8
2009	206.2	4.8	355.5	566.5
2010	191.5	2.9	293.8	488.2
2011	178.0	2.3	240.3	420.6
2012	165.5	1.1	194.8	361.4
2007 (2nd, 3rd, and 4th Qtrs.)	179.5	43.7	326.7	549.9
2008-2012	963.6	17.8	1,495.1	2,476.5
2013-2017	657.7	2.4	653.2	1,313.3
2018-2022	426.5	0.3	419.2	846.0
2023-2027	252.1	-	277.1	529.2
After 2027	183.0	-	254.5	437.5
Total	$2,662.4	$64.2	$3,425.8	$6,152.4

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of March 31, 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 $264.9 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 March 31, 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	$160,231	$163,048	4.42%	2.87%	$1,778
U.S. agency obligations	401,864	405,473	4.54%	2.95%	4,617
Municipal obligations (2) (3)	7,858,115	7,673,703	4.51%	4.48%	85,738
Foreign obligations	304,006	296,120	4.72%	3.07%	3,607
Corporate obligations	231,960	219,272	6.34%	4.12%	3,217
Mortgage and asset-backed securities	875,776	888,905	4.90%	3.18%	11,223
Total long-term investments	9,831,952	9,646,521	4.60%	4.22%	110,180
Short-term investments (4)	192,666	192,666	5.05%	3.42%	2,776
Other (5)	13,453	12,868			291
Total Financial Guarantee investments	10,038,071	9,852,055	4.60%	4.19%	113,247
Investment expenses					(1,183)
Financial Guarantee net investment income					$112,064
Financial Services investments (6)					
Long-term investments					
U.S. government obligations	13,974	14,089			
U.S. agency obligations	391,734	354,764			
Municipal obligations	462,229	428,626			
Corporate obligations	510,836	497,257			
Mortgage and asset-backed securities	6,129,668	6,099,607			
Total long-term investments	7,508,441	7,394,343			
Short-term investments	5,649	5,649			
Total Financial Services investments	7,514,090	7,399,992			
Corporate investments:					
Short-term investments	71,881	71,881			
Other	1,007	590			
Total Corporate investments	72,888	72,471			
Total Investments	$17,625,049	$17,324,518			

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO (7)

Rating	Percent of Investment Portfolio: Fin. Guar.	Fin. Services	Combined
AAA (2) (8)	88	90	88
AA	11	3	8
A	1	6	3
BBB	<1	1	<1
Below investment grade	0	<1	<1
Not rated	<1	0	<1
	100	100	100

Duration of Financial Guarantee investment portfolio	5.2

(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 $1,426,117 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 $142,765 and $7,715,350, respectively.

(4) Includes taxable and tax-exempt short-term investments with a fair value of $170,609 and $22,057, 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 14% and 10% of the Financial Guarantee and Financial Services portfolios respectively.

Ratio of Net Claims Paid[1]

($ Thousands)	YTD 2007	2006	2005	2004	2003
Net claims paid[2]	($83)	$105,568	$86,739	$18,923	$35,280
Net premiums earned and other credit enhancement fees	$231,559	$871,383	$866,415	$764,510	$667,250
Ratio of net claims paid	0.0%	12.1%	10.0%	2.5%	5.3%

Summary of Net Loss and Credit Reserves

($ Thousands)	3/31/2007	12/31/06	12/31/05	12/31/04	12/31/03
Case basis credit reserves	$37,694	$42,458	$103,064	$116,754	$54,698
Active credit reserves	188,803	172,644	197,607	120,802	132,181
Total insurance reserves	226,497	215,102	300,671	237,556	186,879
Mark-to-market (asset) reserves on credit derivatives	(3,806)	(8,929)	165	13,555	31,308
Mark-to-market asset on total return swaps	(14,398)	(11,195)	(14,718)	(15,968)	(2,360)
Grand total net loss and credit reserves	$208,294	$194,978	$286,118	$235,143	$215,827

Summary of Below Investment Grade Exposures[3]

($ Millions)	Net Par Outstanding
Public Finance:	
Transportation Revenue	$1,254
Health Care	440
General Obligation	291
Tax-Backed	134
University	67
Other	120
Total Public Finance	2,306
Structured Finance:	
Enhanced Equipment Trust Certificates	$916
Mortgage-Backed & Home Equity	790
Investor-Owned Utilities	509
Pooled Debt Obligations	74
Total Structured Finance	2,289
International Finance:	
Transportation Revenue	$399
Other	39
Total International Finance	438
Total	$5,033

(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 $12.1 million, $16.7 million, $9.4 million, $33.6 million and $7.5 million for year-to-date 2007, 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				$ 36,704
Premium taxes	5,554				5,554
Other non-compensation	6,919				6,919
Gross underwriting and operating expenses	**49,177**	**-**	**-**	**-**	**49,177**
Operating expenses deferred (policy acquisition costs)	(25,656)				(25,656)
Ceding commissions received	(8,085)				(8,085)
Ceding commissions deferred	8,037				8,037
Amortization of previously deferred expenses and commissions	12,903				12,903
Total Financial Guarantee underwriting and operating expenses	36,376	-	-	-	36,376
Financial Services operating expenses	**3,288**				**3,288**
Corporate operating expenses	**3,256**				**3,256**
Total underwriting and operating expenses, net of deferred expenses	$ 42,920	$ -	$ -	$ -	$ 42,920
Total gross underwriting and operating expenses	**$ 55,721**	**$ -**	**$ -**	**$ -**	**$ 55,721**

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

	3/31/07	**12/31/06**	**12/31/05**	**12/31/04**	**12/31/03**
Deferred Acquisition Costs	$ 263,282	$ 252,115	$ 226,168	$ 198,142	$ 182,892
Unearned Premium Reserves	$3,045,911	$3,037,544	2,940,988	2,765,163	2,545,490
Prepaid Reinsurance Premiums	$ (319,310)	$ (315,498)	(303,383)	(297,330)	(325,461)
Present Value of Installment Premiums	2,443,587	2,404,830	2,165,863	2,059,849	1,555,611
Adjusted Deferred Premiums	$5,170,188	$5,126,876	$ 4,803,468	$4,527,682	$ 3,775,640
Deferred Expenses to Adjusted Deferred Premiums Ratio	5.1%	4.9%	4.7%	4.4%	4.8%

Historical Financial Guarantee Exposures Outstanding [1]

($ Millions Net Par Value)	March 31, 2007	December 31, 2006	2005	2004	2003
Public Finance:					
Lease and tax backed	$91,436	$89,042	$82,584	$76,007	$66,326
General obligation	64,793	62,834	57,982	49,394	44,350
Utility	38,644	38,313	36,877	36,326	33,603
Health care	28,103	27,849	26,994	23,977	22,120
Transportation	25,255	24,979	23,718	21,188	18,244
Higher education	22,240	22,068	20,203	18,056	15,778
Housing	11,029	10,996	10,152	9,163	9,014
Other	6,101	6,181	5,556	5,588	5,879
Total Public Finance	287,601	282,262	264,066	239,699	215,314
Structured Finance:					
Mortgage-backed & home equity	46,266	46,239	48,869	53,148	50,819
Pooled debt obligations	44,727	40,568	25,746	16,035	14,248
Asset-backed and conduits	36,813	34,815	32,505	28,858	27,126
Student loan	18,310	18,404	16,538	14,646	12,807
Investor-owned utilities	17,743	17,345	16,398	15,449	14,480
Other	5,243	5,212	4,296	4,318	4,644
Total Structured Finance	169,102	162,583	144,352	132,454	124,124
International Finance[2]:					
Pooled debt obligations	19,381	19,978	23,427	35,831	44,723
Asset-backed and conduits	17,294	17,642	15,151	15,553	12,293
Mortgage-backed & home equity	11,786	11,951	14,627	19,644	17,273
Investor-owned and public utilities	10,813	10,531	8,052	5,965	4,677
Sovereign/sub-sovereign	6,725	6,344	3,585	4,110	2,539
Transportation	6,607	6,524	5,156	5,157	3,908
Other	1,215	1,228	669	1,019	1,003
Total International Finance	73,821	74,198	70,667	87,279	86,416
Grand Total	$530,524	$519,043	$479,085	$459,432	$425,854

Percent of Total Net Par Outstanding

	2007	2006	2005	2004	2003
Public Finance	54.2%	54.4%	55.1%	52.2%	50.6%
Structured Finance	31.9%	31.3%	30.1%	28.8%	29.1%
International Finance	13.9%	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 $60,500, $55,460, $43,712, $43,478, and $48,825 at March 31, 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

	Guaranteed Year-to-Date			
($ Millions Par Value)	Gross	%	Net	%
Public Finance:				
Lease and tax backed	$5,284	16.8%	$4,730	16.6%
General obligation	3,503	11.1%	3,183	11.2%
Utility	1,763	5.6%	1,438	5.1%
Health care	1,083	3.4%	772	2.7%
Transportation	741	2.4%	647	2.3%
Higher education	706	2.2%	676	2.4%
Housing	573	1.8%	538	1.9%
Other	253	0.8%	207	0.7%
Total Public Finance	13,906	44.1%	12,191	42.9%
Structured Finance:				
Mortgage-backed & home equity	5,269	16.7%	4,734	16.7%
Pooled debt obligations	4,964	15.8%	4,964	17.5%
Asset-backed and conduits	4,158	13.2%	3,927	13.8%
Student loan	50	0.2%	50	0.2%
Investor-owned utilities	548	1.7%	428	1.5%
Other	77	0.2%	77	0.3%
Total Structured Finance	15,066	47.8%	14,180	49.9%
International Finance(1):				
Pooled debt obligations	528	1.7%	418	1.5%
Asset-backed and conduits	235	0.7%	206	0.7%
Mortgage-backed & home equity	656	2.1%	656	2.3%
Investor-owned and public utilities	725	2.3%	389	1.4%
Sovereign/sub-sovereign	363	1.2%	363	1.3%
Transportation	29	0.1%	25	0.1%
Total International Finance	2,536	8.0%	2,057	7.2%
Grand Total	$31,508	100.0%	$28,428	100.0%

(1) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures

($ Millions Par Value)	Guaranteed Year-to-Date				Net Par Outstanding as of March 31, 2007	
	Gross	%	Net	%	Net	%
Domestic:						
California	$2,545	8.1%	$2,216	7.8%	$55,435	10.4%
New York	566	1.8%	509	1.8%	34,071	6.4%
Florida	571	1.8%	571	2.0%	24,474	4.6%
Texas	1,460	4.6%	1,319	4.6%	19,371	3.7%
Pennsylvania	154	0.5%	154	0.5%	13,942	2.6%
New Jersey	366	1.2%	321	1.1%	13,607	2.6%
Illinois	863	2.7%	743	2.6%	13,384	2.5%
Massachusetts	1,739	5.5%	1,325	4.7%	11,136	2.1%
Ohio	336	1.1%	301	1.1%	8,718	1.6%
Colorado	245	0.8%	245	0.9%	7,700	1.5%
Mortgage and asset-backed	9,427	29.9%	8,661	30.5%	83,079	15.7%
Other states	10,700	34.0%	10,006	35.2%	171,786	32.4%
Total Domestic	28,972	92.0%	26,371	92.8%	456,703	86.1%
International:						
United Kingdom	568	1.8%	334	1.2%	27,044	5.1%
Australia	451	1.4%	239	0.8%	6,353	1.2%
Germany	656	2.1%	656	2.3%	6,350	1.2%
Japan	97	0.3%	86	0.3%	3,451	0.7%
Italy	193	0.6%	193	0.7%	2,377	0.4%
Internationally diversified	405	1.3%	405	1.4%	19,127	3.6%
Other international	166	0.5%	144	0.5%	9,119	1.7%
Total International	2,536	8.0%	2,057	7.2%	73,821	13.9%
Grand Total	$31,508	100.0%	$28,428	100.0%	$530,524	100.0%

Rating Distribution of Net Financial Guarantee Exposures(1)

As of March 31, 2007

Rating	Percentage of Guaranteed Portfolio		
	Public Finance	Structured and International Finance	Total
AAA	<1	39	18
AA	27	11	20
A	59	21	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 +	$163.0	$2,549	0.5%
Washington State - GO	AA	$150.3	2,167	0.4%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	$138.0	1,759	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	$105.9	1,724	0.3%
California Department of Water Resources, Power Supply	A	$173.9	1,694	0.3%
New Jersey Turnpike Authority Revenue	A	$89.4	1,378	0.3%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	$94.2	1,370	0.3%
New York City, NY - GO	A +	$67.3	1,302	0.2%
Los Angeles Unified School District, CA - GO	AA -	$88.1	1,276	0.2%
Connecticut Housing Finance Authority, Housing Mortgage Finance Program	AAA	$68.1	1,259	0.2%
Citizens Property Insurance Corporation, FL	A -	$116.8	1,213	0.2%
Bay Area Toll Authority, CA Toll Bridge Revenue	AA -	$58.6	1,184	0.2%
Massachusetts Commonwealth - GO	AA	$91.5	1,165	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	$84.5	1,137	0.2%
South Carolina Transportation Infrastructure Bank Revenue	A	$71.7	1,079	0.2%
Nassau County Interim Finance Authority, NY, Sales Tax Revenue	AA	$85.4	1,037	0.2%
Massachusetts School Building Authority, MA, Sales Tax	AA	$71.2	998	0.2%
Chicago, IL - GO	A +	$44.8	975	0.2%
Central Texas Turnpike, System Revenue	BBB +	$91.6	970	0.2%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BBB +	$54.3	937	0.2%
Orlando-Orange County, FL Expressway Authority Revenue	A -	$51.8	903	0.2%
New York City, NY Water and Sewer System Revenue	AA	$56.9	896	0.2%
Hawaii State - GO	AA -	$67.1	879	0.2%
New York State Personal Income Tax Revenue	AA -	$55.3	860	0.2%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A -	$48.9	843	0.2%
Total:			$31,554	5.9%

Largest Domestic Healthcare Exposures

($ Millions)	Ambac Rating[2]	AADS[3]	Net Par Outstanding	% of Total Net Par Outstanding
Catholic Health East - Pennsylvania	A +	$29.9	$409	0.1%
Stanford Hospital & Clinics - California	A +	$23.0	388	0.1%
Memorial Sloan Kettering Cancer Center - New York	AA	$24.3	355	0.1%
Trinity Health - Michigan	AA -	$24.5	352	0.1%
Ascension Health - Missouri	AA	$25.4	336	0.1%
Children's Hospital - Boston, MA	AA	$23.0	330	0.1%
Sisters of Mercy Health System - Missouri	AA	$29.3	326	0.1%
New York City Health and Hospitals Corporation	BBB +	$29.9	321	0.1%
Greenville Hospital System - South Carolina	AA -	$21.9	320	0.1%
University of California Davis Medical Center	A	$24.9	307	0.1%
Total:			$3,444	0.6%

(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
Private Structured Finance Pool	AAA	$2,400	0.5%
Private Structured Finance Pool	AA +	2,026	0.4%
Iowa Student Loan Liquidity Corporation Revenue Bonds	A	1,900	0.4%
Private Structured Finance Pool	AAA	1,875	0.4%
ARG Funding Corporation	BBB	1,777	0.3%
Michigan Higher Education Student Loan Authority	AA	1,775	0.3%
Capital One Auto Finance Trust, 2006-A	BBB	1,773	0.3%
Hertz Vehicle Financing, LLC	BBB	1,744	0.3%
Private Structured Finance Pool	AAA	1,676	0.3%
Private Structured Finance Pool	AAA	1,570	0.3%
Vermont Student Assistance Corporation Revenue Bonds	A	1,531	0.3%
Private Structured Finance Pool	AAA	1,524	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,389	0.3%
Capital One Auto Finance Trust, 2007-A	BBB	1,382	0.3%
Massachusetts Educational Financing Authority Revenue Bonds	AA	1,353	0.3%
Countrywide Revolving Home Equity Loan Trust 2005-F	BBB +	1,323	0.2%
Private Structured Finance Pool	AAA	1,313	0.2%
Synthetic RMBS	AAA	1,291	0.2%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BBB +	1,270	0.2%
Cendant Rental Car Funding	BBB	1,265	0.2%
Private Structured Finance Pool	AAA	1,260	0.2%
Private Structured Finance Pool	AAA	1,230	0.2%
Citibank - Corporate Receivables Corp.	AAA	1,190	0.2%
Countrywide Revolving Home Equity Loan Trust 2006-C	BBB +	1,175	0.2%
Citibank - Corporate Asset Funding Company, Inc.	AAA	1,124	0.2%
Total:		$38,136	7.2%

Largest International Finance Exposures

($ Millions)	Ambac Rating[1]	Net Par Outstanding	% of Total Net Par Outstanding
Synthetic CDO - IG Corporate Pool	AAA	$2,727	0.5%
Mitchells & Butlers Finance plc-UK Pub Securitisation	A +	2,558	0.5%
Telereal Securitisation plc	AA -	2,095	0.4%
Synthetic CDO - IG Corporate Pool	AAA	1,803	0.3%
Synthetic CDO - IG Corporate Pool	AAA	1,577	0.3%
Synthetic RMBS	AAA	1,146	0.2%
Punch Taverns Finance plc-UK Pub Securitisation	A	1,129	0.2%
Synthetic RMBS	AAA	1,097	0.2%
RMAC Mortgage Services Limited 2004-NSP2	A -	1,072	0.2%
Synthetic RMBS	AAA	1,058	0.2%
TubeLines (Finance) plc	A	1,041	0.2%
Romulus Finance s.r.l.	BBB	1,015	0.2%
Aspire Defence Finance plc	BBB -	993	0.2%
Synthetic RMBS	AAA	972	0.2%
Ableco Finance LLC	AA	906	0.2%
Private Consumer Asset-Backed Transaction	AA	900	0.2%
Sydney Airport Finance Co. Pty Ltd	BBB	852	0.2%
RMPA Services plc	BBB	846	0.2%
Synthetic RMBS	AAA	825	0.2%
Spirit Issuer plc	BBB +	810	0.2%
Synthetic CDO - IG Corporate Pool	AAA	787	0.1%
Synthetic CDO - Corporate Loans	AAA	769	0.1%
Capital Hospitals plc	BBB -	755	0.1%
Synthetic CDO - Corporate Loans	AAA	735	0.1%
Synthetic RMBS	AAA	729	0.1%
Total:		$29,197	5.5%

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

Ambac Assurance Corporation

Statutory Accounting, Financial and Capital Information [1]

($ Thousands, Except Ratios)	March 31, 2007		December 31, 2006
STATUTORY BASIS			
Capital and claim-paying resources:			
Contingency reserve	$2,789,937		$2,685,614
Capital and surplus	3,778,862		3,696,876
Qualified statutory capital	6,568,799		6,382,490
Unearned premiums	3,389,918		3,373,373
Losses and loss adjustment expenses	37,694		42,458
Policyholders' reserves	9,996,411		9,798,321
Third party capital support [2]	800,000		800,000
Present Value of Future Installment Premiums [3]	2,443,587		2,404,830
Total claims paying resources	13,239,998		13,003,151
Net financial guarantees in force	$818,865,049		$802,693,812
Capital ratio [4]	125 : 1		126 : 1
Financial resources ratio [5]	62 : 1		62 : 1
Gross Financial Guarantees in force	$911,006,381		$887,448,486
Gross par outstanding	$585,338,910		$567,577,724

	First Quarter 2007	First Quarter 2006	Full Year 2006
Statutory financial ratios:			
Loss ratio [6]	(2.2)%	13.6%	5.9%
Expense ratio [7]	17.6%	20.1%	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 5.4% at both March 31, 2007 and December 31, 2006.
(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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