Ambac

2008 Quarterly Operating Supplement

Q3

▶ Financial Highlights

Share price	$2.33
Market capitalization	$669.2 million
Net income	$(2,331.2) million
Net income per diluted share	$(8.11)
Book value per share	$(2.74)
Adjusted book value per share	$7.53
Adjusted book value per share (excluding unrealized gains and losses)	$20.18

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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 guarantor of public finance and structured finance obligations, has been assigned an Aa3 rating and has been placed on review for possible downgrade by Moody's Investors Services, Inc., and has been assigned an AA rating with a credit watch negative outlook from Standard & Poor's Ratings Services. Ambac Financial Group, Inc., through its subsidiaries, also provided 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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Ambac Financial Group, Inc.
Quarterly Operating Supplement
Third Quarter 2008

Table of Contents

Annual Financial and Statistical Data	1
Key Financial Highlights	2
Earnings Analysis	3
Third Quarter 2008 Earnings Release	4-10
Consolidated Statements of Operations	11
Consolidated Balance Sheets	12
Financial Guarantees	13
Normal Net Insurance Premiums Earned and Fees on Credit Derivatives	14
Effect of Refundings, Calls and Other Accelerations	14
Public Finance New Issuance	15
Net Exposure Amortization	16
Net Unearned Premium Amortization and Estimated Future Installment Premiums	16
Fixed Income Investment Portfolio	17
Rating Distribution of Investment Portfolio	17
Ratio of Net Claims Paid	18
Summary of Net Insurance Loss Reserves and Credit Derivatives	18
Summary of Below Investment Grade Exposures	18
Expense Analysis	19
Deferred Expense Ratio Analysis	19
Historical Financial Guarantee Exposures Outstanding	20
Bond Type Distribution of Financial Guarantee Exposures	21
Geographic Distribution of Financial Guarantee Exposures	22
Rating Distribution of Net Financial Guarantee Exposures	22
Largest Domestic Public Finance Exposures	23
Largest Domestic Healthcare Exposures	23
Largest Structured Finance Exposures	24
Largest International Finance Exposures	24
Claims-Paying Resources and Statutory Financial Ratios	25

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 5.9% and 5.2% at September 30, 2008 and December 31, 2007, respectively); 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 5.3% and 5.4% for the quarters ended September 30, 2008 and 2007, respectively). During the first quarter of 2008 Ambac curtailed its activities on a go-forward basis in certain sections of Structured Finance. The Structured Finance business written during 2008 primarily relates to transactions that closed prior to the suspension of Structured Finance underwriting. 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)

	2007 (1)	2006	2005	2004	2003	2002 (2)	2001	2000	1999	1998
Summary Financial Data:										
Financial Guarantee:										
Credit enhancement production (non-GAAP)	$1,414	$1,295	$1,249	$1,288	$1,489	$1,299	$974	$711	$652	$486
Gross premiums written	1,031	997	1,096	1,048	1,144	904	683	483	445	361
Net premiums/enhancement fees earned	918	871	866	765	667	500	400	323	268	213
Net investment income (3)	460	424	378	355	321	297	268	241	209	186
Loss and loss expenses (4)	256	20	150	70	53	27	20	15	11	6
Underwriting and operating expenses	139	134	118	107	92	77	68	55	49	47
Financial Services (5):										
Revenue	452	408	286	225	230	272	274	333	340	302
Expenses	432	372	253	184	208	241	244	295	312	284
Net (loss) income per diluted share	($31.56)	$8.15	$6.87	$6.53	$5.66	$3.97	$3.97	$3.41	$2.88	$2.37
Net (loss) income per diluted share growth rate	n.m.	18.6%	5.2%	15.4%	42.6%	0.0%	16.4%	18.4%	21.5%	13.4%
Return on equity	-76.7%	15.1%	14.4%	15.6%	15.7%	13.1%	15.5%	15.9%	15.0%	12.8%
Total investments	18,396	17,434	15,592	14,422	13,965	12,539	10,288	8,324	8,963	8,748
Total assets	23,565	20,268	18,546	17,673	16,747	15,356	12,340	10,120	11,345	11,212
Unearned premium reserve	3,124	3,038	2,941	2,779	2,545	2,129	1,780	1,546	1,431	1,294
Loss and loss expense reserve	484	220	304	254	189	172	151	132	122	116
Obligations under investment, repurchase and payment agreements	8,706	8,357	7,253	7,081	7,076	7,283	5,512	4,893	6,140	5,957
Long-term debt (6)	1,670	992	1,192	792	792	617	619	424	424	424
Stockholders' equity	2,280	6,190	5,388	5,024	4,255	3,625	2,984	2,596	2,019	2,096
Statutory Data:										
Qualified statutory capital	$6,422	$6,383	$5,693	$5,264	$4,526	$3,736	$3,262	$2,736	$2,421	$1,936
Unearned premium reserve	3,320	3,373	3,208	2,972	2,649	2,223	1,860	1,615	1,486	1,334
Loss and loss expense reserve	110	42	103	117	55	49	28	31	26	34
Estimated impairment losses on credit derivatives	757	-	-	-	-	-	-	-	-	-
Policyholders' reserves	10,609	9,798	9,004	8,353	7,230	6,008	5,150	4,382	3,933	3,304
Third party capital support	800	800	800	800	800	800	800	800	750	555
P.V. of future installment premiums	3,103	2,503	2,166	2,060	1,556	1,342	987	764	527	309
Total claims-paying resources	$14,512	$13,101	$11,970	$11,213	$9,586	$8,150	$6,937	$5,946	$5,210	$4,168
Net par outstanding	$524,025	$519,043	$479,085	$459,432	$425,854	$379,211	$318,043	$276,252	$240,307	$198,274
Net debt service outstanding	$833,303	$802,694	$726,612	$685,234	$625,564	$557,422	$476,190	$418,386	$374,484	$317,668
Financial Ratios:										
Loss and loss expense ratio	148.4%	2.3%	17.3%	9.1%	8.2%	6.5%	5.3%	4.8%	4.2%	2.8%
Underwriting expense ratio	15.2%	15.3%	13.6%	13.9%	13.8%	15.3%	17.0%	17.1%	18.2%	21.9%
Combined ratio	163.6%	17.6%	30.9%	23.0%	22.0%	21.8%	22.3%	21.9%	22.4%	24.7%
Stock Performance:										
Cumulative total return since IPO on 7/91	322.4%	1338.1%	1134.2%	1205.6%	996.3%	782.5%	802.4%	804.0%	435.0%	512.4%
Annual total return	-70.6%	16.5%	-5.5%	19.1%	24.2%	-2.2%	-0.2%	69.0%	-12.6%	31.8%
Dividends declared per common share	$0.780	$0.660	$0.550	$0.470	$0.420	$0.380	$0.340	$0.307	$0.280	$0.253
Adjusted book value per share (non-GAAP)	$55.24	$87.81	$78.53	$71.73	$61.27	$49.84	$42.03	$36.35	$29.79	$28.00

(1) Net income was adversely impacted by mark-to-market losses on credit derivative contracts of $6,016.3 million, $3,910.6 million after-tax, or $37.99 per diluted share.
(2) 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.
(3) Excludes variable interest entity investment income of $4.8 million from 2007.
(4) Includes losses of ($41.0) million, ($41.4) million and $91.5 million in 2007, 2006 and 2005, respectively, as a result of Hurricane Katrina.
(5) 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.
(6) Excludes the portion of long-term debt associated with a variable interest entity.

Key Financial Highlights

	Third Quarter 2008	Third Quarter 2007	Nine Months 2008	Nine Months 2007
KEY FINANCIAL LINES				
Net (loss) income ($ millions)	($2,431.2)	($360.6)	($3,268.4)	$25.8
Stockholders' equity ($ millions)	($886.9)	$5,655.3	($886.9)	$5,655.3
Return on equity	-1847.9%	-24.7%	-625.7%	0.6%
Total capitalization (1) ($ millions)	$735.4	$7,044.6	$735.4	$7,044.6
Debt/total capital (1)	220.6%	19.7%	220.6%	19.7%
Capital ratio(2)	175:1	143:1	175:1	143:1
Claims-Paying ratio (2)	51:1	63:1	51:1	63:1
Loss ratio (3)	1047.0%	8.9%	690.1%	7.0%
Expense ratio (4)	15.8%	16.1%	18.7%	15.2%
Combined ratio(3) (4)	1062.8%	25.0%	708.8%	22.2%
Effective tax rates:				
Financial Guarantee:				
Net investment income	14.1%	12.8%	13.7%	12.9%
Realized securities gains	35.0%	35.0%	35.0%	35.0%
Underwriting and other income	18.1%	34.8%	22.5%	33.6%
Total Financial Guarantee	17.9%	40.2%	23.1%	-53.6%
Financial Services	84.5%	40.6%	35.0%	29.6%
Other	35.0%	-231.3%	35.0%	-57.4%
Consolidated total effective tax rate	20.9%	27.1%	25.0%	2.4%
STOCKHOLDER DATA				
Market value per share	$2.33	$62.91	$2.33	$62.91
Net income per share	($8.45)	($3.53)	($13.66)	$0.25
Net income per diluted share	($8.45)	($3.53)	($13.66)	$0.25
OTHER EARNINGS MEASURES (Per diluted share)				
Net (loss) income	($8.45)	($3.53)	($13.66)	$0.25
Net security losses and (gains) (5)	$0.64	$5.42	($1.68)	$5.63
Operating earnings (non-GAAP)	($7.81)	$1.89	($15.34)	$5.88
Refundings, calls and other accelerations, net	($0.30)	($0.10)	($0.81)	($0.57)
Core earnings (non-GAAP)	($8.11)	$1.79	($16.15)	$5.31
ADJUSTED BOOK VALUE ANALYSIS (Per share)				
Book value	($3.09)	$55.64	($3.09)	$55.64
After-tax value of:				
Net unearned premium reserve less deferred acquisition costs	4.52	16.12	4.52	16.12
Present value of future installment premiums	5.63	17.06	5.63	17.06
Unrealized loss on investment agreement liabilities	0.12	(0.75)	0.12	(0.75)
Adjusted book value	$7.18	$88.07	$7.18	$88.07

(1) Excludes the portion of long-term debt associated with variable interest entities of $273.5 million and $272.8 million at September 30, 2008 and 2007, 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 estimated credit impairment losses divided by net premiums earned and fees earned on credit derivatives.

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

(5) Includes net gains and losses from sales of investment securities, net mark-to-market gains and losses on credit derivatives, total return swaps and non-trading derivatives in the Financial Services business.

Earnings Analysis
(Dollars in Millions)

	Third Quarter 2008	Third Quarter 2007
Pre-tax income…………………………………………………………..	($3,071.9)	($494.9)
Pre-tax Financial Guarantee:		
Net realized investment gains …………………………………………	(49.4)	(4.0)
Credit default swaps - total ……………………………………………	2,722.3	743.4
Credit default swaps - estimated impairment losses……………………	(2,509.0)	-
Non-trading derivatives [(1)]………………………………………………	-	3.8
Total Financial Guarantee……………………………………………	163.9	743.2
Pre-tax Financial Services:		
Net realized investment losses …………………………………………	85.0	1.3
Non-trading derivatives…………………………………………………	5.2	(0.2)
Total return swaps……………………………………………………	28.6	12.9
Total Financial Services………………………………………………	118.8	14.0
Pre-tax Operating earnings…………………………………………………	(2,789.2)	262.3
Tax on Operating earnings…………………………………………………	(541.7)	69.4
After-tax Operating earnings………………………………………………	($2,247.5)	$192.9

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

For Immediate Release

AMBAC FINANCIAL GROUP, INC. ANNOUNCES THIRD QUARTER NET LOSS OF $2,431.2 MILLION

Third Quarter Net Loss Per Diluted Share of $8.45

NEW YORK, November 5, 2008--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced third quarter 2008 net loss of $2,431.2 million, or net loss of $8.45 on a per share basis. This compares to third quarter 2007 net loss of $360.6 million, or net loss of $3.53 on a per share basis. The increased net loss in the third quarter of 2008 is primarily due to recording net mark-to-market losses on credit derivatives, increased loss provisioning primarily related to second-lien residential mortgage-backed securities (RMBS) insurance transactions and market losses on RMBS within the financial services investment portfolio, partially offset by increased accelerated premiums from refundings.

Quarter Summary

- Net loss provisioning of $607.7 million was recorded for the quarter primarily relating to the second-lien RMBS insurance portfolio. The quarterly provision was offset by a benefit resulting from an estimate of substantiated representation and warranty breach recoveries in certain RMBS transactions.
- Net mark-to-market losses on credit derivatives amounted to $2,705.2 million. Estimated impairment losses in this portfolio amounted to approximately $2,509.0 million during the quarter primarily due to increased future loss projections in our portfolio of high grade collateralized debt obligations (CDOs). Operating earnings and core earnings for the third quarter and nine months of 2008, shown below in table I, include the impact of estimated credit impairment for those periods. See footnote 1, below, for definitions of operating and core earnings.
- Financial guarantee revenues, excluding net securities gains/losses and accelerated premiums from refundings (both are defined below), were $294.4 million in the third quarter 2008, down 6% from the third quarter 2007.
- On September 18, 2008, Moody's put Ambac Assurance Corporation's (AAC) Aa2 rating on review for possible downgrade. As a result, the $850 million capital contribution to Connie Lee that had been approved by the Office of the Commissioner of Insurance of the State of Wisconsin (OCI) has been postponed.

Ambac's President and Chief Executive Officer, David Wallis, commented, "Housing related data continues to vacillate, having taken a turn for the worse over the past few months after showing positive signs earlier in the year. Our loss provisioning and on a more forward looking basis, our CDO impairments, are indicative of this." Mr. Wallis continued, "Our commitment to the management of our portfolio remains paramount and we continue to make progress in this important area."

Financial Results

Net (Loss)/Income Per Share

Net income per diluted share and net loss per 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 additional information.

Earnings measures reported by research analysts exclude the net (loss)/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 that are not impaired (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"). Table I, below, provides third quarter and nine-month comparisons of earnings for 2008 and 2007.

Table I

	Earnings Per Diluted Share			
	Third Quarter		**Nine Months**	
	2008	**2007**	**2008**	**2007**
Net income (loss) per diluted share	($8.45)	($3.53)	($13.66)	$0.25
Effect of net security losses	6.31	5.42	10.58	5.63
Less impairment losses	(5.67)	0.00	(12.26)	0.00
Operating (loss) earnings [(a) (b)]	**($7.81)**	**$1.89**	**($15.34)**	**$5.88**
Effect of accelerated earnings	(0.30)	(0.10)	(0.81)	(0.57)
Core (loss) earnings [(b)]	($8.11)	$1.79	($16.15)	$5.31

(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 1, below.

Net Premiums Earned

Net premiums earned for the third quarter of 2008 were $282.3 million, up 45% from $194.8 million earned in the third quarter of 2007. Normal earned premiums in the third quarter 2008 of $155.0 million were 13% lower than $178.4 million reported in the third quarter 2007, primarily due to reduced premiums written in 2008, the high level of public finance refunding activity in 2008 and the Assured Guaranty Re cede which took place in December 2007.

Net premiums earned include accelerated premiums, which result from refundings, calls and other accelerations recognized during the quarter. Accelerated premiums were $127.3 million in the third quarter of 2008, up $110.9 million from the third quarter of 2007. During the third quarter of 2008 and 2007, approximately 89% and 88%, respectively, of the accelerated premiums related to U.S. public finance transactions.

A breakdown of net premiums earned by market sector for 2008 and 2007 are included in Table II. Normal net premiums earned exclude accelerated premiums that result from refundings, calls and other accelerations.

Table II

($-millions)	Net Premiums Earned					
	Third Quarter			Nine Months		
	2008	2007	% Change	2008	2007	% Change
Public Finance	$ 48.5	$ 59.0	-18%	$ 157.4	$ 176.4	-11%
Structured Finance	63.3	73.0	-13%	201.0	218.8	-8%
International	43.2	46.4	-7%	135.7	137.4	-1%
Total Normal Premiums	155.0	178.4	-13%	494.1	532.6	-7%
Accelerated Premiums	127.3	16.4	+676%	300.6	99.2	+203%
Total	$ 282.3	$ 194.8	+45%	$ 794.7	$ 631.8	+26%

Net Investment Income

Net investment income for the third quarter of 2008 was $126.8 million, representing an increase of 8% from $117.0 million in the comparable period of 2007. This increase was due primarily to growth in the investment portfolio driven by the ongoing collection of financial guarantee premiums and fees, coupon receipts on invested assets, and the impact from $1.3 billion of capital contributed by Ambac Financial Group, Inc. from the capital raise in March 2008, partially offset by cash outflows related to increased claims payments and the $850 million commutation payment made in August 2008.

Net Change in Fair Value of Credit Derivatives

Realized gain/losses and other settlements from credit derivative contracts represents the normal accretion into income of premiums received for transactions executed in credit derivative format, offset by payments on such transactions. Net realized gains/(losses) and other settlements from credit derivative contracts in the third quarter of 2008 amounted to ($837.9) million representing $15.3 million of premiums received offset by the previously reported $850 million payment to commute the AA Bespoke transaction in August 2008 and $3.2 million of interest payments on other CDO exposures during the quarter. In the third quarter 2007 premiums received amounted to $20.0 million while no payments were made.

Net unrealized losses on Ambac's CDO portfolio amounted to ($1,867.3) million in the third quarter 2008, compared to net unrealized losses of ($743.4) million in the comparable prior year quarter. The net unrealized losses during the third quarter 2008 resulted primarily from (i) lower values on the reference obligations across all asset classes; and (ii) internal ratings downgrades of the CDO of ABS portfolio, partially offset by a reclassification of $850 million to realized losses in connection with the CDO settlement described above. In the third quarter 2008, the net effect of adjusting the fair value of credit derivative liabilities to reflect AAC's own credit risk, as required under SFAS 157, resulted in a $1,380 million reduction of the change in unrealized losses. During the third quarter 2007, net unrealized losses resulted primarily from declining quoted values on CDO of ABS reference obligations.

During the third quarter 2008, Ambac increased its estimate of credit impairment by approximately $2.5 billion primarily driven by increased future loss assumptions applied to underlying Alt-A and subprime RMBS collateral of our CDO of ABS transactions. Ambac utilized these higher future loss assumptions in its consideration of whether credit impairment exists for every CDO of ABS transaction. For the CDO of ABS transactions indicating credit impairment, Ambac believes it may have to pay claims in the future. Certain recent federal actions (such as lower interest rates) or federally sponsored economic stimulus programs (such as the Troubled Asset Relief Program and other programs under the Emergency Economic Stabilization Act and the HOPE for Homeowners Program) are expected to have a positive impact on liquidity and credit throughout the markets and, therefore, were factored into management's global assumptions of cumulative losses in the underlying collateral of the CDO of ABS transactions.

Financial Guarantee Loss Reserves

Total net loss and loss expenses were $607.7 million in the third quarter 2008, up from net expense of $19.1 million in the third quarter of 2007, primarily driven by increased second-lien RMBS losses in the third quarter 2008 as further deterioration in the performance of the underlying loans was observed, resulting in increased modeled losses. The losses related to second lien transactions are net of remediation benefits recorded for substantiated representation and warranty breaches in certain transactions amounting to approximately $250 million in the third quarter 2008. Such recoveries are expected to take several years for ultimate collection. Despite management's expectation to recover under Ambac's remediation rights, Ambac is required to meet all of its scheduled obligations to the bondholders of the impacted securities.

A roll forward of case basis and ACR reserves from June 30, 2008 to September 30, 2008 is shown in Table III.

Table III

($-millions)

	Insurance Loss Reserves Roll Forward			
	Case Reserve	**ACR**	**Total**	**Incurred Losses**
Balance at June 30, 2008	$ 520.2	$ 555.5	$ 1,075.7	$ —
Additions to reserves	383.8	223.9	607.7	607.7
Transfers from ACR to Case	179.1	(179.1)	—	—
Less: claims paid	(182.4)	—	(182.4)	—
Balance at September 30, 2008	$ 900.7	$ 600.3	$ 1,501.0	$ 607.7

The increase in case reserves was primarily driven by deteriorating performance in certain underperforming second-lien RMBS transactions partially offset by the impact of expected future remediation benefits. Total net claims paid during the quarter amounted to $182.4 million primarily related to second lien RMBS transactions.

Active credit reserves (ACR) are established for probable and estimable losses due to credit deterioration on certain adversely classified insured transactions. The ACR increase was primarily driven by deteriorating performance in certain underperforming RMBS and non-RMBS transactions partially offset by the impact of expected future remediation benefits as well as transfers of reserves to case basis as a result of defaults on certain second-lien RMBS that occurred during the quarter.

Case reserves and ACR for all RMBS insurance exposures at September 30, 2008 total $1,248.3 million, of which four transactions make up approximately 50% of the balance. The four transactions account for 54% of the total loss and loss adjustment expenses incurred during the third quarter 2008.

Financial Services

The financial services segment comprises 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 ($3.1) million in the third quarter of 2008, down from $9.8 million in the third quarter of 2007. The decrease resulted primarily from the increase in short-term municipal bond rates, which has caused a corresponding increase in Ambac's payment obligations on related interest rate swaps, partially offset by increased net investment income from the investment agreement business

During the first quarter 2008, Ambac announced that it would discontinue writing new Financial Services business as part of its efforts to refocus its business. The interest rate swap and investment agreement businesses are being run-off. Since year end 2007, approximately $960 million of swap notional has been terminated and approximately $725 million mitigated via restructuring or other strategies while the investment and payment agreement portfolio has been reduced by approximately $2.8 billion to $5.1 billion at September 30, 2008, through negotiated terminations and scheduled amortization.

Taxes

During the third quarter 2008, Ambac booked a $519 million valuation allowance against its deferred tax asset. The valuation allowance resulted from the significant increase in the unrealized loss on credit derivatives during the quarter.

Liquidity

Ambac's financial guarantee investment portfolio amounts to $9.9 billion at September 30, 2008, and includes $1.1 billion of short-term securities. The portfolio consists primarily of high quality municipal bonds, Treasuries, U.S. Agencies and Agency MBS. In late October, Ambac received a $546 million tax refund related to taxes paid in prior years.

Cash available at the holding company amounted to $186.6 million at quarter end. In October 2008, AAC made a dividend payment amounting to $54.6 million to the holding company and management expects to hold approximately 1.9 times debt service requirements at year end 2008.

With respect to the impact of a potential downgrade on liquidity of the financial services business (which includes the investment agreement and derivative products businesses), Ambac has updated its calculations of the liquidity gap between the market value of the investment securities it holds in its financial services businesses and the value of the financial services liabilities that would need to be collateralized or terminated under various downgrade scenarios as of September 30. This liquidity gap is approximately $2.8 billion and $3.2 billion based on downgrades to A/A2 and BBB/Baa2, respectively. Almost all of the transactions entered into by our financial services businesses are guaranteed by AAC. Ambac continues to have discussions with the Commissioner of Insurance of the State of Wisconsin (OCI) regarding solutions to this potential shortfall.

Ambac's claims paying resources at September 30, 2008 increased to $15.4 billion from $14.5 billion at December 31, 2007, primarily on the strength of the net proceeds received from the $1.5 billion capital raise in March. AAC is currently rated AA and Aa3 by S&P and Moody's, respectively. Moody's announced on September 18 that its rating of Ambac is on review for possible downgrade after the agency significantly increased its subprime RMBS loss assumptions.

Connie Lee Update

In early September, Ambac announced that it had received regulatory approval from the OCI to capitalize and reactivate Connie Lee Insurance Company, which has been renamed Everspan Financial Guaranty Corp. ("Everspan"). AAC had planned to inject $850 million into Everspan with the intention of operating it as a separate corporate and legal entity. However, on September 18, Moody's announced that it is reviewing AAC for possible downgrade. As a result, management postponed the $850 million capital injection, pending greater clarity on AAC's rating. The Everspan team has continued to work closely with Moody's and Standard and Poor's in its efforts to achieve the highest ratings for the entity. Douglas Renfield-Miller, CEO of Everspan, stated, "While the start up of the new entity has been postponed due to capital uncertainties at AAC, our resolve towards initiating a fully transparent, municipal-only financial guarantee company has not wavered. I remain optimistic about this business proposition while ongoing dislocation in the municipal finance market clearly highlights the urgent need for its product."

About Ambac

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 guarantor of public finance and structured finance obligations, has earned a Aa3 rating (on review for possible downgrade) from Moody's Investors Service, Inc. and a AA rating (negative outlook) from Standard & Poor's Ratings Services. Ambac Financial Group, Inc. common stock is listed on the New York Stock Exchange (ticker symbol ABK).

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Forward-Looking Statements

This release contains statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of management's forward-looking statements here or in other publications may turn out to be wrong and are based on Ambac's management current belief or opinions. Ambac's actual results may vary materially, and there are no guarantees about the performance of Ambac's securities. Among events, risks, uncertainties or factors that could cause actual results to differ materially are: (1) changes in Ambac's and/or Ambac Assurance's credit or financial strength ratings; (2) the risk of credit and liquidity risk due to unscheduled and unanticipated withdrawals on investment agreements; (3) the risk that market risks impact assets in our investment portfolio; (4) inadequacy of reserves established for losses and loss expenses; (5) credit risk throughout our business, including credit risk related to residential mortgage-backed securities and CDOs and large single exposures to reinsurers; (6) market spreads and pricing on insured collateralized debt obligations ("CDOs") and other derivative products insured or issued by Ambac; (7) the risk that holders of debt securities or counterparties on credit default swaps or other similar agreements seek to declare events of default or seek judicial relief or bring claims alleging violation or breach of covenants by Ambac or one of its subsidiaries; (8) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (9) the risk that we may be required to raise additional capital, which could have a dilutive effect on our outstanding equity capital and/or future earnings; (10) our ability or inability to raise additional capital, including the risks that regulatory or other approvals for any plan to raise capital are not obtained, or that various conditions to such a plan, either imposed by third parties or imposed by Ambac or its Board of Directors, are not satisfied and thus potentially necessary capital raising transactions do not occur, or the risk that for other reasons the Company cannot accomplish any potentially necessary capital raising transactions; (11) the risk that Ambac's holding company structure and certain regulatory and other constraints, including adverse business performance, affect Ambac's ability to pay dividends and make other payments; (12) legislative and regulatory developments, including the Troubled Asset Relief Program and other programs under the Emergency Economic Stabilization Act and other similar programs; (13) changes in the economic, credit, foreign currency or interest rate environment in the United States and abroad; (14) changes in capital requirements whether resulting from downgrades in our insured portfolio or changes in rating agencies' rating criteria or other reasons; (15) changes in accounting principles or practices relating to the financial guarantee industry or that may impact Ambac's reported financial results; (16) the level of activity within the national and worldwide credit markets; (17) competitive conditions, pricing levels and reduction in demand for financial guarantee products; (18) changes in our business plan, our decision to discontinue writing new business in the financial services area, to significantly reduce new underwriting of structured finance business and to discontinue all new underwritings of structured finance business; (19) the risk that our underwriting and risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss as a result of unforeseen risks; (20) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting, or FAS 133, to the portion of our credit enhancement business which is executed in credit derivative form; (21) changes in expectations regarding future realization of gross deferred tax assets; (22) risks relating to the re-launch of Connie Lee as Everspan Financial Guaranty Corp.; (23) operational risks, including with respect to internal processes, risk models, systems and employees; (24) the risk of decline in market position; (25) changes in prepayment speeds on insured asset-backed securities; (26) factors that may influence the amount of installment premiums paid to Ambac; (27) the risk of litigation and regulatory inquiries or investigations, and the risk of adverse outcomes in connection therewith, which could have a material adverse effect on our business, operations, financial position, profitability or cash flows; (28) changes in tax laws; (29) the policies and actions of the United States and other governments; (30) other factors described in the Risk Factors section in Part I, 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008, and also disclosed from time to time by Ambac in its subsequent reports on Form 10-Q and Form 8-K, which are or will be available on the Ambac website at www.ambac.com and at the SEC's website, www.sec.gov; and (31) other risks and uncertainties that have not been identified at this time. Readers are cautioned that forward-looking statements speak only as of the date they are made and that Ambac does not undertake to update forward-looking statements to reflect circumstances or events that arise after the date the statements are made. You are therefore advised to consult any further disclosures we make on related subjects in Ambac's reports to the SEC.

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Footnote

(1) 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 because they allow more consistent period-to-period comparison of our earnings without the effects of net securities gains/losses and accelerated earnings. Net securities gains/losses excluded from operating earnings consists of investment portfolio realized gains and losses, mark-to-market gains and losses on credit, total return and non-trading derivative contracts in excess of estimated impairment amounts, 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)	Third Quarter 2008	Third Quarter 2007	Nine Months 2008	Nine Months 2007
Revenues:				
Financial Guarantee:				
Gross premiums written	$118,645	$286,585	$419,132	$797,636
Ceded premiums written	4,371	(35,095)	(36,609)	(93,016)
Net premiums written	$123,016	$251,490	$382,523	$704,620
Normal net premiums earned	$154,991	$178,389	$494,105	$532,652
Accelerated net premiums earned	127,335	16,406	300,558	99,168
Total net premiums earned	282,326	194,795	794,663	631,820
Net investment income	123,326	115,792	370,642	341,046
Net investment income from VIEs	3,431	1,200	10,500	1,200
Net realized gains	49,378	3,965	70,463	5,286
Realized gains and losses and other settlements on credit derivative contracts	(837,929)	20,035	(805,921)	52,920
Unrealized losses on credit derivative contracts	(1,867,250)	(743,379)	(2,630,842)	(805,370)
Net change in fair value of credit derivative contracts	(2,705,179)	(723,344)	(3,436,763)	(752,450)
Other (loss) income	(2,713)	(1,291)	7,797	7,214
Financial Services:				
Investment income	63,810	120,603	205,458	334,476
Derivative products	(16,878)	1,216	(100,835)	7,286
Net realized investment (losses) gains	(84,991)	(1,344)	(396,759)	5,127
Net mark-to-market losses on total return swap contracts	(28,600)	(12,856)	(74,199)	(10,623)
Net mark-to-market (losses) gains on non-trading derivatives contracts	(5,230)	222	(4,968)	63
Corporate:				
Net investment income	887	1,225	2,751	4,147
Total revenues	(2,320,433)	(299,817)	(2,551,250)	574,592
Expenses:				
Financial Guarantee:				
Losses and loss expenses	607,702	19,082	1,311,169	47,600
Underwriting and operating expenses	46,896	34,576	157,831	104,390
Interest expense on variable interest entity notes	3,367	1,167	10,303	1,167
Financial Services:				
Interest from investment and payment agreements	50,048	112,000	196,965	312,082
Other expenses	3,466	3,164	10,152	9,569
Corporate:				
Interest	29,970	22,232	84,422	63,612
Other expenses	10,027	2,857	33,216	9,777
Total expenses	751,476	195,078	1,804,058	548,197
(Loss) income before income taxes	(3,071,909)	(494,895)	(4,355,308)	26,395
(Benefit) provision for income taxes	(640,687)	(134,282)	(1,086,877)	628
Net (loss) income	($2,431,222)	($360,613)	($3,268,431)	$25,767
Net (loss) income per share	($8.45)	($3.53)	($13.66)	$0.25
Net (loss) income per diluted share	($8.45)	($3.53)	($13.66)	$0.25
Weighted average number of shares outstanding	287,599,495	102,297,811	239,265,594	103,171,675
Weighted average number of diluted shares outstanding	287,599,495	102,297,811	239,265,594	103,937,780

Consolidated Balance Sheets

($ in Thousands, Except Share Data)	September 30, 2008	December 31, 2007
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of $14,117,861 in 2008 and $17,225,611 in 2007)	$12,407,606	$17,127,485
Fixed income securities pledged as collateral, at fair value (amortized cost of $0 in 2008 and $345,140 in 2007)	-	374,840
Short-term investments (amortized cost of $1,334,266 in 2008 and $879,039 in 2007)	1,334,266	879,067
Other (cost of $13,769 in 2008 and $13,571 in 2007)	13,475	14,278
Total investments	13,755,347	18,395,670
Cash	92,380	123,933
Receivable for securities sold	165,626	11,068
Investment income due and accrued	139,967	202,737
Reinsurance recoverable on paid and unpaid losses	72,376	11,862
Prepaid reinsurance	327,165	489,028
Deferred taxes	2,905,260	2,116,380
Current income taxes	753,832	-
Deferred acquisition costs	221,788	255,639
Loans	830,985	867,676
Derivative assets	904,151	990,534
Other assets	277,298	100,484
Total assets	$20,446,175	$23,565,011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unearned premiums	$2,547,414	$3,123,860
Loss and loss expense reserve	1,556,715	484,276
Ceded reinsurance balances payable	13,459	32,435
Obligations under investment and payment agreements	5,482,983	8,570,902
Obligations under investment repurchase agreements	135,305	135,524
Securities sold under agreement to repurchase	-	100,000
Current income taxes	-	97,826
Long-term debt	1,895,858	1,669,945
Accrued interest payable	67,328	113,443
Derivative liabilities	9,419,466	6,685,528
Other liabilities	206,590	270,734
Payable for securities purchased	7,969	645
Total liabilities	21,333,087	21,285,118
Stockholders' equity:		
Preferred stock	-	-
Common stock	2,944	1,092
Additional paid-in capital	2,028,141	839,952
Accumulated other comprehensive loss	(1,116,627)	(22,138)
Retained earnings	(1,205,956)	2,107,773
Common stock held in treasury at cost	(595,414)	(646,786)
Total stockholders' equity	(886,912)	2,279,893
Total liabilities and stockholders' equity	$20,446,175	$23,565,011
Number of shares outstanding (net of treasury shares)	287,228,352	101,550,023
Book value per share	($3.09)	$22.45
Adjusted book value per share	$7.18	$55.20

Financial Guarantees[1][2][3]

($ Thousands)	Third Quarter 2008	Third Quarter 2007	Year-to-Date 2008	Year-to-Date 2007
Public Finance:				
Gross Par Guaranteed	$354,382	$14,191,917	$1,603,756	$42,749,908
Up-front Premium	$709	$122,983	$13,061	$334,043
Installment Premium	5,422	5,132	19,727	20,156
Gross Premium	$6,131	$128,115	$32,788	$354,199
Credit Enhancement Production	$8,039	$151,339	$21,156	$380,441
Net Credit Enhancement Production	$22,585	$141,808	$39,310	$348,056
Structured Finance:				
Gross Par Guaranteed	$1,148,655	$11,005,753	$6,054,773	$45,510,746
Up-front Premium	$0	$5,818	$2,048	$22,097
Installment Premium	68,101	75,853	220,016	230,382
Gross Premium	$68,101	$81,671	$222,064	$252,479
Credit Enhancement Production	$17,853	$108,179	$58,005	$402,602
Net Credit Enhancement Production	$44,142	$76,011	$83,995	$343,716
International Finance:				
Gross Par Guaranteed	$629,937	$8,194,362	$1,800,666	$15,654,570
Up-front Premium	($687)	$20,213	($310)	$30,963
Installment Premium	45,100	56,586	164,590	159,995
Gross Premium	$44,413	$76,799	$164,280	$190,958
Credit Enhancement Production	$237	$171,628	$6,941	$326,012
Net Credit Enhancement Production	$47,023	$114,096	$63,175	$241,493
Grand Total:				
Gross Par Guaranteed	$2,132,974	$33,392,032	$9,459,195	$103,915,224
Up-front Premium	$22	$149,014	$14,799	$387,103
Installment Premium	118,623	137,571	404,333	410,533
Gross Premium	$118,645	$286,585	$419,132	$797,636
Credit Enhancement Production	$26,129	$431,146	$86,102	$1,109,055
Net Credit Enhancement Production	$113,750	$331,915	$186,480	$933,265

(1) Credit enhancement production (CEP) and net credit enhancement production (NCEP) includes reinsurance assumed of $0.7 million and $3.3 million in the third quarter and nine months ended September 2008, respectively, offset by a cancellation of an assumed reinsurance contract resulting in ($0.7) million in CEP and NCEP in the third quarter and nine months ended September 2008. CEP and NCEP includes reinsurance assumed of $0.1 million and $15.4 million in the third quarter and nine months ended September 2007, respectively. NCEP is defined as CEP less reinsurance cessions. NCEP for the third quarter and nine months ended September 2008 includes $87.7 million and $103.0 million of recaptured reinsurance cessions relating to the cancellation of certain reinsurance contracts, respectively.

(2) International Finance includes components of domestic exposure.

(3) CEP and NCEP were discounted at rates of 5.2%, 5.0% and 5.3% in the first, second and third quarters of 2008, respectively, and at 5.4%, 5.4% and 5.8% in the first, second and third quarters of 2007.

Normal Net Insurance Premiums Earned and Fees on Credit Derivatives

2008 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Public Finance:					
Up-front premiums earned	$48,778	$46,106	$42,397		$137,281
Installment premiums earned	7,033	6,960	6,100		20,093
Total Public Finance premiums earned	55,811	53,066	48,497	-	157,374
Structured Finance:					
Up-front premiums earned	3,956	3,939	3,389		11,284
Installment premiums earned	66,418	63,430	59,903		189,751
Total Structured Finance premiums earned	70,374	67,369	63,292	-	201,035
International Finance:					
Up-front premiums earned	5,082	5,122	4,831		15,035
Installment premiums earned	41,603	40,687	38,371		120,661
Total International Finance premiums earned	46,685	45,809	43,202	-	135,696
Total normal premiums earned	$172,870	$166,244	$154,991	$0	$494,105
Fees on credit derivative contracts (1)	$16,973	$16,709	$15,342	$0	$49,024

2007 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance:					
Up-front premiums earned	$51,170	$52,005	$51,748	$50,880	$205,803
Installment premiums earned	7,182	7,070	7,281	7,514	29,047
Total Public Finance premiums earned	58,352	59,075	59,029	58,394	234,850
Structured Finance:					
Up-front premiums earned	4,624	4,492	4,319	4,205	17,640
Installment premiums earned	67,245	69,487	68,631	68,720	274,083
Total Structured Finance premiums earned	71,869	73,979	72,950	72,925	291,723
International Finance:					
Up-front premiums earned	5,801	5,776	5,366	5,536	22,479
Installment premiums earned	40,258	39,153	41,044	42,971	163,426
Total International Finance premiums earned	46,059	44,929	46,410	48,507	185,905
Total normal premiums earned	$176,280	$177,983	$178,389	$179,826	$712,478
Fees on credit derivative contracts (1)	$15,553	$17,332	$20,035	$23,514	$76,434

Effect of Refundings, Calls and Other Accelerations

2008 ($ Thousands, Except Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Earned premium recognized from refundings, calls and other accelerations	$13,996	$159,227	$127,335		$300,558
Net income effect	$20,372	$87,738	$85,315		$193,425
Net income per diluted share effect	$0.15	$0.30	$0.30		$0.81

2007 ($ Thousands, Except Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Earned premium recognized from refundings, calls and other accelerations	$39,726	$43,036	$16,406	$29,815	$128,983
Net income effect	$24,658	$25,588	$9,559	$18,395	$78,200
Net income per diluted share effect	$0.24	$0.25	$0.10	$0.18	$0.76

(1) Fees on credit derivative contracts are included in "Realized gains & other settlements on credit derivative contracts" on the consolidated statement of operations.

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
2008 By Quarter					
Third	$89,240	$11,420	12.8%	$234	2.0%
Second	144,201	31,460	21.8%	223	0.7%
First	83,367	22,258	26.7%	261	1.2%
2007 By Quarter					
Fourth	$105,725	$43,667	41.3%	$7,744	17.7%
Third	92,957	46,531	50.1%	13,019	28.0%
Second	123,917	55,703	45.0%	11,422	20.5%
First	106,411	55,117	51.8%	13,340	24.2%
Full Year					
Year-to-date 2008	$316,808	$65,138	20.6%	$718	1.1%
2007	429,010	201,018	46.9%	45,525	22.6%
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 and Thompson Financial.

(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 September 30, 2008

($ Millions)	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2008 (4th Qtr)	$11,772	$770,823
2009	39,814	731,009
2010	40,093	690,916
2011	50,584	640,332
2012	36,391	603,941
2013	36,900	567,041
2008 (4th Qtr)	11,772	770,823
2009-2013	203,782	567,041
2014-2018	161,947	405,094
2019-2023	124,319	280,775
2024-2028	90,959	189,816
After 2028	189,816	-
Total	$782,595	

Net Unearned Premium Amortization and Estimated Future Installment Premiums

As of September 30, 2008

($ Millions)	Net Unearned Premium Amortization (2) Upfront	Installments	Estimated Net Future Installments(3)	Total Premium Earnings	Fees on Credit Derivative Contracts
2008 (4th Qtr)	$49.0	$25.1	$76.8	$150.9	$14.0
2009	186.6	18.5	352.6	557.7	55.2
2010	173.3	2.9	324.9	501.1	52.5
2011	161.4	2.5	274.3	438.2	47.4
2012	150.3	1.8	219.9	372.0	43.3
2013	138.3	1.4	192.2	331.9	37.8
2008 (4th Qtr)	49.0	25.1	76.8	150.9	14.0
2009-2013	809.9	27.1	1,363.9	2,200.9	236.2
2014-2018	548.9	4.9	597.5	1,151.3	100.0
2019-2023	356.6	2.8	390.9	750.3	27.3
2024-2028	216.0	2.3	268.6	486.9	3.0
After 2028	176.0	1.6	272.8	450.4	0.5
Total	$2,156.4	$63.8	$2,970.5	$5,190.7	$381.0

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of September 30, 2008. 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.

Fixed Income Investment Portfolio

As of September 30, 2008

Income Analysis by Type of Security

Investment category ($ thousands)	Fair Value	Amortized Cost	Yield to Maturity (1)	Weighted Average After-Tax Yield	YTD Investment Income
Financial Guarantee investments:					
Long-term investments					
U.S. government obligations	$281,578	$284,787	2.47%	1.60%	$5,582
U.S. agency obligations	249,139	250,673	4.06%	2.64%	10,427
Municipal obligations (2) (3)	6,682,720	6,884,570	4.57%	4.48%	275,914
Foreign obligations	171,933	168,245	4.59%	2.99%	10,904
Corporate obligations	485,099	495,684	6.05%	3.93%	18,326
Mortgage and asset-backed securities	857,419	863,049	6.12%	3.98%	33,392
Total long-term investments	8,727,888	8,947,008	4.72%	4.23%	354,545
Short-term investments (4)	1,147,361	1,147,361	3.62%	3.12%	18,693
Other (5)	12,378	12,904			11,311
Total Financial Guarantee investments	9,887,627	10,107,273	4.59%	4.10%	384,549
Investment expenses					(3,407)
Financial Guarantee net investment income					$381,142
Financial Services investments: (6)					
Long-term investments					
U.S. government obligations	14,987	14,092			
U.S. agency obligations	285,264	262,046			
Municipal obligations	24,018	23,001			
Corporate obligations	181,164	217,789			
Mortgage and asset-backed securities	3,174,285	4,653,925			
Total long-term investments	3,679,718	5,170,853			
Short-term investments	2,743	2,743			
Total Financial Services investments	3,682,461	5,173,596			
Corporate investments:					
Short-term investments	184,162	184,162			
Other	1,097	865			
Total Corporate investments	185,259	185,027			
Total Investments	$13,755,347	$15,465,896			

Rating Distribution of Investment Portfolio (7)

Rating	Percent of Investment Portfolio: Fin. Guar.	Fin. Services	Combined
AAA (2) (8)	56%	75%	63%
AA	34%	10%	25%
A	10%	8%	9%
BBB	<1%	3%	1%
Below investment grade	<1%	4%	2%
Not rated	<1%	0%	<1%
	100%	100%	100%

Duration of Financial Guarantee investment portfolio . . . 5.9

(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 $567,761 and comprise approximately 6% of the Financial Guarantee portfolio, to be AAA.

(3) Includes taxable and tax-exempt municipal obligations with a fair value of $329,674 and $6,353,046, respectively.

(4) Includes taxable and tax-exempt short-term investments with a fair value of $695,048 and $452,313, respectively.

(5) Includes income earned on loans and FIN 46 entities, 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 the lower of Standard & Poor's or Moody's rating. If guaranteed, rating represents the higher of the underlying or wrapped rating.

(8) Includes U.S. Government and Agency securities which comprise approximately 12% and 18% of the Financial Guarantee and Financial Services portfolios respectively.

Ratio of Net Claims Paid [1]

($ Thousands)	YTD 9/30/08	2007	2006	2005	2004
Net claims paid [2]	$1,136,641	($2,128)	$105,568	$86,739	$18,923
Net insurance premiums and credit derivative fees	$843,687	$917,895	$871,383	$866,415	$764,510
Ratio of net claims paid	134.7%	-0.2%	12.1%	10.0%	2.5%

Summary of Net Insurance Loss Reserves and Credit Derivatives

($ Thousands)	9/30/2008	12/31/07	12/31/06	12/31/05
Case basis credit reserves	$900,672	$109,816	$42,458	$103,064
Active credit reserves	600,316	363,372	172,644	197,607
Total insurance reserves	1,500,988	473,188	215,102	300,671
Estimated credit impairment losses on credit derivatives [3]	4,763,788	1,105,741	-	-
Total impairment losses	6,264,776	1,578,929	215,102	300,671
Mark-to-market reserve (asset) on credit derivatives [3]	3,862,516	4,889,721	(8,929)	165
Mark-to-market reserve (asset) on total return swaps	69,761	21,901	(11,195)	(14,718)
Grand total net insurance loss reserves and credit derivatives	$10,197,053	$6,490,551	$194,978	$286,118

Summary of Below Investment Grade Exposures [4]

($ Millions)	Net Par Outstanding	Total Impairment Losses
Public Finance:		
Transportation Revenue	$1,007	
Health Care	297	
Other	1,048	
Total Public Finance	2,352	149
Structured Finance:		
CDO of ABS >25% MBS	$19,102	$4,764
Mortgage-Backed & Home Equity - Second Lien	6,948	961
Mortgage-Backed & Home Equity - Mid prime	1,594	168
Student Loans	888	27
Mortgage-Backed & Home Equity - Other.	764	117
Mortgage-Backed & Home Equity - Sub prime.	625	4
Enhanced Equipment Trust Certificates	572	-
Investor-Owned Utilities	46	-
Other CDOs	23	5
Other	1,717	67
Total Structured Finance	32,279	6,113
International Finance:	$168	$3
Total	$34,799	$6,265

(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 $853.3, $0, $0, $0 and $0 million for year-to-date 2008, 2007, 2006, 2005 and 2004, respectively, and are net of salvage received of $4.7 million, $27.9 million, $16.7 million, $9.4 million, and $33.6 million for year-to-date 2008, 2007, 2006, 2005, and 2004 respectively.

(3) Total net mark-to-market losses are $8,626,304 as of September 30, 2008 and $5,995,462 as of December 31, 2007 and are reported on the consolidated balance sheet under derivative liabilities.

Expense Analysis

2008

($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	$ 26,241	$ 36,645	$ 33,205		$ 96,091
Premium taxes	2,425	2,727	2,390		7,542
Other non-compensation	10,037	14,581	13,985		38,603
Gross underwriting and operating expenses	**38,703**	**53,953**	**49,580**	**-**	**142,236**
Operating expenses deferred (policy acquisition costs)	(3,357)	(3,226)	(2,404)		(8,987)
Ceding commissions received	(5,616)	(3,925)	(9,336)		(18,877)
Ceding commissions deferred	5,616	3,925	9,336		18,877
Amortization of previously deferred expenses and commissions	13,636	11,226	(280)		24,582
Total Financial Guarantee underwriting and operating expenses	48,982	61,953	46,896	-	157,831
Financial Services operating expenses	**3,389**	**3,297**	**3,466**		**10,152**
Corporate operating expenses	**16,076**	**7,113**	**10,027**		**33,216**
Total underwriting and operating expenses, net of deferred expenses	$ 68,447	$ 72,363	$ 60,389	$ -	$ 201,198
Total gross underwriting and operating expenses	**$ 58,168**	**$ 64,363**	**$ 63,073**	**$ -**	**$ 185,603**

2007

($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Financial Guarantee underwriting and operating expenses:					
Compensation	$ 36,704	$ 38,085	$ 34,573	$ 34,846	$ 144,208
Premium taxes	5,554	4,830	8,108	4,974	23,466
Other non-compensation	6,919	5,962	7,947	7,217	28,045
Gross underwriting and operating expenses	**49,177**	**48,877**	**50,628**	**47,037**	**195,719**
Operating expenses deferred (policy acquisition costs)	(25,656)	(25,490)	(27,163)	(24,084)	(102,393)
Ceding commissions received	(8,085)	(7,525)	(9,705)	(34,070)	(59,385)
Ceding commissions deferred	8,037	7,525	9,753	33,985	59,300
Amortization of previously deferred expenses and commissions	12,903	10,051	11,063	12,087	46,104
Total Financial Guarantee underwriting and operating expenses	36,376	33,438	34,576	34,955	139,345
Financial Services operating expenses	**3,288**	**3,117**	**3,164**	**2,660**	**12,229**
Corporate operating expenses	**3,256**	**3,664**	**2,857**	**4,164**	**13,941**
Total underwriting and operating expenses, net of deferred expenses	$ 42,920	$ 40,219	$ 40,597	$ 41,779	$ 165,515
Total gross underwriting and operating expenses	**$ 55,721**	**$ 55,658**	**$ 56,649**	**$ 53,861**	**$ 221,889**

Deferred Expense Ratio Analysis

	9/30/08	12/31/07	12/31/06	12/31/05	12/31/04
Deferred Acquisition Costs	$ 221,788	$ 255,639	$ 252,115	$ 226,168	$ 198,142
Unearned Premium Reserves	2,547,414	3,123,860	3,037,544	2,940,988	2,765,163
Prepaid Reinsurance Premiums	(327,165)	(489,028)	(315,498)	(303,383)	(297,330)
Present Value of Installment Premiums	2,486,643	2,887,409	2,502,764	2,238,990	2,123,121
Adjusted Deferred Premiums	$ 4,706,892	$ 5,522,241	$ 5,224,810	$ 4,876,595	$ 4,590,954
Deferred Expenses to Adjusted Deferred Premiums Ratio	4.7%	4.6%	4.8%	4.6%	4.3%

Historical Financial Guarantee Exposures Outstanding [1]

($ Millions Net Par Value)	September 30, 2008	December 31, 2007	2006	2005	2004
Public Finance:					
Lease and tax backed	$79,701	$88,147	$89,042	$82,584	$76,007
General obligation	59,646	63,977	62,834	57,982	49,394
Utility	33,131	37,976	38,313	36,877	36,326
Transportation	23,228	25,466	24,979	23,718	21,188
Higher education	18,319	20,685	22,068	20,203	18,056
Health care	17,524	27,161	27,849	26,994	23,977
Housing	11,143	11,531	10,996	10,152	9,163
Other	4,799	6,010	6,181	5,556	5,588
Total Public Finance	247,491	280,953	282,262	264,066	239,699
Structured Finance:					
Mortgage-backed & home equity	38,341	43,078	46,239	48,869	53,148
Asset-backed and conduits	29,534	36,407	34,815	32,505	28,858
CDO of ABS >25% MBS	27,012	29,127	20,145	7,533	900
Other CDOs	20,688	22,174	20,423	18,213	15,135
Student loan	17,184	18,372	18,404	16,538	14,646
Investor-owned utilities	15,686	17,055	17,345	16,398	15,449
Other	3,534	4,485	5,212	4,296	4,318
Total Structured Finance	151,979	170,698	162,583	144,352	132,454
International Finance[2]:					
Asset-backed and conduits	18,039	19,290	17,642	15,151	15,553
Other CDOs	13,045	15,572	19,978	23,427	35,831
Investor-owned and public utilities	9,724	10,384	10,531	8,052	5,965
Transportation	7,720	7,784	6,524	5,156	5,157
Sovereign/sub-sovereign	7,036	7,347	6,344	3,585	4,110
Mortgage-backed & home equity	4,825	10,106	11,951	14,627	19,644
Other	1,676	1,891	1,228	669	1,019
Total International Finance	62,065	72,374	74,198	70,667	87,279
Grand Total	$461,535	$524,025	$519,043	$479,085	$459,432

Percent of Total Net Par Outstanding					
Public Finance	53.6%	53.6%	54.4%	55.1%	52.2%
Structured Finance	33.0%	32.6%	31.3%	30.1%	28.8%
International Finance	13.4%	13.8%	14.3%	14.8%	19.0%
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 $58,694, $64,988, $55,460, $43,712 and $43,478 at September 30, 2008 and December 31, 2007, 2006, 2005 and 2004, 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[1]	%
Public Finance:				
Lease and tax backed	$653	6.9%	$1,026	7.0%
General obligation	270	2.9%	517	3.5%
Utility	153	1.6%	575	3.9%
Transportation	33	0.3%	340	2.3%
Higher education	14	0.1%	186	1.3%
Health care	127	1.3%	425	2.9%
Housing	346	3.7%	374	2.6%
Other	7	0.1%	26	0.2%
Total Public Finance	1,603	16.9%	3,469	23.8%
Structured Finance:				
Mortgage-backed & home equity	34	0.4%	727	5.0%
Asset-backed and conduits	4,859	51.4%	4,997	34.3%
CDO of ABS > 25% MBS[3]	101	1.1%	101	0.7%
Other CDOs[3]	655	6.9%	653	4.5%
Student loan	-	0.0%	446	3.1%
Investor-owned utilities	154	1.6%	480	3.3%
Other	252	2.7%	364	2.5%
Total Structured Finance	6,055	64.0%	7,768	53.3%
International Finance[2]:				
Asset-backed and conduits	418	4.4%	791	5.4%
Other CDOs[3]	797	8.4%	779	5.3%
Investor-owned and public utilities	-	0.0%	544	3.7%
Transportation	586	6.2%	794	5.4%
Sovereign/sub-sovereign	-	0.0%	362	2.5%
Mortgage-backed & home equity	-	0.0%	14	0.1%
Other	-	0.0%	57	0.4%
Total International Finance	1,801	19.0%	3,341	22.9%
Grand Total	$9,459	100.0%	$14,578	100.0%

(1) Net financial guarantees written reflects the recapture of $6,088 million relating to the cancellation of certain reinsurance contracts.

(2) International transactions include components of domestic exposure.

(3) Par written during the period relates to increases in funding for transactions originated in prior years. The remaining unfunded net exposure for these transactions at September 30, 2008 is $2,808 million for Other CDO's.

Geographic Distribution of Financial Guarantee Exposures

($ Millions Par Value)	Guaranteed Year-to-Date Gross	%	Net	%	Net Par Outstanding as of September 30, 2008 Net	%
Domestic:						
California	$517	5.5%	$760	5.2%	$46,813	10.1%
New York	307	3.2%	417	2.9%	27,004	5.9%
Florida	243	2.6%	428	2.9%	19,261	4.2%
Texas	153	1.6%	442	3.0%	18,550	4.0%
New Jersey	-	0.0%	10	0.1%	12,520	2.7%
Pennsylvania	50	0.5%	154	1.1%	11,597	2.5%
Illinois	67	0.7%	127	0.9%	10,973	2.4%
Massachusetts	-	0.0%	139	1.0%	8,890	1.9%
Colorado	255	2.7%	286	2.0%	7,206	1.6%
Ohio	6	0.1%	78	0.5%	6,980	1.5%
Mortgage and asset-backed	4,893	51.7%	5,724	39.3%	67,875	14.7%
Other states	1,167	12.3%	2,672	18.3%	161,801	35.1%
Total Domestic	7,658	81.0%	11,237	77.1%	399,470	86.6%
International:						
United Kingdom	9	0.1%	877	6.0%	24,359	5.3%
Australia	16	0.2%	441	3.0%	5,771	1.3%
Italy	-	0.0%	85	0.6%	2,899	0.6%
Japan	4	0.0%	110	0.8%	2,476	0.5%
Turkey	-	0.0%	57	0.4%	1,968	0.4%
Internationally diversified	1,182	12.5%	1,161	8.0%	15,267	3.3%
Other international	590	6.2%	610	4.2%	9,325	2.0%
Total International	1,801	19.0%	3,341	22.9%	62,065	13.4%
Grand Total	$9,459	100.0%	$14,578	100.0%	$461,535	100.0%

Rating Distribution of Net Financial Guarantee Exposures(1)

As of September 30, 2008

Rating	Percentage of Guaranteed Portfolio: Public Finance	Structured and International Finance	Total
AAA	<1	21	10
AA	28	13	20
A	58	21	41
BBB	13	30	21
BIG	<1	15	8
	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 +	$198.9	$3,067	0.7%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	$151.9	2,162	0.5%
Washington State - GO	AA	$133.0	1,836	0.4%
MTA, NY, Transportation Revenue (Farebox)	A	$95.1	1,534	0.3%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	$117.5	1,438	0.3%
Bay Area Toll Authority, CA Toll Bridge Revenue	AA -	$67.6	1,389	0.3%
New Jersey Turnpike Authority Revenue	A	$90.9	1,372	0.3%
Massachusetts Commonwealth - GO	AA	$88.3	1,332	0.3%
Central Texas Turnpike, System Revenue	BBB +	$106.3	1,095	0.2%
California Department of Water Resources, Power Supply	A	$143.5	1,034	0.2%
Nassau County Interim Finance Authority, NY, Sales Tax Revenue	AA	$86.6	1,002	0.2%
Los Angeles Unified School District, CA - GO	AA -	$70.8	999	0.2%
South Carolina Transportation Infrastructure Bank Revenue	A	$68.5	994	0.2%
New York City, NY - GO	AA -	$52.4	992	0.2%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	$71.4	982	0.2%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BBB +	$55.5	956	0.2%
Port Authority of New York & New Jersey, Consolidated Revenue	AA -	$67.7	935	0.2%
Connecticut Housing Finance Authority, Housing Mortgage Finance Program	AAA	$58.3	931	0.2%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A -	$52.8	885	0.2%
Connecticut State Special Tax Obligations	AA -	$60.3	828	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	$48.8	826	0.2%
Chicago, IL - GO	A +	$38.7	821	0.2%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	$68.4	810	0.2%
Puerto Rico Sales Tax Financing Corporation	A +	$153.8	775	0.2%
Massachusetts Turnpike Authority, Metropolitan Highway Revenue	A	$51.0	741	0.2%
Total:			$29,736	6.4%

Largest Domestic Healthcare Exposures

($ Millions)	Ambac Rating[2]	AADS[3]	Net Par Outstanding	% of Total Net Par Outstanding
Trinity Health - Michigan	AA -	$24.8	$350	0.1%
Sisters of Mercy Health System - Missouri	AA	$30.1	326	0.1%
Children's Hospital Boston - Massachusetts	AA	$22.2	315	0.1%
New York City Health and Hospitals Corporation	A	$30.1	302	0.1%
Catholic Health East - Pennsylvania	A +	$21.4	285	0.1%
Catholic Healthcare Partners - Ohio	A +	$20.9	285	0.1%
Texas Health Resources - Texas	A +	$23.7	269	0.1%
Christus Health - Texas	A +	$13.6	238	0.1%
WellSpan Health - Pennsylvania	A +	$13.0	205	0.0%
Parkview Health System - Indiana	A +	$12.9	205	0.0%
Total:			$2,780	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
CDO of ABS > 25% MBS [2]	BIG	$2,897	0.6%
CDO of ABS < 25% MBS	AAA	2,568	0.6%
Kleros Preferred Funding VI, Ltd.	BIG	2,362	0.5%
Iowa Student Loan Liquidity Corporation Revenue Bonds	A	2,247	0.5%
Private Commercial Asset-Backed Transaction	BBB +	2,159	0.5%
Ridgeway Court Funding II, Ltd.	BIG	1,942	0.4%
Diversey Harbor ABS CDO, Ltd.	BIG	1,826	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2	BBB +	1,814	0.4%
Hertz Vehicle Financing, LLC	BBB	1,811	0.4%
Ridgeway Court Funding I, Ltd.	BIG	1,530	0.3%
Michigan Higher Education Student Loan Authority	AA	1,514	0.3%
Citibank - CHARTA, LLC	AAA	1,503	0.3%
Vermont Student Assistance Corporation Revenue Bonds	A	1,501	0.3%
Duke Funding High Grade III, Ltd.	BBB -	1,475	0.3%
Belle Haven ABS CDO 2006-1, Ltd.	BIG	1,463	0.3%
Citibank - CAFCO, LLC	AAA	1,380	0.3%
Citibank - CIESCO, LLC	AAA	1,307	0.3%
Duke Funding High Grade IV, Ltd.	BIG	1,289	0.3%
Massachusetts Educational Financing Authority Revenue Bonds	AA	1,263	0.3%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BBB +	1,260	0.3%
Duke Funding High Grade V, Ltd.	BIG	1,238	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,234	0.3%
Private Consumer Asset-Backed Transaction	AAA	1,167	0.3%
Cendant Rental Car Funding	BBB -	1,152	0.2%
McKinley Funding III, Ltd.	BIG	1,142	0.2%
Total:		$41,044	8.9%

Largest International Finance Exposures

($ Millions)	Ambac Rating[1]	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation	A +	$2,357	0.5%
CDO of IG Corporate	AAA	1,906	0.4%
Telereal Securitisation plc	AA -	1,653	0.4%
Punch Taverns Finance plc-UK Pub Securitisation	AA -	1,621	0.4%
Channel Link Enterprises	BBB	1,042	0.2%
Romulus Finance s.r.l.	BBB	1,031	0.2%
Synthetic RMBS	AAA	969	0.2%
TubeLines (Finance) plc	A	958	0.2%
Private Consumer Asset-Backed Transaction	A	953	0.2%
Metronet Rail [3]	AA	925	0.2%
CDO of HY Corporate	AA	855	0.2%
Aspire Defence Finance plc	BBB -	840	0.2%
CDO of HY Corporate	AAA	813	0.2%
RMPA Services plc	BBB	809	0.2%
Capital Hospitals plc	BBB -	770	0.2%
Sydney Airport Finance Co. Pty Ltd	BBB	767	0.2%
Spirit Issuer plc	BBB +	734	0.2%
Babcock & Brown Air Funding I Limited	BBB +	717	0.2%
Private CMBS Transaction	AAA	706	0.2%
Private CMBS Transaction	AAA	691	0.1%
Regione Campania	A -	660	0.1%
National Grid Electricity Transmission	A	659	0.1%
National Grid Gas	A -	657	0.1%
Banco de Credito del Peru-DPR Securitization	A	652	0.1%
Powercor Australia, LLC.	A -	652	0.1%
Total:		$24,397	5.3%

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

(2) Represents an outstanding commitment to provide a financial guarantee on a static pool consisting primarily of High-Grade and Mezzanine CDO of ABS securities, comprising primarily underlying sub prime and mid prime residential mortgage-backed securitizations.

(3) 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

Claims-Paying Resources [1] and Statutory Financial Ratios

($ Thousands, Except Ratios)	September 30, 2008	December 31, 2007
Contingency reserve.	$3,371,635	$3,106,462
Surplus to Policyholders	1,088,503	3,316,143
Qualified statutory capital.	4,460,138	6,422,605
Unearned premiums	2,870,113	3,320,054
Losses and loss adjustment expenses	900,672	109,816
Estimated impairment losses on credit derivatives	3,432,482	756,714
Policyholders' reserves	11,663,405	10,609,189
Third party capital support [2]	800,000	800,000
Present Value of Future Installment Premiums [3] .	2,912,360	3,102,968
Total Claims-Paying Resources	15,375,765	14,512,157
Net financial guarantees in force.	$782,595,344	$833,303,123
Capital Ratio [4].	175 : 1	130 : 1
Claims-Paying Ratio [5]	51 : 1	57 : 1
Gross financial guarantees in force.	$908,008,553	$995,031,995
Gross par outstanding.	$530,567,001	$612,074,543

	Third Quarter 2008	Third Quarter 2007	Full Year 2007
Statutory financial ratios:			
Loss ratio [6].	177.5%	29.6%	8.1%
Expense ratio [7]	28.9%	13.4%	15.0%

(1) Total claims-paying resources is a term used by the rating agencies to quantify total resources available to pay claims in their stress-cas scenarios. Rating agencies may apply adjustments to claims-paying resources to reflect their views of realization.

(2) Third party capital support represents pre-funded capital which provides for the unconditional ability to issue up to $800 million of preferre 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 a other credit enhancement products. Present value calculations utilize the Moody's rating agency prescribed exposure amortization schedule discounted at 6.0% at September 30, 2008. Present value calculations utilize the Fitch's rating agency prescribed exposure amortizatio schedules discounted at 5.0% at December 31, 2007. Ambac internal estimates of present value of future installment premiums a September 30, 2008 and December 31, 2007 are $2,486,643 and $2,887,409, respectively at a discount rate of 5.9% and 5.2%, respectively.

(4) Capital Ratio is net financial guarantees in force divided by qualified statutory capital.

(5) Claims-paying 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.