2008 Quarterly Operating Supplement

Q4

▸ Financial Highlights

Share price	$1.30
Market capitalization	$373.4 million
Net loss	$(2,340.8) million
Net loss per diluted share	$(8.14)
Book value per share	$(13.17)
Adjusted book value per share	$(3.92)
Adjusted book value per share (excluding net unrealized losses and tax valuation allowance)	$19.92

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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 a Baa1 rating (developing outlook) from Moody's Investors Services, Inc., and an A rating (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).

Company Information

Corporate headquarters are located at:

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For further information on Ambac Financial Group, Inc., or 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
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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 4.9% and 5.2% at December 31, 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 5.9% and 5.6% for the quarters ended December 31, 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)

	2008 (1)	2007 (2)	2006	2005	2004	2003	2002 (3)	2001	2000	1999
Summary Financial Data:										
Financial Guarantee:										
Credit enhancement production (non-GAAP)	$95	$1,414	$1,295	$1,249	$1,288	$1,489	$1,299	$974	$711	$652
Gross premiums written	537	1,031	997	1,096	1,048	1,144	904	683	483	445
Net premiums earned	1,023	841	811	816	717	620	472	379	311	264
Net investment income (4)	480	460	424	378	355	321	297	268	241	209
Loss and loss expenses (5)	2,266	256	20	150	70	53	27	20	15	11
Underwriting and operating expenses	216	139	134	118	107	92	77	68	55	49
Financial Services (6):										
Revenue	123	452	408	286	225	230	272	274	333	340
Expenses	248	432	372	253	184	208	241	244	295	312
Net (loss) income per diluted share	($22.31)	($31.56)	$8.15	$6.87	$6.53	$5.66	$3.97	$3.97	$3.41	$2.88
Net (loss) income per diluted share growth rate	n.m.	n.m.	18.6%	5.2%	15.4%	42.6%	0.0%	16.4%	18.4%	21.5%
Return on equity	n.m.	-76.7%	15.1%	14.4%	15.6%	15.7%	13.1%	15.5%	15.9%	15.0%
Total investments	10,293	18,396	17,434	15,592	14,422	13,965	12,539	10,288	8,324	8,963
Total assets	16,951	23,565	20,268	18,546	17,673	16,747	15,356	12,340	10,120	11,345
Unearned premium reserve	2,397	3,124	3,038	2,941	2,779	2,545	2,129	1,780	1,546	1,431
Loss and loss expense reserve	2,266	484	220	304	254	189	172	151	132	122
Obligations under investment, repurchase and payment agreements	3,358	8,706	8,357	7,253	7,081	7,076	7,283	5,512	4,893	6,140
Long-term debt (7)	1,624	1,389	992	1,192	792	792	617	619	424	424
Stockholders' equity	(3,782)	2,280	6,190	5,388	5,024	4,255	3,625	2,984	2,596	2,019
Statutory Data:										
Qualified statutory capital	$3,484	$6,422	$6,383	$5,693	$5,264	$4,526	$3,736	$3,262	$2,736	$2,421
Unearned premium reserve	2,733	3,320	3,373	3,208	2,972	2,649	2,223	1,860	1,615	1,486
Loss and loss expense reserve	1,169	110	42	103	117	55	49	28	31	26
Estimated impairment losses on credit derivatives	3,352	757	-	-	-	-	-	-	-	-
Policyholders' reserves	10,738	10,609	9,798	9,004	8,353	7,230	6,008	5,150	4,382	3,933
Third party capital support	100	800	800	800	800	800	800	800	800	750
P.V. of future installment premiums	2,663	3,103	2,503	2,166	2,060	1,556	1,342	987	764	527
Total claims-paying resources	$13,501	$14,512	$13,101	$11,970	$11,213	$9,586	$8,150	$6,937	$5,946	$5,210
Net par outstanding	$434,310	$524,025	$519,043	$479,085	$459,432	$425,854	$379,211	$318,043	$276,252	$240,307
Net debt service outstanding	$695,954	$833,303	$802,694	$726,612	$685,234	$625,564	$557,422	$476,190	$418,386	$374,484
Financial Ratios:										
Loss and loss expense ratio	619.0%	148.4%	2.3%	17.3%	9.1%	8.2%	6.5%	5.3%	4.8%	4.2%
Underwriting expense ratio	19.9%	15.2%	15.3%	13.6%	13.9%	13.8%	15.3%	17.0%	17.1%	18.2%
Combined ratio	638.9%	163.6%	17.6%	30.9%	23.0%	22.0%	21.8%	22.3%	21.9%	22.4%
Stock Performance:										
Cumulative total return since IPO on 7/91	-78.3%	322.4%	1338.1%	1134.2%	1205.6%	996.3%	782.5%	802.4%	804.0%	435.0%
Annual total return	-94.9%	-70.6%	16.5%	-5.5%	19.1%	24.2%	-2.2%	-0.2%	69.0%	-12.6%
Dividends declared per common share	$0.100	$0.780	$0.660	$0.550	$0.470	$0.420	$0.380	$0.340	$0.307	$0.280
Adjusted book value per share (non-GAAP)	($3.92)	$55.24	$87.81	$78.53	$71.73	$61.27	$49.84	$42.03	$36.35	$29.79

(1) Net income was adversely impacted by net change in fair value of credit derivatives of $4,031.1 million and loss and loss expenses of $2,227.6 million, or $16.18 per diluted share.
(2) Net income was adversely impacted by net change in fair value of credit derivatives of $5,928.0 million, $3,853.2 million after-tax, or $37.44 per diluted share.
(3) 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.
(4) Excludes variable interest entity investment income of $13.9 million and $4.8 million from 2008 and 2007, respectively.
(5) 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.
(6) 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.
(7) Excludes the portion of long-term debt associated with a variable interest entity.

Key Financial Highlights

	Fourth Quarter 2008	Fourth Quarter 2007	Full Year 2008	Full Year 2007
KEY FINANCIAL LINES				
Net loss ($ millions)	($2,340.8)	($3,273.9)	($5,609.2)	($3,248.2)
Stockholders' equity ($ millions)	($3,782.3)	$2,279.9	($3,782.3)	$2,279.9
Return on equity	n.m.	-330.1%	n.m.	-76.7%
Total capitalization (1) ($ millions)	($2,158.1)	$3,669.2	($2,158.1)	$3,669.2
Debt/total capital (1)	n.m.	37.9%	n.m.	37.9%
Capital ratio(2)	200:1	130:1	200:1	130:1
Claims-Paying ratio (2)	52:1	57:1	52:1	57:1
Loss ratio (3)	370.9%	563.7%	619.2%	148.4%
Expense ratio (4)	24.1%	15.0%	19.9%	15.2%
Combined ratio(3) (4)	395.0%	578.7%	639.1%	163.6%
Effective tax rates:				
Financial Guarantee:				
Net investment income	19.4%	13.5%	15.4%	13.1%
Realized securities gains	35.0%	35.0%	35.0%	35.0%
Underwriting and other income	-79.5%	35.0%	-2.6%	34.9%
Total Financial Guarantee	-82.6%	35.5%	-4.5%	36.9%
Financial Services	35.0%	34.8%	35.0%	36.2%
Other	35.0%	286.9%	35.0%	35.0%
Consolidated total effective tax rate	-85.3%	36.7%	0.2%	36.9%
STOCKHOLDER DATA				
Market value per share	$1.30	$25.77	$1.30	$25.77
Net loss per share	($8.14)	($32.03)	($22.31)	($31.56)
Net loss per diluted share	($8.14)	($32.03)	($22.31)	($31.56)
OTHER EARNINGS MEASURES (Per diluted share)				
Net loss	($8.14)	($32.03)	($22.31)	($31.56)
Net security losses (gains)(5)	$1.35	$25.82	($0.06)	$31.33
Operating earnings (non-GAAP)	($6.79)	($6.21)	($22.37)	($0.23)
Refundings, calls and other accelerations, net	($0.18)	($0.18)	($0.98)	($0.76)
Core earnings (non-GAAP)	($6.97)	($6.39)	($23.35)	($0.99)
ADJUSTED BOOK VALUE ANALYSIS (Per share)				
Book value	($13.17)	$22.45	($13.17)	$22.45
After-tax value of:				
Net unearned premium reserve less deferred acquisition costs	4.26	15.24	4.26	15.24
Present value of future installment premiums	5.38	18.48	5.38	18.48
Unrealized loss on investment agreement liabilities	(0.39)	(0.93)	(0.39)	(0.93)
Adjusted book value	($3.92)	$55.24	($3.92)	$55.24

(1) Excludes the portion of long-term debt associated with variable interest entities of $244.5 million and $280.7 million at December 31, 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)

	Fourth Quarter 2008	Fourth Quarter 2007
Pre-tax income	($1,263.1)	($5,173.3)
Pre-tax Financial Guarantee:		
Net realized investment gains	61.5	(4.6)
Credit default swaps - total	608.0	5,199.0
Credit default swaps - estimated impairment losses	19.7	(1,105.7)
Non-trading derivatives [1]	-	0.1
Total Financial Guarantee	689.2	4,088.8
Pre-tax Financial Services:		
Net realized investment losses	(160.4)	34.2
Non-trading derivatives	10.8	9.1
Total return swaps	56.8	22.7
Total Financial Services	(92.8)	66.0
Pre-tax Operating earnings	(666.7)	(1,018.5)
Tax on Operating earnings	1,286.4	(383.6)
After-tax Operating earnings	($1,953.1)	($634.9)

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

For Immediate Release

AMBAC FINANCIAL GROUP, INC. ANNOUNCES FOURTH QUARTER NET LOSS OF $2,340.8 MILLION

Fourth Quarter Net Loss Per Share of $8.14

Records $1,534.0 Million Deferred Tax Asset Valuation Allowance

NEW YORK, February 25, 2009--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced fourth quarter 2008 net loss of $2,340.8 million, or a net loss of $8.14 on a per share basis. This compares to fourth quarter 2007 net loss of $3,273.9 million, or net loss of $32.03 on a per share basis. The fourth quarter 2008 results reflect ($594.4) million net change in fair value of credit derivatives. The fourth quarter 2007 results reflected a net change in fair value of credit derivatives amounting to ($5,175.5) million. Other differences in results were due to: (i) the deferred tax asset valuation allowance increased significantly in the fourth quarter 2008 resulting from management's revised estimate (ii) increased loss provisioning in the fourth quarter 2008 primarily related to residential mortgage-backed securities (RMBS) insurance transactions; and (iii) mark-to-market losses and realized losses on terminations related to derivative products (interest rate, foreign exchange and total return swaps) within the financial services segment in the fourth quarter 2008. Those differences were partially offset by increased accelerated premiums earned resulting from refundings in the financial guarantee segment and net realized gains on investment agreement terminations within the financial services segment.

<u>Quarter Summary</u>

- The deferred tax asset valuation allowance amounts to $2,053.0 million at December 31, 2008, representing an increase of $1,534.0 million from September 30, 2008. Over the past 24 months, Ambac has recorded significant mark-to-market losses on its CDS portfolio and has incurred losses in its insured RMBS portfolio. The actual loss experience for these mortgage-related securities has been greater than originally anticipated. As such, during the quarter, for the purposes of estimating future taxable income available to utilize net operating losses, management revised its estimate of potential future increases in loss reserves to conservatively reflect the potential impact that further deterioration in Ambac's insured portfolio would have on future taxable income. The revised estimate resulted in an increase in the valuation allowance.
- Net loss provisioning of $916.4 million was recorded for the quarter primarily relating to the RMBS insurance portfolio. The quarterly provision was offset by a benefit resulting from an increase in estimated recoveries from substantiated representation and warranty breaches in certain second-lien RMBS transactions.
- Net change in fair value of credit derivatives amounted to ($594.4) million. However, estimated impairment losses in this portfolio did not change significantly. As previously announced on November 19, 2008, four CDO of ABS transactions with an aggregate of approximately $3.5 billion notional outstanding were settled with counterparties in exchange for a total cash payment by Ambac Assurance Corporation (AAC) of $1.0 billion.
- As previously announced on November 6, 2008, Ambac received approval from the Wisconsin Office of the Commissioner of Insurance (OCI) to utilize the resources of AAC to resolve the ratings-driven liquidity gap in the financial services business and, as of this date, all collateral requirements of that business have been met.

Ambac's President and Chief Executive Officer, David Wallis, commented, "While our financial results continue to be affected by the disappointing housing market and other economic conditions, I am encouraged by the progress made in relation to some of our strategic initiatives. We continue to place significant emphasis on de-risking our portfolio. The successful commutation of $3.5 billion of CDO of ABS exposures, including two CDO-squared deals, was constructive and we will continue to pursue this de-risking approach. Equally encouraging have been the remediation efforts on our mortgage exposure which continues to reveal opportunities to recover losses in that portfolio. In relation to new business, we are progressing towards the launch of our municipal-only financial guarantor – Everspan Financial Guarantee Corp., and expect to begin doing business out of this company during the second quarter. We believe that these strategic initiatives will add greater stability to our business, and make Ambac more resistant to external pressures."

Mr. Wallis continued, "In the face of the most difficult recession in many decades, Ambac continues to meet its financial obligations. Our business model is proving to be solid and flexible and I am cautiously optimistic that the Federal economic recovery programs announced to date will help the markets to begin the gradual road back to recovery."

Financial Results

Net Loss Per Share

Net loss per share is 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 fourth quarter and full year comparisons of losses for 2008 and 2007.

Table I

	Earnings Per Diluted Share			
	Fourth Quarter		**Full Year**	
	2008	**2007**	**2008**	**2007**
Net loss per share	($8.14)	($32.03)	($22.31)	($31.56)
Effect of net security losses (gains)	1.35	25.82	(0.06)	31.33
Operating loss [(a)] [(b)]	**($6.79)**	**($6.21)**	**($22.37)**	**($0.23)**
Effect of accelerated earnings	(0.18)	(0.18)	(0.98)	(0.76)
Core loss [(b)]	($6.97)	($6.39)	($23.35)	($0.99)

(a) Consensus earnings that are reported by earnings estimate services, such as First Call, are on this basis.

(b) Operating and core loss are non-GAAP measures. See footnote 1, below.

Net Premiums Earned

Net premiums earned for the fourth quarter of 2008 were $228.1 million, up 9% from $209.6 million earned in the fourth quarter of 2007. Normal earned premiums in the fourth quarter 2008 of $146.9 million were

18% lower than $179.8 million reported in the fourth 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 $81.2 million in the fourth quarter of 2008, up 172% from the comparable period in 2007. During the fourth quarter of 2008 and 2007, approximately 85% and 89%, respectively, of the accelerated premiums related to U.S. public finance transactions.

A breakout 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					
	Fourth Quarter			**Full Year**		
	2008	**2007**	**% Change**	**2008**	**2007**	**% Change**
Public Finance	$ 46.4	$ 58.4	-21%	$ 203.8	$ 234.9	-13%
Structured Finance	60.0	72.9	-18%	261.0	291.7	-11%
International	40.5	48.5	-17%	176.2	185.9	-5%
Total Normal Premiums	146.9	179.8	-18%	641.0	712.5	-10%
Accelerated Premiums	81.2	29.8	+172%	381.8	129.0	+196%
Total	$ 228.1	$ 209.6	+9%	$1,022.8	$ 841.5	+22%

Net Investment Income

Net investment income for the fourth quarter of 2008 was $109.5 million, representing a decrease of 8% from $119.3 million in the comparable period of 2007. This decrease was due primarily to liquidations in the portfolio to pay commutations on CDO of ABS transactions and RMBS claim payments. Net investment income was also negatively impacted by a partial re-balancing of the portfolio to short-term securities and the effects of intercompany loans. Those negative impacts were partially offset by positive cash flow from 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.

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 loss payments on such transactions. Net realized gains/(losses) and other settlements from credit derivative contracts in the fourth quarter of 2008 amounted to ($988.5) million representing the previously reported $1.0 billion payment to commute certain CDO transactions in November 2008 and $2.2 million of interest payments on those CDO transactions prior to commutation, offset by $13.7 million of premiums received during the quarter. In the fourth quarter 2007, premiums received amounted to $23.5 million while no loss payments were made.

Net unrealized gains on Ambac's CDO portfolio amounted to $394.1 million in the fourth quarter 2008, compared to net unrealized losses of ($5,199.0) million in the fourth quarter 2007. The net unrealized gains during the fourth quarter 2008 resulted primarily from reclassification of $1.0 billion to realized losses in connection with the CDO commutation settlements described above plus a gain on those settlements and the larger discounting effect of wider AAC credit spreads, partially offset by (i) lower values on the reference obligations across all asset classes; and (ii) internal ratings downgrades of the CDO of ABS portfolio. 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 an approximate $3.2 billion reduction of the change in unrealized losses in the fourth quarter of 2008.

Ambac reports credit impairments on CDO of ABS transactions where we believe we may have to pay claims in the future. Ambac's estimate of credit impairment did not change significantly from September 30, 2008. Ambac's impairment estimate was favorably impacted by the commutations executed on poorly performing transactions during the quarter.

Financial Guarantee Loss Reserves

Total net loss and loss expenses were $916.4 million in the fourth quarter 2008, up from net expense of $208.5 million in the fourth quarter of 2007, primarily driven by increased RMBS losses and one non-RMBS structured finance loss in the fourth quarter 2008. Continued deterioration in the performance of the underlying RMBS loans was observed, most prominently in the second-lien and Alt-A portfolios. 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 $348 million in the fourth quarter 2008, bringing total estimated remediation benefits to $859.5 million at December 31, 2008. Such recoveries are expected to take several years for ultimate collection.

A roll forward of case basis reserves and active credit reserves (ACR) from September 30, 2008 to December 31, 2008 is shown in Table III.

Table III

($-millions)

	Insurance Loss Reserves Roll Forward			
	Case Reserves	**ACR**	**Total**	**4th Qtr Loss and Loss Expenses**
Balance at September 30, 2008	$ 900.7	$ 600.3	$ 1,501.0	$ —
Additions to reserves	478.7	437.7	916.4	916.4
Transfers from ACR to Case	68.8	(68.8)	—	—
Less: claims paid	(287.7)	—	(287.7)	—
Balance at December 31, 2008	$1,160.5	$ 969.2	$ 2,129.7	$ 916.4

The increase in case reserves was primarily driven by deteriorating performance in certain underperforming second-lien and other RMBS transactions partially offset by the impact of expected future remediation benefits. Total net claims paid during the quarter amounted to $287.7 million and were almost entirely related to second-lien RMBS transactions.

Active credit reserves are established for probable and estimable losses due to credit deterioration on adversely classified insured transactions that have not yet defaulted. The ACR increase was primarily driven by deteriorating performance in real estate-related transactions partially offset by 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 December 31, 2008 total $1,728.4 million, of which $1,163.5 million relate to the second-lien portfolio.

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 ($19.5) million in the fourth quarter of 2008, down from $2.5 million in the fourth quarter of 2007. The decrease resulted primarily from the increase in certain variable rate 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.

The interest rate swap and investment agreement businesses are being run-off. Since the end of 2007 approximately $5.6 billion of swap notional, not including the notional of related hedge positions, has been terminated. The investment and payment agreement portfolio has been reduced by approximately $2.5 billion during the fourth quarter and $5.1 billion for the year, to $2.8 billion at December 31, 2008, through negotiated terminations, terminations contractually triggered by rating downgrades of Ambac Assurance, and scheduled amortization.

Balance Sheet and Liquidity

Ambac's total assets at December 31, 2008 amounted to $17.0 billion, down 28% from $23.6 billion at December 31, 2007 primarily due to a decline in the value of the investment portfolio. The fair value of the investment portfolio declined from $18.4 billion (amortized cost of $18.5 billion) at December 31, 2007 to $10.3 billion (amortized cost of $12.8 billion) at December 31, 2008. The reasons for the decline in fair value are as follows: (i) commutation and claims payments made during the year on underperforming CDOs of ABS and second-lien RMBS amounting to $2.4 billion during 2008; (ii) terminations of investment agreement liabilities during 2008 amounting to approximately $5.1 billion; and (iii) decline in fair value of securities, most prominently the mortgage and asset-backed securities portfolio caused by the deteriorating global housing market.

Ambac's total liabilities at December 31, 2008 amounted to $20.7 billion, down 3% from $21.3 billion at December 31, 2007. Loss and loss expense reserves increased approximately $1.8 billion year over year, primarily related to deteriorating RMBS exposures while derivative liabilities increased approximately $3.1 billion year over year, primarily related to mark-to-market losses in the CDO portfolio. Those increases were more than offset by: (i) a decline in obligations under investment and payment agreements from $8.6 billion at December 31, 2007 to $3.2 billion driven primarily by terminations and scheduled pay downs of investment agreements in 2008; and (ii) a decline in unearned premiums driven by normal amortization of premiums and significant accelerations from refundings.

At December 31, 2008, Ambac's total stockholders' equity amounted to a deficit of ($3.8) billion. The deficit was driven by the current year net loss and the increase in unrealized losses in the investment portfolio. On a statutory basis, Ambac has positive surplus as regards policyholders amounting to $1.6 billion. Ambac's statutory financial statements will be filed on March 2, 2009.

Ambac’s financial guarantee investment portfolio has a fair value of $7.7 billion (amortized cost of $9.4 billion) at December 31, 2008, and includes $1.3 billion of short-term securities. The portfolio consists of high quality municipal bonds, Treasuries, U.S. Agencies and Agency MBS as well as mortgage and asset-backed securities purchased from the investment agreement (IA) business. In November, Ambac received permission from the OCI to use its resources to allow the investment agreement and derivative products businesses to meet collateral and termination requirements triggered by AAC’s downgrade to Baa1 by Moody’s. As of December 31, 2008, AAC had purchased approximately $2.6 billion of securities, primarily Alt-A RMBS, from the IA business. At December 31, 2008, over 90% of the difference between fair value and amortized cost in the financial guarantee investment portfolio is related to mortgage and asset-backed securities.

Ambac’s total financial guarantee net par exposure has decreased 17% from $524.0 billion at December 31, 2007 to $434.3 billion at December 31, 2008, driven by normal amortization, refundings and commutations. The Structured Finance and International Finance net par exposure has declined $47 billion, or 19%, during the year.

Cash and intercompany receivables at the holding company amounted to $233.0 million at quarter end which approximates 2.0 times annual debt service requirements of the holding company. AAC is not permitted to make dividend payments to the holding company in 2009 without first receiving permission from OCI.

Ambac’s claims paying resources at December 31, 2008 amounted to $13.5 billion. AAC is currently rated A (negative outlook) and Baa1 (developing outlook) by S&P and Moody’s, respectively.

Everspan Update

Ambac continues to work diligently with rating agencies and regulators as it prepares to launch Everspan Financial Guarantee Corp. (Everspan), a wholly-owned subsidiary of AAC. Although Everspan will be a subsidiary of AAC, it will be clearly insulated from the entity. It will have segregated capital, separate risk management and a separate Board of Directors. Douglas Renfield-Miller, CEO of Everspan, stated, “Our experienced management team is in place, our Board is largely identified and we have an established infrastructure that allows us to start up operations immediately upon receipt of capital and ratings.” Mr. Renfield-Miller continued, “There are no current plans for Everspan to assume any of Ambac’s legacy public finance or other exposures. We believe Everspan’s capacity is best utilized for new business and that the market will value a clean entity.”

Annual Meeting of Stockholders

The Board of Directors also set the 2009 Annual Meeting of Stockholders for Tuesday, May 5, 2009, 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 will be the close of business, March 9, 2009.

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 a Baa1 rating (developing outlook) from Moody's Investors Service, Inc. and an A 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, June 30, 2008 and September 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)	Fourth Quarter 2008	Fourth Quarter 2007	Full Year 2008	Full Year 2007
Revenues:				
Financial Guarantee:				
Gross premiums written…………	$117,743	$233,766	$536,875	$1,031,402
Ceded premiums written…………	(16,553)	(184,516)	(53,162)	(277,532)
Net premiums written…………	$101,190	$49,250	$483,713	$753,870
Normal net premiums earned…………	$146,886	$179,826	$640,991	$712,478
Accelerated net premiums earned…………	81,208	29,815	381,766	128,983
Total net premiums earned…………	228,094	209,641	1,022,757	841,461
Net investment income…………	109,496	119,251	480,138	460,297
Net investment income from VIEs…………	3,422	3,551	13,922	4,751
Net realized (losses) gains…………	(61,456)	4,645	9,007	9,931
Realized gains and losses and other settlements on credit derivative contracts…	(988,507)	23,514	(1,794,428)	76,434
Unrealized gains (losses) on credit derivative contracts…………	394,148	(5,199,021)	(2,236,694)	(6,004,391)
Net change in fair value of credit derivative contracts…………	(594,359)	(5,175,507)	(4,031,122)	(5,927,957)
Other income…………	726	3,519	8,523	10,733
Financial Services:				
Investment income…………	50,427	110,868	255,885	445,344
Derivative products…………	(31,963)	(409)	(132,798)	6,877
Net realized investment gains (losses)…………	160,409	(34,180)	(236,350)	(29,053)
Net mark-to-market losses on total return swap contracts…………	(56,766)	(22,678)	(130,965)	(33,301)
Net mark-to-market losses on non-trading derivatives contracts…………	(10,824)	(9,122)	(15,792)	(9,059)
Corporate:				
Net investment income…………	558	903	3,309	5,050
Total revenues…………	(202,236)	(4,789,518)	(2,753,486)	(4,214,926)
Expenses:				
Financial Guarantee:				
Losses and loss expenses…………	916,414	208,509	2,227,583	256,109
Underwriting and operating expenses…………	58,365	34,954	216,196	139,344
Interest expense on variable interest entity notes…………	3,185	3,455	13,488	4,622
Financial Services:				
Interest from investment and payment agreements…………	38,012	107,923	234,977	420,005
Other expenses…………	2,595	2,660	12,747	12,229
Corporate:				
Interest…………	29,804	22,128	114,226	85,740
Other expenses…………	12,536	4,164	45,752	13,941
Total expenses…………	1,060,911	383,793	2,864,969	931,990
Loss before income taxes…………	(1,263,147)	(5,173,311)	(5,618,455)	(5,146,916)
Provision (benefit) for income taxes…………	1,077,670	(1,899,387)	(9,207)	(1,898,759)
Net loss…………	($2,340,817)	($3,273,924)	($5,609,248)	($3,248,157)
Net loss per share…………	($8.14)	($32.03)	($22.31)	($31.56)
Net loss per diluted share…………	($8.14)	($32.03)	($22.31)	($31.56)
Weighted average number of shares outstanding…………	287,506,329	102,201,459	251,391,680	102,929,122
Weighted average number of diluted shares outstanding…………	287,506,329	102,201,459	251,391,680	102,929,122

Consolidated Balance Sheets

($ in Thousands, Except Share Data)	December 31, 2008	December 31, 2007
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of $11,080,723 in 2008 and $17,225,611 in 2007)	$8,537,676	$17,127,485
Fixed income securities pledged as collateral, at fair value (amortized cost of $277,291 in 2008 and $345,140 in 2007)	286,853	374,840
Short-term investments (amortized cost of $1,454,229 in 2008 and $879,039 in 2007)	1,454,229	879,067
Other (cost of $13,956 in 2008 and $13,571 in 2007)	14,059	14,278
Total investments	10,292,817	18,395,670
Cash	107,811	123,933
Receivable for securities sold	15,483	11,068
Investment income due and accrued	116,769	202,737
Reinsurance recoverable on paid and unpaid losses	157,627	11,862
Prepaid reinsurance	307,906	489,028
Deferred taxes	2,127,499	2,116,380
Current income taxes	192,669	-
Deferred acquisition costs	207,229	255,639
Loans	798,848	867,676
Derivative assets	1,866,833	990,534
Other assets	759,595	100,484
Total assets	$16,951,086	$23,565,011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unearned premiums	$2,397,221	$3,123,860
Loss and loss expense reserve	2,265,860	484,276
Ceded reinsurance balances payable	15,597	32,435
Obligations under investment and payment agreements	3,244,098	8,570,902
Obligations under investment repurchase agreements	113,737	135,524
Securities sold under agreement to repurchase	-	100,000
Current income taxes	-	97,826
Long-term debt	1,868,690	1,669,945
Accrued interest payable	68,806	113,443
Derivative liabilities	9,769,514	6,685,528
Minority interest	700,000	-
Other liabilities	279,616	270,734
Payable for securities purchased	10,256	645
Total liabilities	20,733,395	21,285,118
Stockholders' equity:		
Preferred stock	-	-
Common stock	2,944	1,092
Additional paid-in capital	2,030,031	839,952
Accumulated other comprehensive loss	(1,670,198)	(22,138)
Retained earnings	(3,550,768)	2,107,773
Common stock held in treasury at cost	(594,318)	(646,786)
Total stockholders' equity	(3,782,309)	2,279,893
Total liabilities and stockholders' equity	$16,951,086	$23,565,011
Number of shares outstanding (net of treasury shares)	287,239,482	101,550,023
Book value per share	($13.17)	$22.45
Adjusted book value per share	($3.92)	$55.24

Financial Guarantees(1)(2)(3)

($ Thousands)	Fourth Quarter 2008	Fourth Quarter 2007	Full Year 2008	Full Year 2007
Public Finance:				
Gross Par Guaranteed	$285	$9,589,136	$1,604,041	$52,339,044
Up-front Premium	$10	$82,376	$13,071	$416,418
Installment Premium	8,372	7,805	28,099	27,961
Gross Premium	$8,382	$90,181	$41,170	$444,379
Credit Enhancement Production	$10	$97,381	$21,166	$477,822
Net Credit Enhancement Production	$3,155	($63,972)	$42,465	$284,084
Structured Finance:				
Gross Par Guaranteed	$1,055,523	$8,052,380	$7,110,295	$53,563,126
Up-front Premium	$0	$8,187	$2,048	$30,285
Installment Premium	69,371	80,431	289,386	310,813
Gross Premium	$69,371	$88,618	$291,434	$341,098
Credit Enhancement Production	$7,575	$125,955	$65,580	$528,557
Net Credit Enhancement Production	$10,267	$36,185	$94,261	$379,901
International Finance:				
Gross Par Guaranteed	$783,660	$4,419,768	$2,584,326	$20,074,338
Up-front Premium	$0	$3,030	($310)	$33,992
Installment Premium	39,990	51,937	204,581	211,933
Gross Premium	$39,990	$54,967	$204,271	$245,925
Credit Enhancement Production	$817	$81,198	$7,758	$407,210
Net Credit Enhancement Production	$12,694	($7,527)	$75,869	$233,966
Grand Total:				
Gross Par Guaranteed	$1,839,468	$22,061,284	$11,298,662	$125,976,508
Up-front Premium	$10	$93,593	$14,809	$480,695
Installment Premium	117,733	140,173	522,066	550,707
Gross Premium	$117,743	$233,766	$536,875	$1,031,402
Credit Enhancement Production	$8,402	$304,534	$94,504	$1,413,589
Net Credit Enhancement Production	$26,116	($35,314)	$212,595	$897,951

(1) Credit enhancement production (CEP) and net credit enhancement production (NCEP) includes reinsurance assumed of $0.1 million and $3.4 million in the fourth quarter and full year ended December 2008, respectively, offset by a cancellation of an assumed reinsurance contract resulting in ($0.7) million in CEP and NCEP for the full year ended December 2008. CEP and NCEP includes reinsurance assumed of $4.3 million and $19.7 million in the fourth quarter and full year ended December 2007, respectively. NCEP for the fourth quarter and full year ended December 2008 includes $17.7 million and $120.7 million of recaptured reinsurance cessions relating to the cancellation of certain reinsurance contracts, respectively. NCEP is defined as CEP less reinsurance cessions.

(2) International Finance includes components of domestic exposure.

(3) CEP and NCEP were discounted at rates of 5.2%, 5.0%, 5.3% and 5.9% in the first, second, third and fourth quarters of 2008, respectively, and at 5.4%, 5.4%, 5.8%, and 5.6% in the first, second, third and fourth quarters of 2007.

Normal Net Insurance Premiums Earned and Fees on Credit Derivatives

2008 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance:					
Up-front premiums earned	$48,778	$46,106	$42,397	$40,400	$177,681
Installment premiums earned	7,033	6,960	6,100	6,036	26,129
Total Public Finance premiums earned	55,811	53,066	48,497	46,436	203,810
Structured Finance:					
Up-front premiums earned	3,956	3,939	3,389	3,510	14,794
Installment premiums earned	66,418	63,430	59,903	56,484	246,235
Total Structured Finance premiums earned	70,374	67,369	63,292	59,994	261,029
International Finance:					
Up-front premiums earned	5,082	5,122	4,831	4,836	19,871
Installment premiums earned	41,603	40,687	38,371	35,620	156,281
Total International Finance premiums earned	46,685	45,809	43,202	40,456	176,152
Total normal premiums earned	$172,870	$166,244	$154,991	$146,886	$640,991
Fees on credit derivative contracts (1)	$16,973	$16,709	$15,342	$13,701	$62,725

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	Full Year
Earned premium recognized from refundings, calls and other accelerations	$13,996	$159,227	$127,335	$81,208	$381,766
Net income effect	$20,372	$87,738	$85,315	$50,909	$244,334
Net income per diluted share effect	$0.15	$0.30	$0.30	$0.18	$0.98

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	Insured	Insured Percent	Insured by Ambac: Insured	Market Share Percent
2008 By Quarter					
Fourth	$69,815	$7,036	10.1%	$49	0.7%
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					
2008	$386,623	$72,174	18.7%	$767	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 December 31, 2008

($ Millions)	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2009	$37,931	$658,023
2010	36,952	621,071
2011	44,842	576,229
2012	34,035	542,194
2013	35,078	507,116
2009-2013	188,838	507,116
2014-2018	150,922	356,194
2019-2023	114,907	241,287
2024-2028	82,438	158,849
After 2028	158,849	-
Total	$695,954	

Net Unearned Premium Amortization and Estimated Future Installment Premiums

As of December 31, 2008

	Net Unearned Premium Amortization [2]		Estimated Net Future Installments[3]	Total Premium Earnings	Fees on Credit Derivative Contracts
($ Millions)	Upfront	Installments			
2009	$181.4	$40.4	$316.4	$538.2	$50.5
2010	168.1	2.8	296.1	467.0	48.3
2011	156.4	2.5	252.1	411.0	43.4
2012	145.4	1.7	210.2	357.3	39.5
2013	133.5	1.3	181.7	316.5	35.6
2009-2013	784.8	48.7	1,256.5	2,090.0	217.3
2014-2018	527.7	4.7	559.6	1,092.0	93.3
2019-2023	341.5	2.7	367.1	711.3	39.3
2024-2028	205.7	2.3	248.0	456.0	24.3
After 2028	169.7	1.5	247.4	418.6	9.9
Total	$2,029.4	$59.9	$2,678.6	$4,767.9	$384.1

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of December 31, 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 December 31, 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	$150,641	$144,903	2.37%	1.54%	$7,001
U.S. agency obligations	110,509	103,326	4.22%	2.74%	12,645
Municipal obligations (2) (3)	4,260,543	4,421,331	4.71%	4.57%	338,711
Foreign obligations	150,369	143,328	4.59%	2.98%	12,591
Corporate obligations	241,688	254,010	5.92%	3.85%	25,077
Mortgage and asset-backed securities	1,477,960	3,062,582	5.89%	3.83%	63,531
Total long-term investments	6,391,710	8,129,480	5.14%	4.16%	459,556
Short-term investments (4)	1,271,800	1,271,800	1.11%	0.57%	24,457
Other (5)	13,079	13,079			15,065
Total Financial Guarantee investments	7,676,589	9,414,359	4.59%	3.67%	499,078
Investment expenses					(5,018)
Financial Guarantee net investment income					$494,060
Financial Services investments (6)					
Long-term investments					
U.S. government obligations	162,879	153,003			
U.S. agency obligations	480,732	410,160			
Corporate obligations	139,876	189,794			
Mortgage and asset-backed securities	1,649,332	2,475,577			
Total long-term investments	2,432,819	3,228,534			
Short-term investments	80,328	80,328			
Total Financial Services investments	2,513,147	3,308,862			
Corporate investments:					
Short-term investments	102,101	102,101			
Other	980	877			
Total Corporate investments	103,081	102,978			
Total Investments	$10,292,817	$12,826,199			

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO (7)

	Percent of Investment Portfolio		
Rating	Fin. Guar.	Fin. Services	Combined
AAA (2) (8)	38%	94%	53%
AA	37%	6%	29%
A	16%	0%	12%
BBB	5%	0%	4%
Below investment grade	3%	0%	2%
Not rated	<1%	0%	<1%
	100%	100%	100%
Duration of Financial Guarantee investment portfolio			4.6

(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 $142,631 and comprise approximately 2% of the Financial Guarantee portfolio, to be AAA.
(3) Includes taxable and tax-exempt municipal obligations with a fair value of $262,782 and $3,997,761, respectively.
(4) Includes taxable and tax-exempt short-term investments with a fair value of $1,004,942 and $266,857, 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.
(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 5% and 61% of the Financial Guarantee and Financial Services portfolios respectively.

Ratio of Net Claims Paid [1]

($ Thousands)	2008	2007	2006	2005	2004
Net claims paid [2]	$2,428,165	($2,128)	$105,568	$86,739	$18,923
Net insurance premiums and credit derivative fees	$1,085,482	$917,895	$871,383	$866,415	$764,510
Ratio of net claims paid	223.7%	-0.2%	12.1%	10.0%	2.5%

Summary of Net Insurance Loss Reserves and Credit Derivatives

($ Thousands)	12/31/08	12/31/07	12/31/06	12/31/05
Case basis credit reserves	$1,160,539	$109,816	$42,458	$103,064
Active credit reserves	969,219	363,372	172,644	197,607
Total insurance reserves	2,129,758	473,188	215,102	300,671
Estimated credit impairment losses on credit derivatives [3]	3,740,202	1,105,741	-	-
Total impairment losses	5,869,960	1,578,929	215,102	300,671
Mark-to-market reserve (asset) on credit derivatives [3]	4,491,955	4,889,721	(8,929)	165
Mark-to-market reserve (asset) on total return swaps	77,960	21,901	(11,195)	(14,718)
Grand total net insurance loss reserves and credit derivatives	$10,439,875	$6,490,551	$194,978	$286,118

Summary of Below Investment Grade Exposures

($ Millions)	Net Par Outstanding	Total Impairment Losses
Public Finance:		
Transportation Revenue	$1,141	
Health Care	329	
Other	1,061	
Total Public Finance	2,531	162
Structured Finance:		
CDO of ABS >25% MBS	$22,020	$3,740
Mortgage-Backed & Home Equity - Second Lien	8,295	1,164
Mortgage-Backed & Home Equity - Mid prime	4,639	428
Mortgage-Backed & Home Equity - Sub prime	1,098	65
Student Loans	859	27
Enhanced Equipment Trust Certificates	663	-
Mortgage-Backed & Home Equity - Other	416	72
Investor-Owned Utilities	44	-
Other CDOs	21	8
Other	1,855	204
Total Structured Finance	39,910	5,708
International Finance:	$139	
Total	$42,580	$5,870

(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 $1,857.2, $0, $0, $0 and $0 million for 2008, 2007, 2006, 2005 and 2004, respectively, and are net of salvage received of $11.7 million, $27.9 million, $16.7 million, $9.4 million, and $33.6 million for 2008, 2007, 2006, 2005, and 2004 respectively.

(3) Total net mark-to-market losses are $8,232,157 as of December 31, 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	$ 17,926	$ 114,017
Premium taxes	2,425	2,727	2,390	(352)	7,190
Other non-compensation	10,037	14,581	13,985	24,011	62,614
Gross underwriting and operating expenses	**38,703**	**53,953**	**49,580**	**41,585**	**183,821**
Operating expenses deferred (policy acquisition costs)	(3,357)	(3,226)	(2,404)	2,380	(6,607)
Ceding commissions received	(5,616)	(3,925)	(9,336)	794	(18,083)
Ceding commissions deferred	5,616	3,925	9,336	5,256	24,133
Amortization of previously deferred expenses and commissions	13,636	11,226	(280)	8,216	32,798
Total Financial Guarantee underwriting and operating expenses	48,982	61,953	46,896	58,231	216,062
Financial Services operating expenses	**3,389**	**3,297**	**3,466**	**2,595**	**12,747**
Corporate operating expenses	**16,076**	**7,113**	**10,027**	**12,536**	**45,752**
Total underwriting and operating expenses, net of deferred expenses	$ 68,447	$ 72,363	$ 60,389	$ 73,362	$ 274,560
Total gross underwriting and operating expenses	**$ 58,168**	**$ 64,363**	**$ 63,073**	**$ 56,716**	**$ 242,319**

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

	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04
Deferred Acquisition Costs	$ 207,229	$ 255,639	$ 252,115	$ 226,168	$ 198,142
Unearned Premium Reserves	2,397,221	3,123,860	3,037,544	2,940,988	2,765,163
Prepaid Reinsurance Premiums	(307,906)	(489,028)	(315,498)	(303,383)	(297,330)
Present Value of Installment Premiums	2,376,748	2,887,409	2,502,764	2,238,990	2,123,121
Adjusted Deferred Premiums	$ 4,466,063	$ 5,522,241	$ 5,224,810	$ 4,876,595	$ 4,590,954
Deferred Expenses to Adjusted Deferred Premiums Ratio	4.6%	4.6%	4.8%	4.6%	4.3%

Historical Financial Guarantee Exposures Outstanding [1]

($ Millions Net Par Value)	December 31, 2008	2007	2006	2005	2004
Public Finance:					
Lease and tax backed	$77,060	$88,147	$89,042	$82,584	$76,007
General obligation	58,296	63,977	62,834	57,982	49,394
Utility	32,166	37,976	38,313	36,877	36,326
Transportation	22,306	25,466	24,979	23,718	21,188
Higher education	17,959	20,685	22,068	20,203	18,056
Health care	15,115	27,161	27,849	26,994	23,977
Housing	10,862	11,531	10,996	10,152	9,163
Other	4,457	6,010	6,181	5,556	5,588
Total Public Finance	238,221	280,953	282,262	264,066	239,699
Structured Finance:					
Mortgage-backed & home equity	36,995	43,078	46,239	48,869	53,148
Asset-backed and conduits	25,443	36,407	34,815	32,505	28,858
CDO of ABS >25% MBS	23,190	29,127	20,145	7,533	900
Other CDOs	19,988	22,174	20,423	18,213	15,135
Student loan	16,644	18,372	18,404	16,538	14,646
Investor-owned utilities	14,650	17,055	17,345	16,398	15,449
Other	3,499	4,485	5,212	4,296	4,318
Total Structured Finance	140,409	170,698	162,583	144,352	132,454
International Finance[2]:					
Asset-backed and conduits	16,383	19,290	17,642	15,151	15,553
Other CDOs	12,784	15,572	19,978	23,427	35,831
Investor-owned and public utilities	8,492	10,384	10,531	8,052	5,965
Transportation	6,870	7,784	6,524	5,156	5,157
Sovereign/sub-sovereign	5,980	7,347	6,344	3,585	4,110
Mortgage-backed & home equity	3,669	10,106	11,951	14,627	19,644
Other	1,502	1,891	1,228	669	1,019
Total International Finance	55,680	72,374	74,198	70,667	87,279
Grand Total	$434,310	$524,025	$519,043	$479,085	$459,432

Percent of Total Net Par Outstanding	2008	2007	2006	2005	2004
Public Finance	54.9%	53.6%	54.4%	55.1%	52.2%
Structured Finance	32.3%	32.6%	31.3%	30.1%	28.8%
International Finance	12.8%	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 $53,918, $64,988, $55,460, $43,712 and $43,478 at December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

(2) International transactions include components of domestic exposure.

Bond Type Distribution of Financial Guarantee Exposures

	Guaranteed Full Year			
($ Millions Par Value)	Gross	%	Net[1]	%
Public Finance:				
Lease and tax backed	$653	5.8%	$1,032	6.0%
General obligation	270	2.4%	519	3.0%
Utility	153	1.4%	575	3.4%
Transportation	34	0.3%	340	2.0%
Higher education	14	0.1%	470	2.7%
Health care	127	1.1%	538	3.1%
Housing	346	3.1%	374	2.2%
Other	7	0.1%	25	0.1%
Total Public Finance	1,604	14.2%	3,873	22.6%
Structured Finance:				
Mortgage-backed & home equity	35	0.3%	728	4.2%
Asset-backed and conduits	5,836	51.7%	5,991	35.0%
CDO of ABS > 25% MBS[3]	101	0.9%	101	0.6%
Other CDOs[3]	655	5.8%	653	3.8%
Student loan	-	0.0%	446	2.6%
Investor-owned utilities	231	2.0%	539	3.1%
Other	252	2.2%	364	2.1%
Total Structured Finance	7,110	62.9%	8,822	51.5%
International Finance[2]:				
Asset-backed and conduits	433	3.8%	1,089	6.4%
Other CDOs[3]	1,391	12.3%	1,347	7.9%
Investor-owned and public utilities	-	0.0%	665	3.9%
Transportation	760	6.7%	904	5.3%
Sovereign/sub-sovereign	-	0.0%	362	2.1%
Mortgage-backed & home equity	-	0.0%	14	0.1%
Other	-	0.0%	57	0.3%
Total International Finance	2,584	22.9%	4,438	25.9%
Grand Total	$11,298	100.0%	$17,133	100.0%

(1) Net financial guarantees written reflects the recapture of $7,026 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 December 31, 2008 is $2,212 million for Other CDO's.

Geographic Distribution of Financial Guarantee Exposures

($ Millions Par Value)	Guaranteed Full Year				Net Par Outstanding as of December 31, 2008	
	Gross	%	Net[1]	%	Net	%
Domestic:						
California	$517	4.6%	$1,046	6.1%	$45,343	10.4%
New York	307	2.7%	426	2.5%	25,972	6.0%
Florida	243	2.2%	432	2.5%	18,724	4.3%
Texas	153	1.4%	450	2.6%	17,674	4.1%
New Jersey	-	0.0%	12	0.1%	12,204	2.8%
Pennsylvania	50	0.4%	169	1.0%	10,879	2.5%
Illinois	67	0.6%	132	0.8%	10,544	2.4%
Massachusetts	-	0.0%	146	0.9%	8,184	1.9%
Colorado	255	2.3%	286	1.7%	6,818	1.6%
Ohio	6	0.1%	79	0.5%	6,432	1.5%
Mortgage and asset-backed	5,871	52.0%	6,719	39.2%	62,438	14.4%
Other states	1,245	11.0%	2,798	16.3%	153,418	35.3%
Total Domestic	8,714	77.1%	12,695	74.1%	378,630	87.2%
International:						
United Kingdom	9	0.1%	1,282	7.5%	20,151	4.6%
Australia	16	0.1%	441	2.6%	4,952	1.1%
Italy	-	0.0%	85	0.5%	2,843	0.7%
Japan	4	0.0%	110	0.6%	2,415	0.6%
Turkey	-	0.0%	57	0.3%	1,913	0.4%
Internationally diversified	1,791	15.9%	1,744	10.2%	14,937	3.4%
Other international	764	6.8%	719	4.2%	8,469	1.9%
Total International	2,584	22.9%	4,438	25.9%	55,680	12.8%
Grand Total	$11,298	100.0%	$17,133	100.0%	$434,310	100.0%

Rating Distribution of Net Financial Guarantee Exposures[2]

As of December 31, 2008

Rating	Percentage of Guaranteed Portfolio: Public Finance	Structured and International Finance	Total
AAA	<1	17	7
AA	28	14	22
A	58	20	41
BBB	13	31	21
BIG	1	18	9
	100	100	100

(1) Net financial guarantees written reflects the recapture of $7,026 million relating to the cancellation of certain reinsurance contracts.

(2) 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 +	$199.5	$3,066	0.7%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	$147.2	2,031	0.5%
Washington State - GO	AA	$134.2	1,829	0.4%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	$117.2	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	$91.7	1,372	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	$82.5	1,337	0.3%
Massachusetts Commonwealth - GO	AA	$86.4	1,291	0.3%
Central Texas Turnpike, System Revenue	BBB +	$107.1	1,095	0.3%
California Department of Water Resources, Power Supply	A	$144.4	1,034	0.2%
Los Angeles Unified School District, CA - GO	AA -	$71.5	999	0.2%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	$72.0	982	0.2%
South Carolina Transportation Infrastructure Bank Revenue	A	$67.5	978	0.2%
New York City, NY - GO	AA -	$51.9	975	0.2%
Nassau County Interim Finance Authority, NY, Sales Tax Revenue	AA	$84.6	972	0.2%
Port Authority of New York & New Jersey, Consolidated Revenue	AA -	$67.3	926	0.2%
Connecticut Housing Finance Authority, Housing Mortgage Finance Program	AAA	$53.1	924	0.2%
University of California Board of Regents, General Revenue	AA -	$50.4	923	0.2%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A -	$52.6	885	0.2%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BBB +	$49.9	831	0.2%
Connecticut State Special Tax Obligations	AA -	$60.8	828	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	$48.9	826	0.2%
Chicago, IL - GO	A +	$38.6	815	0.2%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	$68.2	810	0.2%
Puerto Rico Sales Tax Financing Corporation	A +	$154.6	775	0.2%
Total:			$29,331	6.8%

Largest Domestic Healthcare Exposures

($ Millions)	Ambac Rating(2)	AADS(3)	Net Par Outstanding	% of Total Net Par Outstanding
Sisters of Mercy Health System - Missouri	AA	$30.0	$326	0.1%
Children's Hospital Boston - Massachusetts	AA	$22.1	315	0.1%
New York City Health and Hospitals Corporation	A	$30.6	302	0.1%
Catholic Healthcare Partners - Ohio	A +	$20.7	281	0.1%
Catholic Health East - Pennsylvania	A +	$20.8	274	0.1%
Parkview Health System - Indiana	A +	$12.8	204	0.0%
Reading Hospital - Pennsylvania	AA -	$9.9	194	0.0%
Baylor College of Medicine - Texas	A +	$9.9	186	0.0%
Adventist Health System - Florida	A +	$11.7	182	0.0%
ProMedica Healthcare Obligated Group - Ohio	A +	$10.6	181	0.0%
Total:			$2,445	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	$2,884	0.7%
CDO of ABS < 25% MBS	AAA	2,515	0.6%
Kleros Preferred Funding VI, Ltd.	BIG	2,362	0.5%
Iowa Student Loan Liquidity Corporation Revenue Bonds	A	2,243	0.5%
Private Commercial Asset-Backed Transaction	BBB +	2,159	0.5%
Ridgeway Court Funding II, Ltd.	BIG	1,942	0.4%
Hertz Vehicle Financing, LLC	BBB	1,815	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2	BBB +	1,814	0.4%
Diversey Harbor ABS CDO, Ltd.	BIG	1,798	0.4%
Ridgeway Court Funding I, Ltd.	BIG	1,527	0.4%
Michigan Higher Education Student Loan Authority	AA	1,514	0.3%
Duke Funding High Grade III, Ltd.	BIG	1,462	0.3%
Vermont Student Assistance Corporation Revenue Bonds	A	1,456	0.3%
Belle Haven ABS CDO 2006-1, Ltd.	BIG	1,431	0.3%
Citibank - CAFCO, LLC	AAA	1,273	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,265	0.3%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BBB +	1,260	0.3%
Citibank - CHARTA, LLC	AAA	1,213	0.3%
Citibank - CRC Funding, LLC	AAA	1,177	0.3%
Private Consumer Asset-Backed Transaction	A	1,167	0.3%
Cendant Rental Car Funding	BBB -	1,152	0.3%
McKinley Funding III, Ltd.	BIG	1,136	0.3%
Citibank - CIESCO, LLC	AAA	1,102	0.3%
Millerton II High Grade ABS CDO, Ltd.	BIG	1,064	0.2%
Hereford Street ABS CDO I, Ltd.	BBB	984	0.2%
Total:		$39,715	9.1%

Largest International Finance Exposures

($ Millions)	Ambac Rating[1]	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation	A +	$2,052	0.5%
CDO of IG Corporate	AAA	1,900	0.4%
Telereal Securitisation plc	AA -	1,337	0.3%
Punch Taverns Finance plc-UK Pub Securitisation	A +	1,162	0.3%
Private Consumer Asset-Backed Transaction	A	1,047	0.2%
Romulus Finance s.r.l.	BBB -	981	0.2%
Synthetic RMBS	AAA	966	0.2%
Channel Link Enterprises	BBB	956	0.2%
CDO of HY Corporate	AA	938	0.2%
CDO of HY Corporate	AAA	924	0.2%
CDO of HY Corporate	AAA	811	0.2%
TubeLines (Finance) plc	A	775	0.2%
Metronet Rail(2)	AA	749	0.2%
Spirit Issuer plc	BBB	744	0.2%
Babcock & Brown Air Funding I Limited	BBB +	707	0.2%
Private CMBS Transaction	AAA	704	0.2%
Aspire Defence Finance plc	BBB -	680	0.2%
Sydney Airport Finance Co. Pty Ltd	BBB	668	0.2%
Regione Campania	A -	658	0.2%
RMPA Services plc	BBB	655	0.2%
Banco de Credito del Peru-DPR Securitization	A	652	0.2%
National Grid Electricity Transmission	A -	647	0.1%
Capital Hospitals plc	BBB -	623	0.1%
Airspeed Limited	BBB +	610	0.1%
Garanti Diversified Payment Rights Company	BBB	570	0.1%
Total:		$22,516	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)	December 31, 2008	December 31, 2007
Contingency reserve	$1,929,609	$3,106,462
Surplus to Policyholders	1,554,448	3,316,143
Qualified statutory capital	3,484,057	6,422,605
Unearned premiums	2,733,206	3,320,054
Losses and loss adjustment expenses	1,169,116	109,816
Estimated impairment losses on credit derivatives	3,352,129	756,714
Policyholders' reserves	10,738,508	10,609,189
Third party capital support [2]	100,000	800,000
Present Value of Future Installment Premiums [3]	2,662,564	3,102,968
Total Claims-Paying Resources	13,501,072	14,512,157
Net financial guarantees in force	$695,954,357	$833,303,123
Capital Ratio [4]	200 : 1	130 : 1
Claims-Paying Ratio [5]	52 : 1	57 : 1
Gross financial guarantees in force	$811,177,854	$995,031,995
Gross par outstanding	$497,960,107	$612,074,543

	Fourth Quarter 2008	Full Year 2008	Full Year 2007
Statutory financial ratios:			
Loss ratio [6]	233.5%	149.6%	8.1%
Expense ratio [7]	37.1%	30.9%	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-case scenarios. Rating agencies may apply adjustments to claims-paying resources to reflect their views of realization.
(2) In December 2008, the Company exercised a series of perpetual put options on its own preferred stock. The Company received $800 million in return for the issuance of preferred stock, $700 million of which was received by December 31, 2008. The remaining $100 million was received on January 2, 2009.
(3) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts, credit derivatives and other credit enhancement products. Present value calculations utilize the Moody's rating agency prescribed exposure amortization schedules discounted at 6.0% at December 31, 2008. Present value calculations utilize the Fitch's rating agency prescribed exposure amortization schedules discounted at 5.0% at December 31, 2007. Ambac internal estimates of present value of future installment premiums at December 31, 2008 and December 31, 2007 are $2,376,748, and $2,887,409, respectively at a discount rate of 4.9% 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.

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