



Ambac

2010 Quarterly Operating Supplement

Q2

► Financial Highlights

Share price	\$0.67
Market capitalization	\$202.4 million
Net loss	\$(57.6) million
Net loss per diluted share	\$(0.20)

Company Profile

Ambac Financial Group, Inc. (“Ambac”), headquartered in New York City, is a holding company whose affiliates provided financial guarantees and financial services to clients in both the public and private sectors around the world. The principal operating subsidiary, Ambac Assurance Corporation (“Ambac Assurance”), a guarantor of public finance and structured finance obligations, has a Caa2 rating under review for possible upgrade by Moody’s Investors Service, Inc. and an R (regulatory intervention) financial strength rating from Standard & Poor’s Ratings Services. Ambac, 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

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Ambac Financial Group, Inc.
Quarterly Operating Supplement
Second Quarter 2010

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Note 1: 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 2: Information contained in this report is unaudited.

Annual Financial and Statistical Data

(Dollars in millions except share data)

	2009 ⁽¹⁾	2008 ⁽²⁾	2007 ⁽³⁾	2006	2005	2004	2003	2002 ⁽⁴⁾	2001	2000
Summary Financial Data:										
Financial Guarantee:										
Credit enhancement production (non-GAAP)	n.m.	\$95	\$1,414	\$1,295	\$1,249	\$1,288	\$1,489	\$1,299	\$974	\$711
Gross premiums written	(\$49)	537	1,031	997	1,096	1,048	1,144	904	683	483
Net premiums earned	797	1,023	841	811	816	717	620	472	379	311
Net investment income ⁽⁵⁾	483	480	460	424	378	355	321	297	268	241
Loss and loss expenses ⁽⁶⁾	2,815	2,266	256	20	150	70	53	27	20	15
Underwriting and operating expenses	176	216	139	134	118	107	92	77	68	55
Financial Services ⁽⁷⁾ :										
Revenue	(136)	123	452	408	286	225	230	272	274	333
Expenses	47	248	432	372	253	184	208	241	244	295
Net (loss) income per diluted share	(\$0.05)	(\$22.31)	(\$31.56)	\$8.15	\$6.87	\$6.53	\$5.66	\$3.97	\$3.97	\$3.41
Net (loss) income per diluted share growth rate	n.m.	n.m.	n.m.	18.6%	5.2%	15.4%	42.6%	0.0%	16.4%	18.4%
Return on equity	n.m.	n.m.	-76.7%	15.1%	14.4%	15.6%	15.7%	13.1%	15.5%	15.9%
Total investments	9,229	10,293	18,396	17,434	15,592	14,422	13,965	12,539	10,288	8,324
Total assets	18,886	17,260	23,565	20,268	18,546	17,673	16,747	15,356	12,340	10,120
Unearned premium reserve	5,687	2,382	3,124	3,038	2,941	2,779	2,545	2,129	1,780	1,546
Loss and loss expense reserve	4,772	2,276	484	220	304	254	189	172	151	132
Obligations under investment, repurchase and payment agreements	1,291	3,358	8,706	8,357	7,253	7,081	7,076	7,283	5,512	4,893
Long-term debt ⁽⁸⁾	1,632	1,624	1,389	992	1,192	792	792	617	619	424
Stockholders' equity	(2,288)	(3,782)	2,280	6,190	5,388	5,024	4,255	3,625	2,984	2,596
Statutory Data:										
Qualified statutory capital	\$1,154	\$3,484	\$6,422	\$6,383	\$5,693	\$5,264	\$4,526	\$3,736	\$3,262	\$2,736
Unearned premium reserve	2,390	2,733	3,320	3,373	3,208	2,972	2,649	2,223	1,860	1,615
Loss and loss expense reserve	1,141	1,169	110	42	103	117	55	49	28	31
Estimated impairment losses on credit derivatives	3,842	3,352	757	-	-	-	-	-	-	-
Policyholders' reserves	8,527	10,738	10,609	9,798	9,004	8,353	7,230	6,008	5,150	4,382
Third party capital support	-	100	800	800	800	800	800	800	800	800
P.V. of future installment premiums	2,313	2,663	3,103	2,503	2,166	2,060	1,556	1,342	987	764
Total claims-paying resources	\$10,840	\$13,501	\$14,512	\$13,101	\$11,970	\$11,213	\$9,586	\$8,150	\$6,937	\$5,946
Net par outstanding	\$390,406	\$434,310	\$524,025	\$519,043	\$479,085	\$459,432	\$425,854	\$379,211	\$318,043	\$276,252
Net debt service outstanding	\$619,566	\$695,954	\$833,303	\$802,694	\$726,612	\$685,234	\$625,564	\$557,422	\$476,190	\$418,386
Financial Ratios:										
Loss and loss expense ratio	556.9%	619.0%	148.4%	2.3%	17.3%	9.1%	8.2%	6.5%	5.3%	4.8%
Underwriting expense ratio	20.8%	19.9%	15.2%	15.3%	13.6%	13.9%	13.8%	15.3%	17.0%	17.1%
Combined ratio	577.7%	638.9%	163.6%	17.6%	30.9%	23.0%	22.0%	21.8%	22.3%	21.9%

1) Net income was positively impacted by the net change in fair value of credit derivatives of \$3,813 million or \$13.25 per diluted share.

2) 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

3) 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.

4) 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.

5) Excludes variable interest entity investment income of \$10.9 million, \$13.9 million and \$4.8 million from 2009, 2008 and 2007, respectively.

6) 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.

7) Financial Services revenues exclude other-than-temporary losses, net realized investment gains/losses, net mark-to-market gains/losses on non-trading derivatives and net mark-to-market gains/losses on total return swaps. Amount also exclude the discontinued operations of Cadre Financial Services, Inc.

8) Excludes the portion of long-term debt associated with variable interest entities.

**AMBAC FINANCIAL GROUP, INC. ANNOUNCES
SECOND QUARTER 2010 RESULTS**

NEW YORK, August 9, 2010--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced a second quarter 2010 net loss of \$57.6 million, or a net loss of \$0.20 per share. This compares to a second quarter 2009 net loss of \$2,368.8 million, or a net loss of \$8.24 per share. The second quarter 2010 results reflect loss and loss expenses in consumer asset-backed securities, other structured finance exposures and a transportation transaction and a net operating loss in the financial services segment, partially offset by a positive change in fair value of credit derivatives. In 2009, Ambac's second quarter results reflected significant loss and loss expenses related to the insured residential mortgage-backed securities ("RMBS") portfolio, other-than-temporary impairment write downs of securities in its investment portfolios and an increase in its deferred tax asset valuation allowance.

Second Quarter 2010 Summary

- Net loss and loss expenses incurred amounted to \$323.3 million for the current quarter, down from \$1,230.8 million in the second quarter of 2009.
- Net change in fair value of credit derivatives was positive \$202.2 million in the current quarter, up from \$1.0 million in the second quarter 2009.
- The financial services segment recorded a \$69.6 million operating loss primarily related to interest rate movements in the derivative products business.
- Statutory surplus of Ambac Assurance Corporation ("AAC") increased to approximately \$1.5 billion at June 30, 2010 from \$160.2 million at March 31, 2010, driven primarily by the CDO of ABS commutation settlement on June 7, 2010.

Financial Results

Implementation of New Accounting Standards

Effective January 1, 2010, Ambac adopted Accounting Standards Update No. ("ASU") 2009-17, "Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities". The implementation of ASU 2009-17 on January 1, 2010, required Ambac to consolidate 83 additional VIEs resulting in an increase to shareholders' equity of \$705 million. This adoption gain resulted from the initial recognition of all assets and liabilities of the newly consolidated VIEs at fair value in Ambac's financial statements, while eliminating from our financial statements the related net insurance liabilities which are generally calculated using estimated future cash flows discounted at risk free interest rates. In March 2010, Ambac acquiesced to Office of the Commissioner of Insurance of the State of Wisconsin's ("OCI's") request to establish a segregated account pursuant to Wisconsin statutes (the "Segregated Account") for purposes of initiation of the rehabilitation of the Segregated Account and AAC allocated certain policies to the Segregated Account. This action resulted in Ambac no longer having the unilateral power to direct the activities of certain VIEs whose insurance policies were allocated to the Segregated Account and therefore those VIEs were de-consolidated in March 2010. The de-consolidation resulted in Ambac reversing the ASU 2009-17 transition effect for those specific transactions with the charge to Ambac's Consolidated Statement of Operations amounting to \$492.7 million in the first quarter of 2010.

As of June 30, 2010, the Company's balance sheet included 24 remaining consolidated VIEs with \$18.0 billion of assets and \$17.8 billion of liabilities.

Net Premiums Earned

Net premiums earned for the second quarter of 2010 were \$167.0 million, down 6% from \$177.7 million earned in the second quarter of 2009. Net premiums earned include accelerated premiums, which result from calls, terminations and other accelerations recognized during the quarter. Accelerated premiums were \$54.3 million in the second quarter of 2010, up 61% from \$33.8 million in the second quarter 2009. Normal net premiums earned, which exclude accelerated premiums, were \$112.7 million in the second quarter of 2010, down 22% from \$143.9 million in the second quarter of 2009. Normal net premiums earned for the period have been negatively impacted by the lack of new business written and the high level of refundings and terminations over the past two and a half years, as well as non-recognition of premiums earned on VIEs that have been consolidated as a result of implementation of ASU 2009-17, effective January 1, 2010.

Net Investment Income

Net investment income for the second quarter of 2010 was \$69.0 million, representing a decrease of 45% from \$125.5 million in the second quarter of 2009. The decrease was primarily driven by three factors: (i) a decrease in the asset base as commutation settlements on CDO of ABS transactions (including the \$2.8 billion payment in the current quarter) and claim payments on insured RMBS and other transactions over the past 12 months were greater than the cash inflows resulting from collections of financial guarantee premiums, fees, tax refunds and coupon receipts on invested assets over the same period; (ii) the average yield on the portfolio decreased as a result of maintaining a large portion of the portfolio in highly liquid short-term securities awaiting the finalization of the CDO of ABS commutation; and (iii) a reduction in interest income related to AAC-insured RMBS held in the financial guarantee investment portfolio that are subject to the payment moratorium ordered by the OCI in connection with the rehabilitation plan for the Segregated Account of AAC.

Other-Than-Temporary Impairment Losses

Other-than-temporary impairment (“OTTI”) losses in the financial guarantee investment portfolio were \$7.5 million in the second quarter of 2010, compared to OTTI losses of \$675.4 million in the second quarter of 2009. The second quarter 2010 OTTI loss was driven primarily by impairment write downs on AAC-wrapped RMBS securities within its investment portfolio. The second quarter 2009 OTTI impairment loss was driven by write-downs of certain RMBS securities rated below investment grade and tax exempt securities within the investment portfolio that management intended to sell in connection with its revised investment strategies.

Net Change in Fair Value of Credit Derivatives

The net change in fair value of credit derivatives, which comprises realized gains/(losses) and other settlements from credit derivatives and unrealized gains/(losses) on credit derivatives, was a gain of \$202.2 million for the second quarter of 2010, compared to a gain of \$1.0 million for the second quarter of 2009.

Realized losses and other settlements from credit derivative contracts represent the normal accretion into income of fees received for transactions executed in credit derivative format, offset by loss and settlement payments on such transactions. Net realized losses and other settlements from credit derivative contracts in the second quarter of 2010 and 2009 amounted to \$2,777.3 million and \$5.0 million, respectively. The net realized losses in the second quarter 2010 relate primarily to the counterparty settlement of the CDO of ABS portfolio that was announced on June 7, 2010. Ambac paid in the aggregate, cash of \$2.6 billion and \$2.0 billion of newly issued surplus notes to several counterparties to settle the \$16.4 billion of CDO of ABS exposure outstanding at that time. In addition, Ambac settled other exposures for \$186.5 million.

Net unrealized gains on credit derivative contracts in the second quarter of 2010 and 2009 amounted to \$2,979.5 million and \$6.0 million, respectively. The net unrealized gain during the second quarter of 2010 is primarily the result of reclassification of unrealized losses to realized losses resulting from the commutations referenced above. Additionally, the unrealized gains were impacted by the net decrease in mark-to-market liabilities of the remaining credit derivative portfolio due to higher valuation adjustments to reflect Ambac's own credit risk. Beginning in the second quarter 2010, the Ambac credit valuation adjustment is internally estimated using relevant data points, including the final settlement value of AAC credit default swaps (determined through auction in June 2010) and quoted prices of securities guaranteed by AAC, which indicate the market's view of the recovery rate on AAC's insurance obligations.

Financial Guarantee Loss Reserves

Total net loss and loss expenses were \$323.3 million in the second quarter of 2010, compared to \$1,230.8 million in the second quarter of 2009. Losses and loss expenses in the second quarter of 2010 were primarily related to credit deterioration in certain student loan transactions and the impact of using a lower average risk-free rate to discount losses. Second quarter of 2009 loss and loss expenses were driven by continued deterioration in the RMBS portfolio.

Loss and loss adjustment expenses paid (on policies not allocated to the Segregated Account) during the second quarter 2010, net of recoveries from all policies (allocated and not allocated to the Segregated Account), amounted to a net recovery of \$17.1 million. Total insurance claims presented for payment during the quarter but not paid as a result of the moratorium imposed in March 2010 by the OCI on all policies allocated to the Segregated Account amounted to \$525.4 million, all related to RMBS policies. Total net claims paid in the second quarter of 2009 were \$400.8 million, primarily related to second-lien RMBS transactions.

Loss and loss expense reserves for all RMBS insurance exposures as of June 30, 2010, were \$2,689.7 million (including \$655.5 million representing claims presented but not paid since March 24, 2010 due to the claims moratorium). RMBS reserves are net of \$2,227.2 million of estimated net remediation recoveries. The estimate of net remediation recoveries related to material representation and warranty breaches increased from \$2,069.2 million as of March 31, 2010, primarily as a result of breaches identified during the re-underwriting of additional transactions. Ambac has initiated and may continue to initiate lawsuits seeking compliance with the repurchase obligations in the securitization documents with respect to sponsors who disregard their obligations to repurchase. Additionally, Ambac is in the process of re-underwriting additional transactions that have drastically underperformed expectations and the forensic results of those transactions will be available over the next few quarters.

Financial Services

The financial services segment comprises the investment agreement business and the derivative products business. Gross interest income less gross interest expense and operating expenses from investment and payment agreements, plus operating results from the derivative products business was (\$69.6) million for the second quarter of 2010, down from (\$37.1) million for the second quarter of 2009. The decrease was primarily driven by the impact of declining interest rates on the financial services derivative portfolio during the second quarter of 2010, partially offset by lower termination losses on canceled swaps and valuation adjustments relating to Ambac's credit risk. Beginning in the second half of 2009, the financial services segment has been positioned to record gains in a rising interest rate environment in order to provide a hedge against certain exposures within the financial guarantee segment. The interest rate swap and investment agreement businesses are in run-off.

Balance Sheet and Liquidity

Total assets decreased by approximately \$5.8 billion during the second quarter of 2010, from \$35.8 billion at March 31, 2010 to \$30.0 billion at June 30, 2010, primarily due to the cash outflow related to the commutation of the CDO of ABS portfolio and other exposures discussed above, and the reduction of VIE assets by approximately \$2.6 billion, related primarily to commuted CDOs of ABS that had been consolidated in compliance with ASU 2009-17 in the previous quarter.

The fair value of the consolidated non-VIE investment portfolio decreased from \$9.7 billion (amortized cost of \$9.6 billion) as of March 31, 2010 to \$6.6 billion (amortized cost of \$6.3 billion) as of June 30, 2010. The decrease was primarily driven by the cash outflow related to the commutations of the CDO of ABS portfolio and other exposures, discussed above, partially offset by generally increased market values of securities in the financial guarantee investment portfolio.

The financial guarantee non-VIE investment portfolio had a fair value of \$5.3 billion (amortized cost of \$5.0 billion) as of June 30, 2010. The portfolio consists of high quality municipal bonds, corporate bonds, Treasuries, U.S. Agencies and Agency MBS as well as mortgage and asset-backed securities.

Long-term debt increased during the quarter from \$1,633.4 million at March 31, 2010 to \$1,815.0 million due to the issuance of \$2.0 billion of surplus notes related to the CDO of ABS commutation which have a carrying value of \$200.1 million at June 30, 2010. The surplus notes will accrete to face value over the 10-year life of the bonds. This increase was partially offset by decreases in Ambac's debt resulting from debt for equity exchanges transacted with certain holders of Ambac's 9³/₈% debentures due in August 2011. During the second quarter 2010, Ambac issued an aggregate of 13,638,482 shares of its common stock in exchange for \$20.3 million in aggregate principal amount of its 9³/₈% debentures and recognized a gain on the extinguishment of those debentures amounting to \$10.7 million during the period.

Cash, short-term securities and bonds at the holding company amounted to \$76.0 million as of June 30, 2010. Ambac's annual debt service costs amount to approximately \$87.0 million. As a result of the recent actions taken by OCI (as discussed in our press release dated March 25, 2010 and in our 10-K filed with Securities Exchange Commission on April 9, 2010), management believes that it is highly unlikely that AAC will be able to make dividend payments to Ambac for the foreseeable future.

Overview of AAC Statutory Results

As of June 30, 2010, AAC reported statutory capital and surplus of approximately \$1.5 billion, up from \$160 million as of March 31, 2010. AAC's statutory financial statements include the results of AAC's general account, the Segregated Account which was formed on March 24, 2010, Ambac Assurance UK Ltd. and Everspan Financial Guarantee Corporation. Statutory capital and surplus was positively impacted by the various credit derivative commutations during the period, primarily the June 7, 2010 CDO of ABS settlement. Consideration for these settlements included both cash and surplus notes of AAC. As prescribed by OCI, the surplus notes are included in AAC's statutory surplus at their par value of \$2.0 billion. At June 30, 2010 AAC has no remaining statutory impairments on its credit derivative portfolio.

AAC recorded a statutory net loss during the second quarter of 2010. The primary drivers of the statutory net loss were (i) statutory loss and loss expenses related primarily to AAC's RMBS financial guarantee portfolio for both initial defaults and continued deterioration in previously defaulted credits; (ii) impairment losses related to AAC's CDO of ABS transactions that were commuted during the quarter; and (iii) impairment losses within AAC's investment portfolio driven by reduced pricing on certain previously impaired RMBS securities. These negative drivers were partially offset by revenues (primarily premiums earned and investment income) generated during the quarter.

AAC's consolidated claims-paying resources amount to approximately \$8.5 billion as of June 30, 2010, down from \$10.8 billion at March 31, 2010, as net cash outflows during the quarter exceeded the ongoing cash inflows from operations.

About Ambac

Ambac Financial Group, Inc., headquartered in New York City, is a holding company whose affiliates provided financial guarantees and financial services to clients in both the public and private sectors around the world. Ambac's principal operating subsidiary, Ambac Assurance Corporation, a guarantor of public finance and structured finance obligations, has a Caa2 rating under review for possible upgrade from Moody's Investors Service, Inc. and an R (regulatory intervention) financial strength rating 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 incorrect and are based on Ambac management's 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) ability of Ambac Assurance to realize the remediation recoveries contained in its loss reserves; (2) Ambac has insufficient capital to finance its debt service and operating expense requirements beyond the second quarter of 2011 and may need to seek bankruptcy protection; (3) the unlikely ability of Ambac Assurance to pay dividends to Ambac in the near term; (4) the risk that holders of debt securities or counterparties on credit default swaps or other similar agreements bring claims alleging that the rehabilitation of the Segregated Account (as defined in Part I, Item 1, Recent Developments) constitutes an event of default under the applicable debt indenture or an event of default under the applicable ISDA contract; (5) adverse events arising from the Segregated Account Rehabilitation Proceedings (as defined in Part I, Item 1, Recent Developments), including the injunctions issued by the Wisconsin rehabilitation court to enjoin certain adverse actions related to the Segregated Account being successfully challenged as not enforceable; (6) litigation arising from the Segregated Account Rehabilitation Proceedings; (7) decisions made by the rehabilitator for the benefit of policyholders may result in material adverse consequences for Ambac's securityholders; (8) potential of rehabilitation proceedings against Ambac Assurance, with resulting adverse impacts; (9) the risk that reinsurers may dispute amounts owed us under our reinsurance agreements; (10) possible delisting of Ambac's common shares from the NYSE; (11) the risk that market risks impact assets in our investment portfolio or the value of our assets posted as collateral in respect of investment agreements and interest rate swap and currency swap transactions; (12) risks which impact assets in Ambac Assurance's investment portfolio; (13) risks relating to determination of amount of impairments taken on investments; (14) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (15) market spreads and pricing on insured CDOs and other derivative products insured or issued by Ambac; (16) inadequacy of reserves established for losses and loss expenses, including our inability to realize the remediation recoveries included in our reserves; (17) Ambac's financial position and the Segregated Account Rehabilitation Proceedings may prompt departures of key employees; (18) 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; (19) difficult economic conditions, which may not improve in the near future, and adverse changes in the economic, credit,

foreign currency or interest rate environment in the United States and abroad; (20) the actions of the U. S. Government, Federal Reserve and other government and regulatory bodies to stabilize the financial markets; (21) likely unavailability of adequate capital support and liquidity; (22) credit risk throughout our business, including credit risk related to residential mortgage-backed securities and collateralized debt obligations (“CDOs”) and large single exposures to reinsurers; (23) default by one or more of Ambac Assurance’s portfolio investments, insured issuers, counterparties or reinsurers; (24) the risk that our risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss as a result of unforeseen risks; (25) factors that may influence the amount of installment premiums paid to Ambac, including the imposition of the payment moratorium with respect to claims payments as a result of Segregated Account Rehabilitation Proceedings; (26) changes in prevailing interest rates; (27) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting, required under the relevant derivative accounting guidance, to the portion of our credit enhancement business which is executed in credit derivative form; (28) changes in accounting principles or practices that may impact Ambac’s reported financial results; (29) legislative and regulatory developments; (30) operational risks, including with respect to internal processes, risk models, systems and employees; (31) changes in tax laws and other tax-related risks; (32) other factors described in the Risk Factors section in Part I, Item 1A of the 2009 Annual Report on Form 10-K and Part II, Item 1A of this Form 10-Q 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 (33) 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.

Consolidated Statements of Operations

(\$ in Thousands, Except Share Data)	Second Quarter		Six Months	
	2010	2009	2010	2009
Revenues:				
Financial Guarantee:				
Normal net premiums earned	\$112,697	\$143,935	\$225,790	\$299,743
Accelerated net premiums earned.....	54,308	33,797	66,446	74,801
Total net premiums earned	167,005	177,732	292,236	374,544
Net investment income.....	69,028	125,506	186,598	226,381
Other-than temporary impairment losses:				
Total other-than-temporary impairment losses.....	(7,777)	(675,394)	(41,245)	(1,420,135)
Portion of loss recognized in other comprehensive income.....	290	-	2,409	-
Net other-than-temporary impairment losses recognized in earnings.....	(7,487)	(675,394)	(38,836)	(1,420,135)
Net realized gains.....	18,281	7,710	73,420	6,159
Realized gains and losses and other settlements	(2,777,295)	(5,053)	(2,767,371)	1,570
Unrealized gains	2,979,476	6,016	2,802,413	1,545,243
Net change in fair value of credit derivatives.....	202,181	963	35,042	1,546,813
(Loss) income on variable interest entities.....	(38,546)	33	(531,250)	44
Other (loss) income.....	(30,243)	39,221	(86,146)	40,944
Financial Services:				
Investment income.....	8,861	19,004	18,129	39,888
Derivative products.....	(70,957)	(44,219)	(129,184)	(58,418)
Other-than temporary impairment losses:				
Total other-than-temporary impairment losses.....	(3,079)	(186,708)	(3,079)	(272,198)
Portion of loss recognized in other comprehensive income.....	-	-	-	-
Net other-than-temporary impairment losses recognized in earnings.....	(3,079)	(186,708)	(3,079)	(272,198)
Net realized investment gains (losses).....	65,832	(2,310)	67,242	114,236
Net change in fair value of total return swap contracts.....	-	22,052	-	11,671
Net mark-to-market (losses) gains on non-trading derivatives contracts.....	(11,556)	7,529	(14,295)	7,690
Corporate and Other:				
Other income.....	1,157	32,000	1,461	32,216
Net realized gains.....	10,693	-	10,693	33
Total revenues.....	381,170	(476,881)	(117,969)	649,868
Expenses:				
Financial Guarantee:				
Losses and loss expenses.....	323,326	1,230,847	412,478	1,970,677
Underwriting and operating expenses.....	58,931	48,842	109,427	105,454
Interest expense.....	6,886	-	6,886	-
Financial Services:				
Interest from investment and payment agreements.....	4,357	8,311	9,791	21,100
Other expenses.....	3,124	3,541	6,751	7,492
Corporate and Other:				
Interest.....	29,597	29,837	59,756	59,683
Other expenses.....	12,645	(3,337)	24,593	684
Total expenses.....	438,866	1,318,041	629,682	2,165,090
Pre-tax loss from continuing operations.....	(57,696)	(1,794,922)	(747,651)	(1,515,222)
(Benefit) provision for income taxes.....	(122)	573,861	(15)	1,245,761
Net loss.....	(57,574)	(2,368,783)	(747,636)	(2,760,983)
Less loss attributable to noncontrolling interest.....	(15)	11	(26)	(2)
Net loss attributable to Ambac Financial Group, Inc.....	(\$57,559)	(\$2,368,794)	(\$747,610)	(\$2,760,981)
Net loss per share attributable to Ambac Financial Group, Inc common shareholders.....	(\$0.20)	(\$8.24)	(\$2.59)	(\$9.60)
Net loss per diluted share attributable to Ambac Financial Group, Inc common shareholders.....	(\$0.20)	(\$8.24)	(\$2.59)	(\$9.60)
Weighted average number of common shares outstanding:				
Basic.....	290,050,931	287,639,234	289,147,236	287,602,413
Diluted.....	290,050,931	287,639,234	289,147,236	287,602,413

Consolidated Balance Sheets

(\$ in Thousands, Except Share Data)	June 30, 2010	December 31, 2009
Assets		
Investments:		
Fixed income securities, at fair value (amortized cost of \$5,668,300 in 2010 and \$7,605,565 in 2009)	\$5,925,170	\$7,572,570
Fixed income securities pledged as collateral, at fair value (amortized cost of \$123,766 in 2010 and \$164,356 in 2009)	127,432	167,366
Short-term investments (amortized cost of \$514,780 in 2010 and \$962,007 in 2009)	514,780	962,007
Other (cost of \$100 in 2010 and \$1,278 in 2009)	100	1,278
Total investments	6,567,482	8,703,221
Cash and cash equivalents	56,677	112,079
Receivable for securities sold	14,481	3,106
Investment income due and accrued	47,995	73,062
Premium receivables	2,789,353	3,718,158
Reinsurance recoverable on paid and unpaid losses	121,715	78,115
Deferred ceded premiums	386,665	500,804
Subrogation recoverable	1,046,610	902,612
Deferred taxes	-	11,250
Current income taxes	-	421,438
Deferred acquisition costs	263,258	279,704
Loans	70,849	80,410
Derivative assets	504,125	496,494
Other assets	173,270	229,299
Variable interest entity assets:		
Fixed income securities, at fair value	1,801,557	525,947
Restricted cash	1,977	1,151
Investment income due and accrued	3,866	4,133
Loans (includes \$15,992,650 and \$2,428,352 at fair value)	16,189,761	2,635,961
Derivative assets	4,546	109,411
Other assets	11,598	12
Total assets	\$30,055,785	\$18,886,367
Liabilities and Stockholders' Equity		
Liabilities:		
Unearned premiums	\$4,714,527	\$5,687,114
Loss and loss expense reserve	5,221,886	4,771,684
Ceded premiums payable	224,740	291,843
Obligations under investment and payment agreements	879,381	1,177,406
Obligations under investment repurchase agreements	113,296	113,527
Current taxes	22,384	-
Long-term debt	1,815,017	1,631,556
Accrued interest payable	58,345	47,125
Derivative liabilities	452,136	3,536,858
Other liabilities	140,999	248,655
Payable for securities purchased	24,151	2,074
Variable interest entity liabilities:		
Accrued interest payable	3,307	3,482
Long-term debt (includes \$16,310,370 and \$2,789,556 at fair value)	16,518,312	3,008,628
Derivative liabilities	1,277,302	-
Other liabilities	12,681	60
Total liabilities	31,478,464	20,520,012
Stockholders' equity:		
Ambac Financial Group, Inc.:		
Preferred stock	-	-
Common stock	3,080	2,944
Additional paid-in capital	2,185,134	2,172,656
Accumulated other comprehensive income (loss)	219,939	(24,827)
Accumulated deficit	(4,031,055)	(3,878,015)
Common stock held in treasury at cost	(454,203)	(560,543)
Total Ambac Financial Group, Inc. stockholders' deficit	(2,077,105)	(2,287,785)
Noncontrolling interest:	654,426	654,140
Total stockholders' deficit	(1,422,679)	(1,633,645)
Total liabilities and stockholders' equity	\$30,055,785	\$18,886,367
Number of shares outstanding (net of treasury shares)	302,022,750	287,598,189
Ambac Financial Group, Inc. book value per share	(\$6.88)	(\$7.95)

Net Insurance Premiums Earned and Fees on Credit Derivatives

2010 (\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance	\$45,181	\$45,037			\$90,218
Structured Finance	40,587	43,566			84,153
International Finance	27,325	24,094			51,419
Total Normal Insurance Premiums Earned	113,093	112,697	-	-	225,790
Accelerated Premiums Earned	12,138	54,308			66,446
Total Premiums Earned	\$125,231	\$167,005	-	-	\$292,236
Fees on credit derivative contracts ⁽¹⁾	\$9,661	\$11,812			\$21,473
Total Premiums Earned eliminated in consolidation ⁽²⁾	\$17,717	\$13,707			\$31,424

2009 (\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance	\$49,495	\$48,938	\$49,658	\$47,783	\$195,874
Structured Finance	64,064	51,718	54,047	50,705	220,534
International Finance	42,249	43,279	44,371	41,147	171,046
Total Normal Insurance Premiums Earned	155,808	143,935	148,076	139,635	587,454
Accelerated Premiums Earned	41,004	33,797	90,325	44,780	209,906
Total Premiums Earned	\$196,812	\$177,732	\$238,401	\$184,415	\$797,360
Fees on credit derivative contracts ⁽¹⁾	\$13,159	\$12,195	\$12,814	\$10,473	\$48,641

Net Unearned Premium Amortization and Estimated Future Installment Premiums

(\$ Millions)	Net Unearned Premium Amortization ⁽³⁾	Fees on Credit Derivative Contracts	Estimated Net Future Installments ⁽⁴⁾
2010 (3rd and 4th Qtrs)	\$179.9	\$11.3	\$131.5
2011	337.0	18.1	207.6
2012	308.6	14.9	178.1
2013	282.0	11.3	157.6
2014	260.9	7.1	125.6
2015	245.4	4.1	111.1
2010 (3rd and 4th Qtrs)	179.9	11.3	131.5
2011-2015	1,433.9	55.5	780.0
2016-2020	1,005.4	5.8	446.1
2021-2025	754.0	1.4	309.0
2026-2030	534.6	0.4	211.9
After 2030	420.1	0.3	211.6
Total	\$4,327.9	\$74.7	\$2,090.1

- 1) Fees on credit derivative contracts are included in "Realized gains and losses and other settlements on credit derivative contracts" on the consolidated statement of operations.
- 2) Represents total premiums earned excluded from "Total net premiums earned" on the consolidated statement of operations as pertains to VIEs consolidated in accordance with ASU 2009-17. Please see discussion in Ambac's June 30, 2010 Form 10-Q.
- 3) Represents unearned premium amounts for both upfront and installment paying policies, net of deferred ceded premiums, which is reported separately as an asset on the Consolidated Balance Sheet. Depicts amortization of existing guaranteed portfolio, assuming no advance refunding as of June 30, 2010. Actual future installments may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. The unearned premium amortization disclosed in the above table consider the use of contractual lives for many bond types that do not have homogeneous pools of underlying collateral, which results in a higher unearned premium than if expected lives were considered. If those bond types are retired early as a result of rate step-ups or other early retirement provision incentives for the issuer, premium earnings may be negative in the period of call or refinancing.
- 4) Represents management's estimate of future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments excludes amounts eliminated as a result of the new Consolidations Accounting Standard (\$317.7 million). Please see discussion in Ambac's June 30, 2010 Form 10-Q.

Fixed Income Investment Portfolio

As of June 30, 2010

INCOME ANALYSIS BY TYPE OF SECURITY	Fair Value	Amortized Cost	Pre-tax Yield to Maturity ⁽¹⁾	YTD Investment Income
Investment category (\$ thousands)				
Financial Guarantee investments:				
Long-term investments				
U.S. government obligations	\$175,959	\$170,978	2.26%	\$2,211
U.S. agency obligations	84,984	78,237	4.25%	1,673
Municipal obligations ⁽²⁾	2,091,115	2,005,985	4.67%	59,516
Foreign obligations	114,942	108,583	3.79%	2,609
Corporate obligations	789,773	764,665	4.96%	19,186
Mortgage and asset-backed securities	1,593,623	1,448,468	10.68%	99,699
Total long-term investments	4,850,396	4,576,916	6.50%	184,894
Short-term investments	448,054	448,054	0.16%	953
Other ⁽³⁾	100	100		2,513
Total Financial Guarantee investment:	5,298,550	5,025,070	5.94%	188,360
Investment expenses				(1,762)
Financial Guarantee net investment income				186,598
Financial Services investments ⁽⁴⁾				
Long-term investments				
U.S. government obligations	129,758	124,009		
U.S. agency obligations	7,663	6,965		
Corporate obligations	105,532	117,914		
Mortgage and asset-backed securities	934,768	941,777		
Total long-term investments	1,177,721	1,190,665		
Short-term investments	15,754	15,754		
Total Financial Services investments	1,193,475	1,206,419		
Corporate investments:				
Long-term investments				
Municipal obligations	24,485	24,485		
Total long-term investments	24,485	24,485		
Short-term investments	50,972	50,972		
Total Corporate investments	75,457	75,457		
Total Investments	\$6,567,482	\$6,306,946		

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO ⁽⁵⁾⁽⁶⁾

Rating	Percent of Investment Portfolio		
	Fin. Guar.	Fin. Services	Combined
AAA	29%	68%	37%
AA	32%	20%	30%
A	15%	2%	12%
BBB	10%	0%	8%
Below investment grade	12%	10%	11%
Not rated	2%	0%	2%
	100%	100%	100%

Duration of Financial Guarantee investment portfolio 4.8

- "Yield to maturity" refers to the rate of interest to be earned over the expected remaining life of the investments in the portfolio, and is calculated based on current cost basis, estimated future cash flows and call schedules. Actual maturities may differ from stated maturities because borrowers may have the right to call or prepay obligations. For floating rate positions "yield to maturity" is based on the current interest rate and not forward rates.
- Includes taxable and tax-exempt municipal obligations with a fair value of \$305,043 and \$1,786,072 respectively.
- Includes income earned on loans, which are classified separately on the balance sheet.
- Financial Services investments relate primarily to the investment agreement business.
- 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.
- Rating distribution is calculated based on amortized cost.

Projected Ambac Financial Group, Inc. Liquidity

(\$ Thousands)

Ambac Financial Group cash, short-term investments and bonds at 06/30/2010	\$	75,956
Projected debt service for remainder of year		(43,406)
Projected Ambac Financial Group expenses		(8,465)
Interest income		887
Ambac Financial Group projected cash at 12/31/2010	\$	24,972
Annual debt service	\$	86,811
Annual debt service coverage at 6/30/2010		0.87

Financial Guarantee Investment Cash Receipts⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

(\$ Thousands)	Expected Principal	Expected Interest	Total
2010.....	\$ 702,835	\$ 102,908	\$ 805,743
2011.....	421,518	206,309	627,827
2012.....	356,635	194,260	550,895
2013.....	355,967	206,912	562,879
2014.....	460,239	207,981	668,220
2015.....	272,563	192,103	464,666

- 1) Represents the investment portfolio at June 30, 2010, excluding inter-company borrowings. All short-term investment maturities are included within 2010 expected principal.
- 2) Information takes into account portfolio as of June 30, 2010 and does not include any anticipated sales.
- 3) Actual receipts may differ because borrowers may have the right to call or prepay obligations.
- 4) Expected principal and interest receipts on Ambac-insured securities have not been adjusted to reflect the claim moratorium commenced by the Wisconsin Office of the Commissioner of Insurance (OCI) on March 24, 2010. Please see discussion in Ambac's Form 10-Q.

Ratio of Net Claims Presented and Paid

(\$ Thousands)	YTD 2010	2009	2008	2007	2006
Net claims presented and paid - Insurance ⁽¹⁾	\$191,198	\$1,458,498	\$571,012	(\$2,128)	\$105,568
Net claims presented and not paid - Insurance ⁽²⁾	655,468	-	-	-	-
Net Credit Derivatives payments	(263)	47,749	7,153	-	-
Net Credit Derivatives commutation payments ⁽³⁾	4,589,107	1,380,628	1,850,000	-	-
Total net claims presented for payment	\$5,435,510	\$2,886,875	\$2,428,165	(\$2,128)	\$105,568
Net insurance premiums and credit derivative fees	\$313,709	\$846,001	\$1,085,482	\$917,895	\$871,383
Ratio of net claims presented and paid ⁽⁴⁾	1732.7%	341.2%	223.7%	-0.2%	12.1%

Estimated Future Gross RMBS and Credit Derivative Claim Obligations (Recoveries) ⁽⁵⁾

(\$ Thousands)	Directly Insured RMBS	Credit Derivative Contracts	Total
2010	\$ 1,138,845	\$ -	\$ 1,138,845
2011 ⁽⁶⁾	857,920	-	857,920
2012	614,615	-	614,615
2013 ⁽⁶⁾	(1,096,519)	-	(1,096,519)
2014	269,248	-	269,248
2015	188,272	-	188,272
2010	1,138,845	-	1,138,845
2011-2015	833,537	-	833,537
2016-2020	382,549	-	382,549
2021-2025	(74,108)	-	(74,108)
2026-2030	(153,242)	-	(153,242)
After 2030	282,619	-	282,619
Total	\$ 2,410,200	\$ -	\$ 2,410,200

- 1) Net claims paid are net of salvage received of \$18.8 million, \$72.2 million, \$11.7 million, \$27.9 million, and \$16.7 million for the six months ended June 30, 2010 and full years ended December 31, 2009, 2008, 2007 and 2006, respectively.
- 2) On March 24, 2010, Ambac Assurance established a segregated account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated certain policies to the Segregated Account. The Wisconsin Office of the Commissioner of Insurance (OCI) commenced rehabilitation proceedings with respect to the Segregated Account in order to permit the OCI to facilitate an orderly run-off and/or settlement of the liabilities allocated to the Segregated Account pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act. Until the Segregated Account Rehabilitation Plan is approved, which OCI has indicated will be filed approximately six months after the rehabilitation proceedings were commenced, it is anticipated that no claims will be paid on Segregated Account Policies, except as approved by the rehabilitation court. Claims presented and not paid are included in our net insurance reserves. Please see discussion in Ambac's June 30, 2010 Form 10-Q.
- 3) 2010 commutation payments related to \$17.9 billion net par exposure. Amounts in table represent cash paid plus \$2.0 billion (par value) of Surplus Notes issued by Ambac Assurance. These commutations caused an increase in Ambac Assurance's statutory surplus of \$1.8 billion.
- 4) Ratio of net claims paid is net claims paid divided by net premiums earned and other credit enhancement fees.
- 5) Represents management's estimate of future loss obligations, net of recoveries. Actual payments or recoveries may differ from estimates.
- 6) Net of estimated recoveries of \$905.9 million in 2011 and \$1,428.1 million in 2013 for breaches of representation and warranties on certain RMBS transactions.

Summary of Net Insurance Loss Reserves and Credit Derivative Impairments

(\$ Thousands)	06/30/10	12/31/09	12/31/08	12/31/07
Total insurance reserves ⁽¹⁾	4,041,431	3,777,321	2,129,758	473,188
Estimated credit impairment losses on credit derivatives ⁽²⁾⁽³⁾	-	4,208,198	3,740,202	1,105,741
Total impairment losses	4,041,431	7,985,519	5,869,960	1,578,929
Mark-to-market reserve (asset) on credit derivatives ⁽²⁾	31,390	(1,168,707)	4,491,955	4,889,721
Mark-to-market reserve (asset) on total return swaps	-	-	77,960	21,901
Grand total net insurance loss reserves and credit derivatives	<u>\$4,072,821</u>	<u>\$6,816,812</u>	<u>\$10,439,875</u>	<u>\$6,490,551</u>

Summary of Below Investment Grade Exposures⁽³⁾

(\$ Millions)	Segregated Account Net Par Outstanding	Total Net Par Outstanding	Total Impairment Losses
Public Finance:			
Transportation Revenue	\$439	\$1,114	
Utilities	-	187	
Health Care	-	271	
Other	0	1,153	
Total Public Finance	<u>439</u>	<u>2,725</u>	<u>378</u>
Structured Finance:			
CDO of ABS >25% MBS	-	-	-
Mortgage-Backed & Home Equity - First Lien & Other	13,816	13,816	1,806
Mortgage-Backed & Home Equity - Second Lien	11,029	11,029	883
Other	1,406	9,184	969
Total Structured Finance	<u>26,251</u>	<u>34,029</u>	<u>3,658</u>
International Finance:			
	1,753	2,004	5
Total	<u>\$28,443</u>	<u>\$38,758</u>	<u>\$4,041</u>

1) As a result of the claim moratorium on the Segregated Account of Ambac Assurance by the Rehabilitator, \$655.5 million of claims were presented and not paid in the six months ended June 30, 2010. Total insurance reserves are inclusive of claims presented and not paid.

2) Total net mark-to-market losses are \$31,390 as of June 30, 2010, \$3,039,491 as of December 31, 2009 and \$8,232,157 as of December 31, 2008 and are reported on the consolidated balance sheet under derivative liabilities and derivative assets.

3) On March 24, 2010, Ambac Assurance established a segregated account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated to the Segregated Account (1) certain policies insuring or relating to credit default swaps; (2) residential mortgage-backed securities policies; (3) certain Student Loan Policies; and (4) other policies insuring obligations with substantial projected impairments or relating to transactions which have contractual triggers based upon Ambac Assurance's financial condition or the commencement of rehabilitation, which triggers are potentially damaging (collectively, the "Segregated Account Policies"). The policies described in (4) above include (a) certain types of securitizations, including commercial asset-backed transactions, consumer asset-backed transactions and other types of structured transactions; (b) the policies relating to Las Vegas Monorail Company; (c) policies relating to debt securities purchased by, and the debt securities issued by, Juneau Investments, LLC and Aleutian Investments, LLC, which are both finance companies owned by Ambac Assurance; (d) policies relating to leveraged lease transactions; and (e) policies relating to interest rate, basis, and/or currency swap or other swap transactions. The Wisconsin Office of the Commissioner of Insurance (OCI) commenced rehabilitation proceedings with respect to the Segregated Account in order to permit the OCI to facilitate an orderly run-off and/or settlement of the liabilities allocated to the Segregated Account pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act. Until the Segregated Account Rehabilitation Plan is approved, which OCI has indicated will be filed approximately six months after the rehabilitation proceedings were commenced, it is anticipated that no claims will be paid on Segregated Account Policies, except as approved by the rehabilitation court. Claims presented and not paid are included in our net insurance reserves. Please see discussion in Ambac's June 30, 2010 Form 10-Q.

Expense Analysis

2010					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	\$ 21,222	\$ 16,268			\$ 37,490
Non-compensation	16,829	32,949			49,778
Gross underwriting and operating expenses	38,051	49,218	-	-	87,268
Ceding commissions and change in deferred acquisition costs	12,445	9,714			22,159
Total Financial Guarantee underwriting and operating expenses . .	50,496	58,932	-	-	109,427
Financial Services operating expenses	3,627	3,124			6,751
Corporate and other operating expenses	11,948	12,645			24,593
Total underwriting and operating expenses, net of deferred expenses. . .	\$ 66,070	\$ 74,701			\$ 140,771
Total gross underwriting and operating expenses	\$ 53,625	\$ 64,987	\$ -	\$ -	\$ 118,612
2009					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	\$ 28,974	\$ 24,334	\$ 26,765	\$ 14,412	\$ 94,485
Non-compensation ⁽¹⁾	8,320	17,497	10,586	18,296	54,699
Gross underwriting and operating expenses	37,294	41,831	37,351	32,708	149,184
Ceding commissions and change in deferred acquisition costs	19,318	7,011	(9,339)	9,544	26,534
Total Financial Guarantee underwriting and operating expenses . .	56,612	48,842	28,012	42,252	175,718
Financial Services operating expenses	3,951	3,541	3,316	1,780	12,588
Corporate and other operating expenses ⁽¹⁾	4,021	(3,337)	5,975	11,502	18,161
Total underwriting and operating expenses, net of deferred expenses. . .	\$ 64,584	\$ 49,046	\$ 37,303	\$ 55,534	\$ 206,467
Total gross underwriting and operating expenses	\$ 45,266	\$ 42,035	\$ 46,642	\$ 45,990	\$ 179,933

1) In the second quarter 2009 Ambac reallocated \$6.8 million of prior period costs to the appropriate operating subsidiary (\$6.7 million to Financial Guarantee).

Historical Financial Guarantee Exposures Outstanding ⁽¹⁾

(\$ Millions Net Par Value)	June 30,	December 31,			Segregated Account ⁽²⁾
	2010	2009	2008	2007	June 30, 2010
Public Finance:					
Lease and tax backed	\$70,523	\$73,081	\$77,060	\$88,147	\$128
General obligation	51,358	54,047	58,296	63,977	11
Utility	28,846	30,835	32,166	37,976	389
Transportation	21,240	22,501	22,306	25,466	814
Higher education	16,045	16,577	17,959	20,685	-
Health care	10,818	11,987	15,115	27,161	109
Housing	10,005	10,247	10,862	11,531	-
Other	3,732	3,892	4,457	6,010	-
Total Public Finance	212,567	223,167	238,221	280,953	1,451
Structured Finance:					
Mortgage-backed & home equity	29,812	32,407	36,995	43,078	29,812
Asset-backed and conduits	13,917	16,455	25,443	36,407	784
Other CDOs	13,539	18,313	19,988	22,174	714
Student loan	12,556	14,518	16,644	18,372	657
Investor-owned utilities	12,125	13,212	14,650	17,055	393
CDO of ABS >25% MBS	-	16,718	23,190	29,127	-
Other	2,756	3,092	3,499	4,485	796
Total Structured Finance	84,705	114,715	140,409	170,698	33,156
International Finance ⁽³⁾:					
Asset-backed and conduits	11,275	13,691	16,383	19,290	5,759
Investor-owned and public utilities	9,378	10,388	8,492	10,384	3,797
Other CDOs	7,007	9,083	12,784	15,572	1,508
Sovereign/sub-sovereign	6,237	6,859	5,980	7,347	5,482
Transportation	5,914	7,584	6,870	7,784	4,174
Mortgage-backed & home equity	2,626	3,386	3,669	10,106	1,249
Other	1,337	1,533	1,502	1,891	1,035
Total International Finance	43,774	52,524	55,680	72,374	23,004
Grand Total	\$341,046	\$390,406	\$434,310	\$524,025	\$57,611
Percent of Total Net Par Outstanding					
Public Finance	62.3%	57.2%	54.9%	53.6%	2.5%
Structured Finance	24.9%	29.4%	32.3%	32.6%	57.6%
International Finance	12.8%	13.4%	12.8%	13.8%	39.9%
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 \$20,481, \$43,276, \$53,918 and \$64,988 at June 30, 2010 and December 31, 2009, 2008 and 2007, respectively.

(2) Net Par exposure allocated to the Segregated Account on June 30, 2010 is inclusive of net par exposures assumed under reinsurance contracts, primarily from Ambac UK, in an aggregate amount of \$20,974 million.

(3) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	June 30,		December 31,			
	2010	%	2009	2008	2007	2006
Domestic:						
California	\$41,639	12.2%	\$43,388	\$45,343	\$53,434	\$54,829
New York	22,101	6.5%	22,865	25,972	31,923	34,232
Florida	17,370	5.1%	17,816	18,724	22,462	24,225
Texas	15,970	4.7%	16,941	17,674	19,898	18,837
New Jersey	10,962	3.2%	11,654	12,204	14,309	13,445
Illinois	10,037	2.9%	10,472	10,544	12,592	12,898
Massachusetts	6,871	2.0%	8,255	8,184	10,338	10,231
Pennsylvania	6,964	2.0%	7,405	10,879	13,444	13,973
Colorado	6,057	1.8%	6,392	6,818	7,570	7,635
Washington	5,962	1.7%	6,124	6,249	6,874	7,184
Mortgage and asset-backed	43,729	12.8%	48,862	62,438	79,485	81,054
Other states	109,610	32.1%	137,708	153,601	179,322	166,302
Total Domestic	297,272	87.2%	337,882	378,630	451,651	444,845
International:						
United Kingdom	19,723	5.8%	22,840	20,151	27,207	27,253
Australia	5,452	1.6%	6,034	4,952	6,400	6,126
Italy	3,082	0.9%	3,821	2,843	3,017	2,167
Turkey	1,645	0.5%	1,842	1,913	1,995	1,588
Austria	911	0.3%	1,149	905	491	370
Internationally diversified	8,123	2.4%	9,914	14,937	16,550	19,180
Other international	4,838	1.4%	6,924	9,979	16,714	17,514
Total International	43,774	12.8%	52,524	55,680	72,374	74,198
Grand Total	\$341,046	100.0%	\$390,406	\$434,310	\$524,025	\$519,043

Rating Distribution of Net Financial Guarantee Exposures ⁽¹⁾

As of June 30, 2010

Rating	Percentage of Guaranteed Portfolio		
	Public Finance	Structured and International	Total
AAA	<1	4	2
AA	30	12	23
A	56	27	45
BBB	13	29	19
BIG	1	28	11
	100	100	100

(1) Based upon Ambac ratings. See Note 2 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	\$207.3	\$3,109	0.9%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	\$159.7	2,067	0.6%
Washington State - GO	AA	\$144.6	1,881	0.6%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	\$147.3	1,694	0.5%
Bay Area Toll Authority, CA Toll Bridge Revenue ⁽⁴⁾	AA -	\$84.0	1,670	0.5%
MTA, NY, Transportation Revenue (Farebox) ⁽⁴⁾	A	\$90.7	1,447	0.4%
Massachusetts Commonwealth - GO	AA	\$89.5	1,302	0.4%
New Jersey Turnpike Authority Revenue	A	\$84.1	1,266	0.4%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	\$93.3	1,248	0.4%
Los Angeles Unified School District, CA - GO	AA -	\$87.9	1,179	0.3%
South Carolina Transportation Infrastructure Bank Revenue	A	\$75.1	1,058	0.3%
Central Texas Turnpike, System Revenue	BBB +	\$101.8	986	0.3%
Puerto Rico Highways & Transportation Authority, Transportation Revenue ⁽⁴⁾	BBB +	\$56.9	938	0.3%
Port Authority of New York & New Jersey, Consolidated Revenue	AA -	\$70.0	934	0.3%
New York City, NY - GO	AA	\$49.9	918	0.3%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A	\$54.1	884	0.3%
University of California Board of Regents, General Revenue	AA -	\$49.1	860	0.3%
Chicago, IL - GO	A +	\$43.2	857	0.3%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	\$73.1	846	0.2%
New York City, NY Water and Sewer System Revenue	AA	\$52.8	807	0.2%
Puerto Rico Sales Tax Financing Corporation	A +	\$166.1	805	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	\$50.4	802	0.2%
South Carolina Public Service Authority, Revenue	AA	\$42.2	760	0.2%
Hawaii State - GO	AA	\$61.1	758	0.2%
Dallas Area Rapid Transit, TX, Sales Tax Revenue	AA	\$49.3	713	0.2%
Total:			<u>\$29,789</u>	<u>8.7%</u>

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 -	\$32.3	\$341	0.1%
New York City Health and Hospitals Corporation	A	\$31.3	281	0.1%
Wellstar Health System - Georgia ⁽⁴⁾	A +	\$14.7	226	0.1%
ProMedica Healthcare Oblig Grp - Ohio	A +	\$13.0	220	0.1%
Catholic Healthcare Partners - Ohio	A	\$15.7	207	0.1%
Swedish Health Services - Washington	A	\$16.7	194	0.1%
Rockingham Memorial Hospital - Virginia	BBB +	\$11.6	190	0.1%
Adventist Health System - Florida	A +	\$12.5	188	0.1%
University of Colorado Hospital Authority - Colorado	A	\$15.5	187	0.1%
Willis-Knighton Medical Center - Louisiana	BBB +	\$15.7	178	0.1%
Total:			<u>\$2,212</u>	<u>0.6%</u>

1) Excludes Healthcare exposures.

2) See Note 2 on the Table of Contents page.

3) Average Annual Debt Service, net of reinsurance.

4) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated a portion of this transaction to the Segregated Account. The Wisconsin Office of the Commissioner of Insurance (OCI) commenced rehabilitation proceedings with respect to the Segregated Account in order to permit the OCI to facilitate an orderly runoff and/or settlement of the liabilities allocated to the Segregated Account pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act. Please see discussion in Ambac's June 30, 2010 Form 10-Q.

Largest Structured Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Private Commercial Asset-Backed Transaction	BBB +	\$2,159	0.6%
CDO of ABS < 25% MBS	A +	2,149	0.6%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 ⁽²⁾	BIG	1,792	0.5%
Iowa Student Loan Liquidity Corporation Revenue Bonds	A	1,632	0.5%
Vermont Student Assistance Corporation Revenue Bonds	A	1,427	0.4%
Hertz Vehicle Financing, LLC ⁽²⁾	BIG	1,243	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 ⁽²⁾	BIG	1,222	0.4%
The National Collegiate Student Loan Trust 2007-4	BIG	1,129	0.3%
Private Consumer Asset-Backed Transaction	AA	1,116	0.3%
The National Collegiate Student Loan Trust 2007-3	BIG	1,105	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,092	0.3%
Cendant Rental Car Funding	BIG	923	0.3%
Ballantyne Re Plc ⁽³⁾	BIG	882	0.3%
Michigan Higher Education Student Loan Authority	BBB	862	0.3%
Spirit Master Funding	BBB	808	0.2%
Sonic Capital LLC	BBB	660	0.2%
Countrywide Revolving Home Equity Loan Trust 2005-F ⁽²⁾	BIG	659	0.2%
Timberlake Financial, LLC	BBB	620	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 ⁽²⁾	BIG	617	0.2%
Countrywide Asset-Backed Certificates Trust 2005-16 ⁽²⁾	BIG	587	0.2%
Option One Mortgage Loan Trust 2007-FXD1 ⁽²⁾	BIG	570	0.2%
National Collegiate Master Student Loan Trust I	BIG	561	0.2%
Progress Energy Carolinas, INC	A -	558	0.2%
Massachusetts Educational Financing Authority Revenue Bonds	A	555	0.2%
Privately Placed RMBS Transaction ⁽²⁾	BIG	543	0.2%
Total:		<u>\$25,471</u>	<u>7.5%</u>

Largest International Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation ⁽³⁾	A +	\$1,945	0.6%
Telereal Securitisation plc ⁽³⁾	A +	1,486	0.4%
Romulus Finance s.r.l. ⁽³⁾	BIG	1,302	0.4%
Punch Taverns Finance plc-UK Pub Securitisation ⁽³⁾	A	1,199	0.4%
Channel Link Enterprises ⁽³⁾	BBB -	1,075	0.3%
Regione Campania ⁽³⁾	A -	962	0.3%
Aspire Defence Finance plc ⁽³⁾	BBB -	943	0.3%
Ostregion Investmentgesellschaft NR 1 SA ⁽³⁾	BBB -	895	0.3%
Powercor Australia	A -	860	0.3%
Synthetic RMBS	AAA	769	0.2%
Dampier to Bunbury Natural Gas Pipeline	BBB	754	0.2%
CDO of HY Corporate	AA -	754	0.2%
National Grid Electricity Transmission ⁽³⁾	A -	734	0.2%
Babcock & Brown Air Funding I Limited	BBB +	726	0.2%
CDO of HY Corporate	AA	701	0.2%
Capital Hospitals plc ⁽³⁾	BBB -	699	0.2%
RMPA Services plc ⁽³⁾	BBB +	690	0.2%
Private CMBS Transaction ⁽³⁾	AAA	664	0.2%
United Energy Distribution	BBB	654	0.2%
National Grid Gas ⁽³⁾	A -	644	0.2%
CDO of HY Corporate	AAA	613	0.2%
Sydney Airport	BBB	609	0.2%
Spirit Issuer plc ⁽³⁾	BBB	594	0.2%
Garanti Bank - DPR Securitization	BBB	589	0.2%
CitiPower	A -	584	0.2%
Total:		<u>\$21,445</u>	<u>6.3%</u>

1) See Note 2 on the Table of Contents page.

2) On March 24, 2010, Ambac Assurance established a segregated account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated all or a portion of this transaction to the Segregated Account. The Wisconsin Office of the Commissioner of Insurance (OCI) commenced rehabilitation proceedings with respect to the Segregated Account in order to permit the OCI to facilitate an orderly runoff and/or settlement of the liabilities allocated to the Segregated Account pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act. Please see discussion in Ambac's June 30, 2010 Form 10-Q.

3) All or a portion of transaction guaranteed by Ambac Assurance UK, Ltd as supported by a reinsurance agreement with Ambac Assurance. The obligations of Ambac Assurance under this reinsurance agreement have been allocated to the Segregated Account. See Ambac's June 30, 2010 Form 10-Q for discussion of the Segregated Account and a purported termination of this reinsurance agreement.

Net Exposure Amortization ⁽¹⁾

As of June 30, 2010

(\$ Millions)	Total		Segregated Account	
	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2010 (3rd and 4th Qtrs)	\$16,381	\$527,606	\$3,011	\$80,376
2011	30,957	496,649	5,381	74,995
2012	28,565	468,084	4,603	70,392
2013	29,894	438,190	4,356	66,036
2014	26,845	411,345	3,886	62,150
2015	27,330	384,015	3,824	58,326
2010 (3rd and 4th Qtrs)	\$16,381	527,606	\$3,011	80,376
2011-2015	143,591	384,015	22,050	58,326
2016-2020	118,766	265,249	13,302	45,024
2021-2025	91,353	173,896	10,810	34,214
2026-2030	67,359	106,537	10,046	24,168
After 2030	106,537	-	24,168	-
Total	\$543,987		\$83,387	

- 1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of June 30, 2010. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.

Ambac Assurance

Claims-Paying Resources ⁽¹⁾ and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	June 30, 2010	December 31, 2009	
Contingency reserve.	\$397,188	\$352,168	
Capital and Surplus ⁽²⁾	1,503,261	801,869	
Qualified statutory capital.	1,900,449	1,154,037	
Unearned premiums	2,233,269	2,390,084	
Losses and loss adjustment expenses	2,417,122	1,141,274	
Estimated impairment losses on credit derivatives	-	3,841,324	
Policyholders' reserves	6,550,840	8,526,719	
Present Value of Future Installment Premiums ⁽³⁾	1,940,267	2,262,821	
Total Claims-Paying Resources	\$8,491,107	\$10,789,540	
Net financial guarantees in force.	\$543,987,281	\$619,566,032	
Claims-Paying Ratio ⁽⁴⁾	64 : 1	57 : 1	
Gross financial guarantees in force.	\$597,391,937	\$677,552,493	
Gross par outstanding.	\$371,050,153	\$422,236,827	
	Second	Second	Full
	Quarter	Quarter	Year
	2010	2009	2009
Combined Statutory financial ratios:			
Loss ratio ⁽⁵⁾	480.7%	314.3%	186.5%
Expense ratio ⁽⁶⁾	59.2%	27.1%	25.7%

- 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) Surplus Notes with a par value of \$2.0 billion are included in the June 30, 2010 capital and surplus. The Surplus Notes rank senior to Ambac's equity investment in Ambac Assurance. There is residual value to Ambac in Ambac Assurance only to the extent that funds remain at Ambac Assurance after the payment of claims under outstanding financial guaranty policies and the redemption, repurchase or repayment in full of the Surplus Notes and Ambac Assurance's auction market preferred shares.
- 3) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts, credit derivatives and other credit enhancement products. Present value calculations utilize Ambac internal estimates discounted at 3.6% and 4.8% at June 30, 2010 and December 31, 2009, respectively.
- 4) Claims-paying Ratio is net financial guarantees in force divided by total claims-paying resources.
- 5) Loss ratio represents statutory net incurred losses divided by statutory net earned premiums for the following statutory entities: Ambac Assurance, Ambac Assurance Segregated Account, Everspan Financial Guarantee Corp., and Ambac Assurance UK, Ltd.
- 6) Expense ratio represents statutory underwriting expenses (including reinsurance commissions) divided by net premiums written for the following statutory entities: Ambac Assurance, Ambac Assurance Segregated Account, Everspan Financial Guarantee Corp., and Ambac Assurance UK, Ltd.

Ambac Assurance General Account
Rollforward of Statutory Capital and Surplus

(in thousands)

	For the six months ended June 30, 2010	For the twelve months ended December 31, 2009
Surplus to Policyholders, beginning of period	\$ 801,869	\$ 1,554,448
Net loss	(1,451,558) ⁽¹⁾	(2,479,612)
Issuance of surplus notes	2,000,000	-
Preferred stock activity	(817)	76,313
Unrealized gain/(loss) on non-impaired, BIG investments	22,124	(1,390)
Change in contingency reserves	(44,415)	1,578,541
Other changes in surplus	176,058	73,569
Surplus to Policyholders, end of period	<u>\$ 1,503,261</u>	<u>\$ 801,869</u>

- 1) Includes the impact of: (i.) losses on commutation of credit derivatives of approximately \$657.3 million, and (ii.) statutory loss and loss expenses incurred of approximately \$1,100.4 million, all offset by: (iii.) net earned premiums of \$318.6 million, and (iv.) net investment income of \$157.5 million.