2009 Quarterly Operating Supplement

Q1

▸ Financial Highlights

Share price	$0.78
Market capitalization	$224.1 million
Net loss	$(392.2) million
Net loss per diluted share	$(1.36)
Book value per share	$(13.84)
Adjusted book value per share	$(4.85)
Adjusted book value per share (excluding net unrealized losses and tax valuation allowance)	$17.02

New York | London | Sydney | Milan

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 Ba3 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

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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
First Quarter 2009

Table of Contents

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 (which includes estimated future installment premiums discounted at the risk free rate, net of reinsurance); deferred acquisition costs; and the unrealized gain or loss on investment agreement liabilities. Ambac adjusts the present value of installment premiums to an amount that represents management's best estimate (discounted at 5.0% at March 31, 2009) as compared to the amounts required under US GAAP. 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), which is 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 4.9% and 5.2% for the quarters ended March 31, 2009 and 2008, respectively).

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

	First Quarter 2009	First Quarter 2008
KEY FINANCIAL LINES		
Net income (loss) ($ millions)	($392.2)	($1,660.3)
Stockholders' equity ($ millions)	($3,978.1)	($1,285.7)
Total capitalization (1) ($ millions)	($2,352.1)	$2,915.2
Debt/total capital (1)	n.m.	55.5%
Capital ratio(2)	282:1	120:1
Claims-Paying ratio (2)	56:1	51:1
Loss ratio (3)	358.1%	972.9%
Expense ratio (4)	27.0%	24.0%
Combined ratio(3) (4)	385.1%	996.9%
Effective tax rates:		
Financial Guarantee:		
Net investment income	21.6%	13.9%
Realized securities gains	35.0%	35.0%
Underwriting and other income	97.1%	35.3%
Total Financial Guarantee	224.7%	36.4%
Financial Services	35.0%	35.2%
Other	35.0%	334.3%
Consolidated total effective tax rate	240.3%	41.5%
STOCKHOLDER DATA		
Market value per share	$0.78	$5.75
Net loss per share	($1.36)	($11.69)
Net loss per diluted share	($1.36)	($11.69)
OTHER EARNINGS MEASURES (Per diluted share)		
Net loss	($1.36)	($11.69)
Net security (gains) losses(5)	($1.86)	$4.75
Operating earnings (non-GAAP)	($3.22)	($6.94)
Refundings, calls and other accelerations, net	($0.09)	($0.14)
Core earnings (non-GAAP)	($3.31)	($7.08)
ADJUSTED BOOK VALUE ANALYSIS (Per share)		
Book value	($13.84)	$4.52
After-tax value of:		
Net unearned premium reserve less deferred acquisition costs	12.64	5.31
Adjustments to present value of installment premiums, net	(9.13)	-
Present value of future installment premiums	5.11	6.47
Unrealized loss on investment agreement liabilities	0.37	(0.47)
Adjusted book value	($4.85)	$15.83

(1) Excludes the portion of long-term debt associated with variable interest entities of $197.9 million and $272.5 million at March 31, 2009 and 2008, 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 oncredit 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)

	First Quarter 2009	First Quarter 2008
Pre-tax income………………………………………………………..	$279.7	($2,790.7)
Pre-tax Financial Guarantee:		
Net realized investment losses (gains) …………………………………	742.9	(22.2)
Credit default swaps - total …………………………………………….	(1,537.8)	1,725.2
Credit default swaps - estimated impairment losses……………………	(7.0)	(940.5)
Total Financial Guarantee……………………………………………	(801.9)	762.5
Pre-tax Financial Services:		
Net realized investment (gains) losses …………………………………	(31.1)	169.8
Non-trading derivatives…………………………………………………	(0.2)	1.9
Total return swaps………………………………………………………	10.4	40.4
Total Financial Services………………………………………………	(20.9)	212.1
Pre-tax Operating earnings………………………………………………	(543.1)	(1,816.1)
Tax on Operating earnings………………………………………………	383.9	(831.0)
After-tax Operating earnings……………………………………………	($927.0)	($985.1)

For Immediate Release

AMBAC FINANCIAL GROUP, INC. ANNOUNCES FIRST QUARTER NET LOSS OF $392.2 MILLION

First Quarter Net Loss Per Share of $1.36

NEW YORK, May 11, 2009--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced a first quarter 2009 net loss of $392.2 million, or a net loss of $1.36 per share. This compares to the first quarter 2008 net loss of $1,660.3 million, or a net loss of $11.69 on a per share basis. The first quarter 2009 results reflect pre-tax net income amounting to $279.7 million resulting primarily from a positive net change in fair value of credit derivatives. The unrealized gain in credit derivatives was partially offset by loss and loss expenses primarily related to the residential mortgage-backed securities (RMBS) portfolio and other-than-temporary impairment write downs of RMBS securities in the investment portfolio. During the quarter Ambac increased its deferred tax asset valuation allowance by approximately $600 million, causing the after-tax net loss. The first quarter 2008 results reflected a net change in fair value of credit derivatives amounting to ($1,708.2) million as a result of deterioration in certain insured CDO of ABS transactions and loss and loss expenses amounting to $1,042.8 million related to RMBS securities.

Quarter Summary

- Net positive change in fair value of credit derivatives amounted to $1,545.9 million, driven primarily by Ambac Assurance Corporation (AAC) credit spread widening during the period. Estimated impairment losses in this portfolio did not change significantly during the quarter.
- Net loss provisioning amounted to $739.8 million for the quarter primarily relating to the RMBS insurance portfolio.
- AAC and the investment agreement business recorded $744.7 million and $85.5 million, respectively, of other-than-temporary impairment write-downs related to Alt-A RMBS securities held in their respective investment portfolios.
- The deferred tax asset valuation allowance increased by approximately $600 million during the quarter. For the purposes of estimating future taxable income available to utilize net operating losses, management revised its estimate of potential future investment income and 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 was primarily driven by continuing deterioration in AAC's insured RMBS transactions and the impact of the low interest rate environment on projected investment income.
- FAS 163 was implemented on January 1, 2009. Due to changes in calculations of certain income statement items such as net premiums earned and loss and loss expenses, 2009 and 2008 amounts are not comparable, as described in further detail below.
- On April 13, 2009, Moody's downgraded Ambac Assurance Corp. and Ambac Assurance UK Limited to Ba3 from Baa1. The rating downgrade had no material impact on corporate-wide liquidity or collateral requirements.

Ambac's President and Chief Executive Officer, David Wallis, commented, "The credit environment remains adverse, although perhaps the rate of degradation is slowing. We remain focused upon our key strategic initiatives of: (i) aggressively managing our existing book of business; (ii) identifying strategic opportunities that take advantage of our core competencies and assets; and (iii) sensibly accessing outside capital to enable the launch of our public finance-only financial guarantee subsidiary, Everspan." Mr. Wallis continued, “Looking forward, I believe that the resilience of our business model combined with the efforts of our entire staff positions us well in relation to the ultimate goal of restoring value for our key stakeholders.”

Financial Results

Implementation of FAS 163

Effective January 1, 2009, Ambac adopted SFAS No. 163, *“Accounting for Financial Guarantee Insurance Contracts, an interpretation of SFAS 60, Accounting and Reporting by Insurance Enterprises”* (FAS 163). The new standard clarifies how SFAS No. 60, *“Accounting and Reporting by Insurance Enterprises,”* applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. Accordingly, results for premium revenue and losses incurred are not comparable from 2008 to 2009. Under FAS 163:

- Ambac is required to record unearned premiums for upfront and installment paying transactions. Installment unearned premiums are established in an amount equal to: (i) the present value of future contractual premiums due or, (ii) if the underlying insured obligation is a homogenous pool of assets which are contractually pre-payable (primarily RMBS securities), the present value of premiums expected to be collected over the life of the transaction. Prior to implementation of FAS 163, Ambac recorded unearned premiums only for premiums received in advance.

- Ambac is required to recognize premium revenue for both up-front and installment paying policies by recognizing a fixed percentage of premium to the amount of exposure outstanding at each reporting date (referred to as the level-yield approach), rather than being recognized over the term of each maturity for up-front paying policies. For installment paying policies, FAS 163 also requires that the accretion discount, equating to the difference between the undiscounted installment premiums and the present value of installment premiums, be recognized through the income statement.

- Ambac is required to recognize a loss reserve for the excess of: (a) the present value of expected net cash outflows to be paid under the insurance contract (expected loss), over (b) the unearned premium revenue for that contract. To the extent (a) is less than (b), no loss reserve will be recorded. Changes to the loss reserve estimate in subsequent periods will be recorded as a loss expense in the income statement.

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 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 first quarter comparisons of loss for 2009 and 2008.

Table I

	Earnings Per Share First Quarter	
	2009	**2008**
Net loss per share	($1.36)	($11.69)
Effect of net security losses /(gains)	($1.86)	$4.76
Operating loss [(a) (b)]	**($3.22)**	**($6.93)**
Effect of accelerated earnings	($0.09)	($0.15)
Core loss [(b)]	($3.31)	($7.08)

(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 first quarter of 2009 were $196.8 million, up 5% from $186.9 million earned in the first quarter of 2008. Normal earned premiums amounted to $155.8 million and $172.9 million in the first quarter 2009 and 2008, respectively. With the implementation of FAS 163, as discussed above, normal earned premium amounts reported in 2009 are not comparable to amounts that were reported in 2008.

Net premiums earned include accelerated premiums, which result from refundings, calls and other accelerations recognized during the quarter. Accelerated premiums were $41.0 million in the first quarter of 2009, up from $14.0 million in the first quarter 2008. During the first quarter of 2009 and 2008, approximately 87% and 66%, respectively, of the accelerated premiums related to U.S. public finance transactions.

A breakout of net premiums earned by market sector for 2009 and 2008 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	
	2009	**2008**
Public Finance	$49.6	$55.8
Structured Finance	58.8	70.4
International	47.4	46.7
Total Normal Premiums	155.8	172.9
Accelerated Premiums	41.0	14.0
Total	$196.8	$186.9

Net Realized (Losses)/Gains

Net realized (losses)/gains in the AAC investment portfolio amounted to a net loss of ($742.9) million in the first quarter of 2009, down from a gain of $22.2 million in the first quarter 2008. The first quarter 2009 net loss was driven by other-than-temporary impairment write-downs of certain Alt-A RMBS securities amounting to ($744.7) million in the quarter. The Alt-A RMBS securities had been purchased from the Financial Services investment agreement business in the fourth quarter 2008 and the first quarter 2009, as approved by the Wisconsin Office of the Commissioner of Insurance (OCI) to provide the investment agreement business with liquidity required for collateral and terminating its agreements.

Net Investment Income

Net investment income excluding variable interest entities for the first quarter of 2009 was $97.5 million, representing a decrease of 19% from $120.0 million in the comparable period of 2008. The decrease was primarily due to lower invested assets driven by reductions in the portfolio to pay commutations on CDO of ABS transactions and RMBS claim payments, partially offset by $1.3 billion in funds received via the capital raise in March 2008, $800 million from the issuance of AAC preferred stock in December 2008 and January 2009, and cash flow from the collection of financial guarantee premiums, tax refunds and fees and coupon receipts on invested assets. Net investment income was also negatively impacted by the re-balancing of the portfolio to a greater proportion of short-term securities, and lower yields on invested assets compared to the first quarter 2008.

Net Change in Fair Value of Credit Derivatives

The net change in fair value of credit derivatives was $1,545.9 million for the first quarter of 2009, compared to ($1,708.2) million in the comparable period of 2008.

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 and settlement payments on such transactions. Net realized gains/(losses) and other settlements from credit derivative contracts in the first quarter of 2009 amounted to $6.6 million, representing $13.2 million of net premiums received partially offset by paid losses of $6.6 million. In the first quarter 2008, premiums received amounted to $17.0 million while no loss payments were made.

Net unrealized gains/(losses) on credit derivative contracts were $1,539.2 million in the three months ended March 31, 2009, compared to ($1,725.2) million in the three months ended March 31, 2008. The net gain during the first quarter of 2009 is primarily the result of: (i) the effect of incorporating widening AAC credit default swap spreads into the measurement of fair value of credit derivative liabilities; and (ii) longer estimates of the weighted average lives of certain CDO of ABS transactions at March 31, 2009 compared to December 31, 2008. The positive effects were partially offset by: (i) the adverse effect of higher default probabilities in our fair value model caused by internal ratings downgrades; and (ii) declining market values on underlying reference obligations. The consideration of Ambac’s own credit risk in measuring the change in fair value of credit derivatives as required under FAS 157 resulted in positive adjustments of $4,489 million and $1,616 million to the reported change in fair value during the three months ended March 31, 2009 and 2008, respectively.

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 December 31, 2008 to March 31, 2009.

Financial Guarantee Loss Reserves

Total net loss and loss expenses were $739.8 million in the first quarter 2009, down 29% from $1,042.8 million in the first quarter of 2008. Losses and loss expenses in the first quarter 2009 were heavily concentrated in the RMBS insurance portfolio. Continued deterioration in the performance of the underlying RMBS loans was observed, most prominently in the Alt-A affordability product (negative amortization and interest-only loans).

Under the provisions of FAS 163, Ambac changed the discount rate it uses to estimate the present value of future loss payments from 4.5% in 2008 to the weighted average estimated risk-free rate of approximately 1.5%. Additionally, Ambac will no longer characterize loss reserves as active credit reserves and case reserves as FAS 163 does not distinguish between reserves for transactions that have defaulted and those established for probable and estimable losses due to credit deterioration on insured transactions that have not yet defaulted.

A roll forward of loss reserves from December 31, 2008 to March 31, 2009 is shown in Table III.

Table III

($-millions)

	Insurance Loss Reserves Roll Forward		
	Loss Reserves	**1st Qtr Loss and Loss Expenses**	**Retained Earnings Impact**
Balance at December 31, 2008	$2,129.8	$ —	$ —
FAS 163 adjustment	339.4	—	(339.4)
Balance at January 1, 2009	2,469.2	—	—
Additions to reserves	739.8	739.8	(739.8)
Less: claims paid	(312.3)	—	—
Balance at March 31, 2009	$2,896.7	$ 739.8	($1,079.2)

The FAS 163 adjustment in the table above is an implementation adjustment and results primarily from lowering the discount rate applied to future estimated losses, as described above.

Total net claims paid of $312.3 million were primarily related to second-lien RMBS transactions.

Loss and loss expense reserves for all RMBS insurance exposures at March 31, 2009 total $2,451.8 million. RMBS reserves are net of $882.0 million of estimated remediation recoveries. The remediation benefit is up $21.0 million from $861.0 million at December 31, 2008.

Financial Services

The financial services segment comprises the investment agreement business and the derivative products business. Gross interest income less gross interest expense from investment and payment agreements plus results from the derivative products business, excluding net realized investment gains and losses and unrealized gains and losses on total return swaps and non-trading derivative contracts, was ($6.1) million in the first quarter of 2009, an improvement from ($73.4) million in the first quarter of 2008. Derivative products results improved by $54.9 million primarily due to mark-to-market losses and high rate resets associated with variable rate municipal bond rate swaps in 2008 which have been limited in the three months ended March 31, 2009 through terminations in the book, mitigation strategies and less volatility in market rates. Net investment income from the investment agreement business improved primarily as a result of favorable variable interest rate reset adjustments as compared to the first quarter of 2008 and the effects of intercompany loans from AAC.

Financial services net realized investment gains were $31.1 million in the first quarter of 2009 compared to net realized losses of ($169.8) million in the first quarter 2008. Net realized gains in the current period included $102.8 million related to terminations of investment agreements below carrying value combined with the recognition of deferred gains on associated hedges, partially offset by other-than-temporary impairment write-downs in the investment agreement investment portfolio of ($85.5) million related to Alt-A RMBS securities. First quarter 2008 net realized investment losses included other-than-temporary impairment charges of ($177.6) million.

As a result of the Moody's downgrade of AAC in April, certain derivative products business counterparties have the option to exercise termination rights. Ambac continues to honor all of its financial obligations and has maintained a hedged derivative book. Further downgrades to AAC will have no material liquidity impact on the financial services businesses.

The interest rate swap and investment agreement businesses are being run-off. Since the end of 2008 approximately $300 million of swap notional, not including the notional of related hedge positions, has been terminated. The investment and payment agreement portfolio has been reduced by $634 million during the first quarter to approximately $2.0 billion at March 31, 2009, through negotiated terminations, terminations contractually triggered by rating downgrades of Ambac Assurance, and scheduled amortization.

Balance Sheet and Liquidity

The impact of FAS 163 on the consolidated balance sheet of Ambac is illustrated in Table IV, below.

Table IV
($-millions)

	Balance Sheet Changes		
	Balance December 31, 2008	**FAS 163 Adjustment**	**Balance January 1, 2009**
Total assets	$17,249.6	$5,610.2	$22,859.8
Total liabilities	20,338.7	5,991.3	26,330.0
Total Stockholders' Equity	(3,089.1)	(381.1)	(3,470.2)

The FAS 163 adjustments reported in the table reflect the implementation of the statement as of January 1, 2009. The adjustments to total assets relate primarily to: (i) recording the present value of future installment premiums to be collected over the lives of the respective transactions (primarily structured finance transactions); (ii) recording deferred ceded premiums related to reinsurance of installment policies; and (iii) increased estimated reinsurance recoverable on paid and unpaid losses resulting from the increase in loss and loss adjustment expenses as discussed below. The adjustments to total liabilities relate primarily to: (i) recording unearned premiums related to installment policies; (ii) recording the present value of premium due to reinsurers related to future installment premiums, net of ceding commissions; and (iii) recording increased loss and loss expenses primarily as a result of lowering the discount rate applied to future loss payments to the estimated risk-free rate.

Excluding the FAS 163 implementation impact, total assets declined by approximately $2.7 billion driven by lower invested securities and deferred tax asset. The fair value of the consolidated investment portfolio declined from $10.3 billion (amortized cost of $12.8 billion) at December 31, 2008 to $9.6 billion (amortized cost of $11.3 billion) at March 31, 2009. The decline in fair value was primarily due to liquidations in the investment agreement portfolio to pay terminated agreements during the quarter and declining market values in certain asset classes within the investment portfolios, primarily focused in the mortgage and asset-backed securities. The deferred tax asset declined as a result of the positive net change in fair value of credit derivatives and the increase in the deferred tax asset valuation allowance during the quarter.

At March 31, 2009, Ambac's total stockholders' equity amounted to a deficit of ($3.2) billion. On a statutory basis, Ambac has positive surplus as regards policyholders amounting to $394 million, down from $1,554 million at December 31, 2008. The decline in statutory surplus was driven primarily by statutory valuation adjustments totaling approximately $1.3 billion for a majority of the Alt-A RMBS securities within AAC's investment portfolio. The valuation adjustments occurred as Moody's downgraded a significant number of Alt-A securities to below investment grade during the quarter which reduced the carrying value of such securities under statutory accounting rules.

AAC's investment portfolio has a fair value of $7.4 billion (amortized cost of $8.5 billion) at March 31, 2009, and includes $834.1 million 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 late 2008. To date AAC has purchased approximately $2.9 billion of securities, primarily Alt-A RMBS, from the IA business. At March 31, 2009, approximately 97% 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 5% from $434.3 billion at December 31, 2008 to $413.3 billion at March 31, 2009, driven by amortization and refundings during the quarter.

Cash and short-term securities at the holding company amounted to $177.7 million at quarter end. AAC is not permitted to make dividend payments to the holding company in 2009 without first receiving permission from OCI. AAC did not request to pay a dividend in the first quarter. All intercompany receivables held by the parent company at December 31, 2008 have been settled during the quarter. Ambac's claims paying resources at March 31, 2009 amounted to $12.0 billion.

Everspan Update

The process of launching Everspan Financial Guarantee Corp. (Everspan) has been delayed due to rating agency concerns over separateness from its parent, AAC. Everspan has been carefully structured to separate it from Ambac Assurance. Nonetheless, the rating agencies have indicated that a minority investment from an independent third party in order to further ensure Everspan's separateness would be viewed positively in their ratings decision. We are currently in discussions with a number of external parties regarding potential investment in Everspan. Douglas Renfield-Miller, CEO of Everspan stated, "Everspan, given its experienced team and clean balance sheet, remains well positioned to address the existing severe capacity shortage for financial guarantees in the municipal finance market. The case for bond insurance remains compelling. We hope that Everspan will be able to meet market needs in the near future."

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 Ba3 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) 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; (2) the actions of the U. S. Government, Federal Reserve and other government and regulatory bodies to stabilize the financial markets; (3) 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; (4) changes in Ambac's and/or Ambac Assurance's credit or financial strength ratings; (5) risks relating to the re-launch of Connie Lee as Everspan Financial Guarantee Corp.; (6) competitive conditions, pricing levels and reduction in demand for financial guarantee products; (7) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (8) inadequacy of reserves established for losses and loss expenses; (9) changes in capital requirements whether resulting from downgrades in our insured portfolio or changes in rating agencies' rating criteria or other reasons; (10) 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; (11) 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; (12) 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; (13) market spreads and pricing on insured CDOs and other derivative products insured or issued by Ambac; (14) 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; (15) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (16) Ambac's financial position and lack of financial flexibility, resulting principally from the uncertainty of Ambac Assurance's ability to pay dividends to Ambac without the consent of the office of the Commissioner of Insurance of the State of Wisconsin; (17) legislative and regulatory developments, including the Troubled Asset Relief Program and other programs under the Emergency Economic Stabilization Act and other similar programs; (18) changes in accounting principles or practices relating to the financial guarantee industry or that may impact Ambac's reported financial results; (19) changes in expectations regarding future realization of gross deferred tax assets; (20) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting, required under SFAS 133, to the portion of our credit enhancement business which is executed in credit derivative form; (21) 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; (22) operational risks, including with respect to internal processes, risk models, systems and employees; (23) factors that may influence the amount of installment premiums paid to Ambac; (24) 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; (25) changes in tax laws; (26) other factors described in the Risk Factors section in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 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 (27) 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)	First Quarter 2009	2008
Revenues:		
Financial Guarantee:		
Normal net premiums earned (1)	$155,808	$172,870
Accelerated net premiums earned (1)	41,004	13,996
Total net premiums earned (1)	196,812	186,866
Net investment income	97,488	120,014
Net investment income from VIEs	2,783	3,631
Net realized (losses) gains	(742,905)	22,212
Realized gains and losses and other settlements on credit derivative contracts	6,623	16,973
Unrealized gains (losses) on credit derivative contracts	1,539,227	(1,725,172)
Net change in fair value of credit derivative contracts	1,545,850	(1,708,199)
Other income	1,723	8,457
Financial Services:		
Investment income	20,884	84,926
Derivative products	(14,199)	(68,820)
Net realized gains (losses)	31,056	(169,792)
Net change in fair value of total return swap contracts	(10,381)	(40,928)
Net mark-to-market gains (losses) on non-trading derivatives contracts	161	(1,833)
Corporate:		
Net investment income	216	827
Net realized investment gains	33	-
Total revenues	1,129,521	(1,562,639)
Expenses:		
Financial Guarantee:		
Losses and loss expenses (1)	739,830	1,042,761
Underwriting and operating expenses (1)	56,637	48,903
Interest expense on variable interest entity notes	2,747	3,557
Financial Services:		
Interest from investment and payment agreements	12,789	89,003
Other expenses	3,951	3,389
Corporate:		
Interest	29,846	24,377
Other expenses	4,021	16,076
Total expenses	849,821	1,228,066
Income (loss) before income taxes	279,700	(2,790,705)
Provision (benefit) for income taxes	671,900	(1,130,441)
Net loss	($392,200)	($1,660,264)
Less: net (loss) income attributable to noncontrolling interest	(13)	79
Net loss attributable to Ambac Financial Group, Inc	(392,187)	(1,660,343)
Net loss per share	($1.36)	($11.69)
Net loss per diluted share	($1.36)	($11.69)
Weighted average number of shares outstanding	287,565,182	142,032,462
Weighted average number of diluted shares outstanding	287,565,182	142,032,462

(1) Ambac adopted FAS 163 effective January 1, 2009. Please refer to "Adoption of FAS 163 page" for more information.

Consolidated Balance Sheets

($ in Thousands, Except Share Data)	March 31, 2009	December 31, 2008
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of $9,996,120 in 2009 and $11,080,723 in 2008)	$8,357,554	$8,537,676
Fixed income securities pledged as collateral, at fair value (amortized cost of $237,952 in 2009 and $277,291 in 2008)	246,475	286,853
Short-term investments (approximates fair value)	1,016,090	1,454,229
Other (cost of $3,368 in 2009 and $13,956 in 2008)	3,368	14,059
Total investments	9,623,487	10,292,817
Cash	107,866	107,811
Receivable for securities sold	22,877	15,483
Investment income due and accrued	76,248	116,769
Premium Receivables	4,468,130	28,895
Reinsurance recoverable on paid and unpaid losses[1]	213,891	157,627
Deferred ceded premiums [1]	1,149,690	292,837
Subrogation recoverable[1]	197,690	10,088
Deferred taxes	1,145,423	2,127,499
Current income taxes	191,644	192,669
Deferred acquisition costs[1]	189,263	207,229
Loans	333,051	798,848
Derivative assets	1,847,952	2,187,214
Other assets [1]	622,645	723,887
Total assets	$20,189,857	$17,259,673
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unearned premiums[1]	$6,929,790	$2,382,152
Loss and loss expense reserve[1]	3,268,218	2,275,948
Ceded reinsurance balances payable [1]	672,597	15,597
Obligations under investment and payment agreements	2,212,054	3,244,098
Obligations under investment repurchase agreements	-	113,737
Long-term debt	1,823,979	1,868,690
Accrued interest payable	27,318	68,806
Derivative liabilities	8,146,454	10,089,895
Other liabilities[1]	291,443	279,616
Payable for securities purchased	3,471	10,256
Total liabilities	23,375,324	20,348,795
Stockholders' equity:		
Ambac Financial Group, Inc.:		
Preferred stock	-	-
Common stock	2,944	2,944
Additional paid-in capital	2,035,191	2,030,031
Accumulated other comprehensive loss	(1,092,253)	(1,670,198)
Retained earnings[1]	(4,341,164)	(3,550,768)
Common stock held in treasury at cost	(582,829)	(594,318)
Total Ambac Financial Group, Inc. stockholders' equity	(3,978,111)	(3,782,309)
Noncontrolling interest:	792,644	693,187
Total stockholders' equity	(3,185,467)	(3,089,122)
Total liabilities and stockholders' equity	$20,189,857	$17,259,673
Number of shares outstanding (net of treasury shares)	287,346,536	287,239,482
Book value per share	($13.84)	($13.17)
Adjusted book value per share	($4.85)	($3.92)

(1) Ambac adopted FAS 163 effective January 1, 2009. Please refer to "Adoption of FAS 163 page" for more information.

Financial Guarantees[1][2][3]

($ Thousands)	First Quarter 2009	First Quarter 2008
Public Finance:		
Gross Par Guaranteed	$0	$517,061
Up-front Premium	$0	$4,849
Installment Premium	7,282	8,358
Gross Premium	$7,282	$13,207
Credit Enhancement Production	$0	$5,524
Structured Finance:		
Gross Par Guaranteed	$400,915	$3,828,012
Up-front Premium	$0	$1,690
Installment Premium	54,997	80,537
Gross Premium	$54,997	$82,227
Credit Enhancement Production	$3,739	$29,356
International Finance:		
Gross Par Guaranteed	$632,628	$541,535
Up-front Premium	$0	$377
Installment Premium	38,150	63,396
Gross Premium	$38,150	$63,773
Credit Enhancement Production	$830	$5,603
Grand Total:		
Gross Par Guaranteed	$1,033,543	$4,886,608
Up-front Premium	$0	$6,916
Installment Premium	100,429	152,291
Gross Premium	$100,429	$159,207
Credit Enhancement Production	$4,569	$40,483

(1) Gross premiums written is presented on a US statutory basis of accounting, which approximates cash received.

(2) Credit enhancement production (CEP) includes reinsurance assumed of $0.0 million and $2.4 million for the first three months ended March 2009 and 2008. CEP was discounted at rates of 4.9% and 5.2% in the first quarter of 2009 and 2008, respectively.

(3) International Finance includes components of domestic exposure.

Normal Net Insurance Premiums Earned and Fees on Credit Derivatives [1]

2009 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Public Finance	$49,579	-	-	-	$49,579
Structured Finance	58,856	-	-	-	58,856
International Finance	47,373	-	-	-	47,373
Total Normal Insurance Premiums Earned	$155,808	-	-	-	$155,808
Fees on credit derivative contracts [2]	$13,159	-	-	-	$13,159

2008 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance	$55,811	$53,066	$48,497	$46,436	$203,810
Structured Finance	70,374	67,369	63,292	59,994	261,029
International Finance	46,685	45,809	43,202	40,456	176,152
Total Normal Insurance Premiums Earned	$172,870	$166,244	$154,991	$146,886	$640,991
Fees on credit derivative contracts [2]	$16,973	$16,709	$15,342	$13,701	$62,725

Effect of Refundings, Calls and Other Accelerations [1]

2009 ($ Thousands, Except Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Earned premium recognized from refundings, calls and other accelerations	$41,004	-	-	-	$41,004
Net income effect	$25,482	-	-	-	$25,482
Net income per diluted share effect	$0.09	-	-	-	$0.09

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	$20,374	$87,738	$85,315	$50,909	$244,336
Net income per diluted share effect	$0.14	$0.30	$0.30	$0.18	$0.98

(1) Ambac adopted FAS 163 effective January 1, 2009. Please refer to "Adoption of FAS 163 page" for more information.

(2) 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.

Public Finance New Issuance [1][2]

($ Millions of Par Value)	Total New Issue Market: Issued	Total New Issue Market: Insured [3]	Total New Issue Market: Insured Percent	Insured by Ambac: Insured	Insured by Ambac: Market Share Percent
2009 By Quarter					
First.	$84,899	$10,929	12.9%	$0	0.0%
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%
Full Year					
Year-to-date 2009.	$84,899	$10,929	12.9%	$0	0.0%
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 Reuters.

(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.

(3) Insured amounts do not include Letters of Credits (LOC) issued by non financial guarantee insurers. Total LOCs issued were $4,909 and $54,195 for 1Q09 and full year 2008.

Net Exposure Amortization[1]

As of March 31, 2009

($ Millions)	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2009 (2nd, 3rd, and 4th Qtrs)	$27,927	$635,868
2010	35,594	600,274
2011	37,313	562,961
2012	33,261	529,700
2013	33,193	496,507
2014	31,612	464,895
2009 (2nd, 3rd, and 4th Qtrs)	27,927	635,868
2010-2014	170,973	464,895
2015-2019	140,907	323,988
2020-2024	105,641	218,347
2025-2029	73,764	144,583
After 2029	144,583	-
Total	$663,795	

Net Unearned Premium Amortization and Estimated Future Installment Premiums[2]

As of March 31, 2009

($ Millions)	Net Unearned Premium Amortization[3] [4]	Fees on Credit Derivative Contracts	Estimated Net Future Installments[5]
2009 (2nd, 3rd, and 4th Qtrs)	$368.1	$35.3	$247.0
2010	455.7	45.2	291.8
2011	425.0	40.5	250.2
2012	382.3	37.5	210.5
2013	350.3	33.3	182.6
2014	326.9	28.2	145.3
2009 (2nd, 3rd, and 4th Qtrs)	368.1	35.3	247.0
2010-2014	1,940.2	184.7	1,080.3
2015-2019	1,286.6	81.1	508.6
2020-2024	931.8	53.0	346.1
2025-2029	670.9	36.0	227.3
After 2029	582.5	28.5	213.0
Total	$5,780.1	$418.6	$2,622.4

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of March 31, 2009. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.

(2) Ambac adopted FAS 163 effective January 1, 2009. Please refer to "Adoption of FAS 163 page" for more information.

(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 March 31, 2009. 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) Excludes future accretion premium earnings relating to the passage of time on discounted premium receivables.

(5) Represents management's estimate of future installment premium collections net of reinsurance. Actual net of 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.

Fixed Income Investment Portfolio

As of March 31, 2009

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	$148,901	$144,394	2.37%	1.54%	$862
U.S. agency obligations	110,515	103,172	4.22%	2.75%	1,104
Municipal obligations (2) (3)	4,279,447	4,311,598	4.72%	4.57%	51,232
Foreign obligations	153,772	147,830	4.22%	2.74%	1,550
Corporate obligations	232,069	251,838	5.73%	3.72%	3,748
Mortgage and asset-backed securities	1,607,323	2,739,362	8.12%	5.28%	37,120
Total long-term investments	6,532,027	7,698,194	5.90%	4.68%	95,616
Short-term investments (4)	834,142	834,142	0.57%	0.40%	2,247
Other (5)	3,368	3,368			3,228
Total Financial Guarantee investments	7,369,537	8,535,704	5.38%	4.26%	101,091
Investment expenses					(821)
Financial Guarantee net investment income					$100,270
Financial Services investments (6)					
Long-term investments					
U.S. government obligations	160,282	152,559			
U.S. agency obligations	266,766	233,080			
Corporate obligations	112,139	189,828			
Mortgage and asset-backed securities	1,532,815	1,960,411			
Total long-term investments	2,072,002	2,535,878			
Short-term investments	4,238	4,238			
Total Financial Services investments	2,076,240	2,540,116			
Corporate investments:					
Short-term investments	177,710	177,710			
Total Corporate investments	177,710	177,710			
Total Investments	$9,623,487	$11,253,530			

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO (7)(8)

	Percent of Investment Portfolio		
Rating	Fin. Guar.	Fin. Services	Combined
AAA (2) (9)	25%	75%	37%
AA	39%	14%	33%
A	16%	2%	12%
BBB	5%	0%	4%
Below investment grade	15%	9%	14%
Not rated	<1%	0%	<1%
	100%	100%	100%
Duration of Financial Guarantee investment portfolio			4.8

(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 amortized cost, 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 $118,957 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 $277,081 and $4,002,366, respectively.

(4) Includes taxable and tax-exempt short-term investments with a fair value of $736,886 and $97,256, respectively.

(5) Includes income earned on loans and FIN 46 entities, which are classified separately on the balance sheet.

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

(7) Ratings are based on the lower of Standard & Poor's or Moody's rating. If guaranteed, rating represents the higher of the underlying or wrapped rating.

(8) Rating distribution is calculated based on amortized cost.

(9) Includes U.S. Government and Agency securities which comprise approximately 5% and 62% of the Financial Guarantee and Financial Services portfolios, respectively.

Ratio of Net Claims Paid [1] [2]

($ Thousands)	YTD 2009	2008	2007	2006	2005
Net claims paid [3]	$312,279	$2,428,165	($2,128)	$105,568	$86,739
Net insurance premiums and credit derivative fees	$209,971	$1,085,482	$917,895	$871,383	$866,415
Ratio of net claims paid	148.7%	223.7%	-0.2%	12.1%	10.0%

Summary of Net Insurance Loss Reserves and Credit Derivatives[2]

($ Thousands)	3/31/09	12/31/08	12/31/07	12/31/06
Total insurance reserves [2]	2,896,729	2,129,758	473,188	215,102
Estimated credit impairment losses on credit derivatives [4]	3,745,811	3,740,202	1,105,741	-
Total impairment losses	6,642,540	5,869,960	1,578,929	215,102
Mark-to-market reserve (asset) on credit derivatives [4]	2,947,117	4,491,955	4,889,721	(8,929)
Mark-to-market reserve (asset) on total return swaps	62,826	77,960	21,901	(11,195)
Grand total net insurance loss reserves and credit derivatives	$9,652,483	$10,439,875	$6,490,551	$194,978

Summary of Below Investment Grade Exposures

($ Millions)	Net Par Outstanding	Total Impairment Losses [2]
Public Finance:		
Transportation Revenue	$1,132	
Utilites	-	
Health Care	326	
Other	1,094	
Total Public Finance	2,552	131
Structured Finance:		
CDO of ABS >25% MBS	$24,559	$3,746
Mortgage-Backed & Home Equity - Second Lien	8,795	1,174
Mortgage-Backed & Home Equity - Mid prime	6,795	1,105
Mortgage-Backed & Home Equity - Sub prime.	1,068	142
Structured Insurance	908	167
Student Loans	859	38
Enhanced Equipment Trust Certificates	645	1
Mortgage-Backed & Home Equity - Other.	526	31
Investor-Owned Utilities	44	-
Other CDOs	21	11
Other	1,627	95
Total Structured Finance	45,847	6,509
International Finance:	$1,019	$2
Total	$49,418	$6,642

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

(2) Ambac adopted FAS 163 effective January 1, 2009. Please refer to "Adoption of FAS 163 page" for more information.

(3) Net claims paid includes payments on credit derivatives of $1, $1,857.2, $0, $0, and $0 million for year-to-date 2009, 2008, 2007, 2006, and 2005, respectively, and are net of salvage received of $12.4 million, $11.7 million, $27.9 million, $16.7 million, and $9.4 million for 2009, 2008, 2007, 2006, and 2005, respectively.

(4) Total net mark-to-market losses are $6,692,928 as of March 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.

Expense Analysis [1]

2009

($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	$ 28,974	-	-	-	$ 28,974
Non-compensation	8,345	-	-	-	8,345
Gross underwriting and operating expenses	**37,319**	**-**	**-**	**-**	**37,319**
Operating expenses deferred (policy acquisition costs)	(1,288)	-	-	-	(1,288)
Ceding commissions	-	-	-	-	-
Amortization of previously deferred expenses and commissions	20,606	-	-	-	20,606
Total Financial Guarantee underwriting and operating expenses	56,637	-	-	-	56,637
Financial Services operating expenses	**3,951**	**-**	**-**	**-**	**3,951**
Corporate operating expenses.	**4,021**	**-**	**-**	**-**	**4,021**
Total underwriting and operating expenses, net of deferred expenses.	$ 64,609	$ -	$ -	$ -	$ 64,609
Total gross underwriting and operating expenses	**$ 45,291**	**$ -**	**$ -**	**$ -**	**$ 45,291**

2008

($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Financial Guarantee underwriting and operating expenses:					
Compensation	$ 26,241	$ 36,645	$ 33,205	$ 17,926	$ 114,017
Non-compensation.	12,383	17,310	16,530	23,469	69,692
Gross underwriting and operating expenses	**38,624**	**53,955**	**49,735**	**41,395**	**183,709**
Operating expenses deferred (policy acquisition costs).	(3,357)	(3,226)	(2,404)	2,380	(6,607)
Ceding commissions	-	-	-	6,050	6,050
Amortization of previously deferred expenses and commissions	13,636	11,226	(280)	8,216	32,798
Total Financial Guarantee underwriting and operating expenses	48,903	61,955	47,051	58,041	215,950
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.	$ 68,368	$ 72,365	$ 60,544	$ 73,172	$ 274,448
Total gross underwriting and operating expenses	**$ 58,089**	**$ 64,365**	**$ 63,228**	**$ 56,526**	**$ 242,207**

(1) Ambac adopted FAS 163 effective January 1, 2009. Please refer to "Adoption of FAS 163 page" for more information

Historical Financial Guarantee Exposures Outstanding [1]

($ Millions Net Par Value)	March 31, 2009	December 31, 2008	2007	2006	2005
Public Finance:					
Lease and tax backed	$75,352	$77,060	$88,147	$89,042	$82,584
General obligation	56,989	58,296	63,977	62,834	57,982
Utility	31,658	32,166	37,976	38,313	36,877
Transportation	21,788	22,306	25,466	24,979	23,718
Higher education	17,523	17,959	20,685	22,068	20,203
Health care	13,666	15,115	27,161	27,849	26,994
Housing	10,567	10,862	11,531	10,996	10,152
Other	4,365	4,457	6,010	6,181	5,556
Total Public Finance	231,908	238,221	280,953	282,262	264,066
Structured Finance:					
Mortgage-backed & home equity	35,757	36,995	43,078	46,239	48,869
CDO of ABS >25% MBS	23,057	23,190	29,127	20,145	7,533
Other CDOs	19,606	19,988	22,174	20,423	18,213
Asset-backed and conduits	19,264	25,443	36,407	34,815	32,505
Student loan	16,185	16,644	18,372	18,404	16,538
Investor-owned utilities	14,129	14,650	17,055	17,345	16,398
Other	2,783	3,499	4,485	5,212	4,296
Total Structured Finance	130,781	140,409	170,698	162,583	144,352
International Finance[2]:					
Asset-backed and conduits	15,861	16,383	19,290	17,642	15,151
Other CDOs	9,220	12,784	15,572	19,978	23,427
Investor-owned and public utilities	8,093	8,492	10,384	10,531	8,052
Transportation	6,546	6,870	7,784	6,524	5,156
Sovereign/sub-sovereign	6,107	5,980	7,347	6,344	3,585
Mortgage-backed & home equity	3,351	3,669	10,106	11,951	14,627
Other	1,456	1,502	1,891	1,228	669
Total International Finance	50,634	55,680	72,374	74,198	70,667
Grand Total	$413,323	$434,310	$524,025	$519,043	$479,085

Percent of Total Net Par Outstanding

	2009	2008	2007	2006	2005
Public Finance	56.1%	54.9%	53.6%	54.4%	55.1%
Structured Finance	31.6%	32.3%	32.6%	31.3%	30.1%
International Finance	12.3%	12.8%	13.8%	14.3%	14.8%
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 $50,271, $53,918, $64,988, $55,460, and $43,712 at March 31, 2009, and December 31, 2008, 2007, 2006, and 2005, respectively.

(2) International transactions include components of domestic exposure.

Bond Type Distribution of Financial Guarantee Exposures [1]

($ Millions Par Value)	Guaranteed Year-to-Date Gross	%	Net[2]	%
Structured Finance:				
Asset-backed and conduits	$103	10.0%	$74	5.0%
Other CDOs	240	23.2%	237	15.9%
Investor-owned utilities	58	5.6%	45	3.0%
Other	-	0.0%	180	12.1%
Total Structured Finance	401	38.8%	536	35.9%
International Finance[3]:				
Asset-backed and conduits	112	10.8%	289	19.4%
Other CDOs	362	35.0%	275	18.4%
Transportation	159	15.4%	116	7.8%
Sovereign/sub-sovereign	-	0.0%	275	18.4%
Total International Finance	633	61.2%	955	64.1%
Grand Total	$1,034	100.0%	$1,491	100.0%

(1) Par written during the period relates to increases in funding for transactions originated in prior years.
(2) Net financial guarantees written reflects the recapture of $579 million relating to the cancellation of certain reinsurance contracts.
(3) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures

($ Millions Par Value)	Guaranteed Year-to-Date				Net Par Outstanding as of March 31, 2009	
	Gross	%	Net[1]	%	Net	%
Domestic:						
California	$23	2.2%	$19	1.3%	$44,985	10.9%
New York	68	6.6%	65	4.4%	23,774	5.8%
Florida	-	0.0%	-	0.0%	18,312	4.4%
Texas	-	0.0%	-	0.0%	17,360	4.2%
New Jersey	-	0.0%	-	0.0%	12,036	2.9%
Pennsylvania	-	0.0%	-	0.0%	10,379	2.5%
Illinois	-	0.0%	-	0.0%	10,177	2.5%
Massachusetts	-	0.0%	-	0.0%	7,939	1.9%
Colorado	-	0.0%	-	0.0%	6,714	1.6%
Washington	-	0.0%	-	0.0%	6,158	1.5%
Mortgage and asset-backed	103	10.0%	74	5.0%	55,021	13.3%
Other states	207	20.0%	378	25.4%	149,834	36.3%
Total Domestic	401	38.8%	536	35.9%	362,689	87.7%
International:						
United Kingdom	1	0.1%	1	0.1%	19,641	4.8%
Australia	43	4.2%	220	14.8%	5,142	1.2%
Italy	-	0.0%	274	18.4%	2,925	0.7%
Japan	-	0.0%	-	0.0%	2,249	0.5%
Turkey	-	0.0%	-	0.0%	1,853	0.4%
Internationally diversified	430	41.6%	344	23.1%	11,403	2.8%
Other international	159	15.4%	116	7.8%	7,421	1.8%
Total International	633	61.2%	955	64.1%	50,634	12.3%
Grand Total	$1,034	100.0%	$1,491	100.0%	$413,323	100.0%

Rating Distribution of Net Financial Guarantee Exposures [2]

As of March 31, 2009

Rating	Percentage of Guaranteed Portfolio: Public Finance	Structured and International Finance	Total
AAA	<1	12	5
AA	28	13	22
A	58	20	41
BBB	13	30	20
BIG	1	25	12
	100	100	100

(1) Net financial guarantees written reflects the recapture of $579 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 +	$199.1	#	$3,048	0.7%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	$148.5	#	2,031	0.5%
Washington State - GO	AA	$131.8	#	1,785	0.4%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	$118.8	#	1,438	0.3%
Bay Area Toll Authority, CA Toll Bridge Revenue	AA -	$67.9	#	1,389	0.3%
New Jersey Turnpike Authority Revenue	A	$91.3	#	1,370	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	$83.3	#	1,337	0.3%
Massachusetts Commonwealth - GO	AA	$84.9	#	1,266	0.3%
Central Texas Turnpike, System Revenue	BBB +	$107.3	#	1,095	0.3%
California Department of Water Resources, Power Supply	A	$148.4	#	1,034	0.3%
Los Angeles Unified School District, CA - GO	AA -	$71.3	#	999	0.2%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	$71.8	#	982	0.2%
South Carolina Transportation Infrastructure Bank Revenue	A	$68.2	#	978	0.2%
New York City, NY - GO	AA	$51.6	#	972	0.2%
Nassau County Interim Finance Authority, NY, Sales Tax Revenue	AA	$85.9	#	972	0.2%
Port Authority of New York & New Jersey, Consolidated Revenue	AA -	$67.8	#	926	0.2%
University of California Board of Regents, General Revenue	AA -	$50.8	#	923	0.2%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A -	$53.0	#	885	0.2%
Connecticut Housing Finance Authority, Housing Mortgage Finance Program	AA +	$49.5	#	841	0.2%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BBB +	$49.7	#	831	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	$48.9	#	826	0.2%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	$68.9	#	810	0.2%
Puerto Rico Sales Tax Financing Corporation	A +	$155.5	#	775	0.2%
Chicago, IL - GO	A +	$36.0	#	745	0.2%
New York City, NY Water and Sewer System Revenue	AA	$48.6	#	737	0.2%
Total:				$28,995	7.0%

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	$30.3	$326	0.1%
Children's Hospital Boston - Massachusetts	AA	$22.3	315	0.1%
New York City Health and Hospitals Corporation	A	$29.4	285	0.1%
Catholic Healthcare Partners - Ohio	A +	$20.8	281	0.1%
Catholic Health East - Pennsylvania	A +	$16.4	215	0.1%
Parkview Health System - Indiana	A +	$13.0	204	0.0%
Baylor College of Medicine - Texas	A -	$9.9	186	0.0%
ProMedica Healthcare Oblig Grp - Ohio	A +	$10.7	181	0.0%
Rockingham Memorial Hospital - Virginia	BBB +	$10.8	180	0.0%
Wellstar Health System - Georgia	A +	$11.1	179	0.0%
Total:			$2,352	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	$2,864	0.7%
CDO of ABS < 25% MBS	AAA	2,479	0.6%
Kleros Preferred Funding VI, Ltd.	BIG	2,362	0.6%
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	0.5%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2	BBB -	1,814	0.4%
Diversey Harbor ABS CDO, Ltd.	BIG	1,789	0.4%
Hertz Vehicle Financing, LLC	BBB	1,537	0.4%
Vermont Student Assistance Corporation Revenue Bonds	A	1,535	0.4%
Ridgeway Court Funding I, Ltd.	BIG	1,524	0.4%
Michigan Higher Education Student Loan Authority	AA	1,485	0.4%
Duke Funding High Grade III, Ltd.	BIG	1,451	0.4%
Belle Haven ABS CDO 2006-1, Ltd.	BIG	1,428	0.3%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BBB -	1,262	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,214	0.3%
Cendant Rental Car Funding	BBB -	1,152	0.3%
McKinley Funding III, Ltd.	BIG	1,132	0.3%
Millerton II High Grade ABS CDO, Ltd.	BIG	1,055	0.3%
Private Consumer Asset-Backed Transaction	A	1,031	0.2%
Hereford Street ABS CDO I, Ltd.	BIG	981	0.2%
Palmer Square PLC	BIG	955	0.2%
Lancer Funding, Ltd.	BIG	907	0.2%
Citation High Grade ABS CDO I, Ltd.	BIG	902	0.2%
Massachusetts Educational Financing Authority Revenue Bonds	AA	890	0.2%
Total:		$38,093	9.2%

Largest International Finance Exposures

($ Millions)	Ambac Rating[1]	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation	A +	$1,940	0.5%
Telereal Securitisation plc	AA -	1,319	0.3%
CDO of HY Corporate	AA	1,212	0.3%
Punch Taverns Finance plc-UK Pub Securitisation	A +	1,154	0.3%
Private Consumer Asset-Backed Transaction	A	957	0.2%
Romulus Finance s.r.l.	BBB -	936	0.2%
Channel Link Enterprises	BBB -	920	0.2%
Regione Campania	A -	887	0.2%
Synthetic RMBS	AAA	835	0.2%
TubeLines (Finance) plc	AA -	771	0.2%
CDO of HY Corporate	AAA	765	0.2%
Metronet Rail[3]	AA	747	0.2%
Spirit Issuer plc	BBB	740	0.2%
Babcock & Brown Air Funding I Limited	BBB +	707	0.2%
Aspire Defence Finance plc	BBB -	676	0.2%
Sydney Airport Finance Co. Pty Ltd	BBB	673	0.2%
Private CMBS Transaction	AAA	662	0.2%
Banco de Credito del Peru-DPR Securitization	A	652	0.2%
RMPA Services plc	BBB	651	0.2%
National Grid Electricity Transmission	A -	644	0.2%
Capital Hospitals plc	BBB -	619	0.1%
West LB - Compass	AA	608	0.1%
Airspeed Limited	BBB +	587	0.1%
Powercor Australia, LLC	A -	570	0.1%
CDO of HY Corporate	AAA	564	0.1%
Total:		$20,796	5.0%

(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)	March 31, 2009	December 31, 2008
Contingency reserve	$1,962,260	$1,929,609
Capital and Surplus	394,477	1,554,448
Qualified statutory capital	2,356,737	3,484,057
Unearned premiums	2,629,065	2,733,206
Losses and loss adjustment expenses	1,088,428	1,169,116
Estimated impairment losses on credit derivatives	3,341,402	3,352,129
Policyholders' reserves	9,415,632	10,738,508
Third party capital support [2]	-	100,000
Present Value of Future Installment Premiums [3]	2,541,716	2,662,564
Total Claims-Paying Resources	11,957,348	13,501,072
Net financial guarantees in force	$663,794,915	$695,954,357
Capital Ratio [4]	282 : 1	200 : 1
Claims-Paying Ratio [5]	56 : 1	52 : 1
Gross financial guarantees in force	$772,128,413	$811,177,854
Gross par outstanding	$473,712,345	$497,960,107

	First Quarter 2009	First Quarter 2008	Full Year 2008
Statutory financial ratios:			
Loss ratio [6]	119.0%	148.2%	149.6%
Expense ratio [7]	35.1%	25.1%	30.9%

(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 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 March 31, 2009 and December 31, 2008. Ambac internal estimates of present value of future installment premiums at March 31, 2009 and December 31, 2008 are $2,260,577, and $2,376,748, respectively at a discount rate of 5.0% and 4.9%, 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.

Adoption of FAS 163

In 2008, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 163, *Accounting for Financial Guarantee Insurance Contracts, an interpretation of SFAS 60 Accounting and Reporting by Insurance Enterprises.* The new standard clarifies how FAS 60, *Accounting and Reporting by Insurance Enterprises,* applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities (i.e. loss reserves). Ambac adopted FAS 163 on January 1, 2009 except for the disclosures about the insurance enterprise's risk management activities, which it adopted in the third quarter of 2008. Upon adoption, FAS 163 shall be applied to existing financial guarantee insurance contracts, and will apply to financial guarantee insurance contracts issued in the future. The adoption is recognized as a cumulative effect adjustment to retained earnings as of January 1, 2009. The impact of adopting FAS 163 on the Company's balance sheet was as follows:

($ in millions)	**31-Dec-08 As reported**	**1-Jan-09 Per FAS 163**	**Transition Adjustment**
Assets:			
Premiums receivable	$ 29,668	$ 4,624,291	$ 4,594,623
Reinsurance recoverable on ceded losses	157,627	257,721	100,094
Deferred ceded premiums	292,837	1,215,996	923,159
Deferred acquisition costs	207,229	199,517	(7,712)
Impact on Assets	687,361	6,297,525	5,610,164
Liabilities			
Unearned premiums	2,382,152	7,204,206	4,822,054
Loss and loss expense reserves	2,265,860	2,705,382	439,522
Ceded premiums payable	15,597	679,384	663,787
Other liabilities	279,616	345,521	65,905
Impact on Liabilities	$ 4,943,225	$ 10,934,493	$ 5,991,268
Reduction to Opening Retained Earnings Upon Adoption			$ 381,104

A summary of the effects of FAS 163 on the balance sheet amounts above is as follows:

- Premiums receivable and ceded premiums payable increased to reflect the recording of the present value of future installment premiums discounted at a risk-free rate. Ceded premiums payable is reduced for the present value of future ceding commission receivable on reinsured policies.
- Unearned premiums and deferred ceded premiums increased to reflect the recording of the present value of future installment premiums discounted at a risk-free rate offset by the change in the premium earnings methodology to the level-yield method.
- Loss and loss expense reserves and reinsurance recoverable on ceded losses increased to reflect estimated losses based on probability weighted cash flows discounted at a risk free rate as compared to a best estimate discounted using the after-tax investment yield of the Company's investment portfolio. These increases are offset by the requirement to recognize loss reserves only for the excess of the expected loss over the unearned premium reserve on a transaction basis.
- Deferred acquisition costs decreased to reflect deferral of the present value of net ceding commissions received on future installment premiums and slower amortization of previously deferred costs (caused by the level-yield premium earnings methodology) offset by deferral of the present value of premium taxes payable (included in other liabilities).