Ambac

2010 Quarterly Operating Supplement

Q1

▸ Financial Highlights

Share price	$0.56
Market capitalization	$161.5 million
Net loss	$ (690.1) million
Net loss per diluted share	$ (2.39)

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

Corporate headquarters are located at:

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For further information on Ambac Financial Group, Inc., or to obtain a copy of Ambac Financial Group, Inc.’s latest annual or quarterly report filed with the Securities and Exchange Commission or the most recent Annual Report to Stockholders, please call, write or e-mail the Investor Relations Department at the above number or address, or download it from our website at www.ambac.com.

Ambac Financial Group, Inc.
Quarterly Operating Supplement
First 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	(549)	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 dilued 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.

For Immediate Release

AMBAC FINANCIAL GROUP, INC. ANNOUNCES FIRST QUARTER 2010 RESULTS

NEW YORK, May 18, 2010--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced first quarter 2010 net loss of $690.1 million, or net loss of $2.39 per share. This compares to a first quarter 2009 net loss of $392.2 million, or net loss of $1.36 per share. The first quarter 2010 results reflect a loss reported as a result of a new consolidations accounting standard. In 2009, Ambac's first quarter results reflected a large positive change in fair value of credit derivatives offset by loss and loss adjustment expenses primarily related to residential mortgage-backed securities (RMBS) exposure, other than temporary impairment write downs of RMBS securities in the investment portfolios and a $600 million increase in the deferred tax asset valuation allowance.

First Quarter 2010 Summary

- Recorded a $495.1 million loss related to the new consolidations accounting standard as described under "Implementation of New Accounting Standards," below. The loss is considered to be non-recurring as it results from the deconsolidation of a number of variable interest entities. Excluding the effect of this non-recurring item, Ambac would have reported a net loss of $195.0 million, or net loss of $0.68 per share.
- Net change in fair value of credit derivatives was negative $167.1 million.
- Net loss and loss expenses incurred amounted to $89.2 million for the current quarter, down considerably from the first quarter of 2009.
- Statutory surplus of Ambac Assurance Corporation ("AAC") was reduced to approximately $160 million at March 31, 2010 from $801.9 million at December 31, 2009.

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".

ASU 2009-17 requires Ambac to consolidate certain enterprises known as variable interest entities ("VIEs") primarily when Ambac's insurance policies or written credit derivatives ("financial guarantees") give it a controlling financial interest in those entities. The standard requires Ambac to perform ongoing analysis to determine whether Ambac's variable interests (by virtue of its financial guarantees) give it a controlling financial interest in the VIE and to consolidate the VIE if so determined. The net impact of implementing ASU 2009-17 on January 1, 2010, was to require Ambac to consolidate 83 additional VIEs resulting in an increase to shareholders' equity of $705.0 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 its financial statements the related net insurance liabilities which are generally calculated using estimated future cash flows discounted at risk free interest rates.

On March 24, 2010, Ambac acquiesced to the 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. AAC has allocated certain policies to the Segregated Account. The rehabilitation action resulted in Ambac no longer having the unilateral power to direct the activities of 49 VIEs whose insurance policies were allocated to the

Segregated Account, and therefore those VIEs were de-consolidated as of March 24, 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 for the period amounting to $495.1 million.

As of March 31, 2010, the Company's balance sheet included 41 consolidated VIEs (remaining after the de-consolidation as of March 24th) with $20.6 billion of assets and $20.2 billion of liabilities.

Net Premiums Earned

Net premiums earned for the first quarter of 2010 were $125.2 million, down 36% from $196.8 million earned in the first quarter of 2009. Net premiums earned include accelerated premiums, which result from calls, terminations and other accelerations recognized during the quarter. Accelerated premiums were $12.1 million in the first quarter of 2010, down 70% from $41.0 million in the first quarter 2009. Normal net premiums earned, which exclude accelerated premiums, were $113.1 million in the first quarter of 2010, down 27% from $155.8 million in the first quarter of 2009. Normal net premiums earned for the period have been negatively impacted by no new business written and the high level of refundings and terminations over the past two 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 first quarter of 2010 was $117.6 million, representing an increase of 17% from $100.9 million in the first quarter of 2009. The increase was primarily due to an increase in the average yield of the portfolio as the mix of securities has shifted from primarily tax-exempt to a greater percentage of taxable securities. The rising yields on taxable securities include the impact from accretion of bond discounts on AAC-insured securities and RMBS securities previously written down to fair value as a result of other-than-temporary impairments in earlier periods. The impact from increasing yields was partially offset by an overall decrease in the asset base as claim payments on insured RMBS transactions and commutations and settlements of collateralized debt obligations of asset-backed securities (CDO of ABS) transactions over the past twelve months were greater than the cash inflows resulting from collections of financial guarantee premiums, fees, tax refunds and coupon receipts on invested assets.

Other-Than-Temporary Impairment Losses

Other-than-temporary impairment ("OTTI") losses in the financial guarantee investment portfolio were ($31.3) million in the first quarter of 2010, compared to OTTI losses of ($744.7) million in the first quarter of 2009. The first quarter 2010 OTTI loss was driven primarily by impairment write downs on Ambac-wrapped RMBS securities within its investment portfolio as well as student loan securities that management identified for sale as of March 31, 2010. The first quarter 2009 OTTI impairment loss was driven by write-downs of certain Alt-A RMBS securities within the investment portfolio during the quarter that management believed to be credit impaired.

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 loss of ($167.1) million for the first quarter of 2010, compared to a gain of $1,545.9 million for the first quarter of 2009.

Realized gains/(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 gains/(losses) and other settlements from credit derivative contracts in the first quarter of 2010 and 2009 amounted to $9.9 million and $6.6 million, respectively.

Net unrealized gains/(losses) on credit derivative contracts were ($177.1) million in the first quarter of 2010, compared to net unrealized gains amounting to $1,539.2 million in the first quarter 2009. The net loss during the first quarter of 2010 is primarily the result of the impact of changes in AAC credit spreads since December 31, 2009 on the fair value of CDO of ABS transactions (ASC Topic 820 adjustment), partially offset by the net decrease in mark-to-market liabilities of other credit derivative transactions due to improvements in the average values of reference obligations. As of March 31, 2010, the fair value of CDO transactions named in the non-binding proposed settlement agreement entered into on March 24, 2010, approximates their expected settlement value. The net unrealized gains reported during the first quarter of 2009 resulted primarily from the effect of widening AAC credit spreads on the measurement of fair value of credit derivative liabilities during that period.

Financial Guarantee Loss Reserves

Total net loss and loss expenses were $89.2 million in the first quarter of 2010, compared to $739.8 million in the first quarter of 2009. Losses and loss expenses in the first quarter of 2010 were primarily related to credit deterioration in the second-lien segment of the insured RMBS portfolio and student loan transactions, partially offset by net improvement in certain first-lien RMBS transactions. First quarter of 2009 loss and loss expenses were driven by continued deterioration in the performance of the RMBS portfolio, most prominently in the first-lien product.

Total net insurance claims paid in the first quarter of 2010 were $231.7 million, related primarily to RMBS transactions. Excluded from claims paid are amounts that were unpaid in late March as a result of the moratorium imposed by the OCI on March 24, 2010, amounting to $130.1 million. Total insurance claims paid and unpaid (due to the OCI moratorium) total to $361.8 million. Total net claims paid in the first quarter of 2009 were $312.3 million, primarily related to second-lien RMBS transactions.

Loss and loss expense reserves for all RMBS insurance exposures as of March 31, 2010, were $2,616.8 million. RMBS reserves are net of $2,069.2 million of estimated remediation recoveries. The estimate of remediation recoveries related to material representation and warranty breaches increased from $2,026.3 million as of December 31, 2009, primarily as a result of breaches identified during the re-underwriting of an additional transaction. 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 from investment and payment agreements, plus results from the derivative products business was ($54.4) million for the first quarter of 2010, down from ($6.1) million for the first quarter of 2009. The decrease was primarily driven by losses on terminations of swaps within the derivative products business. The interest rate swap and investment agreement businesses are in run-off.

Balance Sheet and Liquidity

Total assets increased by approximately $16,929.3 million during the first quarter of 2010, primarily due to the consolidation of certain trusts that AAC has insured and consolidated under accounting pronouncement ASU 2009-17 (described above).

The fair value of the consolidated non-VIE investment portfolio increased from $8.7 billion (amortized cost of $8.7 billion) as of December 31, 2009 to $9.7 billion (amortized cost of $9.6 billion) as of March 31, 2010. The increase was driven by the receipt of a $440 million tax refund during the quarter, approximately $400 million of securities purchased at quarter end, not yet paid (offset to "Payable for securities purchased" in Liabilities portion of balance sheet), and to a lesser extent, generally increased market values of securities in the financial guarantee investment portfolio.

The financial guarantee non-VIE investment portfolio had a fair value of $8.2 billion (amortized cost of $8.0 billion) as of March 31, 2010, and included $2.4 billion of short-term securities. The portfolio consists of high quality municipal bonds, Treasuries, U.S. Agencies and Agency MBS as well as mortgage and asset-backed securities.

Cash, short-term securities and bonds at the holding company amounted to $107.3 million as of March 31, 2010. Ambac's annual debt service costs amount to approximately $89.0 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 March 31, 2010, AAC reported statutory capital and surplus of approximately $160 million, down from $801.9 million as of December 31, 2009. Ambac Assurance'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 negatively impacted by the statutory net loss recorded during the quarter. The primary drivers of the statutory net loss were (i) statutory impairment losses related to AAC's insured portfolio of CDO of ABS transactions, driven by deterioration of the underlying RMBS collateral within the CDO of ABS transactions; and (ii) statutory loss and loss expenses related primarily to deterioration in AAC's RMBS financial guarantee portfolio. These negative drivers were partially offset by: (i) revenues (primarily premiums earned and investment income) generated during the quarter; and (ii) unrealized gains on subsidiaries - Ambac Assurance UK Ltd. and Everspan Financial Guarantee Corporation.

AAC's consolidated claims-paying resources amount to approximately $10.8 billion as of March 31, 2010, flat to December 31, 2009, as net cash inflows driven primarily by a tax refund received during the quarter and ongoing cash inflows from operations were offset by RMBS claims paid.

Annual Meeting of Stockholders

As previously announced, the Board of Directors has set the 2010 Annual Meeting of Stockholders for Monday, June 14, 2010, at 1:00 p.m. in New York City. The record date for determining stockholders entitled to notice of, and to vote at, the annual meeting was the close of business, April 20, 2010.

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) 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; (2) the unlikely ability of Ambac Assurance to pay dividends to Ambac in the near term; (3) 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 constitutes an event of default under the applicable debt indenture or an event of default under the applicable ISDA contract; (4) adverse events arising from the Segregated Account Rehabilitation Proceedings, 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; (5) litigation arising from the Segregated Account Rehabilitation Proceedings; (6) any changes to the Proposed Settlement, or the failure to consummate the Proposed Settlement; (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, and due to the adoption of the new financial guarantee insurance accounting standard effective January 1, 2009, which, among other things, introduces volatility in the recognition of premium earnings and losses; (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 Ambac's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and also disclosed from time to time by Ambac in its subsequent reports on Form 10-Q and Form 8-K, which are 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)	First Quarter 2010	First Quarter 2009
Revenues:		
Financial Guarantee:		
Normal net premiums earned	$113,093	$155,808
Accelerated net premiums earned	12,138	41,004
Total net premiums earned	125,231	196,812
Net investment income	117,570	100,875
Other-than temporary impairment losses:		
Total other-than-temporary impairment losses	(33,468)	(744,741)
Portion of loss recognized in other comprehensive income	2,119	-
Net other-than-temporary impairment losses recognized in earnings	(31,349)	(744,741)
Net realized gains (losses)	55,139	(1,551)
Realized gains and losses and other settlements	9,924	6,623
Unrealized (losses) gains	(177,063)	1,539,227
Net change in fair value of credit derivatives	(167,139)	1,545,850
(Loss) income on variable interest entities	(492,704)	11
Other (loss) income	(55,903)	1,723
Financial Services:		
Investment income	9,268	20,884
Derivative products	(58,227)	(14,199)
Other-than temporary impairment losses:		
Total other-than-temporary impairment losses	-	(85,490)
Portion of loss recognized in other comprehensive income	-	-
Net other-than-temporary impairment losses recognized in earnings	-	(85,490)
Net realized investment gains	1,410	116,546
Net change in fair value of total return swap contracts	-	(10,381)
Net mark-to-market (losses) gains on non-trading derivatives contracts	(2,739)	161
Corporate and Other:		
Other income	304	216
Net realized investment gains	-	33
Total revenues	(499,139)	1,126,749
Expenses:		
Financial Guarantee:		
Losses and loss expenses	89,152	739,830
Underwriting and operating expenses	50,496	56,612
Financial Services:		
Interest from investment and payment agreements	5,434	12,789
Other expenses	3,627	3,951
Corporate and Other:		
Interest	30,159	29,846
Other expenses	11,948	4,021
Total expenses	190,816	847,049
Pre-tax (loss) income from continuing operations	(689,955)	279,700
Provision for income taxes	107	671,900
Net loss	(690,062)	(392,200)
Less loss attributable to noncontrolling interest	(11)	(13)
Net loss attributable to Ambac Financial Group, Inc.	($690,051)	($392,187)
Net loss per share attributable to Ambac Financial Group, Inc common shareholders	($2.39)	($1.36)
Net loss per diluted share attributable to Ambac Financial Group, Inc common shareholders	($2.39)	($1.36)
Weighted average number of common shares outstanding		
Basic	288,244,846	287,565,182
Diluted	288,244,846	287,565,182

Consolidated Balance Sheets

($ in Thousands, Except Share Data)	March 31, 2010	December 31, 2009
Assets		
Investments:		
Fixed income securities, at fair value (amortized cost of $6,856,400 in 2010 and $7,605,565 in 2009)	$7,009,095	$7,572,570
Fixed income securities pledged as collateral, at fair value (amortized cost of $102,361 in 2010 and $164,356 in 2009)	103,400	167,366
Short-term investments	2,602,585	962,007
Other (cost of $1,278 in 2010 and 2009)	1,278	1,278
Total investments	9,716,358	8,703,221
Cash and cash equivalents	114,808	112,079
Receivable for securities sold	41,995	3,106
Investment income due and accrued	46,575	73,062
Premium receivables	2,941,546	3,718,158
Reinsurance recoverable on paid and unpaid losses	89,627	78,115
Deferred ceded premiums	395,517	500,804
Subrogation recoverable	877,908	902,612
Deferred taxes	-	11,250
Current income taxes	-	421,438
Deferred acquisition costs	273,405	279,704
Loans	71,090	80,410
Derivative assets	433,688	496,494
Other assets	224,776	229,299
Variable interest entity assets:		
Fixed income securities, at fair value	4,125,851	525,947
Restricted cash	100,941	1,151
Investment income due and accrued	1,331	4,133
Loans (includes $16,141,419 and $2,428,352 at fair value)	16,355,816	2,635,961
Derivative assets	4,437	109,411
Other assets	8	12
Total assets	$35,815,677	$18,886,367
Liabilities and Stockholders' Equity		
Liabilities:		
Unearned premiums	$4,926,807	$5,687,114
Loss and loss expense reserve	4,680,633	4,771,684
Ceded premiums payable	223,747	291,843
Obligations under investment and payment agreements	1,150,220	1,177,406
Obligations under investment repurchase agreements	113,296	113,527
Current taxes	22,506	-
Long-term debt	1,633,400	1,631,556
Accrued interest payable	47,070	47,125
Derivative liabilities	3,636,091	3,536,858
Other liabilities	226,236	248,655
	399,959	2,074
Variable interest entity liabilities:		
Accrued interest payable	750	3,482
Long-term debt (includes $18,999,183 and $2,789,556 at fair value)	19,225,145	3,008,628
Derivative liabilities	1,006,534	-
Other liabilities	68	60
Total liabilities	37,292,462	20,520,012
Stockholders' equity:		
Ambac Financial Group, Inc.:		
Preferred stock	-	-
Common stock	2,944	2,944
Additional paid-in capital	2,174,247	2,172,656
Accumulated other comprehensive income (loss)	119,660	(24,827)
Accumulated deficit	(3,972,754)	(3,878,015)
Common stock held in treasury at cost	(454,942)	(560,543)
Total Ambac Financial Group, Inc. stockholders' deficit	(2,130,845)	(2,287,785)
Noncontrolling interest:	654,060	654,140
Total stockholders' deficit	(1,476,785)	(1,633,645)
Total liabilities and stockholders' equity	$35,815,677	$18,886,367
Number of shares outstanding (net of treasury shares)	288,380,178	287,598,189
Ambac Financial Group, Inc. book value per share	($7.39)	($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				$45,181
Structured Finance	40,587				40,587
International Finance	27,325				27,325
Total Normal Insurance Premiums Earned	113,093	-	-	-	113,093
Accelerated Premiums Earned	12,138				12,138
Total Premiums Earned	$125,231	-	-	-	$125,231
Fees on credit derivative contracts (1)	$9,661				$9,661
Total Premiums Earned eliminated in consolidation(2)	$17,717				$17,717

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 (4)	Estimated Net Future Installments (5)
2010 (2nd, 3rd and 4th Qtrs)	$282.4	$28.6	$188.4
2011	352.3	34.6	219.2
2012	323.0	31.7	189.1
2013	295.9	27.4	167.9
2014	273.7	22.3	135.3
2015	254.9	18.3	120.1
2010 (2nd, 3rd and 4th Qtrs)	282.4	28.6	188.4
2011-2015	1,499.8	134.3	831.6
2016-2020	1,028.1	67.8	480.7
2021-2025	760.4	58.8	330.6
2026-2030	533.2	51.7	226.7
After 2030	427.4	65.0	229.6
Total	$4,531.3	$406.2	$2,287.6

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 March 31, 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 March 31, 2010. Actual future installments may differ from estimated because borrowers may have the right to call or terrminate 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. Net unearned premium amortization excludes amounts eliminated as a result of new consolidations accounting standard ($429.9 million). Please see discussion in Ambac's March 31, 2010 Form 10-Q.
4) Includes fees expected on contracts related to the non binding proposed settlement with respect to certain CDO-related obligations in the amount of $335.3 million. Please see discussion in Ambac's March 31, 2010 Form 10-Q.
5) 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 ($336.1 million). Please see discussion in Ambac's March 31, 2010 Form 10-Q.

Fixed Income Investment Portfolio

As of March 31, 2010

INCOME ANALYSIS BY TYPE OF SECURITY

Investment category ($ thousands)	Fair Value	Amortized Cost	Pre-tax Yield to Maturity (1)	YTD Investment Income
Financial Guarantee investments:				
Long-term investments				
U.S. government obligations	$204,131	$202,276	2.42%	$1,238
U.S. agency obligations	83,492	78,537	4.26%	836
Municipal obligations (2)	2,966,608	2,886,953	4.18%	35,106
Foreign obligations	122,548	117,121	3.82%	1,542
Corporate obligations	776,461	765,402	4.95%	9,719
Mortgage and asset-backed securities	1,637,059	1,548,437	11.15%	68,922
Total long-term investments	5,790,299	5,598,726	6.14%	117,363
Short-term investments	2,439,621	2,439,621	0.10%	253
Other (3)	1,278	1,278		913
Total Financial Guarantee investments	8,231,198	8,039,625	4.31%	118,529
Investment expenses				(959)
Financial Guarantee net investment income				117,570
Financial Services investments (4)				
Long-term investments				
U.S. government obligations	154,493	150,727		
U.S. agency obligations	7,637	6,962		
Corporate obligations	104,713	117,943		
Mortgage and asset-backed securities	1,030,868	1,059,918		
Total long-term investments	1,297,711	1,335,550		
Short-term investments	80,342	80,342		
Total Financial Services investments	1,378,053	1,415,892		
Corporate investments:				
Long-term investments				
Municipal obligations	24,485	24,485		
Total long-term investments	24,485	24,485		
Short-term investments	82,622	82,622		
Total Corporate investments	107,107	107,107		
Total Investments	$9,716,358	$9,562,624		

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO (5)(6)

Rating	Percent of Investment Portfolio: Fin. Guar.	Fin. Services	Combined
AAA	48%	70%	51%
AA	27%	20%	26%
A	10%	2%	9%
BBB	7%	0%	6%
Below investment grade	8%	8%	8%
Not rated	<1%	0%	<1%
	100%	100%	100%
Duration of Financial Guarantee investment portfolio			4.2

1) "Yield to maturity" refers to the rate of interest to be earned over the expected remaining life of the investments in the portfolio, and is calculated based on 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 on the current interest rate and not forward rates.
2) Includes taxable and tax-exempt municipal obligations with a fair value of $289,583 and $2,677,025, respectively.
3) Includes income earned on loans, which are classified separately on the balance sheet.
4) Financial Services investments relate primarily to the investment agreement business.
5) 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.
6) 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 03/31/2010	$	107,266
Projected debt service for remainder of year		(70,553)
Projected Ambac Financial Group expenses		(9,000)
Interest income		2,852
Ambac Financial Group projected cash at 12/31/2010	**$**	**30,565**
Annual debt service	$	88,716
Annual debt service coverage at 3/31/2010		1.21

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

($ Thousands)	Expected Principal	Expected Interest	Total
2010	$ 3,061,708	$ 161,607	$ 3,223,315
2011	418,690	224,279	642,969
2012	347,902	228,375	576,277
2013	408,667	224,485	633,152
2014	426,680	212,509	639,189
2015	289,843	200,311	490,154

1) Represents the investment portfolio at March 31, 2010, excluding inter-company borrowings. All short-term investment maturities are included within 2010 expected principal.
2) Information takes into account portfolio as of March 31, 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]	$231,748	$1,458,498	$571,012	($2,128)	$105,568
Net claims presented and paid - Credit Derivatives [2]	(263)	1,428,377	1,857,153	-	-
Net claims presented and not paid [3]	130,094	-	-	-	-
Total net claims presented for payment	$361,579	$2,886,875	$2,428,165	($2,128)	$105,568
Net insurance premiums and credit derivative fees	$122,754	$846,001	$1,085,482	$917,895	$871,383
Ratio of net claims presented and paid [4]	294.6%	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[6]	Total
2010	$ 1,686,406	$ 5,091	$ 1,691,496
2011[7]	708,093	14,162	722,255
2012	581,371	37,403	618,774
2013[7]	(952,240)	47,714	(904,526)
2014	242,201	61,917	304,118
2015	173,610	73,878	247,488
2010	1,686,406	5,091	1,691,496
2011-2015	753,033	235,075	988,108
2016-2020	343,998	405,048	749,046
2021-2025	(60,390)	634,525	574,134
2026-2030	(145,652)	952,538	806,886
After 2030	289,993	15,892,324	16,182,316
Total	$ 2,867,388	$ 18,124,599	$ 20,991,987

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 three months ended March 31, 2010 and full years ended December 31, 2009, 2008, 2007 and 2006, respectively.
2) Includes $1,381.0 million in 2009 and $1,850.0 million in 2008 relating to commutation settlements for CDO of transactions.
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 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 in approximately six months, it is anticipated that no claims will be paid on Segregated Account Policies. Please see discussion in Ambac's March 31, 2010 Form 10-Q.
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) Ambac Assurance has entered into a non binding proposed settlement with respect to certain CDO-related obligations. Please see discussion in Ambac's March 31, 2010 Form 10-Q.
7) Net of estimated recoveries of $922.7 million in 2011 and $1,267.5 million in 2013 for breaches of repesentation and warranties on certain RMBS transactions.

Summary of Net Insurance Loss Reserves and Credit Derivative Impairments

($ Thousands)	03/31/10	12/31/09	12/31/08	12/31/07
Total insurance reserves	3,700,967	3,777,321	2,129,758	473,188
Estimated credit impairment losses on credit derivatives[(1)(2)]	4,580,932	4,208,198	3,740,202	1,105,741
Total impairment losses	8,281,899	7,985,519	5,869,960	1,578,929
Mark-to-market reserve (asset) on credit derivatives [(1)]	(1,364,378)	(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	$6,917,521	$6,816,812	$10,439,875	$6,490,551

Summary of Below Investment Grade Exposures[(2)]

($ Millions)	Segregated Account Net Par Outstanding	Total Net Par Outstanding	Total Impairment Losses
Public Finance:			
Transportation Revenue	$439	$1,121	
Utilites	-	187	
Health Care	-	302	
Other	-	1,183	
Total Public Finance	439	2,793	346
Structured Finance:			
CDO of ABS >25% MBS	-	16,543	4,581
Mortgage-Backed & Home Equity - First Lien & Other.	13,217	13,217	1,946
Mortgage-Backed & Home Equity - Second Lien	11,880	11,880	669
Other	1,448	10,808	736
Total Structured Finance	26,545	52,448	7,932
International Finance:	2,155	2,537	4
Total	$29,139	$57,778	$8,282

1) Total net mark-to-market losses are $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.
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 to the Segregated Account, among other things, (i) certain policies insuring or relating to credit default swaps, (ii) all residential mortgage-backed securities policies (some of which will be allocated to the Segregated Account after it is established), (iii) certain other identified policies, including those relating to Las Vegas Monorail Company, and (iv) certain Student Loan Policies. 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 in approximately six months, it is anticipated that no claims will be paid on Segregated Account Policies. Claims presented and not paid are included in our net insurance reserves. Please see discussion in Ambac's March 31, 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				$ 21,222
Non-compensation	16,829				16,829
Gross underwriting and operating expenses	**38,051**	**-**	**-**	**-**	**38,051**
Ceding commissions and change in deferred acquisition costs	12,445				12,445
Total Financial Guarantee underwriting and operating expenses	50,496	-	-	-	50,496
Financial Services operating expenses	**3,627**				**3,627**
Corporate and other operating expenses	**11,948**				**11,948**
Total underwriting and operating expenses, net of deferred expenses	$ 66,070				$ 66,070
Total gross underwriting and operating expenses	**$ 53,625**	**$ -**	**$ -**	**$ -**	**$ 53,625**

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)	March 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	Segregated Account [2] March 31, 2010
Public Finance:					
Lease and tax backed	$71,914	$73,081	$77,060	$88,147	$200
General obligation	52,584	54,047	58,296	63,977	11
Utility	30,156	30,835	32,166	37,976	385
Transportation	22,142	22,501	22,306	25,466	751
Higher education	16,388	16,577	17,959	20,685	-
Health care	11,619	11,987	15,115	27,161	109
Housing	10,038	10,247	10,862	11,531	-
Other	3,834	3,892	4,457	6,010	-
Total Public Finance	218,675	223,167	238,221	280,953	1,456
Structured Finance:					
Mortgage-backed & home equity	31,160	32,407	36,995	43,078	31,160
Other CDOs	17,367	18,313	19,988	22,174	2,150
CDO of ABS >25% MBS	16,543	16,718	23,190	29,127	-
Asset-backed and conduits	15,022	16,455	25,443	36,407	863
Student loan	13,824	14,518	16,644	18,372	659
Investor-owned utilities	12,833	13,212	14,650	17,055	592
Other	3,023	3,092	3,499	4,485	964
Total Structured Finance	109,772	114,715	140,409	170,698	36,388
International Finance [3]:					
Asset-backed and conduits	12,808	13,691	16,383	19,290	6,331
Investor-owned and public utilities	10,469	10,388	8,492	10,384	3,925
Other CDOs	8,648	9,083	12,784	15,572	2,585
Transportation	7,323	7,584	6,870	7,784	5,080
Sovereign/sub-sovereign	6,451	6,859	5,980	7,347	5,672
Mortgage-backed & home equity	3,129	3,386	3,669	10,106	1,571
Other	1,401	1,533	1,502	1,891	1,004
Total International Finance	50,229	52,524	55,680	72,374	26,168
Grand Total	$378,676	$390,406	$434,310	$524,025	$64,012
Percent of Total Net Par Outstanding					
Public Finance	57.7%	57.2%	54.9%	53.6%	2.3%
Structured Finance	29.0%	29.4%	32.3%	32.6%	56.8%
International Finance	13.3%	13.4%	12.8%	13.8%	40.9%
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 $42,209, $43,276, $53,918 and $64,988 at March 31, 2010 and December 31, 2009, 2008 and 2007, respectively. On March 24, 2010, Ambac entered into a non-binding proposed settlement with respect to certain credit derivative transactions. Please see discussion in Ambac 's March 31, 2010 Form 10-Q.

(2) Net Par exposure allocated to the Segregated Account on March 31, 2010 is inclusive of net par exposures assumed under reinsurance contracts, primarily from Ambac UK, in an aggregate amount of $22,770 million.

(3) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures Outstanding

($ Millions Net Par Value)	March 31, 2010	%	December 31, 2009	2008	2007	2006
Domestic:						
California	$42,673	11.3%	$43,388	$45,343	$53,434	$54,829
New York	22,679	6.0%	22,865	25,972	31,923	34,232
Florida	17,597	4.6%	17,816	18,724	22,462	24,225
Texas	16,564	4.4%	16,941	17,674	19,898	18,837
New Jersey	11,226	3.0%	11,654	12,204	14,309	13,445
Illinois	10,210	2.7%	10,472	10,544	12,592	12,898
Massachusetts	7,891	2.1%	8,255	8,184	10,338	10,231
Pennsylvania	7,242	1.9%	7,405	10,879	13,444	13,973
Colorado	6,274	1.7%	6,392	6,818	7,570	7,635
Washington	6,032	1.6%	6,124	6,249	6,874	7,184
Mortgage and asset-backed	46,182	12.2%	48,862	62,438	79,485	81,054
Other states	133,877	35.4%	137,708	153,601	179,322	166,302
Total Domestic	328,447	86.7%	337,882	378,630	451,651	444,845
International:						
United Kingdom	21,222	5.6%	22,840	20,151	27,207	27,253
Australia	6,544	1.7%	6,034	4,952	6,400	6,126
Italy	3,594	0.9%	3,821	2,843	3,017	2,167
Turkey	1,747	0.5%	1,842	1,913	1,995	1,588
Austria	1,098	0.3%	1,149	905	491	370
Internationally diversified	9,588	2.5%	9,914	14,937	16,550	19,180
Other international	6,436	1.7%	6,924	9,979	16,714	17,514
Total International	50,229	13.3%	52,524	55,680	72,374	74,198
Grand Total	$378,676	100.0%	$390,406	$434,310	$524,025	$519,043

Rating Distribution of Net Financial Guarantee Exposures [1]

As of March 31, 2010

Rating	Percentage of Guaranteed Portfolio: Public Finance	Structured and International	Total
AAA	<1	4	2
AA	30	13	23
A	56	24	42
BBB	13	25	18
BIG	1	34	15
	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	$206.5	$3,109	0.8%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	$159.6	2,067	0.5%
Washington State - GO	AA	$142.8	1,881	0.5%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	$150.0	1,733	0.5%
Bay Area Toll Authority, CA Toll Bridge Revenue [4]	AA -	$84.2	1,676	0.4%
MTA, NY, Transportation Revenue (Farebox) [4]	A	$91.2	1,447	0.4%
Massachusetts Commonwealth - GO	AA	$89.2	1,302	0.3%
New Jersey Turnpike Authority Revenue	A	$83.2	1,266	0.3%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	$92.5	1,248	0.3%
Los Angeles Unified School District, CA - GO	AA -	$86.9	1,179	0.3%
South Carolina Transportation Infrastructure Bank Revenue	A	$75.4	1,058	0.3%
California Department of Water Resources, Power Supply	A	$159.8	1,034	0.3%
Central Texas Turnpike, System Revenue	BBB +	$101.0	986	0.3%
New York City, NY - GO	AA	$51.5	970	0.3%
Puerto Rico Highways & Transportation Authority, Transportation Revenue [4]	BBB +	$56.5	938	0.2%
Port Authority of New York & New Jersey, Consolidated Revenue	AA -	$70.0	934	0.2%
University of California Board of Regents, General Revenue	AA -	$51.5	913	0.2%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A -	$55.0	910	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	$53.9	893	0.2%
Chicago, IL - GO	A +	$43.1	861	0.2%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	$73.3	846	0.2%
New York City, NY Water and Sewer System Revenue	AA	$53.1	807	0.2%
Puerto Rico Sales Tax Financing Corporation	A +	$165.1	805	0.2%
South Carolina Public Service Authority, Revenue	AA	$41.8	760	0.2%
Hawaii State - GO	AA	$60.5	758	0.2%
Total:			$30,381	8.0%

Largest Domestic Healthcare Exposures

($ Millions)	Ambac Rating[2]	AADS[3]	Net Par Outstanding	% of Total Net Par Outstanding
Children's Hospital Boston - Massachusetts	AA	$26.8	$373	0.1%
Sisters of Mercy Health System - Missouri	AA -	$32.4	341	0.1%
Catholic Healthcare Partners - Ohio	A	$22.5	295	0.1%
New York City Health and Hospitals Corporation	A	$30.7	281	0.1%
Catholic Health East - Pennsylvania	A	$18.4	232	0.1%
Wellstar Health System - Georgia [4]	A +	$14.8	226	0.1%
ProMedica Healthcare Oblig Grp - Ohio	A +	$13.0	220	0.1%
Swedish Health Services - Washington	A	$16.7	194	0.1%
Rockingham Memorial Hospital - Virginia	BBB +	$11.5	190	0.0%
Adventist Health System - Florida	A +	$12.6	188	0.0%
Total:			$2,540	0.7%

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 March 31, 2010 Form 10-Q.

Largest Structured Finance Exposures

($ Millions)	Ambac Rating[1]	Net Par Outstanding	% of Total Net Par Outstanding
CDO of ABS < 25% MBS	A +	$2,195	0.6%
Private Commercial Asset-Backed Transaction	BBB +	2,159	0.6%
Ridgeway Court Funding II, Ltd.[2]	BIG	1,914	0.5%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 [3]	BIG	1,828	0.5%
Diversey Harbor ABS CDO, Ltd.[2]	BIG	1,752	0.5%
Iowa Student Loan Liquidity Corporation Revenue Bonds	A	1,634	0.4%
Michigan Higher Education Student Loan Authority	BBB	1,561	0.4%
Vermont Student Assistance Corporation Revenue Bonds	A	1,533	0.4%
Ridgeway Court Funding I, Ltd.[2]	BIG	1,490	0.4%
Duke Funding High Grade III, Ltd.[2]	BIG	1,411	0.4%
Belle Haven ABS CDO 2006-1, Ltd.[2]	BIG	1,383	0.4%
Private Consumer Asset-Backed Transaction	AA	1,302	0.3%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 [3]	BIG	1,272	0.3%
Hertz Vehicle Financing, LLC [3]	BIG	1,243	0.3%
Cendant Rental Car Funding	BIG	1,232	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,206	0.3%
The National Collegiate Student Loan Trust 2007-4	BIG	1,138	0.3%
The National Collegiate Student Loan Trust 2007-3	BIG	1,114	0.3%
Millerton II High Grade ABS CDO, Ltd.[2]	BIG	1,032	0.3%
Ballantyne Re Plc [2] [4]	BIG	982	0.3%
Hereford Street ABS CDO I, Ltd.[2]	BIG	964	0.2%
Palmer Square PLC [2]	BIG	886	0.2%
Lancer Funding, Ltd.[2]	BIG	874	0.2%
Spirit Master Funding	BBB	812	0.2%
Tremonia CDO 2005-1 Plc[2]	BIG	730	0.2%
Total:		$33,647	8.7%

Largest International Finance Exposures

($ Millions)	Ambac Rating[1]	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation [4]	A +	$ 1,974	0.5%
Telereal Securitisation plc [4]	A +	1,514	0.4%
Romulus Finance s.r.l. [4]	BIG	1,411	0.4%
Punch Taverns Finance plc-UK Pub Securitisation [4]	A +	1,243	0.3%
Channel Link Enterprises [4]	BBB -	1,148	0.3%
Regione Campania [4]	A -	1,072	0.3%
Aspire Defence Finance plc [4]	BBB -	958	0.3%
Ostregion Investmentgesellschaft NR 1 SA [4]	BBB -	954	0.3%
Powercor Australia	A -	932	0.2%
CDO of HY Corporate	AA -	882	0.2%
Synthetic RMBS	AAA	849	0.2%
Dampier to Bunbury Natural Gas Pipeline	BBB	823	0.2%
TubeLines (Finance) plc [4]	AA -	815	0.2%
Banco de Credito del Peru-DPR Securitization	A	780	0.2%
CDO of HY Corporate	AA	775	0.2%
National Grid Electricity Transmission [4]	A -	748	0.2%
Babcock & Brown Air Funding I Limited	BBB +	726	0.2%
Sydney Airport	BBB	725	0.2%
Capital Hospitals plc [4]	BBB -	710	0.2%
RMPA Services plc [4]	BBB +	701	0.2%
United Energy Distribution	BBB	678	0.2%
Private CMBS Transaction [4]	AAA	677	0.2%
National Grid Gas [4]	A -	655	0.2%
CitiPower	A -	635	0.2%
Private CMBS Transaction	AA	623	0.2%
Total:		$23,008	6.2%

1) See Note 2 on the Table of Contents page.
2) On March 24, 2010, Ambac Assurance entered into a non-binding proposed settlement with respect to certain CDO-related obligations. All or a portion of transaction is currently included in the proposed settlement agreement. Please see discussion in Ambac's March 31, 2010 Form 10-Q.
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 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 March 31, 2010 Form 10-Q.
4) 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 March 31, 2010 Form 10-Q for discussion of the Segregated Account and a purported termination of this reinsurance agreement.

Net Exposure Amortization [1]

As of March 31, 2010

($ Millions)	Total: Estimated Net Debt Service Amortization	Total: Ending Net Debt Service Outstanding	Segregated Account: Estimated Net Debt Service Amortization	Segregated Account: Ending Net Debt Service Outstanding
2010 (2nd, 3rd and 4th Qtrs)	$24,296	$571,303	$4,309	$87,701
2011	32,203	539,100	5,374	82,327
2012	29,646	509,454	4,705	77,622
2013	31,006	478,448	4,413	73,209
2014	29,818	448,630	3,975	69,234
2015	29,086	419,544	4,003	65,231
2010 (2nd, 3rd and 4th Qtrs)	$24,296	571,303	$4,309	87,701
2011-2015	151,759	419,544	22,470	65,231
2016-2020	125,536	294,008	14,915	50,316
2021-2025	98,370	195,638	13,451	36,865
2026-2030	70,378	125,260	10,987	25,878
After 2030	125,260	-	25,878	-
Total	$595,599		$92,010	

1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of March 31, 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)	March 31, 2010	December 31, 2009
Contingency reserve	$366,141	$352,168
Capital and Surplus	160,150	801,869
Qualified statutory capital	526,291	1,154,037
Unearned premiums	2,334,176	2,390,084
Losses and loss adjustment expenses	1,487,631	1,141,274
Estimated impairment losses on credit derivatives	4,258,962	3,841,324
Policyholders' reserves	8,607,060	8,526,719
Present Value of Future Installment Premiums [2]	2,174,395	2,262,821
Total Claims-Paying Resources	10,781,455	10,789,540
Net financial guarantees in force	$595,598,664	$619,566,032
Claims-Paying Ratio [3]	55 : 1	57 : 1
Gross financial guarantees in force	$652,270,764	$677,552,493
Gross par outstanding	$410,006,384	$422,236,827

	First Quarter 2010	First Quarter 2009	Full Year 2009
Statutory financial ratios:			
Loss ratio [4]	433.9%	119.0%	186.5%
Expense ratio [5]	53.2%	35.1%	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) 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 4.6% and 4.8% at March 31, 2010 and December 31, 2009, respectively.
3) Claims-paying Ratio is net financial guarantees in force divided by total claims-paying resources.
4) Loss ratio is statutory net incurred losses divided by statutory net earned premiums.
5) Expense ratio is statutory underwriting expenses (including reinsurance commissions) divided by net premiums written.

Ambac Assurance General Account
Rollforward of Statutory Capital and Surplus

(in thousands)

	For the three months ended March 31, 2010		For the twelve months ended December 31, 2009
Surplus to Policyholders, beginning of period	$ 801,869		$ 1,554,448
Net loss	(821,885)	(1)	(2,479,612)
Preferred stock activity	(817)		76,313
Unrealized gain/(loss) on non-impaired, BIG investments	20,850		(1,390)
Change in contingency reserves	(13,796)		1,578,541
Other changes in surplus	173,929		73,569
Surplus to Policyholders, end of period	$ 160,150		$ 801,869

1) Includes the impact of: (i.) estimated impairment losses on credit derivatives of approximately $417.6 million, and (ii.) statutory loss and loss expenses incurred of approximately $578.8 million, all offset by: (iii.) net earned premiums of $130.3 million, and (iv.) net investment income of $113.4 million.

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