Ambac

2009 Quarterly Operating Supplement

Q2

▸ Financial Highlights

Share price	$0.92
Market capitalization	$264.5 million
Net loss	$(2,368.8) million
Net loss per diluted share	$(8.24)
Book value per share	$(18.71)
Adjusted book value per share	$(8.75)
Adjusted book value per share (excluding net unrealized losses and tax valuation allowance)	$6.71

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Company Profile

Ambac Financial Group, Inc., headquartered in New York City, is a holding company whose affiliates provide financial guarantees and financial services to clients in both the public and private sectors around the world. The principal operating subsidiary, Ambac Assurance Corporation, a guarantor of public finance and structured finance obligations, has been assigned a Caa2 rating (developing outlook) from Moody's Investors Services, Inc., and a CC 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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Ambac Financial Group, Inc.
Quarterly Operating Supplement
Second Quarter 2009

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Note 1: Throughout this Supplement adjusted book value (ABV) per share is reported and analyzed. ABV, is not promulgated in conformity with U.S. generally accepted accounting principles (GAAP) and should not be considered a substitute for actual book value. It is used by management, equity analysts and investors as a measurement of the Company's estimated intrinsic value with no benefit given for ongoing business activity. Management derives adjusted book value by beginning with stockholders' equity (book value) and adding or subtracting the after-tax value of: the net unearned premium reserve (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 4.8% at June 30, 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: 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 3: 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

	Second Quarter 2009	Second Quarter 2008	Six Months 2009	Six Months 2008
Key Financial Lines				
Net (loss) income ($ millions)	($2,368.8)	$823.1	($2,761.0)	($837.1)
Stockholders' equity ($ millions)	($5,379.1)	$1,939.5	($5,379.1)	$1,939.5
Total capitalization (1) ($ millions)	($3,751.2)	$3,560.0	($3,751.2)	$3,560.0
Debt/total capital (1)	n.m.	45.5%	n.m.	45.5%
Claims-Paying ratio (2)	55:1	48:1	55:1	48:1
Loss ratio (3)	1479.3%	211.2%	888.1%	495.6%
Expense ratio (4)	25.7%	18.1%	26.4%	20.3%
Combined ratio(3) (4)	1505.0%	229.3%	914.5%	515.9%
Consolidated total effective tax rate	-32.0%	45.4%	-82.2%	34.8%
Stockholder Data				
Market value per share	$0.92	$1.34	$0.92	$1.34
Net (loss) income per share	($8.24)	$2.85	($9.60)	($3.90)
Net (loss) income per diluted share	($8.24)	$2.80	($9.60)	($3.90)
Other Earnings Measures (Per diluted share)				
Net (loss) income	($8.24)	$2.80	($9.60)	($3.90)
Net security (gains) losses(5)	($3.55)	($4.32)	($5.42)	($2.73)
Other items	$0.00	$0.00	$0.00	$0.00
Operating earnings (non-GAAP)	($11.79)	($1.52)	($15.02)	($6.63)
Refundings, calls and other accelerations, net	($0.16)	($0.31)	($0.25)	($0.50)
Core earnings (non-GAAP)	($11.95)	($1.83)	($15.27)	($7.13)
Adjusted Book Value Analysis (Per share)				
Book value	($18.71)	$6.76	($18.71)	$6.76
After-tax value of:				
Net unearned premium reserve less deferred acquisition costs	12.74	4.88	12.74	4.88
Adjustments to present value of installment premiums, net	(8.26)	-	(8.26)	-
Present value of future installment premiums	5.16	6.11	5.16	6.11
Unrealized loss on investment agreement liabilities	0.32	(0.37)	0.32	(0.37)
Adjusted book value	($8.75)	$17.38	($8.75)	$17.38

(1) Excludes the portion of long-term debt associated with variable interest entities of $2,012.4 million and $272.1 million at June 30, 2009 and 2008, respectively.
(2) Claims-paying resource ratios (Statutory) and loss, expense and combined ratios (GAAP) relate solely to Financial Guarantee operations.
(3) Loss ratio is computed as insurance loss and loss expense plus credit derivative estimated credit impairment losses divided by net premiums earned and fees earned on credit derivatives.
(4) Expense ratio is computed as financial guarantee underwriting and operating expenses divided by net premiums earned and fees earned on credit derivatives.
(5) Includes net gains and losses from sales of investment securities, other-than-temporary impairments, 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)

	Second Quarter 2009	Second Quarter 2008
Pre-tax (loss) income	($1,794.9)	$1,507.4
Pre-tax Financial Guarantee:		
Net realized investment gains	(12.8)	(1.3)
Other-than-temporary impairment losses	675.4	2.4
Credit default swaps - unrealized gains	(6.0)	(961.6)
Credit default swaps - estimated impairment losses	(1,551.5)	(1,061.9)
Total Financial Guarantee	(894.9)	(2,022.4)
Pre-tax Financial Services:		
Net realized investment losses (gains)	2.3	(8.1)
Other-than-temporary impairment losses	186.7	150.1
Non-trading derivatives	(7.5)	(2.1)
Total return swaps	(22.1)	4.3
Total Financial Services	159.4	144.2
Pre-tax Operating losses	(2,530.4)	(370.8)
Tax on Operating losses	861.8	68.6
After-tax Operating loss	($3,392.2)	($439.4)

For Immediate Release

AMBAC FINANCIAL GROUP, INC. ANNOUNCES SECOND QUARTER NET LOSS OF $2,396.6 MILLION

Second Quarter Net Loss Per Share of $8.33

NEW YORK, August 7, 2009--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced a second quarter 2009 net loss of $2,396.6 million, or a net loss of $8.33 per share. This compares to second quarter 2008 net income of $823.1 million, or income of $2.80 on a fully-diluted per share basis. The second quarter 2009 results reflect higher loss and loss expenses primarily related to the residential mortgage-backed securities (RMBS) insured portfolio and other-than-temporary impairment losses in its investment portfolios related to RMBS and tax-exempt municipal securities that it is prepared to sell. Additionally, during the quarter Ambac increased its deferred tax asset valuation allowance. In 2008, Ambac's second quarter results reflected a positive change in fair value of credit derivatives amounting to $961.6 million, primarily related to its own credit spreads widening; and a reduction of loss reserves amounting to $339.3 million, primarily related to the insured second lien residential mortgage-backed securities portfolio.

Quarter Summary

- Net loss and loss expenses incurred amounted to $1,230.8 million for the quarter, primarily relating to second-lien and Alt-A RMBS transactions.
- AAC and the investment agreement business recorded other-than-temporary impairment losses amounting to $675.4 million and $186.7 million, respectively, related to the decision during the second quarter 2009 to sell certain investment portfolio securities.
- The deferred tax asset valuation allowance currently represents substantially all of the gross deferred tax asset at June 30, 2009. The increased estimate in the valuation allowance was primarily driven by continued weakening in Ambac Assurance Corporation's (AAC's) insured RMBS transactions and the resultant decreased ability to reliably project future taxable income.
- During July 2009, Ambac reduced a significant portion of its exposure under a collateralized debt obligation of asset-backed securities (CDO of ABS) transaction via a settlement, and commuted all of its exposure under another CDO of ABS transaction. The two transactions, with an aggregate of approximately $2.8 billion net notional outstanding at June 30, 2009, were settled with counterparties for a total cash payment of approximately $746 million.
- 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 detail in our Operating Supplement.
- Estimated statutory impairment losses within the credit derivatives portfolio amounted to $1,568.7 million during the quarter, driven by rising forward LIBOR rates, which increase estimated future cash outflows, and further deterioration of the underlying collateral within CDO of ABS transactions.
- Statutory loss and loss expenses incurred amounted to $751.0 million for the quarter ended June 30, 2009.
- Statutory capital and surplus of AAC amounts to $305.6 million at June 30, 2009. The Office of the Commissioner of Insurance of the State of Wisconsin (OCI) permitted AAC to release approximately $1.8 billion of contingency reserves, thereby increasing its capital and surplus by that amount.
- On July 15, 2009, Ambac completed its acquisition of the asset management and advisory business of NSM Capital Management LLC.

Ambac's President and Chief Executive Officer, David Wallis, commented, "The quarter's financial results are obviously very disappointing, as continued poor performance of the mortgage-related portfolios and rising forward interest rates have escalated projections of future claims." Mr. Wallis continued, "While overshadowed by our results, we continue to work hard and make progress in our expanding risk management activity."

Financial Results

Net Premiums Earned

Net premiums earned for the second quarter of 2009 were $177.7 million, down 45% from $325.5 million earned in the second quarter of 2008. Normal earned premiums amounted to $143.9 million and $166.2 million in the second quarter 2009 and 2008, respectively. As a result of 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 $33.8 million in the second quarter of 2009, down significantly from $159.2 million in the second quarter 2008. During the second quarter 2008, a lack of liquidity in the auction rate and variable rate bond markets had resulted in significant refinancing activity in the municipal sector.

Net Investment Income

Net investment income excluding variable interest entities for the second quarter of 2009 was $120.4 million, representing a decrease of 5% from $127.3 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 $800 million proceeds 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.

Other-Than-Temporary Impairment Losses

Other-than-temporary losses in the AAC investment portfolio amounted to ($675.4) million in the second quarter of 2009, compared to a net loss of ($2.4) million in the second quarter 2008. In connection with the Company's revised investment strategies, during the second quarter 2009, management determined its intent to sell certain investment securities (primarily Alt-A RMBS securities rated below investment grade by Moody's or S&P and tax-exempt municipal securities) held in the insurance company investment portfolio. As a result of this decision, other-than-temporary impairment charges were recorded through earnings on such securities that were in an unrealized loss position. These amounts represent the entire difference between the amortized cost and estimated fair value of the impacted securities as of June 30, 2009. Prior to management's decision to sell these securities, unrealized losses were recorded in stockholders' equity.

Net Change in Fair Value of Credit Derivatives

The net change in fair value of credit derivatives, which comprises realized gains/(losses) and other settlements from credit derivatives and unrealized gains/(losses) on credit derivatives, was a gain of $1.0 million for the second quarter of 2009, compared to a gain of $976.6 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 second quarter of 2009 and 2008 amounted to ($5.0) million and $15.0 million, respectively. Second quarter 2009 premiums received of $12.2 million were offset by paid losses of $17.2

million while second quarter 2008 premiums received of $16.7 million were offset by $1.7 million of losses paid.

Net unrealized gains/(losses) on credit derivative contracts were $6.0 million in the three months ended June 30, 2009, compared to $961.6 million in the three months ended June 30, 2008. The net gain during the second quarter of 2009 is primarily the result of: (i) improvement in the average pricing level of CLO reference obligations; and (ii) amortization of notional outstanding in the CDO of ABS portfolio. The positive effects were largely offset by: (i) the adverse effect of higher default probabilities in our fair value model caused by internal ratings downgrades; and (ii) the net increase in mark-to-market liabilities due to the effect of movements in AAC's credit spreads (FAS 157 adjustment). The second quarter 2008 gain was driven by significant increases in AAC's credit spreads, partially offset by negative adjustments for internal ratings downgrades and lower quoted values on the reference obligations.

During July 2009, Ambac reduced a significant portion of its exposure under a CDO of ABS transaction via a settlement, and commuted all of its exposure under another CDO of ABS transaction. The two transactions, with an aggregate of approximately $2.8 billion net notional outstanding at June 30, 2009, were settled with counterparties for cash payments totaling approximately $746 million.

Financial Guarantee Loss Reserves

Total net loss and loss expenses were $1,230.8 million in the second quarter 2009, compared to a net reduction in loss reserves amounting to ($339.3) million recorded in the second quarter of 2008. Losses and loss expenses in the second quarter 2009 were primarily related to second-lien and Alt-A RMBS insured securities as continued deterioration beyond that which had been expected at March 31, 2009, continues to be observed.

In accordance with 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 2.2%.

Total net claims paid of $400.8 million, exclusive of amounts received under reinsurance commutations during the quarter, were primarily related to RMBS transactions and highly concentrated in the second-lien portfolio.

Loss and loss expense reserves for all RMBS insurance exposures at June 30, 2009 total $3,216.1 million. RMBS reserves are net of $1,162.1 million of estimated remediation recoveries. The remediation benefit increased $280.1 million from $882.0 million at June 30, 2009, directly as a result of continued identification of representation and warranty breaches observed during a continuing intense loan re-underwriting initiative during the second quarter.

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 ($33.5) million in the second quarter of 2009, down from ($16.7) million in the second quarter of 2008. Derivative products results declined by $28.7 million, primarily due to losses realized on transactions professional derivative counterparties terminated as a result of the downgrades of AAC as guarantor of the swaps. The majority of our professional derivative counterparties retain the right to terminate contracts and, accordingly, we may have similar losses in the future. The negative effect of swap termination costs was partially offset by the reduction of high rate resets associated with cost of funds swaps, which resets have been limited through mitigation strategies and less volatility in market rates. Net investment income from the investment agreement business improved by $11.5 million primarily as a result of favorable variable interest rate reset adjustments as compared to the second quarter of 2008 and the effects of intercompany loans from AAC.

Other-than-temporary losses in the investment agreement investment portfolio amounted to ($186.7) million in the second quarter of 2009. Similar to the insurance company strategy discussed above, during the second quarter 2009 management determined its intent to sell certain investment securities (primarily Alt-A RMBS securities rated below investment grade by Moody's or S&P) held in the investment agreement investment portfolio.

The interest rate swap and investment agreement businesses are in run-off. The investment and payment agreement portfolio has been reduced by approximately $1.1 billion during the first six months of 2009 to approximately $1.5 billion at June 30, 2009, through negotiated terminations, terminations contractually triggered by rating downgrades of AAC, and scheduled amortization.

Taxes

Due to continued deterioration in Ambac's exposures to mortgage-related securities and the resultant decreased ability to reliably project future taxable income, the tax benefit generated during the quarter was fully offset by a valuation reserve. Additionally, during the quarter Ambac recorded a $573.9 million valuation allowance against the balance of the unreserved deferred tax asset from the prior quarter.

Balance Sheet and Liquidity

Total assets declined by approximately $139.4 million during the second quarter 2009, primarily due to lower invested securities in the AAC and investment agreement investment portfolios and lower net deferred tax asset offset by the consolidation of certain trusts that AAC has insured and consolidated under accounting pronouncement FIN 46R. At June 30, 2009, Ambac consolidated six transactions with total assets amounting to approximately $2.1 billion, including five newly consolidated trusts that had been insured in prior years but reconsidered for consolidation upon the occurrence of our reinsurance commutation with Ram Re during the quarter. Associated liabilities on the six consolidated entities also amounted to approximately $2.1 billion and the impact to equity was approximately ($5.5) million.

The fair value of the consolidated investment portfolio increased from $9.6 billion (amortized cost of $11.3 billion) at March 31, 2009 to $9.9 billion (amortized cost of $10.4 billion) at June 30, 2009. The increase in fair value was primarily due to the inclusion of approximately $484 million of securities related to the consolidation of certain trusts insured by AAC, as discussed above, partially offset by liquidations in the investment agreement portfolio to pay terminated agreements during the quarter. The net deferred tax asset declined to $105.5 million as a result of the increase in the deferred tax asset valuation allowance during the quarter.

AAC's investment portfolio has a fair value of $8.0 billion (amortized cost of $8.3 billion) at June 30, 2009, and includes $893.5 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 business in late 2008 and early 2009. At June 30, 2009, the difference between fair value and amortized cost in the financial guarantee investment portfolio is related to mortgage and asset-backed securities.

As previously announced, in order to preserve cash and statutory surplus at AAC, it has discontinued the payment of monthly dividends on its outstanding auction market preferred shares.

Ambac's total financial guarantee net par exposure has decreased 5% from $434.3 billion at December 31, 2008 to $411.8 billion at June 30, 2009, driven by amortization and refundings during the period offset by the recapture of exposure resulting from reinsurance commutations.

Cash and short-term securities at the holding company amounted to $164.1 million at June 30, 2009. Ambac's annual debt service costs amount to approximately $89.0 million. AAC is not permitted to make dividend payments to the holding company in 2009 without first receiving permission from OCI. AAC has not requested permission to pay a dividend in 2009. As previously announced, in order to preserve cash at the holding company, Ambac has discontinued the payment of semi-annual interest payments on its directly-issued subordinated capital securities (DISCs). The deferment of interest on these securities is permitted for a period of ten years.

Overview of Statutory Results

At June 30, 2009, AAC reported statutory capital and surplus of $305.6 million and contingency reserves of $173.6 million, down from $372.8 million and $1,946.6 million, respectively, at March 31, 2009. AAC statutory capital and surplus was negatively impacted by the net loss recorded during the quarter. The primary drivers of the statutory net loss were: (i) statutory impairment losses on credit derivatives amounting to $1,568.7 million; and (ii) statutory loss and loss expenses incurred of $751.0 million during the second quarter. The statutory impairment losses, which relate to AAC's insured portfolio of CDOs of ABS, was driven by rising forward LIBOR rates, which increase estimated future cash outflows, and further deterioration of the underlying collateral within the CDO of ABS transactions. The statutory loss and loss expenses relate primarily to deterioration in AAC's second-lien and Alt-A mortgage-backed securities financial guarantee portfolios, as discussed above under "Financial Guarantee Loss Reserves."

Statutory capital and surplus was positively impacted by a release of contingency reserves amounting to approximately $1.8 billion as of June 30, 2009, as approved by the OCI. AAC's claims-paying resources amount to approximately $11.9 billion at June 30, 2009, flat to March 31, 2009, as net cash outflows driven by increasing RMBS claims paid were offset by ongoing cash inflows from installment premiums and investments. The approximate $746 million of payments related to the two CDO of ABS transactions that were settled/commuted in July, discussed above, will negatively impact claims-paying resources.

NSM Acquisition

On July 15, 2009, Ambac acquired the asset management and advisory business of NSM Capital Management LLC and Structured Credit Solutions ("NSM"). NSM provides investment advisory, consulting, valuation and research services to the structured credit markets and is located in Greenwich, Connecticut. In addition to using NSM's services to augment the management of its investment portfolios and mortgage-related and other asset-backed financial guarantee liabilities, Ambac intends for NSM to continue to provide investment advisory and asset management services to outside parties and will seek to grow and expand such services. NSM is an indirect subsidiary of Ambac Financial Group, Inc.

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 Caa2 rating (developing outlook) from Moody's Investors Service, Inc. and a CC rating (outlook developing) 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, and due to the adoption of SFAS 163, which, among other things, introduces volatility in the recognition of premium earnings and losses; (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) the risk that reinsurers may dispute amounts owed us under our reinsurance agreements; (26) changes in tax laws; (27) 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 (28) 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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Consolidated Statements of Operations

($ in Thousands, Except Share Data)	Second Quarter 2009	Second Quarter 2008	Six Months 2009	Six Months 2008
Revenues:				
Financial Guarantee:				
Normal net premiums earned [1]	$143,935	$166,244	$299,743	$339,114
Accelerated net premiums earned [1]	33,797	159,227	74,801	173,223
Total net premiums earned [1]	177,732	325,471	374,544	512,337
Net investment income	120,427	127,302	217,915	247,316
Net investment income from VIEs	2,482	3,438	5,265	7,069
Other-than temporary impairment losses:				
Total other-than-temporary impairment losses	(675,394)	(2,372)	(1,421,153)	(2,372)
Portion of loss recognized in other comprehensive income	-	-	-	-
Net other-than-temporary impairment losses recognized in earnings	(675,394)	(2,372)	(1,421,153)	(2,372)
Net realized gains	12,789	1,245	15,643	23,457
Realized gains and losses and other settlements on credit derivative contracts	(5,053)	15,035	1,570	32,008
Unrealized gains (losses) on credit derivative contracts	6,016	961,580	1,545,243	(763,592)
Net change in fair value of credit derivative contracts	963	976,615	1,546,813	(731,584)
Other income	39,221	2,053	40,944	10,510
Financial Services:				
Investment income	19,004	56,722	39,888	141,648
Derivative products	(44,219)	(15,527)	(58,418)	(84,858)
Other-than temporary impairment losses:				
Total other-than-temporary impairment losses	(186,708)	(150,058)	(272,198)	(327,652)
Portion of loss recognized in other comprehensive income	-	-	-	-
Net other-than-temporary impairment losses recognized in earnings	(186,708)	(150,058)	(272,198)	(327,652)
Net realized (losses) gains	(2,310)	8,082	114,236	15,884
Net change in fair value of total return swap contracts	22,052	(4,281)	11,671	(44,698)
Net mark-to-market gains on non-trading derivatives contracts	7,529	2,095	7,690	262
Corporate:				
Net investment income	32,000	1,037	32,216	1,864
Net realized investment gains	-	-	33	-
Total revenues	(474,432)	1,331,822	655,089	(230,817)
Expenses:				
Financial Guarantee:				
Losses and loss expenses [1]	1,230,847	(339,294)	1,970,677	703,467
Underwriting and operating expenses [1]	48,861	61,955	105,498	110,858
Interest expense on variable interest entity notes	2,430	3,379	5,177	6,936
Financial Services:				
Interest from investment and payment agreements	8,311	57,914	21,100	146,917
Other expenses	3,541	3,297	7,492	6,686
Corporate:				
Interest	29,837	30,075	59,683	54,452
Other expenses	(3,337)	7,113	684	23,189
Total expenses	1,320,490	(175,561)	2,170,311	1,052,505
(Loss) income before income taxes	(1,794,922)	1,507,383	(1,515,222)	(1,283,322)
Provision (benefit) for income taxes	573,861	684,251	1,245,761	(446,190)
Net (loss) income	(2,368,783)	823,132	(2,760,983)	(837,132)
Less: net income (loss) attributable to noncontrolling interest	11	(2)	(2)	77
Net (loss) income attributable to Ambac Financial Group, Inc.	($2,368,794)	$823,134	($2,760,981)	($837,209)
Net (loss) income per share	($8.24)	$2.85	($9.60)	($3.90)
Net (loss) income per diluted share	($8.24)	$2.80	($9.60)	($3.90)
Weighted average number of shares outstanding	287,639,234	288,397,701	287,602,413	214,833,072
Weighted average number of diluted shares outstanding	287,639,234	294,857,435	287,602,413	214,833,072

(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)	June 30, 2009	December 31, 2008
Assets		
Investments:		
Fixed income securities, at fair value (amortized cost of $9,127,383 in 2009 and $11,080,723 in 2008)	$8,685,953	$8,537,676
Fixed income securities pledged as collateral, at fair value (amortized cost of $176,247 in 2009 and $277,291 in 2008)	180,375	286,853
Short-term investments (approximates fair value)	1,062,072	1,454,229
Other (cost of $754 in 2009 and $13,956 in 2008)	754	14,059
Total investments	9,929,154	10,292,817
Cash	1,130,259	107,811
Receivable for securities sold	102,166	15,483
Investment income due and accrued	81,840	116,769
Premium Receivables	4,360,680	28,895
Reinsurance recoverable on paid and unpaid losses(1)	210,891	157,627
Deferred ceded premiums (1)	959,411	292,837
Subrogation recoverable(1)	198,431	10,088
Deferred taxes	105,549	2,127,499
Current income taxes	190,495	192,669
Deferred acquisition costs(1)	210,368	207,229
Loans	581,463	798,848
Derivative assets	1,550,781	2,187,214
Other assets (1)	433,677	723,887
Total assets	$20,045,165	$17,259,673
Liabilities and Stockholders' Equity		
Liabilities:		
Unearned premiums(1)	$6,594,046	$2,382,152
Loss and loss expense reserve(1)	4,115,037	2,275,948
Ceded reinsurance balances payable (1)	576,944	15,597
Obligations under investment and payment agreements	1,594,623	3,244,098
Obligations under investment repurchase agreements	113,496	113,737
Long-term debt	3,640,243	1,868,690
Accrued interest payable	67,517	68,806
Derivative liabilities	7,608,133	10,089,895
Other liabilities(1)	313,824	279,616
Payable for securities purchased	7,746	10,256
Total liabilities	24,631,609	20,348,795
Stockholders' equity:		
Ambac Financial Group, Inc.:		
Preferred stock	-	-
Common stock	2,944	2,944
Additional paid-in capital	2,038,540	2,030,031
Accumulated other comprehensive loss	(224,665)	(1,670,198)
Retained earnings(1)	(6,630,047)	(3,550,768)
Common stock held in treasury at cost	(565,904)	(594,318)
Total Ambac Financial Group, Inc. stockholders' equity	(5,379,132)	(3,782,309)
Noncontrolling interest:	792,688	693,187
Total stockholders' equity	(4,586,444)	(3,089,122)
Total liabilities and stockholders' equity	$20,045,165	$17,259,673
Number of shares outstanding (net of treasury shares)	287,554,206	287,239,482
Book value per share	($18.71)	($13.17)
Adjusted book value per share	($8.75)	($3.92)

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

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	$49,495	$48,938	-	-	$98,433
Structured Finance	64,064	51,718	-	-	115,782
International Finance	42,249	43,279	-	-	85,528
Total Normal Insurance Premiums Earned	$155,808	$143,935	-	-	$299,743
Fees on credit derivative contracts [2]	$13,159	$12,195	-	-	$25,354

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	$33,797	-	-	$74,801
Net income effect	$25,482	$45,677	-	-	$71,159
Net income per diluted share effect	$0.09	$0.16	-	-	$0.25

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	Insured [3]	Insured Percent	Insured by Ambac Insured	Market Share Percent
2009 By Quarter					
Second	$110,537	$10,526	9.5%	$0	0.0%
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	$195,436	$21,455	11.0%	$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.
(3) Insured amounts do not include Letters of Credits (LOC) issued by non financial guarantee insurers. Total LOCs issued were $10,577 and $54,195 for the six months ended June 30, 2009 and twelve months ended December 31, 2008, respectively.

Net Exposure Amortization[1]

As of June 30, 2009

($ Millions)	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2009 (3rd and 4th Qtrs)	$19,417	$635,921
2010	35,447	600,474
2011	36,373	564,101
2012	31,519	532,582
2013	32,612	499,970
2014	31,547	468,423
2009 (3rd and 4th Qtrs)	19,417	635,921
2010-2014	167,498	468,423
2015-2019	139,871	328,552
2020-2024	106,222	222,330
2025-2029	73,059	149,271
After 2029	149,271	-
Total	$655,338	

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

As of June 30, 2009

($ Millions)	Net Unearned Premium Amortization[3] [4]	Fees on Credit Derivative Contracts	Estimated Net Future Installments[5]
2009 (3rd and 4th Qtrs)	$287.7	$22.6	$179.3
2010	448.2	42.7	294.0
2011	414.8	38.3	254.2
2012	377.6	35.4	216.2
2013	347.0	31.1	189.1
2014	322.1	26.1	152.6
2009 (3rd and 4th Qtrs)	287.7	22.6	179.3
2010-2014	1,909.7	173.6	1,106.1
2015-2019	1,263.4	84.2	539.4
2020-2024	919.8	49.0	368.9
2025-2029	668.6	37.9	246.1
After 2029	585.4	25.9	232.2
Total	$5,634.6	$393.2	$2,672.0

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of June 30, 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 June 30, 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 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 June 30, 2009

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	$154,910	$152,797	2.35%	$1,808
U.S. agency obligations	118,382	112,456	4.06%	2,375
Municipal obligations [2] [3]	4,000,815	3,958,785	4.87%	101,695
Foreign obligations	169,146	161,093	4.23%	3,213
Corporate obligations	250,739	267,898	5.83%	8,178
Mortgage and asset-backed securities	1,909,605	2,220,466	13.15%	98,161
Total long-term investments	6,603,597	6,873,495	7.50%	215,430
Short-term investments	893,518	893,518	0.29%	3,236
VIE Investments [4]	484,411	484,411		5,265
Other [4]	754	754		881
Total Financial Guarantee investments	7,982,280	8,252,178	6.67%	224,812
Investment expenses				(1,632)
Financial Guarantee net investment income				223,180
Financial Services investments: [5]				
Long-term investments				
U.S. government obligations	154,330	152,106		
U.S. agency obligations	118,862	113,374		
Corporate obligations	135,617	191,609		
Mortgage and asset-backed securities	1,369,511	1,488,635		
Total long-term investments	1,778,320	1,945,724		
Short-term investments	9,149	9,149		
Total Financial Services investments	1,787,469	1,954,873		
Corporate investments:				
Short-term investments	159,405	159,405		
Total Corporate investments	159,405	159,405		
Total Investments	$9,929,154	$10,366,456		

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO[6][7]

Rating	Percent of Investment Portfolio: Fin. Guar.	Fin. Services	Combined
AAA[2]	28%	73%	37%
AA	38%	18%	34%
A	17%	3%	14%
BBB	5%	0%	4%
Below investment grade	12%	6%	11%
Not rated	<1%	0%	<1%
	100%	100%	100%

Duration of Financial Guarantee investment portfolio 4.5

(1) "Yield to maturity" refers to the rate of interest to be earned over the expected remaining life of the investments in the portfolio, and is calculated based on purchase price, estimated future cash flows and call schedules. Actual maturities may differ from stated maturities because borrowers may have the right to call or prepay obligations.

(2) Includes municipal bonds which have been advance refunded and defeased with U.S. Treasury and Agency obligations, but not necessarily re-rated by S&P and/or Moody's. Ambac considers the credit quality of these bonds, which have a total fair value of $118,536 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 $258,172 and $3,742,643, respectively.

(4) Includes income earned on loans, which are classified separately on the balance sheet.

(5) Financial Services investments relate primarily to the investment agreement business.

(6) 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.

(7) Rating distribution is calculated based on amortized cost and excludes VIE investments.

Projected Ambac Financial Group, Inc. Liquidity

($ Thousands)		
Ambac Financial Group cash and short-term investments at 6/30/2009	$	164,108
Projected debt service for remainder of year	$	(44,358)
Projected Ambac Financial Group expenses	$	(2,400)
Interest income	$	512
Ambac Financial Group projected cash at 12/31/2009	**$**	**117,862**
Annual debt service	$	88,716
Annual debt service coverage at 6/30/09	$	1.85

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

($ Thousands)	Expected Principal	Expected Interest	Total
2009 (3rd and 4th Quarters)……………………	186,865	152,563	339,428
2010……………………..………………….	364,327	326,958	691,285
2011……………………..………………….	452,628	332,988	785,616
2012……………………..………………….	594,624	357,371	951,995
2013……………………..………………….	656,337	338,448	994,785
2014……………………..………………….	558,446	323,008	881,454

(1) Represents long-term investment portfolio cash receipts, excluding inter-company borrowings.

(2) Information takes into account portfolio as of June 30, 2009 and does not include any anticipated sales.

(3) Actual receipts may differ because borrowers may have the right to call or prepay obligations.

Ratio of Net Claims Paid

($ Thousands)	YTD 6/30/09	2008	2007	2006	2005
Net claims paid - Insurance[1]	$657,022	$571,012	($2,128)	$105,568	$86,739
Net claims paid - Credit Derivatives	23,784	1,857,153	-	-	-
Total net claims paid	$680,806	$2,428,165	($2,128)	$105,568	$86,739
Net insurance premiums and credit derivative fees	$399,898	$1,085,482	$917,895	$871,383	$866,415
Ratio of net claims paid [2]	170.2%	223.7%	-0.2%	12.1%	10.0%

Estimated Future Gross RMBS and Credit Derivative Claim Payments (Recoveries) [3]

($ Thousands)	Directly Insured RMBS	Credit Derivative Contracts	Total
2009 (3rd and 4th Quarters)	$ 1,111,696	$ 913,296 [5]	$ 2,024,992
2010	2,036,081	196,693	2,232,774
2011[4]	(934,422)	74,017	(860,405)
2012	316,183	44,522	360,705
2013	199,869	38,485	238,354
2014	144,139	36,419	180,558
2009 (3rd and 4th Qtrs)	1,111,696	913,296 [5]	2,024,992
2010-2014	1,761,850	380,136	2,141,986
2015-2019	513,939	164,946	678,885
2020-2024	149,292	303,424	452,716
2025-2029	(8,019)	465,028	457,009
After 2029	306,196	13,913,481	14,219,677
Total	$ 3,834,954	$ 16,140,311	$ 19,975,265

(1) Net claims paid are net of salvage received of $21.4 million, $11.7 million, $27.9 million, $16.7 million and $9.4 million for 2009, 2008, 2007, 2006 and 2005, respectively.
(2) Ratio of net claims paid is net claims paid divided by net premiums earned and other credit enhancement fees.
(3) Repressents management's estimate of future loss payments, net of recoveries. Actual payments or recoveries may differ from estimates.
(4) Net of estimated recoveries of $1,277.7 million for breaches of repesentation and warranties on certain RMBS transactions.
(5) Includes $746.0 million relating to July settlements for two CDO of ABS transactions.

Summary of Net Insurance Loss Reserves and Credit Derivatives[1]

($ Thousands)	6/30/09	12/31/08	12/31/07	12/31/06
Total insurance reserves [1]	3,734,180	2,129,758	473,188	215,102
Estimated credit impairment losses on credit derivatives [2]	5,297,317	3,740,202	1,105,741	-
Total impairment losses	9,031,497	5,869,960	1,578,929	215,102
Mark-to-market reserve (asset) on credit derivatives [2]	1,389,596	4,491,955	4,889,721	(8,929)
Mark-to-market reserve (asset) on total return swaps	40,964	77,960	21,901	(11,195)
Grand total net insurance loss reserves and credit derivatives	$10,462,057	$10,439,875	$6,490,551	$194,978

Summary of Below Investment Grade Exposures

($ Millions)	Net Par Outstanding	Total Impairment Losses[1]
Public Finance:		
Transportation Revenue	$1,108	
Utilites	-	
Health Care	311	
Other	1,058	
Total Public Finance	2,477	152
Structured Finance:		
CDO of ABS >25% MBS	24,686	5,297
Mortgage-Backed & Home Equity - Mid prime	9,144	1,631
Mortgage-Backed & Home Equity - Second Lien	8,445	1,314
Mortgage-Backed & Home Equity - Sub prime.	3,188	240
Mortgage-Backed & Home Equity - Other.	329	49
Other	4,711	273
Total Structured Finance	50,503	8,804
International Finance:	1,711	75
Total	$54,691	$9,031

(1) Ambac adopted FAS 163 effective January 1, 2009. Please refer to "Adoption of FAS 163 page" for more information.
(2) Total net mark-to-market losses are $6,686,913 as of June 30, 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	24,334	-	-	$ 53,308
Non-compensation (2)	8,345	17,516	-	-	25,861
Gross underwriting and operating expenses	**37,319**	**41,850**	**-**	**-**	**79,169**
Operating expenses deferred (policy acquisition costs)	1,288	1,483	-	-	2,771
Ceding commissions	-	-	-	-	-
Amortization of previously deferred expenses and commissions	18,030	5,528	-	-	23,558
Total Financial Guarantee underwriting and operating expenses	56,637	48,861	-	-	105,498
Financial Services operating expenses	**3,951**	**3,541**	**-**	**-**	**7,492**
Corporate operating expenses(2)	**4,021**	**(3,337)**	**-**	**-**	**684**
Total underwriting and operating expenses, net of deferred expenses	$ 64,609	$ 49,065	$ -	$ -	$ 113,674
Total gross underwriting and operating expenses	**$ 45,291**	**$ 42,054**	**$ -**	**$ -**	**$ 87,345**

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

Historical Financial Guarantee Exposures Outstanding [1]

($ Millions Net Par Value)	June 30, 2009 [2]	December 31, 2008	2007	2006	2005
Public Finance:					
Lease and tax backed	$74,997	$77,060	$88,147	$89,042	$82,584
General obligation	56,057	58,296	63,977	62,834	57,982
Utility	31,491	32,166	37,976	38,313	36,877
Transportation	22,166	22,306	25,466	24,979	23,718
Higher education	17,070	17,959	20,685	22,068	20,203
Health care	13,256	15,115	27,161	27,849	26,994
Housing	10,450	10,862	11,531	10,996	10,152
Other	4,308	4,457	6,010	6,181	5,556
Total Public Finance	229,795	238,221	280,953	282,262	264,066
Structured Finance:					
Mortgage-backed & home equity	34,791	36,995	43,078	46,239	48,869
CDO of ABS >25% MBS	22,844	23,190	29,127	20,145	7,533
Other CDOs	19,430	19,988	22,174	20,423	18,213
Asset-backed and conduits	17,946	25,443	36,407	34,815	32,505
Student loan	15,365	16,644	18,372	18,404	16,538
Investor-owned utilities	14,134	14,650	17,055	17,345	16,398
Other	2,880	3,499	4,485	5,212	4,296
Total Structured Finance	127,390	140,409	170,698	162,583	144,352
International Finance[3]:					
Asset-backed and conduits	16,702	16,383	19,290	17,642	15,151
Other CDOs	9,561	12,784	15,572	19,978	23,427
Investor-owned and public utilities	9,324	8,492	10,384	10,531	8,052
Transportation	6,960	6,870	7,784	6,524	5,156
Sovereign/sub-sovereign	6,932	5,980	7,347	6,344	3,585
Mortgage-backed & home equity	3,535	3,669	10,106	11,951	14,627
Other	1,616	1,502	1,891	1,228	669
Total International Finance	54,630	55,680	72,374	74,198	70,667
Grand Total	$411,815	$434,310	$524,025	$519,043	$479,085
Percent of Total Net Par Outstanding					
Public Finance	55.8%	54.9%	53.6%	54.4%	55.1%
Structured Finance	30.9%	32.3%	32.6%	31.3%	30.1%
International Finance	13.3%	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 $50,250, $53,918, $64,988, $55,460, and $43,712 at June 30, 2009, and December 31, 2008, 2007, 2006, and 2005, respectively.

(2) Net financial guarantees written reflects the recapture of $7,244 million relating to the cancellation of certain reinsurance contracts.

(3) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures Outstanding

($ Millions Net Par Value)	June 30, 2009 [1]	%	December 31, 2008	2007	2006	2005
Domestic:						
California	$44,702	10.9%	$45,343	$53,434	$54,829	$50,412
New York	23,560	5.7%	25,972	31,923	34,232	32,866
Florida	18,286	4.4%	18,724	22,462	24,225	21,165
Texas	17,217	4.2%	17,674	19,898	18,837	17,220
New Jersey	11,829	2.9%	12,204	14,309	13,445	13,222
Illinois	10,276	2.5%	10,544	12,592	12,898	12,339
Pennsylvania	9,435	2.3%	10,879	13,444	13,973	13,413
Massachusetts	7,981	1.9%	8,184	10,338	10,231	9,204
Colorado	6,552	1.6%	6,818	7,570	7,635	6,644
Washington	6,264	1.5%	6,249	6,874	7,184	6,790
Mortgage and asset-backed	52,737	12.8%	62,438	79,485	81,054	81,962
Other states	148,346	36.0%	153,601	179,322	166,302	143,181
Total Domestic	357,185	86.7%	378,630	451,651	444,845	408,418
International:						
United Kingdom	22,075	5.4%	20,151	27,207	27,253	22,761
Australia	6,043	1.5%	4,952	6,400	6,126	5,139
Italy	3,188	0.8%	2,843	3,017	2,167	1,843
Japan	2,267	0.6%	2,415	2,753	4,391	4,274
Turkey	1,800	0.4%	1,913	1,995	1,588	865
Internationally diversified	11,709	2.8%	14,937	16,550	19,180	22,874
Other international	7,548	1.8%	8,469	14,402	13,493	12,911
Total International	54,630	13.3%	55,680	72,374	74,198	70,667
Grand Total	$411,815	100.0%	$434,310	$524,025	$519,043	$479,085

Rating Distribution of Net Financial Guarantee Exposures [2]

As of June 30, 2009

Rating	Percentage of Guaranteed Portfolio: Public Finance	Structured and International	Total
AAA	<1	8	4
AA	28	16	22
A	58	20	41
BBB	13	27	20
BIG	1	29	13
	100	100	100

(1) Net financial guarantees written reflects the recapture of $7,244 million relating to the cancellation of certain reinsurance contracts.
(2) 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	$199.7	$3,044	0.7%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	$148.4	2,031	0.5%
Washington State - GO	AA	$137.2	1,838	0.4%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	$124.9	1,488	0.4%
Bay Area Toll Authority, CA Toll Bridge Revenue	AA -	$72.0	1,469	0.4%
New Jersey Turnpike Authority Revenue	A	$92.2	1,370	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	$83.3	1,347	0.3%
Massachusetts Commonwealth - GO	AA	$85.3	1,266	0.3%
Los Angeles Unified School District, CA - GO	AA -	$77.1	1,069	0.3%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	$78.5	1,064	0.3%
South Carolina Transportation Infrastructure Bank Revenue	A	$72.5	1,044	0.3%
California Department of Water Resources, Power Supply	A	$149.4	1,034	0.3%
Central Texas Turnpike, System Revenue	BBB +	$99.7	986	0.2%
New York City, NY - GO	AA	$51.7	972	0.2%
Port Authority of New York & New Jersey, Consolidated Revenue	AA -	$68.6	936	0.2%
University of California Board of Regents, General Revenue	AA -	$50.2	900	0.2%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A -	$52.9	885	0.2%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BBB +	$52.7	874	0.2%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	$70.3	828	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	$48.3	806	0.2%
Chicago, IL - GO	A +	$38.8	795	0.2%
Puerto Rico Sales Tax Financing Corporation	A +	$159.3	790	0.2%
Connecticut Housing Finance Authority, Housing Mortgage Finance Program	AA +	$46.3	790	0.2%
New York City, NY Water and Sewer System Revenue	AA	$50.1	767	0.2%
Massachusetts Turnpike Authority, Metropolitan Highway Revenue	A	$51.7	726	0.2%
Total:			$29,119	7.1%

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	$31.7	$341	0.1%
Children's Hospital Boston - Massachusetts	AA	$23.5	334	0.1%
New York City Health and Hospitals Corporation	A	$31.5	300	0.1%
Catholic Healthcare Partners - Ohio	A +	$22.1	297	0.1%
Parkview Health System - Indiana	A +	$14.7	227	0.1%
Catholic Health East - Pennsylvania	A +	$16.6	218	0.1%
Baylor College of Medicine - Texas	BBB +	$11.7	216	0.1%
Wellstar Health System - Georgia	A +	$11.6	187	0.0%
ProMedica Healthcare Oblig Grp - Ohio	A +	$10.7	183	0.0%
Children's Medical Center of Dallas - Texas	A +	$13.6	172	0.0%
Total:			$2,475	0.6%

(1) Excludes Healthcare exposures.
(2) See Note 2 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	$2,861	0.7%
CDO of ABS < 25% MBS	AA -	2,427	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	1,926	0.5%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2	BBB -	1,824	0.4%
Diversey Harbor ABS CDO, Ltd.	BIG	1,779	0.4%
Vermont Student Assistance Corporation Revenue Bonds	A	1,549	0.4%
Ridgeway Court Funding I, Ltd.	BIG	1,517	0.4%
Michigan Higher Education Student Loan Authority	AA	1,514	0.4%
Duke Funding High Grade III, Ltd.	BIG	1,442	0.4%
Hertz Vehicle Financing, LLC	BBB	1,428	0.3%
Belle Haven ABS CDO 2006-1, Ltd.	BIG	1,412	0.3%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BBB -	1,269	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,243	0.3%
Private Consumer Asset-Backed Transaction	AA	1,208	0.3%
Cendant Rental Car Funding	BBB -	1,152	0.3%
McKinley Funding III, Ltd.	BIG	1,125	0.3%
Millerton II High Grade ABS CDO, Ltd.	BIG	1,047	0.3%
Hereford Street ABS CDO I, Ltd.	BIG	973	0.2%
Palmer Square Plc	BIG	938	0.2%
Ballantyne Re Plc	BIG	914	0.2%
Lancer Funding, Ltd.	BIG	901	0.2%
Citation High Grade ABS CDO I, Ltd.	BIG	900	0.2%
Total:		$38,113	9.3%

Largest International Finance Exposures

($ Millions)	Ambac Rating(1)	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation	A +	$2,209	0.5%
Telereal Securitisation plc	AA -	1,628	0.4%
Punch Taverns Finance plc-UK Pub Securitisation	A +	1,358	0.3%
CDO of HY Corporate	AA	1,200	0.3%
Romulus Finance s.r.l.	BB +	1,048	0.3%
Channel Link Enterprises	BBB	1,009	0.2%
Regione Campania	A -	972	0.2%
Private Consumer Asset-Backed Transaction	BBB	913	0.2%
TubeLines (Finance) plc	AA -	890	0.2%
Synthetic RMBS	AAA	885	0.2%
National Grid Electricity Transmission	A -	860	0.2%
CDO of HY Corporate	AAA	807	0.2%
Sydney Airport Finance Co. Pty Ltd	BBB	803	0.2%
Spirit Issuer plc	BBB	786	0.2%
Aspire Defence Finance plc	BBB -	781	0.2%
RMPA Services plc	BBB +	752	0.2%
Ostregion Investmentgesellschaft NR 1 SA	BBB -	751	0.2%
Capital Hospitals plc	BBB -	715	0.2%
Powercor Australia, LLC	A -	709	0.2%
Babcock & Brown Air Funding I Limited	BBB +	707	0.2%
Banco de Credito del Peru-DPR Securitization	A	702	0.2%
Private CMBS Transaction	AAA	690	0.2%
Private CMBS Transaction	AAA	671	0.2%
Juneau - Scottish Power	A -	655	0.2%
West LB - Compass	AA	608	0.1%
Total:		$23,109	5.7%

(1) See Note 2 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.

Ambac Assurance Corporation

Claims-Paying Resources [1] and Statutory Financial Ratios

($ Thousands, Except Ratios)	June 30, 2009	December 31, 2008
Contingency reserve	$189,334	$1,929,609
Capital and Surplus	305,620	1,554,448
Qualified statutory capital	494,954	3,484,057
Unearned premiums	2,525,034	2,733,206
Losses and loss adjustment expenses	1,455,374	1,169,116
Estimated impairment losses on credit derivatives	4,895,282	3,352,129
Policyholders' reserves	9,370,644	10,738,508
Third party capital support [2]	-	100,000
Present Value of Future Installment Premiums [3]	2,581,315	2,662,564
Total Claims-Paying Resources	11,951,959	13,501,072
Net financial guarantees in force	$655,338,363	$695,954,357
Claims-Paying Ratio [5]	55 : 1	52 : 1
Gross financial guarantees in force	$750,187,804	$811,177,854
Gross par outstanding	$465,202,905	$497,960,107

	Second Quarter 2009	Second Quarter 2008	Full Year 2008
Statutory financial ratios:			
Loss ratio [6]	(314.3)%	67.6%	149.6%
Expense ratio [7]	27.1%	34.1%	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 for the issuance of preferred stock, $700 million of which was received by December 31, 2008. The remaining $100 million was received on January 2, 2009.
(3) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts, credit derivatives and other credit enhancement products. Present value calculations utilize the Moody's rating agency prescribed exposure amortization schedules discounted at 6.0% at June 30, 2009 and December 31, 2008. Ambac internal estimates of present value of future installment premiums at June 30, 2009 and December 31, 2008 are $2,281,259, and $2,376,748, respectively at a discount rate of 4.8% and 4.9%, respectively.
(4) Claims-paying Ratio is net financial guarantees in force divided by total claims-paying resources.
(5) Loss ratio is statutory net incurred losses divided by statutory net earned premiums.
(6) Expense ratio is statutory underwriting expenses (including reinsurance commissions) divided by net premiums written.

Ambac Assurance Corporation
Rollforward of Statutory Capital and Surplus

(in thousands)

	For the six months ended June 30, 2009	For the twelve months ended December 31, 2008
Surplus to Policyholders, beginning of period	$ 1,554,448	$ 3,316,143
Net loss	(3,093,363) [1]	(4,034,666)
Capital Contribution	-	1,318,006
Preferred stock activity	87,940	700,000
Unrealized loss on non-impaired, BIG investments	(64,246)	(44,379)
Change in contingency reserves	1,740,997	807,233
Dividends to Ambac Financial Group	-	(218,540)
Other changes in surplus	79,844	(289,349)
Surplus to Policyholders, end of period	$ 305,620	$ 1,554,448

[1] Includes the impact of : (i) estimated impairment losses on credit derivatives of approximately $1,568.7 million; (ii) realized losses of $1,184.0 million relating to other than temporary impairment losses on Alt-A investments, and (iii) statutory loss and loss expenses incurred of approximately $982.6 million.

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 thousands)	**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).

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