2007 Quarterly Operating Supplement

Q3

Financial Highlights

Share price	$62.91
Market capitalization	$6,388 million
Net (loss) income	$(360.6) million
Net (loss) income per diluted share	$(3.51)
Book value per share	$55.64
Adjusted book value per share	$88.07

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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 leading guarantor of public finance and structured finance obligations, has been assigned triple-A ratings, the highest ratings available from Moody's Investors Services, Inc., Standard & Poor's Ratings Services, and Fitch, Inc. Ambac Financial Group, Inc., through its subsidiaries, also provides 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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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.

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Note 1: Throughout this Supplement adjusted book value (ABV) per share is reported and analyzed. ABV, is not promulgated in conformity with U.S. generally accepted accounting principles (GAAP) and should not be considered a substitute for actual book value. It is used by management, equity analysts and investors as a measurement of the Company's estimated intrinsic value with no benefit given for ongoing business activity. Management derives adjusted book value by beginning with stockholders' equity (book value) and adding or subtracting the after-tax value of: the net unearned premium reserve; deferred acquisition costs; the present value of estimated net future installment premiums (discounted at 5.6% and 5.4% at September 30, 2007 and December 31, 2006, respectively); and the unrealized gain or loss on investment agreement liabilities. The definition of ABV used by the Company may differ from definitions of ABV used by other financial guarantors and should be considered in such context. The adjustments described above will not be realized until future periods and may differ materially from the amounts used in determining ABV.

Note 2: Credit enhancement production (CEP) and net credit enhancement production (NCEP), which are not promulgated under GAAP, should not be considered a substitute for gross or net premiums written. CEP is used by management, equity analysts and investors as an indication of new business production. CEP, which Ambac reports as analytical data, is defined as gross (direct and assumed) up-front premiums written plus the present value of estimated installment premiums written on insurance policies, structured credit derivatives and other credit enhancement products issued in the period (discounted at 5.8% and 6.0% for the quarters ended September 30, 2007 and 2006, respectively). NCEP is defined as CEP less cessions to all reinsurers. The definition of CEP and NCEP used by Ambac may differ from definitions of CEP and NCEP used by other financial guarantors.

Note 3: Internal Ambac credit ratings contained in this Supplement are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance. In cases where Ambac has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at anytime and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has insured the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees.

Note 4: Information contained in this report is unaudited.

Annual Financial and Statistical Data
(Dollars in millions except share data)

	2006	2005	2004	2003	2002 (1)	2001	2000	1999	1998	1997
Summary Financial Data:										
Financial Guarantee:										
Credit enhancement production (non-GAAP)	$1,295	$1,249	$1,288	$1,489	$1,299	$974	$711	$652	$486	$340
Gross premiums written	997	1,096	1,048	1,144	904	683	483	445	361	286
Net premiums/enhancement fees earned	871	866	765	667	500	400	323	268	213	154
Net investment income	424	378	355	321	297	268	241	209	186	160
Loss and loss expenses (2)	20	150	70	53	27	20	15	11	6	3
Underwriting and operating expenses	134	118	107	92	77	68	55	49	47	41
Financial Services (3):										
Revenue	408	286	225	230	272	274	333	340	302	213
Expenses	372	253	184	208	241	244	295	312	284	202
Net income per diluted share	$8.15	$6.87	$6.53	$5.66	$3.97	$3.97	$3.41	$2.88	$2.37	$2.09
Net income per diluted share growth rate	18.6%	5.2%	15.4%	42.6%	0.0%	16.4%	18.4%	21.5%	13.4%	-19.6%
Return on equity	15.1%	14.4%	15.6%	15.7%	13.1%	15.5%	15.9%	15.0%	12.8%	12.8%
Total investments	17,434	15,592	14,422	13,965	12,539	10,288	8,324	8,963	8,748	6,915
Total assets	20,268	18,546	17,673	16,747	15,356	12,340	10,120	11,345	11,212	8,292
Unearned premium reserve	3,038	2,941	2,779	2,545	2,129	1,780	1,546	1,431	1,294	1,179
Loss and loss expense reserve	220	304	254	189	172	151	132	122	116	103
Obligations under investment, repurchase and payment agreements	8,357	7,253	7,081	7,076	7,283	5,512	4,893	6,140	5,957	4,321
Long-term debt	992	1,192	792	792	617	619	424	424	424	224
Stockholders' equity	6,184	5,383	5,024	4,255	3,625	2,984	2,596	2,019	2,096	1,873
Statutory Data:										
Qualified statutory capital	$6,383	$5,693	$5,264	$4,526	$3,736	$3,262	$2,736	$2,421	$1,936	$1,675
Unearned premium reserve	3,373	3,208	2,972	2,649	2,223	1,860	1,615	1,486	1,334	1,218
Loss and loss expense reserve	42	103	117	55	49	28	31	26	34	50
Policyholders' reserves	9,798	9,004	8,353	7,230	6,008	5,150	4,382	3,933	3,304	2,943
Third party capital support	800	800	800	800	800	800	800	750	555	500
P.V. of future installment premiums	2,405	2,166	2,060	1,556	1,342	987	764	527	309	211
Total claims-paying resources	$13,003	$11,970	$11,213	$9,586	$8,150	$6,937	$5,946	$5,210	$4,168	$3,654
Net par outstanding	$519,043	$479,085	$459,432	$425,854	$379,211	$318,043	$276,252	$240,307	$198,274	$165,601
Net debt service outstanding	$802,694	$726,612	$685,234	$625,564	$557,422	$476,190	$418,386	$374,484	$317,668	$275,931
Financial Ratios:										
Loss and loss expense ratio	2.3%	17.3%	9.1%	8.2%	6.5%	5.3%	4.8%	4.2%	2.8%	1.9%
Underwriting expense ratio	15.3%	13.6%	13.9%	13.8%	15.3%	17.0%	17.1%	18.2%	21.9%	26.4%
Combined ratio	17.6%	30.9%	23.0%	22.0%	21.8%	22.3%	21.9%	22.4%	24.7%	28.3%
Stock Performance:										
Cumulative total return since IPO on 7/91	1338.1%	1134.2%	1205.6%	996.3%	782.5%	802.4%	804.0%	435.0%	512.4%	364.7%
Annual total return	16.5%	-5.5%	19.1%	24.2%	-2.2%	-0.2%	69.0%	-12.6%	31.8%	39.9%
Dividends declared per common share	$0.660	$0.550	$0.470	$0.420	$0.380	$0.340	$0.307	$0.280	$0.253	$0.230
Adjusted book value per share (non-GAAP)	$87.76	$78.47	$71.73	$61.27	$49.84	$42.03	$36.35	$29.79	$28.00	$24.40

(1) 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.
(2) Includes losses of ($41.4) million and $91.5 million in 2006 and 2005, respectively, as a result of Hurricane Katrina.
(3) 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.

Key Financial Highlights

	Third Quarter 2007	Third Quarter 2006	Nine Months 2007	Nine Months 2006
KEY FINANCIAL LINES				
Net (loss) income ($ millions)	($360.6)	$213.5	$25.8	$673.2
Stockholders' equity ($ millions)	$5,649.9	$6,015.9	$5,649.9	$6,015.9
Return on equity	-24.7%	14.7%	0.6%	15.8%
Total capitalization (1) ($ millions)	$7,039.2	$7,207.7	$7,039.2	$7,207.7
Debt/total capital (1)	19.7%	16.5%	19.7%	16.5%
Capital ratio(2)	143:1	127:1	143:1	127:1
Financial resources ratio (2)	63:1	62:1	63:1	62:1
Loss ratio (3)	8.9%	-1.2%	7.0%	1.6%
Expense ratio (4)	16.1%	14.1%	15.2%	15.4%
Combined ratio(3) (4)	25.0%	12.9%	22.2%	17.0%
Effective tax rates:				
Financial Guarantee:				
Net investment income	12.8%	12.8%	12.9%	13.0%
Realized securities gains	35.0%	35.0%	35.0%	35.0%
Underwriting and other income	34.8%	35.4%	33.6%	35.4%
Total Financial Guarantee	40.2%	27.4%	-53.6%	27.5%
Financial Services	40.6%	36.5%	29.6%	35.8%
Other	-231.3%	22.5%	-57.4%	43.9%
Consolidated total effective tax rate	27.1%	28.1%	2.4%	27.3%
STOCKHOLDER DATA				
Market value per share	$62.91	$82.75	$62.91	$82.75
Net income per share	($3.53)	$2.00	$0.25	$6.32
Net income per diluted share	($3.51)	$1.98	$0.25	$6.26
OTHER EARNINGS MEASURES (Per diluted share)				
Net (loss) income	($3.51)	$1.98	$0.25	$6.26
Net security losses and (gains)(5)	$5.39	($0.06)	$5.63	($0.44)
Operating earnings (non-GAAP)	$1.88	$1.92	$5.88	$5.82
Refundings, calls and other accelerations, net	($0.10)	($0.13)	($0.57)	($0.46)
Core earnings (non-GAAP)	$1.78	$1.79	$5.31	$5.36
ADJUSTED BOOK VALUE ANALYSIS (Per share)				
Book value	$55.64	$56.55	$55.64	$56.55
After-tax value of:				
Net unearned premium reserve less deferred acquisition costs	16.12	15.29	16.12	15.29
Present value of future installment premiums	17.06	14.35	17.06	14.35
Unrealized loss on investment agreement liabilities	(0.75)	(0.69)	(0.75)	(0.69)
Adjusted book value	$88.07	$85.50	$88.07	$85.50

(1) Excludes the portion of long-term debt associated with variable interest entities of $272.8 million at September 30, 2007.

(2) Capital and financial resources ratios (Statutory) and loss, expense and combined ratios (GAAP) relate solely to Financial Guarantee operations

(3) Loss ratio is computed as insurance loss and loss expense plus credit derivative loss payments divided by net premiums earned and other credit enhancement fees.

(4) Expense ratio is computed as financial guarantee underwriting and operating expenses divided by net premiums earned and other credit enhancement fees.

(5) Includes net gains and losses from sales of investment securities, net mark-to-market gains and losses on credit derivatives, total return swaps and non-trading derivatives in both the Financial Services and the Medium-Term Notes Conduit businesses.

Earnings Analysis
(Dollars in Millions)

	Third Quarter 2007	Third Quarter 2006
Pre-tax (loss) income……………………………………………	($494.9)	$297.1
Pre-tax Financial Guarantee:		
Net realized investment gains …………………………...	(4.0)	(1.3)
Credit default swaps ……………………………………	743.4	(2.6)
Non-trading derivatives [(1)]………………………………….	3.8	(1.1)
Total Financial Guarantee………………………….	743.2	(5.0)
Pre-tax Financial Services:		
Net realized investment gains ……………………….. .	(0.2)	(6.6)
Non-trading derivatives………………………………..	1.3	1.2
Total return swaps…………………………………..	12.9	0.5
Total Financial Services…………………………….	14.0	(4.9)
Pre-tax Operating earnings…………………………………….	262.3	287.2
Tax on Operating earnings…………………………………….	69.4	80.2
After-tax Operating earnings…………………………………….	$192.9	$207.0

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

For Immediate Release
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AMBAC FINANCIAL GROUP, INC. ANNOUNCES THIRD QUARTER NET LOSS OF ($360.6) MILLION

Includes Previously Announced $743 Million Unrealized Mark-to-market Loss on Credit Derivative Portfolio

Third Quarter Net Loss Per Diluted Share of ($3.51)

Third Quarter Credit Enhancement Production[(1)] $431.1 million, up 99%

NEW YORK, October 24, 2007--**Ambac Financial Group, Inc.** (NYSE: ABK) (Ambac) today announced a third quarter 2007 net loss of ($360.6) million, or ($3.51) per diluted share. This compares to third quarter 2006 net income of $213.5 million, or net income per diluted share of $1.98. The decrease is due to the previously announced unrealized loss on credit derivative exposures amounting to ($743.4) million, or ($5.29) per diluted share in the third quarter 2007. The third quarter 2007 unrealized mark-to-market loss on credit derivative exposures was discussed in a press release dated October 10, 2007, and is primarily the result of unfavorable market pricing of collateralized debt obligations. As further described below, net mark-to-market losses on credit derivatives are excluded from the earnings measures used by research analysts.

Net Income/(Loss) Per Diluted Share

Net income/(loss) and net income/(loss) per diluted share are computed in conformity with U.S. generally accepted accounting principles (GAAP). However, many research analysts and investors do not limit their analysis of our earnings to a strictly GAAP basis. In order to assist investors in their understanding of quarterly results, Ambac provides other information.

Earnings measures reported by research analysts exclude the net income impact of net gains and losses from sales of investment securities and unrealized mark-to-market gains and losses on credit, total return and non-trading derivative contracts (collectively "net security gains and losses") and certain other items. Certain research analysts and investors further exclude the net income impact of accelerated premiums earned on guaranteed obligations that have been refunded and other accelerated earnings ("accelerated earnings"). During the third quarter 2007, net security gains and losses had the effect of decreasing net income by ($553.5) million, or ($5.39) on a per diluted share basis. Accelerated earnings had the effect of increasing net income by $9.6 million, or $0.10 per diluted share during the quarter. Table I provides third quarter and nine-month comparisons of earnings for 2007 and 2006.

Table I

	Earnings Per Diluted Share					
	Third Quarter			Nine Months		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Net (loss) / income per diluted share	($3.51)	$1.98	n.m.	$0.25	$6.26	-96%
Effect of net security losses / (gains)	$5.39	($0.06)		$5.63	($0.44)	
Operating earnings [(a)] [(b)]	**$1.88**	**$1.92**	**-2%**	**$5.88**	**$5.82**	**+1%**
Effect of accelerated earnings	($0.10)	($0.13)		($0.57)	($0.46)	
Core earnings [(b)]	$1.78	$1.79	-1%	$5.31	$5.36	-1%

(a) Consensus earnings that are reported by earnings estimate services, such as First Call, are on this basis.
(b) Operating and core earnings are non-GAAP measures. See footnote 2, below.
n.m. Not meaningful

Commenting on the overall results, Ambac Chairman and Chief Executive Officer, Robert J. Genader, noted, "We have observed improved overall market conditions in most asset classes of our core financial guaranty product, despite the recent turmoil in the structured finance markets. Business production during the quarter was quite robust, reflective of both a strong pipeline and better overall pricing in the current market." Mr. Genader added, "With regard to the sizable mark-to-market adjustment recorded in the quarter, it is important to note that Ambac's credit derivative contracts, like our insurance policies, are not exposed to the type of liquidity risk that is typically embedded in standard derivative contracts."

Revenues

Highlights

- *Credit enhancement production*[(1)] in the third quarter of 2007 was $431.1 million, up 99% from Ambac's production of $216.2 million reported in the third quarter of 2006.

  Credit enhancement production for the nine months of 2007 of $1,109.1 million was 13% higher than credit enhancement production of $980.7 million in the same period of 2006.

  Table II provides the third quarter and nine-month comparisons of credit enhancement production by market segment for 2007 and 2006.

Table II

($-millions)	Credit Enhancement Production [(1)]					
	Third Quarter			Nine Months		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Public Finance	$ 151.3	$ 89.8	+68%	$ 380.5	$ 321.0	+19%
Structured Finance	108.2	78.6	+38%	402.6	382.2	+5%
International	171.6	47.8	+259%	326.0	277.5	+17%
Total	$ 431.1	$ 216.2	+99%	$ 1,109.1	$ 980.7	+13%

In public finance, Ambac's premium production increased even though overall market issuance was approximately flat, quarter on quarter. The increased production was primarily the result of a large sales tax-backed transaction in Puerto Rico and strong writings of structured real estate during the quarter. Ambac's market share of the insured market was approximately 28%, up from 23% in the comparable prior year quarter.

U.S. structured finance credit enhancement production increased from the prior year, driven by strong writings of student loan securitizations and utilities deals during the quarter. The structured finance markets experienced lower volumes during the quarter, impacted by the severe disruption caused by concern over subprime mortgages. However, interest in our financial guaranty product has increased, credit spreads have widened substantially across the structured finance arena, and pricing has generally improved. During the third quarter 2007, Ambac did not write any collateralized debt obligations of asset-backed securities (CDOs of ABS) or subprime residential mortgage-backed securities.

International credit enhancement production increased significantly driven by the large Eurotunnel transaction and several other significant transactions across a variety of geographic locations. During the quarter Ambac closed deals in seven different countries including three each in the U.K. and Australia.

- *Net premiums written* in the third quarter of 2007 of $251.5 million were 35% higher than net premiums written of $186.0 million in the third quarter of 2006. The increase is primarily a result of higher premiums collected up front in the public finance sector. Ceded premiums as a percentage of gross premiums written were 12.2% and 12.4% for the third quarter of 2007 and 2006, respectively.

  Net premiums written for the nine months of 2007 of $704.6 million were 5% higher than net premiums written of $669.6 million in the same period of 2006. Excluding the impact of $37.0 million of return premiums from reinsurance cancellations in the first quarter of 2006, net premiums written are up 11%.

- *Net premiums earned and other credit enhancement fees* for the third quarter of 2007 were $214.8 million, flat from the $214.6 million earned in the third quarter of 2006. Higher normal earned premiums and other credit enhancement fees in the third quarter 2007 relative to the comparable prior quarter were offset by lower accelerated premiums from refundings and policy termination fees in the current quarter.

  Net premiums earned include accelerated premiums, which result from refundings, calls and other accelerations recognized during the quarter. Accelerated premiums were $16.4 million in the third quarter of 2007, down 33% from $24.5 million in accelerated premiums in the third quarter of 2006. During the third quarter 2007 and 2006, approximately 88% and 37%, respectively, of the accelerated premiums related to U.S. public finance transactions and the remainder related to U.S. structured finance and international transactions.

  Net premiums earned and other credit enhancement fees for the nine months of 2007 were $684.7 million, which represented a 6% increase from the $648.0 million earned in the first nine months of 2006. Accelerated premiums were $99.2 million for the nine month period of 2007, up 14% from $86.8 million in accelerated premiums for the comparable period of 2006. Accelerated premiums in 2006 include $7.7 million related to the impact of reinsurance cancellations occurring in the first quarter of 2006.

  A breakdown of net premiums earned and other credit enhancement fees by market sector for 2007 and 2006 are included in Table III. Normal net premiums earned exclude accelerated premiums that result from refundings, calls and other accelerations.

Table III

Net Premiums Earned and Other Credit Enhancement Fees

($-millions)	Third Quarter			Nine Months		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Public Finance	$ 59.0	$ 58.8	0%	$ 176.5	$ 172.8	+2%
Structured Finance	86.8	80.3	+8%	254.5	235.1	+8%
International	52.6	51.0	+3%	154.5	153.3	+1%
Total Normal Premiums/Fees	198.4	190.1	+4%	585.5	561.2	+4%
Accelerated Premiums	16.4	24.5	-33%	99.2	86.8	+14%
Total	$ 214.8	$ 214.6	+0%	$ 684.7	$ 648.0	+6%

Public finance earned premiums, before accelerations, were flat quarter on quarter. Earned premium growth in this sector has been negatively impacted by competitive pricing, the mix of business underwritten in recent periods, and the recent high level of refunding activity in Ambac's public finance book.

Structured finance earned premiums and other credit enhancement fees grew 8%. The earned premium growth rate in structured finance has been driven by strong premium production in asset classes such as pooled debt obligations and commercial asset-backed securities over the past several quarters.

International earned premiums and other credit enhancement fees increased 3%. The increase is driven by improving deal flow.

- *Net investment income* for the third quarter of 2007 was $115.8 million, representing an increase of 8% from $107.2 million in the comparable period of 2006. This increase was due primarily to growth in the investment portfolio driven by the ongoing collection of financial guarantee premiums and fees.

  Net investment income for the nine months of 2007 was $341.1 million, representing an increase of 9% from $313.3 million in the comparable period of 2006, primarily as a result of the reason provided above.

- *Financial services revenues.* The financial services segment is comprised of 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 $9.8 million in the third quarter of 2007, down 26% from $13.3 million in the third quarter of 2006. The decrease was primarily due to lower revenue from the interest rate swap, total return swap and investment agreement businesses in the third quarter 2007.

  Financial services revenues were $29.7 million for the first nine months of 2007, down 17% from the $35.8 million of revenues in the first nine months of 2006 primarily due to the reason provided above.

Expenses

Highlights

- *Financial guarantee expenses* of $53.7 million for the third quarter of 2007 increased 95% from $27.6 million of expenses for the third quarter of 2006. Financial guarantee loss and loss expenses were $19.1 million in the third quarter of 2007, up from ($2.5) million in the third quarter of 2006. See "Loss

Reserve Activity," below, for additional information on losses. Gross underwriting expenses of $50.6 million in the third quarter 2007 increased 11% from $45.7 million in the comparable prior quarter primarily due to increased premium taxes driven by higher premium writings.

Financial guarantee expenses of $152.0 million for the first nine months of 2007 increased 38% from $110.3 million of expenses for the same period of 2006. The increase results primarily from increased loss and loss expenses which are up $37.2 million, period over period.

Loss Reserve Activity

- Case basis loss reserves (loss reserves for exposures that have defaulted) increased $59.8 million during the third quarter of 2007 from $47.3 million at June 30, 2007 to $107.1 million at September 30, 2007. The increased case reserves relate primarily to two RMBS transactions that are underperforming original expectations. Total net claim receipts during the quarter amounted to $3.7 million.

- Active credit reserves ("ACR") are established for probable and estimable losses due to credit deterioration on certain adversely classified insured transactions. The ACR decreased by $37.0 million during the quarter, from $203.7 million at June 30, 2007 to $166.7 million at September 30, 2007. The reserve decline was driven by net favorable credit activity, primarily within the public finance portfolio, partially offset by increased reserves within the RMBS sector of the structured finance portfolio.

Other Items

- *Total net securities gains/(losses)* for the third quarter of 2007 were ($757.2) million, consisting of net realized gains on investment securities of $4.2 million, net mark-to-market losses on credit and total return derivatives of ($756.3) million and net mark-to-market losses on non-trading derivative contracts of ($5.1) million. During the quarter a net mark-to-market loss amounting to ($743.4) million was recorded related to contracts executed in credit default format, primarily in our collateralized debt obligation exposures. The negative mark-to-market is driven by dramatically lower prices in certain structured finance asset classes. The lower prices were driven by uncertainty regarding the ultimate outcome of subprime losses. Reduced demand for certain structured asset classes, a lack of liquidity in the markets, forced selling by structured and/or leveraged investment vehicles, all combined to exacerbate pricing declines across the structured debt capital markets.

  For the third quarter of 2006, net securities gains/(losses) were $9.9 million, consisting of net realized gains on investment securities of $7.9 million, net mark-to-market gains on credit and total return derivatives of $2.1 million and net mark-to-market losses on non-trading derivative contracts of ($0.1) million.

  Total net securities gains/(losses) for the first nine months of 2007 were ($806.0) million, consisting of net realized gains on investment securities of $12.0 million, net mark-to-market losses on credit and total return derivatives of ($816.0) million and net mark-to-market losses on non-trading derivative contracts of ($2.0) million. For the first nine months of 2006 net securities gains were $74.4 million, consisting of net realized gains on investment securities of $57.5 million, net mark-to-market gains on credit and total return derivatives of $16.5 million and net mark-to-market gains on non-trading derivative contracts of $0.4 million. Approximately $51 million of the 2006 net realized gains on investment securities related to cash recoveries received during the year related to a security in the investment agreement portfolio that had been written down in previous years.

Balance Sheet

Highlights

- Total assets as of September 30, 2007 were $21.97 billion, up 8% from total assets of $20.27 billion at December 31, 2006. The increase was primarily driven by cash generated from operations during the period, partially offset by a decrease in unrealized gains in the investment portfolio due to a rise in long-term interest rates.

- As of September 30, 2007, stockholders' equity was $5.65 billion, a 9% decrease from year-end 2006 stockholders' equity of $6.18 billion. The decrease was primarily the result of the $400 million share buyback earlier in the year and lower Accumulated Other Comprehensive Income driven by higher long-term interest rates.

Cash Dividend Declared

At its October 2007 Board meeting, the Board of Directors approved the regular quarterly cash dividend of $0.21 per share of common stock. The dividend is payable on December 5, 2007 to stockholders of record on November 12, 2007.

Forward-Looking Statements

This release, in particular the remarks of Mr. Genader, contains statements about our future results that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We caution you that these statements are not guarantees of future performance. There are a variety of factors, many of which are beyond Ambac's control, which affect the operations, performance, business strategy and results and could cause its actual results to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to: (1) changes in the economic, credit, or interest rate environment in the United States and abroad; (2) the level of activity within the national and worldwide debt markets; (3) competitive conditions and pricing levels; (4) legislative and regulatory developments; (5) changes in tax laws; (6) the policies and actions of the United States and other governments; (7) changes in capital requirements or other criteria of rating agencies; (8) changes in accounting principles or practices that may impact the Company's reported financial results; (9) the amount of reserves established for losses and loss expenses; (10) default of one or more of the Company's reinsurers; (11) market spreads and pricing on insured pooled debt obligations and other derivative products insured or issued by the Company; (12) prepayment speeds on insured asset-backed securities and other factors that may influence the amount of installment premiums paid to the Company; and (13) other additional factors described in the Risk Factors section of Ambac's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and also disclosed from time to time 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. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements which speak only as of the date they are made. Ambac does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements are made. The reader should, however, consult any further disclosures Ambac may make in its future filings of its reports on Form 10-K, Form 10-Q and Form 8-K.

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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 leading guarantor of public finance and structured finance obligations, has earned triple-A ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch, Inc. Ambac Financial Group, Inc. common stock is listed on the New York Stock Exchange (ticker symbol ABK).

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Footnotes

(1) Credit enhancement production, a non-GAAP measure, is used by management, equity analysts and investors as an indication of new business production in the period. Credit enhancement production, which Ambac reports as analytical data, is defined as gross (direct and assumed) up-front premiums plus the present value of estimated installment premiums on insurance policies and structured credit derivatives issued in the period. The discount rate used to measure the present value of estimated installment premiums was 5.8% and 6.0% during the third quarter of 2007 and 2006, respectively. The definition of credit enhancement production used by Ambac may differ from definitions of credit enhancement production (or similar terms) used by other public holding companies of financial guarantors. The following table reconciles credit enhancement production to gross premiums written calculated in accordance with GAAP:

$-millions	Third Quarter		Nine Months	
	2007	2006	2007	2006
Credit enhancement production	$ 431	$ 216	$ 1,109	$ 981
Present value of estimated installment premiums written on insurance policies and structured credit derivatives issued in the period	(282)	(149)	(722)	(643)
Gross up-front premiums written	$ 149	$ 67	$ 387	$ 338
Gross installment premiums written on insurance policies	138	145	411	407
Gross premiums written	$ 287	$ 212	$ 798	$ 745

(2) Operating earnings and core earnings are not substitutes for net income computed in accordance with GAAP, but are useful measures of performance used by management, equity analysts and investors because they allow more consistent period-to-period comparison of our earnings without the effects of net securities gains/losses and accelerated earnings. Net securities gains/losses excluded from operating earnings consists of investment portfolio realized gains and losses, mark-to-market gains and losses on credit, total return and non-trading derivative contracts and certain other items. Core earnings further exclude the impact of refundings, calls and other accelerations. The definitions of operating earnings and core earnings used by Ambac may differ from definitions of operating earnings and core earnings used by other public holding companies of financial guarantors.

Consolidated Statements of Operations

($ in Thousands, Except Share Data)	Third Quarter 2007	Third Quarter 2006	Nine Months 2007	Nine Months 2006
Revenues:				
Financial Guarantee:				
Gross premiums written	$286,585	$212,335	$797,636	$744,893
Ceded premiums written	(35,095)	(26,351)	(93,016)	(75,341)
Net premiums written	$251,490	$185,984	$704,620	$669,552
Normal net premiums earned	$178,389	$174,794	$532,652	$517,530
Accelerated net premiums earned	16,406	24,518	99,168	86,843
Total net premiums earned	194,795	199,312	631,820	604,373
Other credit enhancement fees	20,035	15,278	52,920	43,621
Net premiums earned and other credit enhancement fees	214,830	214,590	684,740	647,994
Net investment income	115,825	107,156	341,079	313,345
Net realized investment gains	3,965	1,329	5,286	2,842
Net mark-to-market (losses) gains on credit derivative contracts	(743,379)	2,572	(805,370)	9,906
Other (loss) income	(1,291)	2,952	7,214	35,367
Financial Services:				
Investment income	120,603	107,501	334,476	287,484
Derivative products	1,216	2,942	7,286	10,949
Net realized investment gains	198	6,636	6,669	53,867
Net mark-to-market (losses) gains on total return swap contracts	(12,856)	(501)	(10,623)	6,540
Net mark-to-market losses on non-trading derivatives contracts	(1,320)	(1,175)	(1,479)	(1,237)
Corporate:				
Net investment income	1,225	3,545	4,147	9,941
Net realized gains	-	-	-	791
Total revenues	(300,984)	447,547	573,425	1,377,789
Expenses:				
Financial Guarantee:				
Losses and loss expenses	19,082	(2,543)	47,600	10,406
Underwriting and operating expenses	34,576	30,186	104,390	99,909
Financial Services:				
Interest from investment and payment agreements	112,000	97,126	312,082	262,624
Other expenses	3,164	3,119	9,569	9,994
Interest	22,232	19,474	63,612	58,424
Corporate	2,857	3,036	9,777	10,679
Total expenses	193,911	150,398	547,030	452,036
(Loss) income before income taxes	(494,895)	297,149	26,395	925,753
Provision for income taxes	(134,282)	83,626	628	252,520
Net (loss) income	($360,613)	$213,523	$25,767	$673,233
Net (loss) income per share	($3.53)	$2.00	$0.25	$6.32
Net (loss) income per diluted share	($3.51)	$1.98	$0.25	$6.26
Weighted average number of shares outstanding	102,297,811	106,725,567	103,171,675	106,549,856
Weighted average number of diluted shares outstanding	102,810,560	107,737,122	103,937,780	107,473,723

Consolidated Balance Sheets

($ in Thousands, Except Share Data)	September 30, 2007	December 31, 2006
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of $17,899,842 in 2007 and $16,484,257 in 2006)	$17,984,060	$16,800,338
Fixed income securities pledged as collateral, at fair value (amortized cost of $346,770 in 2007 and $311,546 in 2006)	360,799	307,101
Short-term investments, at cost (approximates fair value)	686,133	311,759
Other (cost of $13,482 in 2007 and $13,427 in 2006)	14,787	14,391
Total investments	19,045,779	17,433,589
Cash	26,814	31,868
Securities purchased under agreements to resell	-	273,000
Receivable for securities sold	97,816	12,857
Investment income due and accrued	175,215	193,199
Reinsurance recoverable on paid and unpaid losses	4,968	3,921
Prepaid reinsurance	332,373	315,498
Deferred taxes	21,319	-
Deferred acquisition costs	277,619	252,115
Loans	870,637	625,422
Derivative assets	1,000,569	1,019,339
Other assets	114,702	107,005
Total assets	$21,967,811	$20,267,813
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unearned premiums	$3,128,278	$3,037,544
Losses and loss expense reserve	278,690	220,074
Ceded reinsurance balances payable	24,406	20,084
Obligations under investment and payment agreements	9,135,270	8,202,590
Obligations under investment repurchase agreements	135,524	154,287
Deferred income taxes	-	263,483
Current income taxes	32,312	49,920
Long-term debt	1,662,102	991,804
Accrued interest payable	116,624	105,129
Derivative liabilities	1,451,392	667,066
Other liabilities	322,449	275,670
Payable for securities purchased	30,852	95,973
Total liabilities	16,317,899	14,083,624
Stockholders' equity:		
Preferred stock	-	-
Common stock	1,092	1,092
Additional paid-in capital	836,742	790,168
Accumulated other comprehensive income	71,300	197,576
Retained earnings	5,387,639	5,454,575
Common stock held in treasury at cost	(646,861)	(259,222)
Total stockholders' equity	5,649,912	6,184,189
Total liabilities and stockholders' equity	$21,967,811	$20,267,813
Number of shares outstanding (net of treasury shares)	101,549,070	105,730,553
Book value per share	$55.64	$58.49
Adjusted book value per share	$88.07	$87.76

Financial Guarantees(1)(2)(3)

($ Thousands)	Third Quarter 2007	Third Quarter 2006	Year to Date 2007	Year to Date 2006
PUBLIC FINANCE:				
Gross Par Guaranteed	$14,191,917	$9,295,599	$42,749,908	$31,733,753
Up-front Premium	$122,983	$61,640	$334,043	$262,613
Installment Premium	5,132	9,434	20,156	23,679
Gross Premium	$128,115	$71,074	$354,199	$286,292
Credit Enhancement Production	$151,339	$89,809	$380,441	$321,004
Net Credit Enhancement Production	$141,808	$79,681	$348,056	$296,886
STRUCTURED FINANCE:				
Gross Par Guaranteed	$11,005,753	$12,821,869	$45,510,746	$51,562,618
Up-front Premium	$5,818	$5,883	$22,097	$22,701
Installment Premium	75,853	72,908	230,382	225,075
Gross Premium	$81,671	$78,791	$252,479	$247,776
Credit Enhancement Production	$108,179	$78,605	$402,602	$382,176
Net Credit Enhancement Production	$76,011	$89,402	$343,716	$341,475
INTERNATIONAL FINANCE:				
Gross Par Guaranteed	$8,194,362	$4,612,574	$15,654,570	$13,230,329
Up-front Premium	$20,213	$0	$30,963	$52,336
Installment Premium	56,586	62,470	159,995	158,489
Gross Premium	$76,799	$62,470	$190,958	$210,825
Credit Enhancement Production	$171,628	$47,822	$326,012	$277,496
Net Credit Enhancement Production	$114,096	$44,780	$241,493	$228,636
GRAND TOTAL:				
Gross Par Guaranteed	$33,392,032	$26,730,042	$103,915,224	$96,526,700
Up-front Premium	$149,014	$67,523	$387,103	$337,650
Installment Premium	137,571	144,812	410,533	407,243
Gross Premium	$286,585	$212,335	$797,636	$744,893
Credit Enhancement Production	$431,146	$216,236	$1,109,055	$980,676
Net Credit Enhancement Production	$331,915	$213,863	$933,265	$866,997

(1) Credit enhancement production (CEP) and net credit enhancement production (NCEP) includes reinsurance assumed of $0.1 million and $15.4 million in the third quarter and nine months ended September 2007, respectively, and $0.0 million and $16.2 million in the third quarter and nine months ended September 2006, respectively. NCEP is defined as CEP less reinsurance cessions. NCEP for the nine months ended September 2006 includes $43.6 million of recaptured reinsurance cessions relating to the cancellation of certain reinsurance contracts.

(2) International Finance includes components of domestic exposure.

(3) CEP and NCEP were discounted at rates of 5.4%, 5.4% and 5.8% in the first, second and third quarters of 2007, respectively, and at 5.1%, 5.6% and 6.0% in the first, second and third quarters of 2006, respectively.

Normal Premium Earned and Other Credit Enhancement Fees

2007 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
PUBLIC FINANCE:					
Up-front premiums earned	$51,170	$52,005	$51,748		$154,923
Installment premiums earned	7,182	7,070	7,281		21,533
Other credit enhancement fees	16	17	17		50
Total Public Finance premiums earned	58,368	59,092	59,046	-	176,506
STRUCTURED FINANCE:					
Up-front premiums earned	4,624	4,492	4,319		13,435
Installment premiums earned	67,245	69,487	68,631		205,363
Other credit enhancement fees	10,133	11,775	13,832		35,740
Total Structured Finance premiums earned	82,002	85,754	86,782	-	254,538
INTERNATIONAL FINANCE:					
Up-front premiums earned	5,801	5,776	5,366		16,943
Installment premiums earned	40,258	39,153	41,044		120,455
Other credit enhancement fees	5,404	5,540	6,186		17,130
Total International Finance premiums earned	51,463	50,469	52,596	-	154,528
Total normal premiums earned and other credit enhancement fees	$191,833	$195,315	$198,424	-	$585,572

2006 ($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
PUBLIC FINANCE:					
Up-front premiums earned	$49,304	$51,543	$51,861	$51,463	$204,171
Installment premiums earned	6,541	6,545	6,931	6,841	26,858
Other credit enhancement fees	6	17	17	16	56
Total Public Finance premiums earned	55,851	58,105	58,809	58,320	231,085
STRUCTURED FINANCE:					
Up-front premiums earned	4,673	4,647	4,570	4,569	18,459
Installment premiums earned	64,602	65,993	66,379	67,920	264,894
Other credit enhancement fees	7,637	7,254	9,373	9,709	33,973
Total Structured Finance premiums earned	76,912	77,894	80,322	82,198	317,326
INTERNATIONAL FINANCE:					
Up-front premiums earned	5,386	6,667	5,675	6,391	24,119
Installment premiums earned	38,751	38,084	39,378	38,720	154,933
Other credit enhancement fees	6,545	6,884	5,888	5,635	24,952
Total International Finance premiums earned	50,682	51,635	50,941	50,746	204,004
Total normal premiums earned and other credit enhancement fees	$183,445	$187,634	$190,072	$191,264	$752,415

Effect of Refundings, Calls and Other Accelerations

2007 ($ Thousands, Except Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Earned premium recognized from refundings, calls and other accelerations	$39,726	$43,036	$16,406	-	$99,168
Net income effect	$24,658	$25,588	$9,559	-	$59,805
Net income per diluted share effect	$0.24	$0.25	$0.10	-	$0.57

2006 ($ Thousands, Except Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Earned premium recognized from refundings, calls and other accelerations[(1)]	$24,975	$37,350	$24,518	$32,125	$118,968
Net income effect	$11,964	$22,784	$14,466	$18,107	$67,321
Net income per diluted share effect	$0.11	$0.21	$0.13	$0.17	$0.63

(1) Includes accelerations relating to credit derivatives of $779 for the third quarter of 2006.

Public Finance New Issuance [1][2]

($ Millions of Par Value)	Total New Issue Market: Issued	Total New Issue Market: Insured	Total New Issue Market: Insured Percent	Insured by Ambac: Insured	Insured by Ambac: Market Share Percent
2007 BY QUARTER					
Third.	$92,957	$46,531	50.1%	$13,019	28.0%
Second.	123,917	55,703	45.0%	11,422	20.5%
First.	106,411	55,117	51.8%	13,340	24.2%
2006 BY QUARTER					
Fourth	$127,084	$55,453	43.6%	$12,626	22.8%
Third	82,371	41,553	50.4%	9,343	22.5%
Second	109,630	50,485	46.1%	11,240	22.3%
First.	69,631	37,314	53.6%	9,902	26.5%
FULL YEAR					
Year-to-date 2007.	$323,285	$157,351	48.7%	$37,781	24.0%
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.
(2) Data for industry and Ambac is provided on a sale date basis and will not agree with Ambac data in subsequent sections which is provided on a closing date basis.

Net Exposure Amortization[1]

As of September 30, 2007

($ Millions)	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2007 (4th Qtr.)	$24,992	$867,007
2008	51,421	815,586
2009	46,778	768,808
2010	45,447	723,361
2011	47,218	676,143
2012	39,529	636,614
2007 (4th Qtr.)	24,992	867,007
2008-2012	230,393	636,614
2013-2017	180,996	455,618
2018-2022	144,834	310,784
2023-2027	102,373	208,411
After 2027	208,411	-
Total	$891,999	

Net Unearned Premium Amortization and Estimated Future Installment Premiums

As of September 30, 2007

($ Millions)	Net Unearned Premium Amortization [2] Upfront	Installments	Estimated Net Future Installments[3][4]	Total Premium Earnings
2007 (4th Qtr.)	$61.0	$27.9	$107.6	$196.5
2008	232.0	21.5	467.2	720.7
2009	214.8	6.0	423.6	644.4
2010	200.0	2.8	372.9	575.7
2011	186.3	2.2	293.3	481.8
2012	173.4	1.1	239.2	413.7
2007 (4th Qtr.)	61.0	27.9	107.6	196.5
2008-2012	1,006.5	33.6	1,796.2	2,836.3
2013-2017	693.2	2.5	767.5	1,463.2
2018-2022	458.6	0.4	472.8	931.8
2023-2027	277.6	-	318.5	596.1
After 2027	234.6	-	332.2	566.8
Total	$2,731.5	$64.4	$3,794.8	$6,590.7

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of September 30, 2007. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.

(2) Unearned premium amounts are net of prepaid reinsurance, which is reported separately as an asset on the Consolidated Balance Sheet.

(3) Actual future installments are net of reinsurance and may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment.

(4) Includes estimated future receipts on credit derivatives of $352.3 million. Earnings from credit derivatives are included as "Other Credit Enhancement Fees" on the accompanying consolidated statement of operations.

Fixed Income Investment Portfolio

As of September 30, 2007

INCOME ANALYSIS BY TYPE OF SECURITY Investment category ($ thousands)	Fair Value	Amortized Cost	Yield to Maturity [(1)]	Weighted Average After-Tax Yield	Investment Income
Financial Guarantee investments:					
Long-term investments					
U.S. government obligations	$138,928	$140,596	4.57%	2.97%	$5,125
U.S. agency obligations	260,264	259,018	4.74%	3.08%	13,287
Municipal obligations [(2) (3)]	8,111,731	7,971,598	4.50%	4.47%	261,664
Foreign obligations	321,099	303,926	4.81%	3.12%	11,322
Corporate obligations	333,637	323,751	6.10%	3.97%	11,521
Mortgage and asset-backed securities	955,094	969,806	5.11%	3.32%	32,428
Total long-term investments	10,120,753	9,968,695	4.63%	4.24%	335,347
Short-term investments [(4)]	296,514	296,514	4.82%	3.53%	8,371
Other [(5)]	13,699	12,876			907
Total Financial Guarantee investments	10,430,966	10,278,085	4.63%	4.21%	344,625
Investment expenses					(3,546)
Financial Guarantee net investment income					$341,079
Financial Services investments [(6)]					
Long-term investments					
U.S. government obligations	14,185	14,090			
U.S. agency obligations	397,313	359,351			
Municipal obligations	481,070	454,916			
Corporate obligations	451,675	446,112			
Mortgage and asset-backed securities	6,879,863	7,003,448			
Total long-term investments	8,224,106	8,277,917			
Short-term investments	314,597	314,597			
Total Financial Services investments	8,538,703	8,592,514			
Corporate investments:					
Short-term investments	75,022	75,022			
Other	1,088	606			
Total Corporate investments	76,110	75,628			
Total Investments	$19,045,779	$18,946,227			

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO [(7)]

Rating	Percent of Investment Portfolio: Fin. Guar.	Fin. Services	Combined
AAA [(2) (8)]	88	91	89
AA	11	4	8
A	1	5	3
BBB	<1	0	<1
Below investment grade	0	<1	<1
Not rated	<1	0	<1
	100	100	100
Duration of Financial Guarantee investment portfolio			5.5

(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 $1,413,393 and comprise approximately 14% of the Financial Guarantee portfolio, to be AAA.

(3) Includes taxable and tax-exempt municipal obligations with a fair value of $146,266 and $7,965,465, respectively.

(4) Includes taxable and tax-exempt short-term investments with a fair value of $91,318 and $205,196, respectively.

(5) Includes investment income on loans and securities purchased under agreements to resell, which are classified separately on the balance sheet.

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

(7) Ratings are based on Standard & Poor's ratings. If unavailable, Moody's rating is used.

(8) Includes U.S. Government and Agency securities which comprise approximately 11% and 8% of the Financial Guarantee and Financial Services portfolios respectively.

Ratio of Net Claims Paid[1]

($ Thousands)	YTD 9/30/07	2006	2005	2004	2003
Net claims paid [2]	($11,285)	$105,568	$86,739	$18,923	$35,280
Net premiums earned and other credit enhancement fees	$684,740	$871,383	$866,415	$764,510	$667,250
Ratio of net claims paid	-1.6%	12.1%	10.0%	2.5%	5.3%

Summary of Net Loss Reserves and Credit Derivatives

($ Thousands)	9/30/07	12/31/06	12/31/05	12/31/04	12/31/03
Case basis credit reserves	$107,099	$42,458	$103,064	$116,754	$54,698
Active credit reserves	166,734	172,644	197,607	120,802	132,181
Total insurance reserves	273,833	215,102	300,671	237,556	186,879
Mark-to-market reserve (asset) on credit derivatives	796,441	(8,929)	165	13,555	31,308
Mark-to-market asset on total return swaps	(543)	(11,195)	(14,718)	(15,968)	(2,360)
Grand total net loss reserves and credit derivatives	$1,069,731	$194,978	$286,118	$235,143	$215,827

Summary of Below Investment Grade Exposures[3]

($ Millions)	Net Par Outstanding
Public Finance:	
Transportation Revenue	$1,013
Health Care	410
General Obligation	184
Tax-Backed	132
University	30
Other	121
Total Public Finance	1,890
Structured Finance:	
Mortgage-Backed & Home Equity	$1,470
Enhanced Equipment Trust Certificates	621
Investor-Owned Utilities	588
Pooled Debt Obligations	68
Total Structured Finance	2,747
International Finance:	
Transportation Revenue	$30
Other	38
Total International Finance	68
Total	$4,705

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

(2) Net claims paid includes payments on credit derivatives of $0, $0, $0, $0 and $1.2 million for year-to-date 2007, 2006, 2005, 2004 and 2003, respectively, and are net of salvage received of $27.0 million, $16.7 million, $9.4 million, $33.6 million and $7.5 million for nine months 2007, and year-to-date 2006, 2005, 2004 and 2003, respectively.

(3) See Note 3 on the Table of Contents page.

Expense Analysis

2007

($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	$ 36,704	$ 38,085	$ 34,573		$ 109,362
Premium taxes	5,554	4,830	8,108		18,492
Other non-compensation	6,919	5,962	7,947		20,828
Gross underwriting and operating expenses	**49,177**	**48,877**	**50,628**	**-**	**148,682**
Operating expenses deferred (policy acquisition costs)	(25,656)	(25,490)	(27,163)		(78,309)
Ceding commissions received	(8,085)	(7,525)	(9,705)		(25,315)
Ceding commissions deferred	8,037	7,525	9,753		25,315
Amortization of previously deferred expenses and commissions	12,903	10,051	11,063		34,017
Total Financial Guarantee underwriting and operating expenses	36,376	33,438	34,576	-	104,390
Financial Services operating expenses	**3,288**	**3,117**	**3,164**		**9,569**
Corporate operating expenses	**3,256**	**3,664**	**2,857**		**9,777**
Total underwriting and operating expenses, net of deferred expenses	$ 42,920	$ 40,219	$ 40,597	$ -	$ 123,736
Total gross underwriting and operating expenses	**$ 55,721**	**$ 55,658**	**$ 56,649**	**$ -**	**$ 168,028**

2006

($ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	$ 40,870	$ 33,368	$ 33,643	$ 34,648	$ 142,529
Premium taxes	4,451	5,420	5,074	4,810	19,755
Other non-compensation	7,547	6,677	7,030	7,709	28,963
Gross underwriting and operating expenses	**52,868**	**45,465**	**45,747**	**47,167**	**191,247**
Operating expenses deferred (policy acquisition costs)	(29,213)	(26,384)	(26,322)	(23,927)	(105,846)
Ceding commissions received	3,426	(14,372)	(6,960)	(8,220)	(26,126)
Ceding commissions deferred	6,920	14,371	6,960	7,993	36,244
Amortization of previously deferred expenses and commissions	3,857	12,785	10,761	10,818	38,221
Total Financial Guarantee underwriting and operating expenses	37,858	31,865	30,186	33,831	133,740
Financial Services operating expenses	**3,572**	**3,303**	**3,119**	**2,395**	**12,389**
Corporate operating expenses	**3,643**	**4,000**	**3,036**	**9,881**	**20,560**
Total underwriting and operating expenses, net of deferred expenses	$ 45,073	$ 39,168	$ 36,341	$ 46,107	$ 166,689
Total gross underwriting and operating expenses	**$ 60,083**	**$ 52,768**	**$ 51,902**	**$ 59,443**	**$ 224,196**

Deferred Expense Ratio Analysis

	9/30/07	12/31/06	12/31/05	12/31/04	12/31/03
Deferred Acquisition Costs	$ 277,619	$ 252,115	$ 226,168	$ 198,142	$ 182,892
Unearned Premium Reserves	3,128,278	3,037,544	2,940,988	2,765,163	2,545,490
Prepaid Reinsurance Premiums	(332,373)	(315,498)	(303,383)	(297,330)	(325,461)
Present Value of Installment Premiums	2,664,052	2,404,830	2,165,863	2,059,849	1,555,611
Adjusted Deferred Premiums	$ 5,459,957	$ 5,126,876	$ 4,803,468	$ 4,527,682	$3,775,640
Deferred Expenses to Adjusted Deferred Premiums Ratio	5.1%	4.9%	4.7%	4.4%	4.8%

Historical Financial Guarantee Exposures Outstanding [1]

	September 30,	December 31,			
($ Millions Net Par Value)	2007	2006	2005	2004	2003
Public Finance:					
Lease and tax backed	$93,106	$89,042	$82,584	$76,007	$66,326
General obligation	68,713	62,834	57,982	49,394	44,350
Utility	40,698	38,313	36,877	36,326	33,603
Health care	29,321	27,849	26,994	23,977	22,120
Transportation	27,378	24,979	23,718	21,188	18,244
Higher education	22,863	22,068	20,203	18,056	15,778
Housing	11,890	10,996	10,152	9,163	9,014
Other	6,058	6,181	5,556	5,588	5,879
Total Public Finance	300,027	282,262	264,066	239,699	215,314
Structured Finance:					
Pooled debt obligations	51,002	40,568	25,746	16,035	14,248
Mortgage-backed & home equity	46,184	46,239	48,869	53,148	50,819
Asset-backed and conduits	35,528	34,815	32,505	28,858	27,126
Student loan	21,049	18,404	16,538	14,646	12,807
Investor-owned utilities	17,972	17,345	16,398	15,449	14,480
Other	4,893	5,212	4,296	4,318	4,644
Total Structured Finance	176,628	162,583	144,352	132,454	124,124
International Finance[2]:					
Pooled debt obligations	20,527	19,978	23,427	35,831	44,723
Asset-backed and conduits	19,822	17,642	15,151	15,553	12,293
Investor-owned and public utilities	11,273	10,531	8,052	5,965	4,677
Mortgage-backed & home equity	10,573	11,951	14,627	19,644	17,273
Sovereign/sub-sovereign	7,946	6,344	3,585	4,110	2,539
Transportation	7,732	6,524	5,156	5,157	3,908
Other	1,645	1,228	669	1,019	1,003
Total International Finance	79,518	74,198	70,667	87,279	86,416
Grand Total	$556,173	$519,043	$479,085	$459,432	$425,854
Percent of Total Net Par Outstanding					
Public Finance	53.9%	54.4%	55.1%	52.2%	50.6%
Structured Finance	31.8%	31.3%	30.1%	28.8%	29.1%
International Finance	14.3%	14.3%	14.8%	19.0%	20.3%
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 $70,156, $55,460, $43,712, $43,478, and $48,825 at September 30, 2007 and December 31, 2006, 2005, 2004 and 2003, respectively.

(2) International transactions include components of domestic exposure.

Bond Type Distribution of Financial Guarantee Exposures

($ Millions Par Value)	Guaranteed Year-to-Date			
	Gross	%	Net	%
Public Finance:				
Lease and tax backed	$11,705	11.3%	$10,941	11.8%
General obligation	11,448	11.0%	10,638	11.5%
Utility	5,999	5.8%	4,986	5.4%
Health care	3,919	3.8%	3,211	3.5%
Transportation	3,580	3.4%	3,127	3.4%
Higher education	3,198	3.1%	2,828	3.0%
Housing	2,453	2.4%	2,418	2.6%
Other	448	0.4%	398	0.4%
Total Public Finance	42,750	41.1%	38,547	41.6%
Structured Finance:				
Pooled debt obligations	15,788	15.2%	15,691	16.9%
Mortgage-backed & home equity	13,542	13.0%	12,145	13.1%
Asset-backed and conduits	9,241	8.9%	8,609	9.3%
Student loan	5,000	4.8%	3,506	3.8%
Investor-owned utilities	1,842	1.8%	1,394	1.5%
Other	98	0.1%	87	0.1%
Total Structured Finance	45,511	43.8%	41,432	44.7%
International Finance[1]:				
Pooled debt obligations	3,305	3.2%	3,301	3.6%
Asset-backed and conduits	5,849	5.6%	4,704	5.1%
Investor-owned and public utilities	1,749	1.7%	1,050	1.1%
Mortgage-backed & home equity	827	0.8%	764	0.8%
Sovereign/sub-sovereign	1,954	1.9%	1,359	1.5%
Transportation	1,579	1.5%	1,188	1.3%
Other	391	0.4%	391	0.4%
Total International Finance	15,654	15.1%	12,757	13.8%
Grand Total	$103,915	100.0%	$92,736	100.0%

(1) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures

($ Millions Par Value)	Guaranteed Year-to-Date				Net Par Outstanding as of September 30, 2007	
	Gross	%	Net	%	Net	%
Domestic:						
California	$9,264	8.9%	$8,587	9.3%	$56,709	10.2%
New York	1,286	1.2%	1,140	1.2%	32,989	5.9%
Florida	2,653	2.6%	2,414	2.6%	25,132	4.5%
Texas	3,618	3.5%	3,364	3.6%	21,035	3.8%
Pennsylvania	1,772	1.7%	1,628	1.8%	14,592	2.6%
New Jersey	1,700	1.6%	1,578	1.7%	14,215	2.6%
Illinois	1,874	1.8%	1,494	1.6%	13,582	2.4%
Massachusetts	2,806	2.7%	2,298	2.5%	11,648	2.1%
Ohio	980	0.9%	945	1.0%	8,807	1.6%
Colorado	1,851	1.8%	1,806	1.9%	8,649	1.6%
Mortgage and asset-backed	22,783	21.9%	20,754	22.4%	81,712	14.7%
Other states	37,674	36.3%	33,971	36.6%	187,585	33.7%
Total Domestic	88,261	84.9%	79,979	86.2%	476,655	85.7%
International:						
United Kingdom	5,269	5.1%	4,254	4.6%	29,416	5.3%
Australia	1,757	1.7%	1,102	1.2%	6,878	1.2%
Germany	656	0.6%	656	0.7%	6,308	1.1%
Japan	608	0.6%	447	0.5%	3,582	0.6%
Italy	1,519	1.5%	925	1.0%	3,243	0.6%
Internationally diversified	3,834	3.7%	3,815	4.1%	20,130	3.6%
Other international	2,011	1.9%	1,558	1.7%	9,961	1.8%
Total International	15,654	15.1%	12,757	13.8%	79,518	14.3%
Grand Total	$103,915	100.0%	$92,736	100.0%	$556,173	100.0%

Rating Distribution of Net Financial Guarantee Exposures(1)

As of September 30, 2007

Rating	Percentage of Guaranteed Portfolio		
	Public Finance	Structured and International Finance	Total
AAA	<1	38	18
AA	28	13	21
A	58	20	41
BBB	13	28	20
BIG	<1	1	<1
	100	100	100

(1) Based upon Ambac ratings. See Note 3 on the Table of Contents page.

Largest Domestic Public Finance Exposures [1]

($ Millions)	Ambac Rating[2]	AADS[3]	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A +	$196.6	$3,056	0.5%
Washington State - GO	AA	$157.9	2,256	0.4%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	$149.7	2,166	0.4%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	$141.5	1,768	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	$106.2	1,724	0.3%
California Department of Water Resources, Power Supply	A	$176.7	1,694	0.3%
Bay Area Toll Authority, CA Toll Bridge Revenue	AA -	$81.4	1,636	0.3%
Massachusetts Commonwealth - GO	AA	$89.8	1,377	0.2%
New Jersey Turnpike Authority Revenue	A	$89.8	1,374	0.2%
Los Angeles Unified School District, CA - GO	AA -	$88.8	1,276	0.2%
New York City, NY - GO	AA -	$65.7	1,266	0.2%
Connecticut Housing Finance Authority, Housing Mortgage Finance Program	AAA	$74.6	1,261	0.2%
Citizens Property Insurance Corporation, FL	A -	$115.9	1,195	0.2%
New Jersey Economic Development Authority - School Facilities Construction	A +	$85.2	1,137	0.2%
Hawaii State - GO	AA	$80.2	1,099	0.2%
South Carolina Transportation Infrastructure Bank Revenue	A	$72.1	1,079	0.2%
Nassau County Interim Finance Authority, NY, Sales Tax Revenue	AA	$86.5	1,037	0.2%
Chicago, IL - GO	A +	$48.2	1,036	0.2%
Massachusetts School Building Authority, MA, Sales Tax	AA	$71.9	1,000	0.2%
Central Texas Turnpike, System Revenue	BBB +	$92.4	970	0.2%
Florida State Board of Education, Lottery Revenue	AA -	$73.9	952	0.2%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BBB +	$54.7	942	0.2%
New York City, NY Water and Sewer System Revenue	AA	$56.9	891	0.2%
New York State Personal Income Tax Revenue	AA -	$55.5	860	0.2%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A -	$49.1	843	0.2%
Total:			$33,896	6.1%

Largest Domestic Healthcare Exposures

($ Millions)	Ambac Rating[2]	AADS[3]	Net Par Outstanding	% of Total Net Par Outstanding
Carolinas HealthCare System - North Carolina	AA -	$21.8	$397	0.1%
Ascension Health - Missouri	AA	$27.7	393	0.1%
Stanford Hospital & Clinics - California	A +	$23.1	388	0.1%
University Hospitals Health System - Ohio	A -	$21.6	368	0.1%
Hoag Memorial Hospital Presbyterian - California	AA -	$20.0	366	0.1%
Sutter Health - California	A +	$21.9	366	0.1%
Memorial Sloan Kettering Cancer Center - New York	AA	$24.4	355	0.1%
Trinity Health - Michigan	AA -	$24.6	352	0.1%
Children's Hospital - Boston, Massachusetts	AA	$23.1	330	0.1%
Sisters of Mercy Health System - Missouri	AA	$29.5	326	0.1%
Total:			$3,641	0.7%

(1) Excludes Healthcare exposures.
(2) See Note 3 on the Table of Contents page.
(3) Average Annual Debt Service, net of reinsurance.

Largest Structured Finance Exposures

($ Millions)	Ambac Rating(1)	Net Par Outstanding	% of Total Net Par Outstanding
CDO of ABS < 25% MBS	AAA	$2,700	0.5%
CDO of ABS > 25% MBS	AAA	2,400	0.4%
Iowa Student Loan Liquidity Corporation Revenue Bonds	A	2,208	0.4%
CDO of ABS > 25% MBS	AAA	1,950	0.4%
CDO of ABS > 25% MBS	AAA	1,875	0.3%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2	BBB +	1,868	0.3%
Massachusetts Educational Financing Authority Revenue Bonds	AA	1,787	0.3%
Michigan Higher Education Student Loan Authority	AA	1,768	0.3%
Hertz Vehicle Financing, LLC	BBB	1,744	0.3%
CDO of ABS > 25% MBS	AA	1,676	0.3%
Vermont Student Assistance Corporation Revenue Bonds	A	1,670	0.3%
CDO of ABS > 25% MBS	AAA	1,570	0.3%
CDO of ABS > 25% MBS	AAA	1,524	0.3%
CDO of ABS > 25% MBS	AA	1,400	0.3%
Private Commercial Asset-Backed Transaction	BBB -	1,386	0.2%
Capital One Auto Finance Trust, 2006-A	BBB	1,360	0.2%
ARG Funding Corporation	BBB	1,320	0.2%
CDO of ABS > 25% MBS	AAA	1,313	0.2%
CDO of ABS > 25% MBS	AAA	1,250	0.2%
Synthetic RMBS	AAA	1,193	0.2%
CDO of ABS > 25% MBS	AA	1,187	0.2%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BBB +	1,181	0.2%
Citibank - Corporate Receivables Corp.	AAA	1,149	0.2%
Societe Generale - Barton Capital LLC	AAA	1,108	0.2%
Capital One Auto Finance Trust, 2007-A	BBB	1,102	0.2%
Total:		$39,689	7.1%

Largest International Finance Exposures

($ Millions)	Ambac Rating(1)	Net Par Outstanding	% of Total Net Par Outstanding
CDO of IG Corporate	AAA	$2,912	0.5%
Mitchells & Butlers Finance plc-UK Pub Securitisation	A +	2,646	0.5%
Telereal Securitisation plc	A +	2,172	0.4%
CDO of IG Corporate	AAA	1,925	0.3%
Punch Taverns Finance plc-UK Pub Securitisation	AA -	1,882	0.3%
Synthetic RMBS	AAA	1,236	0.2%
Metronet Rail(2)	BBB-	1,093	0.2%
TubeLines (Finance) plc	A	1,083	0.2%
Synthetic RMBS	AAA	1,077	0.2%
Romulus Finance s.r.l.	BBB	1,076	0.2%
Synthetic RMBS	AAA	1,061	0.2%
Aspire Defence Finance plc	BBB -	1,032	0.2%
Channel Link Enterprises	BBB	959	0.2%
Synthetic RMBS	AAA	943	0.2%
Sydney Airport Finance Co. Pty Ltd	BBB	938	0.2%
Private Consumer Asset-Backed Transaction	BBB +	912	0.2%
CDO of HY Corporate	AA	906	0.2%
RMPA Services plc	BBB	879	0.2%
CDO of HY Corporate	AAA	862	0.2%
CDO of HY Corporate	AA	856	0.2%
CDO of HY Corporate	AAA	856	0.2%
Spirit Issuer plc	BBB +	842	0.2%
CDO of HY Corporate	AAA	821	0.1%
Synthetic RMBS	AAA	817	0.1%
National Grid Gas	A -	808	0.1%
		$30,594	5.5%

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

(2) Metronet BCV and SSL are separate operating corporate entities with distinguishable risk features. Individually they would not appear on this list, however their exposures are aggregated to reflect common business and financial issues currently confronting each company.

Ambac Assurance Corporation

Statutory Accounting, Financial and Capital Information

($ Thousands, Except Ratios)	September 30, 2007	December 31, 2006
STATUTORY BASIS		
Capital and claim-paying resources:		
Contingency reserve	$2,996,810	$2,685,614
Capital and surplus	3,227,443	3,696,876
Qualified statutory capital	6,224,253	6,382,490
Unearned premiums	3,603,477	3,373,373
Losses and loss adjustment expenses	107,099	42,458
Unrealized losses on credit derivatives	796,441	-
Policyholders' reserves	10,731,270	9,798,321
Third party capital support [1]	800,000	800,000
Present Value of Future Installment Premiums [2]	2,664,052	2,404,830
Total claims paying resources	14,195,322	13,003,151
Net financial guarantees in force	$891,998,629	$802,693,812
Capital ratio [3]	143 : 1	126 : 1
Financial resources ratio [4]	63 : 1	62 : 1
Gross Financial Guarantees in force	$993,018,290	$887,448,486
Gross par outstanding	$614,843,407	$567,577,724

	Third Quarter 2007	Third Quarter 2006	Full Year 2006
Statutory financial ratios:			
Loss ratio [5]	29.6%	(1.7)%	5.9%
Expense ratio [6]	13.4%	16.9%	15.5%

(1) Third party capital support represents pre-funded capital which provides for the unconditional ability to issue up to $800 million of preferred stock to high quality asset-backed investment vehicles.
(2) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts, credit derivatives and other credit enhancement products. Future premiums are discounted at 5.6% and 5.4% at September 30, 2007 and December 31, 2006, respectively.
(3) Capital Ratio is net financial guarantees in force divided by qualified statutory capital.
(4) Financial Resources 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.

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