



Ambac

2010 Quarterly Operating Supplement

Q4

► Financial Highlights

Share price	\$0.11
Market capitalization	\$33.2 million
Net loss	\$(81.6) million
Net loss per diluted share	\$(0.27)

Company Profile

Ambac Financial Group, Inc., headquartered in New York City, is a holding company whose affiliates provided financial guarantees and financial services to clients in both the public and private sectors around the world. On November 8, 2010, Ambac filed for a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (“Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (“Bankruptcy Court”). The Company will continue to operate in the ordinary course of business as “debtor-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. Ambac Financial Group, Inc.’s common stock trades in the over-the-counter market under ticker symbol ABKFQ.

Ambac's principal operating subsidiary, Ambac Assurance Corporation, a guarantor of public finance and structured finance obligations, has a Caa2 rating from Moody's Investors Service, Inc.

Company Information

Corporate headquarters are located at:

Ambac Financial Group, Inc.
One State Street Plaza
New York, New York 10004
(212) 668-0340
(212) 509-9190 (fax)
www.ambac.com

Investor Relations Contact:
Michael Fitzgerald
(212) 208-3222
(212) 208-3108 (fax)
mfitzgerald@ambac.com

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

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

Table of Contents

Annual Financial and Statistical Data.....	1
Fourth Quarter 2010 Earnings Release.....	2-6
Consolidated Statements of Operations.....	7
Consolidated Balance Sheets.....	8
Net Insurance Premiums Earned and Fees on Credit Derivatives.....	9
Net Unearned Premium Amortization and Estimated Future Installment Premiums.....	9
Fixed Income Investment Portfolio	10
Rating Distribution of Investment Portfolio.....	10
Financial Guarantee Investment Cash Receipts.....	11
Ratio of Net Claims Presented.....	12
Estimated Future Gross RMBS Claim Payments (Recoveries).....	12
Summary of Net Insurance Loss Reserves and Credit Derivative Impairments.....	13
Summary of Below Investment Grade Exposures	13
Expense Analysis.....	14
Historical Financial Guarantee Exposures Outstanding.....	15
Geographic Distribution of Financial Guarantee Exposures.....	16
Rating Distribution of Net Financial Guarantee Exposures	16
Largest Domestic Public Finance Exposures	17
Largest Domestic Healthcare Exposures	17
Largest Structured Finance Exposures	18
Largest International Finance Exposures.....	18
Net Exposure Amortization.....	19
Claims-Paying Resources and Statutory Financial Ratios.....	20
Roll-forward of Statutory Capital and Surplus.....	21

Note 1: Internal Ambac Assurance 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 Assurance 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 Assurance credit ratings are subject to revision at anytime and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has insured the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees.

Note 2: Information contained in this report is unaudited.

Annual Financial and Statistical Data

(Dollars in millions except share data)

	2010	2009	2008	2007	2006	2005	2004	2003	2002 ⁽¹⁾	2001
Summary Financial Data:										
Financial Guarantee:										
Credit enhancement production (non-GAAP)	\$0	\$0	\$95	\$1,414	\$1,295	\$1,249	\$1,288	\$1,489	\$1,299	\$974
Net premiums earned	546	797	1,023	841	811	816	717	620	472	379
Net investment income	324	483	480	460	424	378	355	321	297	268
Change in fair value of credit derivatives	60	3,813	(4,031)	(5,928)	69	64	65	47	1	18
Loss (gain) on variable interest entities (VIEs)	(617)	7	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loss and loss expenses	719	2,815	2,228	256	20	150	70	53	27	20
Underwriting and operating expenses	198	176	216	139	134	118	107	92	77	68
Financial Services ⁽²⁾ :										
Revenue	(72)	(136)	123	452	408	286	225	230	272	274
Expenses	31	47	248	432	372	253	184	208	241	244
Reorganization items	32	-	-	-	-	-	-	-	-	-
Net (loss) income per diluted share	(\$2.56)	(\$0.05)	(\$22.31)	(\$31.56)	\$8.15	\$6.87	\$6.53	\$5.66	\$3.97	\$3.97
Total non-VIE investments	6,853	8,703	10,293	18,396	17,434	15,592	14,422	13,965	12,539	10,288
Premium receivable	2,423	3,718	29	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Subrogation recoverable	714	903	10	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total VIE assets	17,931	3,277	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total assets	29,047	18,886	17,260	23,565	20,268	18,546	17,673	16,747	15,356	12,340
Unearned premium reserve	4,008	5,687	2,382	3,124	3,038	2,941	2,779	2,545	2,129	1,780
Loss and loss expense reserve	5,289	4,772	2,276	484	220	304	254	189	172	151
Obligations under investment, repurchase and payment agreements	806	1,291	3,358	8,706	8,357	7,253	7,081	7,076	7,283	5,512
Long-term debt ⁽³⁾⁽⁴⁾	208	1,632	1,624	1,389	992	1,192	792	792	617	619
Liabilities subject to compromise	1,695	-	-	-	-	-	-	-	-	-
Ambac Financial Group, Inc. stockholders' (deficit) equity	(2,009)	(2,288)	(3,782)	2,280	6,190	5,388	5,024	4,255	3,625	2,984
Statutory Data:										
Qualified statutory capital	\$1,540	\$1,154	\$3,484	\$6,422	\$6,383	\$5,693	\$5,264	\$4,526	\$3,736	\$3,262
Unearned premium reserve	1,934	2,390	2,733	3,320	3,373	3,208	2,972	2,649	2,223	1,860
Loss and loss expense reserve	2,478	1,141	1,169	110	42	103	117	55	49	28
Estimated impairment losses on credit derivatives	-	3,842	3,352	757	-	-	-	-	-	-
Policyholders' reserves	5,952	8,527	10,738	10,609	9,798	9,004	8,353	7,230	6,008	5,150
Third party capital support	-	-	100	800	800	800	800	800	800	800
P.V. of future installment premiums	1,076	2,263	2,663	3,103	2,503	2,166	2,060	1,556	1,342	987
Ambac Assurance UK Ltd. claims-paying resources ⁽⁵⁾	937	-	-	-	-	-	-	-	-	-
Total claims-paying resources	\$7,965	\$10,790	\$13,501	\$14,512	\$13,101	\$11,970	\$11,213	\$9,586	\$8,150	\$6,937
Net par outstanding	\$318,854	\$390,406	\$434,310	\$524,025	\$519,043	\$479,085	\$459,432	\$425,854	\$379,211	\$318,043
Net debt service outstanding	\$509,429	\$619,566	\$695,954	\$833,303	\$802,694	\$726,612	\$685,234	\$625,564	\$557,422	\$476,190
Financial Ratios:										
Loss and loss expense ratio	194.4%	556.9%	619.0%	148.4%	2.3%	17.3%	9.1%	8.2%	6.5%	5.3%
Underwriting expense ratio	34.4%	20.8%	19.9%	15.2%	15.3%	13.6%	13.9%	13.8%	15.3%	17.0%
Combined ratio	228.8%	577.7%	638.9%	163.6%	17.6%	30.9%	23.0%	22.0%	21.8%	22.3%

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

3) Long-term debt for 2010 represents surplus notes issued by Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation. Long-term debt for all years excludes the portion of long-term debt associated with variable interest entities.

4) Long-term debt associated with Ambac Financial Group, Inc. for 2010 is included under liabilities subject to compromise on the Consolidated Balance Sheets.

5) For the years prior to 2010, Ambac Assurance UK Ltd.'s claims-paying resources are not separately disclosed, rather, they are included in the other categories of claims-paying resources.

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

NEW YORK, March 16, 2011--**Ambac Financial Group, Inc.** (OTC: ABKFQ) (Ambac) today announced a fourth quarter 2010 net loss of \$81.6 million, or \$0.27 per share. This compares to fourth quarter 2009 net income of \$558.1 million, or \$1.93 per diluted share. Relative to the fourth quarter 2009 results, the fourth quarter 2010 results reflect a reduction in net premiums earned, net investment income, net change in the fair value of credit derivatives, realized investment gains and higher VIE losses, partially offset by a reduction in loss and loss expenses and other-than-temporary impairment losses in its investment portfolio.

As previously announced, on November 8, 2010, Ambac filed for a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (“Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (“Bankruptcy Court”) and will continue to operate in the ordinary course of business as “debtor-in-possession” in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

Fourth Quarter 2010 Summary

- Net loss and loss expenses incurred amounted to \$141.5 million for the current quarter, down from \$385.4 million in the fourth quarter of 2009.
- Net change in fair value of credit derivatives was positive \$15.7 million in the current quarter, down from positive \$133.2 million in the fourth quarter 2009.
- The financial services segment recorded \$101.9 million of operating income, up from \$77.7 million for the fourth quarter of 2009, primarily relating to the impact of rising interest rates on the derivative products business.
- Certain liabilities and expenses have been reclassified in accordance with Financial Accounting Standard Board Accounting Standards Codification Topic 852, “Reorganizations” (“ASC Topic 852”), contributing to a charge of \$32.0 million.
- Statutory surplus of Ambac Assurance Corporation (“AAC”) totaled approximately \$1,027 million at December 31, 2010, up from \$912 million at September 30, 2010, driven primarily by net income for the quarter. Statutory net income was positive for the quarter as a result of premiums earned and investment results, partially offset by losses incurred.
- Cash, short-term securities and bonds at the holding company (Ambac Financial Group, Inc.) amounted to \$66.0 million as of December 31, 2010. This amount includes \$2.5 million of restricted cash.

Financial Results

Net Premiums Earned

Net premiums earned for the fourth quarter of 2010 were \$110.7 million, down 40% from \$184.4 million earned in the fourth quarter of 2009. Net premiums earned include accelerated premiums, which result from calls, terminations and other accelerations recognized during the quarter. Accelerated premiums were \$8.7 million in the fourth quarter of 2010, down 81% from \$44.8 million in the fourth quarter 2009, primarily driven by a decline in public finance refunding in 2010 relative to the prior year. Normal net premiums earned, which exclude accelerated premiums, were \$102.0 million in the fourth quarter of 2010, down 27%

from \$139.6 million in the fourth quarter of 2009. Normal net premiums earned for the period have been negatively impacted by the lack of new business written and the high level of refundings and terminations over the past three years, as well as non-recognition of premiums earned on VIEs that have been consolidated as a result of implementation of ASU 2009-17, effective January 1, 2010.

Net Investment Income

Net investment income for the fourth quarter of 2010 was \$67.6 million, representing a decrease of 43% from \$118.7 million in the fourth quarter of 2009. The decrease was primarily driven by three factors: (i) a decrease in the invested asset base resulting from the second quarter 2010 commutation settlement on CDO of ABS transactions; (ii) a decrease in the average yield on the portfolio as a result of the sale of high yielding assets to fund the CDO commutation; and (iii) a reduction in interest income related to the impact of other-than-temporary impairments primarily on AAC guaranteed securities that were allocated to the Segregated Account. Such AAC guaranteed securities are subject to the payment moratorium ordered by the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”) in connection with the rehabilitation plan for the Segregated Account of AAC.

Net Change in Fair Value of Credit Derivatives

The net change in fair value of credit derivatives, which comprises realized and unrealized gains/(losses) and other settlements on credit derivatives, was a gain of \$15.7 million for the fourth quarter of 2010, compared to a gain of \$133.2 million for the fourth quarter of 2009. The net change in fair value during the fourth quarter of 2010 reflects amortization of the notional amount of the remaining portfolio of CDOs, modest improvement in certain underlying reference obligations and CDS fees earned of \$4.9 million. Fourth quarter of 2009 results included the impact of fair value changes to the CDO of ABS portfolio, which was fully commuted in June 2010.

Variable Interest Entities

Effective January 1, 2010, Ambac adopted Accounting Standards Update No. (“ASU”) 2009-17, “Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities”. During the fourth quarter of 2010, Ambac recorded losses on variable interest entities (“VIEs”) amounting to \$111.8 million, primarily as a result of deconsolidating certain transactions during the quarter. Those losses primarily represent the re-establishment of loss reserves related to those transactions as of the date of the deconsolidation. As of December 31, 2010, the Company's balance sheet included 19 consolidated VIEs with \$17.9 billion of assets and \$17.7 billion of liabilities.

Financial Guarantee Loss Reserves

Total net loss and loss expenses were down 63% to \$141.5 million in the fourth quarter of 2010, as compared to \$385.4 million in the fourth quarter of 2009. Losses and loss expenses in the fourth quarter of 2010 primarily relate to credit deterioration in certain RMBS and student loan transactions, partially offset by a reduction of reserves for a public finance transportation transaction that Ambac agreed to commute.

Loss and loss expenses paid during the fourth quarter 2010, net of recoveries from all policies, amounted to a net recovery of \$9.6 million. Additionally, during the fourth quarter of 2010, \$327.6 million of RMBS claims were presented to AAC and unpaid, as a result of the claim moratorium imposed on March 24, 2010 by the OCI on all policies allocated to the Segregated Account. Total net claims paid in the fourth quarter of 2009 were \$489.5 million, of which \$340.8 million related to RMBS.

Loss and loss expense reserves for all RMBS insurance exposures as of December 31, 2010, were \$3,047.0 million including \$1,401.8 million relating to RMBS exposures that have been presented since March 24, 2010 and unpaid as a result of the claims moratorium. RMBS reserves as of December 31, 2010, are net of \$2,391.3 million of estimated net remediation recoveries. The estimate of net remediation recoveries related to material representation and warranty breaches is essentially flat to the amount reported as of September

30, 2010. Ambac has initiated and may continue to initiate lawsuits seeking compliance with the repurchase obligations in the securitization documents with respect to sponsors who disregard their obligations to repurchase.

Financial Guarantee Interest Expense

Financial guarantee interest expense for the fourth quarter of 2010 amounted to \$27.8 million. This interest charge results from the accrual of interest plus the accretion of discount on all surplus notes issued by Ambac Assurance Corporation in 2010. No such surplus notes were outstanding in 2009.

Corporate Interest Expense

Corporate interest expense was \$12.6 million, which represents a decrease of 58% from \$30.0 million in the fourth quarter of 2009. This decrease was principally attributable to Ambac's Chapter 11 bankruptcy filing on November 8, 2010, after which interest on outstanding debt was no longer accrued.

Other Income

Other income for the fourth quarter of 2010 was \$5.3 million, representing a decrease of 95% from \$101.1 million in the fourth quarter of 2009. The decline in other income was driven by the impact of the movement in the British Pound to US Dollar exchange rate upon premium receivables, resulting in a gain of approximately \$81.0 million in the fourth quarter of 2009.

Financial Services

The financial services segment comprises the investment agreement business and the derivative products business, both of which are in run-off. Gross interest income less gross interest expense and operating expenses from investment and payment agreements, plus operating results from the derivative products business was \$101.9 million for the fourth quarter of 2010, up from \$77.7 million for the fourth quarter of 2009. The financial services segment has been positioned to record gains in a rising interest rate environment in order to provide a hedge against certain exposures within the financial guarantee segment. The fourth quarter 2010 result was positively impacted by increasing interest rates during the period. The fourth quarter 2009 result was also driven primarily by mark-to-market gains in the interest rate derivative portfolio caused by rising interest rates during that period.

Reorganization Items, Net

For purposes of presenting an entity's financial evolution during a Chapter 11 reorganization, the financial statements for periods including and after filing the Chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Such items include adjustments to carrying amounts of liabilities based on estimated allowable claims, interest income on cash preserved due to bankruptcy and reorganizations fees and expenses. Reorganization items in the fourth quarter of 2010 amounted to \$32.0 million net, and represent valuation adjustments to carrying amounts of our long-term debt amounting to \$26.4 million, and reorganization expenses (including professional advisory fees and legal expenses) incurred since Ambac filed the Chapter 11 petition on November 8, 2010, amounting to \$5.5 million. The debt valuation adjustments represent one-time charges.

Balance Sheet and Liquidity

Total assets decreased during the fourth quarter of 2010, from \$31.3 billion at September 30, 2010 to \$29.0 billion at December 31, 2010, primarily due to the decrease in VIE assets by approximately \$1.2 billion, resulting from deconsolidation of certain transactions during the quarter.

The fair value of the consolidated non-VIE investment portfolio increased from \$6.8 billion (amortized cost of \$6.4 billion) as of September 30, 2010 to \$6.9 billion (amortized cost of \$6.5 billion) as of December 31,

2010. The increase was primarily driven by net cash inflow resulting from premium collections and net investment income and the claim moratorium imposed by the OCI.

The financial guarantee non-VIE investment portfolio had a fair value of \$5.7 billion (amortized cost of \$5.4 billion) as of December 31, 2010. The portfolio consists of high quality municipal bonds, corporate bonds, Treasuries, U.S. Agencies and Agency MBS as well as mortgage and other asset-backed securities.

Liabilities subject to compromise totaled \$1.7 billion at December 31, 2010. As required by ASC Topic 852, the amount of Liabilities subject to compromise represents Ambac's estimate of known or potential pre-petition claims to be addressed in connection with the Chapter 11 filing. Such claims are subject to future adjustments potentially resulting from, among other things, negotiations with creditors, rejection of executor contracts and unexpired leases and orders of the bankruptcy court. Liabilities subject to compromise consist of the following as of December 31, 2010:

Accrued interest payable.....	\$68,091
Accounts payable	4,951
Senior unsecured notes.....	1,222,189
Directly-issued Subordinated capital securities.....	400,000
Consolidated liabilities subject to compromise.....	<u>\$1,695,231</u>

Overview of AAC Statutory Results

As of December 31, 2010, AAC reported statutory capital and surplus of approximately \$1,027 million, up from \$912 million as of September 30, 2010. AAC's statutory financial statements include the results of AAC's general account and the Segregated Account (formed on March 24, 2010). Statutory capital and surplus was impacted by approximately \$209 million in statutory net income recorded during the fourth quarter 2010.

AAC's consolidated claims-paying resources amounts to approximately \$8.0 billion as of December 31, 2010. This includes Ambac UK's claims-paying resources of approximately \$0.9 billion.

About Ambac

Ambac Financial Group, Inc., headquartered in New York City, is a holding company whose affiliates provided financial guarantees and financial services to clients in both the public and private sectors around the world. Ambac filed for a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Company will continue to operate in the ordinary course of business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. Ambac Financial Group, Inc.'s common stock trades in the over-the-counter market under the ticker symbol ABKFQ.

Ambac's principal operating subsidiary, Ambac Assurance Corporation, a guarantor of public finance and structured finance obligations, has a Caa2 rating from Moody's Investors Service, Inc.

Contact Information:
Michael Fitzgerald
(212) 208-3222
mfitzgerald@ambac.com

Forward-Looking Statements

This release contains statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of management's forward-looking statements here or in other publications may turn out to be incorrect and are based on Ambac management's current belief or opinions. Ambac's actual results may vary materially, and there are no guarantees about the performance of Ambac's securities. Among events, risks, uncertainties or factors that could cause actual results to differ materially are: (1) a plan of reorganization under Chapter 11 will not be confirmed; (2) if Ambac is not successful in filing a plan of reorganization under Chapter 11, it is likely it would have to liquidate pursuant to Chapter 7; (3) the impact of the bankruptcy proceeding on the holders of Ambac securities; (4) the unlikely ability of Ambac Assurance Corporation ("Ambac Assurance") to pay dividends to Ambac in the near term; (5) litigation between Ambac and Ambac Assurance regarding the allocation of net operating losses ("NOLs") and other claims could reduce the overall value of the Company; (6) adverse events arising from the Segregated Account Rehabilitation Proceedings, including the injunctions issued by the Wisconsin rehabilitation court to enjoin certain adverse actions related to the Segregated Account being successfully challenged as not enforceable; (7) litigation arising from the Segregated Account Rehabilitation Proceedings; (8) decisions made by the rehabilitator for the benefit of policyholders may result in material adverse consequences for Ambac's securityholders; (9) potential of a full rehabilitation proceeding against Ambac Assurance, with resulting adverse impacts; (10) inadequacy of reserves established for losses and loss expenses, including our inability to realize the remediation recoveries included in our reserves; (11) market risks impacting assets in our investment portfolio or the value of our assets posted as collateral in respect of investment agreements and interest rate swap and currency swap transactions; (12) risks relating to determination of amount of impairments taken on investments; (13) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (14) market spreads and pricing on insured collateralized loan obligations ("CLOs") and other derivative products insured or issued by Ambac; (15) Ambac's financial position and the Segregated Account Rehabilitation Proceedings may prompt departures of key employees and may impact our ability to attract qualified executives and employees; (16) 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; (17) credit risk throughout our business, including credit risk related to residential mortgage-backed securities, CLOs, public finance obligations and large single exposures to reinsurers; (18) the risk that reinsurers may dispute amounts owed us under our reinsurance agreements; (19) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (20) the risk that our risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss as a result of unforeseen risks; (21) factors that may influence the amount of installment premiums paid to Ambac, including the imposition of the payment moratorium with respect to claims payments as a result of Segregated Account Rehabilitation Proceedings; (22) changes in prevailing interest rates; (23) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting, required under the relevant derivative accounting guidance, to the portion of our credit enhancement business which is executed in credit derivative form; (24) changes in accounting principles or practices that may impact Ambac's reported financial results; (25) legislative and regulatory developments; (26) operational risks, including with respect to internal processes, risk models, systems and employees; (27) changes in tax laws, tax disputes and other tax-related risks; (28) other factors described in the Risk Factors section in Part I, Item 1A of Ambac's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and also disclosed from time to time by Ambac in its subsequent reports on Form 10-Q and Form 8-K, which are available on the Ambac website at www.ambac.com and at the SEC's website, www.sec.gov; and (29) other risks and uncertainties that have not been identified at this time. Readers are cautioned that forward-looking statements speak only as of the date they are made and that Ambac does not undertake to update forward-looking statements to reflect circumstances or events that arise after the date the statements are made. You are therefore advised to consult any further disclosures we make on related subjects in Ambac's reports to the SEC.

Consolidated Statements of Operations

(\$ in Thousands, Except Share Data)	Fourth Quarter		Full Year	
	2010	2009	2010	2009
Revenues:				
Financial Guarantee:				
Normal net premiums earned	\$101,955	\$139,635	\$440,826	\$587,454
Accelerated net premiums earned.....	8,699	44,780	105,149	209,906
Total net premiums earned	110,654	184,415	545,975	797,360
Net investment income.....	67,604	118,658	324,042	482,684
Other-than temporary impairment losses:				
Total other-than-temporary impairment losses.....	(12,398)	(135,330)	(62,104)	(1,587,994)
Portion of loss recognized in other comprehensive income.....	1,094	17,276	5,380	17,276
Net other-than-temporary impairment losses recognized in earnings.....	(11,304)	(118,054)	(56,724)	(1,570,718)
Net realized gains.....	932	38,585	76,405	131,660
Realized gains and losses and other settlements	4,885	(648,449)	(2,757,624)	(1,379,736)
Unrealized gains	10,844	781,659	2,817,807	5,192,663
Net change in fair value of credit derivatives.....	15,729	133,210	60,183	3,812,927
(Loss) gain on variable interest entities.....	(111,815)	(33,686)	(616,688)	7,454
Other income.....	5,319	101,147	106,032	410,927
Financial Services:				
Investment income.....	7,575	12,404	34,129	70,746
Derivative products.....	100,987	73,658	(106,565)	(207,210)
Other-than temporary impairment losses:				
Total other-than-temporary impairment losses.....	-	-	(3,079)	(283,858)
Portion of loss recognized in other comprehensive income.....	-	-	-	-
Net other-than-temporary impairment losses recognized in earnings.....	-	-	(3,079)	(283,858)
Net realized investment gains.....	5,168	42,129	72,874	184,474
Net change in fair value of total return swap contracts.....	-	-	-	18,573
Net mark-to-market gains (losses) on non-trading derivatives contracts.....	-	10,485	(14,295)	11,268
Corporate and Other:				
Other income.....	99	796	1,674	34,121
Net realized gains.....	-	-	10,172	33
Total revenues.....	190,948	563,747	434,135	3,900,441
Expenses:				
Financial Guarantee:				
Losses and loss expenses.....	141,488	385,423	719,362	2,815,313
Underwriting and operating expenses.....	47,796	42,252	198,423	175,718
Interest expense.....	27,829	-	62,207	-
Financial Services:				
Interest from investment and payment agreements.....	3,102	6,598	16,844	34,131
Other expenses.....	3,529	1,780	13,740	12,588
Corporate and Other:				
Interest.....	12,644	30,025	102,278	119,626
Other expenses.....	4,014	11,501	42,302	18,160
Total expenses.....	240,402	477,579	1,155,156	3,175,536
Pre-tax (loss) income from continuing operations before reorganization items.....	(49,454)	86,168	(721,021)	724,905
Reorganization items, net.....	31,980	-	31,980	-
Pre-tax (loss) income from continuing operations.....	(81,434)	86,168	(753,001)	724,905
Provision (benefit) for income taxes.....	85	(471,956)	135	739,521
Net (loss) income.....	(81,519)	558,124	(753,136)	(14,616)
Less net income (loss) attributable to noncontrolling interest.....	76	13	63	(3)
Net income (loss) attributable to AFGI.....	(\$81,595)	\$558,111	(\$753,199)	(\$14,613)
Net (loss) income per share attributable to AFGI common shareholders.....	(\$0.27)	\$1.93	(\$2.56)	(\$0.05)
Net (loss) income per diluted share attributable to AFGI common shareholders.....	(\$0.27)	\$1.93	(\$2.56)	(\$0.05)
Weighted average number of common shares outstanding:				
Basic.....	302,191,620	288,745,342	294,423,698	287,671,222
Diluted.....	302,191,620	288,745,342	294,423,698	287,671,222

Consolidated Balance Sheets

(\$ in Thousands, Except Share Data)	December 31, 2010	December 31, 2009
Assets		
Investments:		
Fixed income securities, at fair value (amortized cost of \$5,707,727 in 2010 and \$7,605,565 in 2009)	\$6,020,895	\$7,572,570
Fixed income securities pledged as collateral, at fair value (amortized cost of \$120,918 in 2010 and \$164,356 in 2009)	123,519	167,366
Short-term investments (amortized cost of \$708,797 in 2010 and \$962,007 in 2009)	708,797	962,007
Other (cost of \$100 in 2010 and \$1,278 in 2009)	100	1,278
Total investments	6,853,311	8,703,221
Cash and cash equivalents	9,497	112,079
Restricted cash	2,500	-
Receivable for securities sold	23,505	3,106
Investment income due and accrued	45,066	73,062
Premium receivables	2,422,596	3,718,158
Reinsurance recoverable on paid and unpaid losses	136,986	78,115
Deferred ceded premiums	264,858	500,804
Subrogation recoverable	714,270	902,612
Deferred taxes	-	11,250
Current income taxes	-	421,438
Deferred acquisition costs	250,649	279,704
Loans	20,167	80,410
Derivative assets	290,299	496,494
Other assets	82,579	229,299
Variable interest entity assets:		
Fixed income securities, at fair value	1,904,361	525,947
Restricted cash	2,098	1,151
Investment income due and accrued	4,065	4,133
Loans (includes \$15,800,918 and \$2,428,352 at fair value)	16,005,066	2,635,961
Derivative assets	4,511	109,411
Other assets	10,729	12
Total assets	\$29,047,113	\$18,886,367
Liabilities and Stockholders' Deficit		
Liabilities:		
Liabilities subject to compromise	\$1,695,231	\$-
Unearned premiums	4,007,886	5,687,114
Loss and loss expense reserve	5,288,655	4,771,684
Ceded premiums payable	141,450	291,843
Obligations under investment and payment agreements	767,982	1,177,406
Obligations under investment repurchase agreements	37,650	113,527
Current taxes	22,534	-
Long-term debt	208,260	1,631,556
Accrued interest payable	61,708	47,125
Derivative liabilities	348,791	3,536,858
Other liabilities	124,748	248,655
Payable for securities purchased	-	2,074
Variable interest entity liabilities:		
Accrued interest payable	3,425	3,482
Long-term debt (includes \$15,885,711 and \$2,789,556 at fair value)	16,101,026	3,008,628
Derivative liabilities	1,580,120	-
Other liabilities	11,875	60
Total liabilities	30,401,341	20,520,012
Stockholders' deficit:		
Ambac Financial Group, Inc.:		
Preferred stock	-	-
Common stock	3,080	2,944
Additional paid-in capital	2,187,485	2,172,656
Accumulated other comprehensive income (loss)	291,774	(24,827)
Accumulated deficit	(4,042,335)	(3,878,015)
Common stock held in treasury at cost	(448,540)	(560,543)
Total Ambac Financial Group, Inc. stockholders' deficit (controlling interest)	(2,008,536)	(2,287,785)
Noncontrolling interest:	654,308	654,140
Total stockholders' deficit	(1,354,228)	(1,633,645)
Total liabilities and stockholders' deficit	\$29,047,113	\$18,886,367
Number of shares outstanding (net of treasury shares)	302,123,710	287,598,189
Ambac Financial Group, Inc. book value per share (controlling interest)	(\$6.65)	(\$7.95)

Net Insurance Premiums Earned and Fees on Credit Derivatives

2010 (\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance	\$45,181	\$45,037	\$44,363	\$43,822	\$178,403
Structured Finance	40,587	43,566	42,383	38,308	164,844
International Finance	27,325	24,094	26,335	19,825	97,579
Total Normal Insurance Premiums Earned	113,093	112,697	113,081	101,955	440,826
Accelerated Premiums Earned	12,138	54,308	30,004	8,699	105,149
Total Premiums Earned	\$125,231	\$167,005	\$143,085	\$110,654	\$545,975
Fees on credit derivative contracts ⁽¹⁾	\$9,661	\$11,812	\$4,862	\$4,885	\$31,220
Total Premiums Earned eliminated in consolidation ⁽²⁾	\$17,717	\$13,707	\$(803)	\$13,244	\$43,865
2009 (\$ Thousands)					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance	\$49,495	\$48,938	\$49,658	\$47,783	\$195,874
Structured Finance	64,064	51,718	54,047	50,705	220,534
International Finance	42,249	43,279	44,371	41,147	171,046
Total Normal Insurance Premiums Earned	155,808	143,935	148,076	139,635	587,454
Accelerated Premiums Earned	41,004	33,797	90,325	44,780	209,906
Total Premiums Earned	\$196,812	\$177,732	\$238,401	\$184,415	\$797,360
Fees on credit derivative contracts ⁽¹⁾	\$13,159	\$12,195	\$12,814	\$10,473	\$48,641

Net Unearned Premium Amortization and Estimated Future Installment Premiums

(\$ Millions)	Net Unearned Premium Amortization ⁽³⁾	Fees on Credit Derivative Contracts	Estimated Net Future Installments ⁽⁴⁾
2011	302.7	18.0	181.6
2012	275.3	15.0	156.6
2013	249.6	11.0	137.4
2014	232.1	8.0	124.2
2015	217.6	4.0	113.0
2011-2015	1,277.3	56.0	712.8
2016-2020	913.4	6.0	460.7
2021-2025	675.5	2.0	318.7
2026-2030	468.9	1.0	219.1
After 2030	407.9	-	216.9
Total	\$3,743.0	\$65.0	\$1,928.2

- 1) Fees on credit derivative contracts are included in "Realized gains and losses and other settlements on credit derivative contracts" on the consolidated statement of operations.
- 2) Represents total premiums earned excluded from "Total net premiums earned" on the consolidated statement of operations pertaining to VIEs consolidated in accordance with ASU 2009-17. Please see discussion in Ambac's December 31, 2010 Form 10-K.
- 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 December 31, 2010. Actual future installments may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. The unearned premium amortization disclosed in the above table consider the use of contractual lives for many bond types that do not have homogeneous pools of underlying collateral, which results in a higher unearned premium than if expected lives were considered. If those bond types are retired early as a result of rate step-ups or other early retirement provision incentives for the issuer, premium earnings may be negative in the period of call or refinancing.
- 4) Represents management's estimate of future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments excludes amounts eliminated as a result of the new Consolidations Accounting Standard (\$359 million). Please see discussion in Ambac's December 31, 2010 Form 10-K.

Fixed Income Investment Portfolio

As of December 31, 2010

INCOME ANALYSIS BY TYPE OF SECURITY	Fair	Amortized	Pre-tax	YTD
Investment category (\$ thousands)	Value	Cost	Yield to	Investment
			Maturity ⁽¹⁾	Income
Financial Guarantee investments:				
Long-term investments				
U.S. government obligations	236,452	231,991	1.81%	4,350
U.S. agency obligations	83,874	77,870	4.25%	3,334
Municipal obligations ⁽²⁾	2,181,606	2,139,127	4.60%	105,908
Foreign obligations	118,455	113,127	3.80%	4,792
Corporate obligations	811,001	779,845	4.84%	38,049
Mortgage and asset-backed securities	1,589,058	1,375,599	10.34%	166,619
Total long-term investments	5,020,446	4,717,559	6.15%	323,052
Short-term investments	660,941	660,941	0.16%	1,484
Other ⁽³⁾	100	100		2,851
Total Financial Guarantee investments	5,681,487	5,378,600	5.42%	327,387
Investment expenses				(3,345)
Financial Guarantee net investment income				324,042
Financial Services investments: ⁽⁴⁾				
Long-term investments				
U.S. government obligations	35,823	34,850		
U.S. agency obligations	4,420	3,826		
Corporate obligations	106,907	117,825		
Mortgage and asset-backed securities	954,318	932,085		
Total long-term investments	1,101,468	1,088,586		
Short-term investments	6,939	6,939		
Total Financial Services investments	1,108,407	1,095,525		
Corporate investments:				
Long-term investments				
Municipal obligations	22,500	22,500		
Total long-term investments	22,500	22,500		
Short-term investments	40,917	40,917		
Total Corporate investments	63,417	63,417		
Total Investments	\$6,853,311	\$6,537,542		

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO ⁽⁵⁾⁽⁶⁾

Rating	Percent of Investment Portfolio		
	Fin. Guar.	Fin. Services	Combined
AAA	30%	65%	36%
AA	32%	14%	29%
A	16%	2%	13%
BBB	10%	2%	9%
Below investment grade	12%	17%	13%
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 current cost basis, estimated future cash flows and call schedules. Actual maturities may differ from stated maturities because borrowers may have the right to call or prepay obligations. For floating rate positions "yield to maturity" is based on the current interest rate and not forward rates.
- 2) Includes taxable and tax-exempt municipal obligations with a fair value of \$445,242 and \$1,736,364 respectively.
- 3) Includes income earned on loans, which are classified separately on the balance sheet.
- 4) Financial Services investments relate primarily to the investment agreement business.
- 5) Ratings are based on the lower of Standard & Poor's or Moody's rating. If guaranteed, rating represents the higher of the underlying or wrapped rating.
- 6) Rating distribution is calculated based on amortized cost.

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

(\$ Thousands)	Expected Principal	Expected Interest	Total
2011.....	\$ 1,002,047	\$ 190,897	\$ 1,192,944
2012.....	413,983	183,982	597,965
2013.....	330,251	193,137	523,388
2014.....	380,262	201,094	581,356
2015.....	232,554	198,225	430,779
2016.....	232,311	172,817	405,128

- 1) Represents the investment portfolio at December 31, 2010, excluding inter-company borrowings. All short-term investment maturities are included within 2011 expected principal.
- 2) Information takes into account portfolio as of December 31, 2010 and does not include any anticipated sales.
- 3) Actual receipts may differ because borrowers may have the right to call or prepay obligations.
- 4) Expected principal and interest receipts on Ambac-insured securities reflect expected receipts regardless of if the payment is made in cash or surplus notes. These receipts do not include the distribution of principal and interest that have been deferred as a result of the claim moratorium, such distribution will occur shortly after the Rehabilitation Plan is deemed effective by the Rehabilitator. Please see discussion in Ambac's December 31, 2010 Form 10-K.

Ratio of Net Claims Presented and Paid

(\$ Thousands)	2010	2009	2008	2007	2006
Net claims presented and paid - Insurance ⁽¹⁾	\$290,519	\$1,458,498	\$571,012	(\$2,128)	\$105,568
Net claims presented and not paid - Insurance ⁽²⁾	1,411,445	-	-	-	-
Net Credit Derivatives payments	(263)	47,749	7,153	-	-
Net Credit Derivatives commutation payments ⁽³⁾	4,589,107	1,380,628	1,850,000	-	-
Total net claims presented for payment	\$6,290,808	\$2,886,875	\$2,428,165	(\$2,128)	\$105,568
Net insurance premiums and credit derivative fees	\$577,195	\$846,001	\$1,085,482	\$917,895	\$871,383
Ratio of net claims presented ⁽⁴⁾	1089.9%	341.2%	223.7%	-0.2%	12.1%

Estimated Future Gross RMBS Claim Payments (Recoveries) ⁽⁵⁾

(\$ Thousands)	
2011	2,035,745
2012 ⁽⁶⁾	86,300
2013 ⁽⁶⁾	(1,119,855)
2014	311,731
2015	218,283
2016	153,016
2011	2,035,745
2012-2016	(350,525)
2017-2021	288,131
2022-2026	(51,063)
2027-2031	(114,390)
After 2031	342,126
Total	<u>\$ 2,150,025</u>

- 1) Net claims paid are net of subrogation received of \$107.9 million, \$72.2 million, \$11.7 million, \$27.9 million, and \$16.7 million for the full years ended December 31, 2010, 2009, 2008, 2007 and 2006, respectively. Includes the issuance of surplus notes at par value in the amount of \$50.0 million for the year ended December 31, 2010.
- 2) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated certain policies to the Segregated Account. On October 8, 2010 a plan of rehabilitation for the Segregated Account (the "Segregated Account Rehabilitation Plan") was filed in the Dane County Circuit Court in Wisconsin (the "Rehabilitation Court"). The Rehabilitation Court confirmed the Segregated Account Rehabilitation Plan on January 24, 2011. The effective date of the Segregated Account Rehabilitation Plan will be determined by the Rehabilitator. Claims on Segregated Account Policies remain subject to a payment moratorium until the Segregated Account Rehabilitation Plan becomes effective. Claims presented and not paid are included in our net insurance reserves. Please see discussion in Ambac's December 31, 2010 Form 10-K.
- 3) 2010 credit derivative commutation payments include the issuance of surplus notes by Ambac Assurance at par in the amount of \$2.0 billion.
- 4) Ratio of net claims presented is net claims presented for payment divided by net premiums earned and other credit enhancement fees.
- 5) Represents management's estimate of future loss obligations, net of recoveries. Actual payments or recoveries may differ from estimates.
- 6) Net of estimated recoveries of \$900.2 million in 2012 and \$1,619.7 million in 2013 for breaches of representation and warranties on certain RMBS transactions.

Summary of Net Insurance Loss Reserves and Credit Derivative Impairments

(\$ Thousands)	12/31/10	12/31/09	12/31/08	12/31/07
Total insurance reserves ⁽¹⁾	4,424,450	3,777,321	2,129,758	473,188
Estimated credit impairment losses on credit derivatives ⁽²⁾	22,055	4,208,198	3,740,202	1,105,741
Total impairment losses	4,446,505	7,985,519	5,869,960	1,578,929
Mark-to-market reserve (asset) on credit derivatives ⁽²⁾	199,629	(1,168,707)	4,491,955	4,889,721
Mark-to-market reserve (asset) on total return swaps	-	-	77,960	21,901
Grand total net insurance loss reserves and credit derivatives	<u>\$4,646,134</u>	<u>\$6,816,812</u>	<u>\$10,439,875</u>	<u>\$6,490,551</u>

Summary of Below Investment Grade Exposures ⁽³⁾

(\$ Millions)	Segregated Account Net Par Outstanding	Total Net Par Outstanding	Total Impairment Losses ⁽⁴⁾
Public Finance:			
Transportation Revenue	\$508	\$1,175	
Utilites	-	180	
Health Care	-	258	
Other	-	1,931	
Total Public Finance	<u>508</u>	<u>3,544</u>	<u>155</u>
Structured Finance:			
Mortgage-Backed & Home Equity - First Lien & Other.	12,836	12,836	1,961
Mortgage-Backed & Home Equity - Second Lien	10,121	10,121	1,049
Student Loans	10,795	11,044	763
Other.	546	3,830	478
Total Structured Finance	<u>34,298</u>	<u>37,831</u>	<u>4,251</u>
International Finance:	320	2,428	41
Total	<u>\$35,126</u>	<u>\$43,803</u>	<u>\$4,447</u>

- 1) As a result of the claim moratorium on the Segregated Account of Ambac Assurance by the Rehabilitator, \$1,411.4 million of claims were presented and not paid in the year ended December 31, 2010. Total insurance reserves are inclusive of claims presented and not paid.
- 2) Total net mark-to-market losses are \$221,684 as of December 31, 2010, \$3,039,491 as of December 31, 2009 and \$8,232,157 as of December 31, 2008 and are reported on the consolidated balance sheet under derivative liabilities and derivative assets.
- 3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated certain insurance policies to the Segregated Account. On October 8, 2010 a plan of rehabilitation for the Segregated Account (the "Segregated Account Rehabilitation Plan") was filed in the Dane County Circuit Court in Wisconsin (the "Rehabilitation Court"). The Rehabilitation Court confirmed the Segregated Account Rehabilitation Plan on January 24, 2011. The effective date of the Segregated Account Rehabilitation Plan will be determined by the Rehabilitator. Claims on Segregated Account Policies remain subject to a payment moratorium until the Segregated Account Rehabilitation Plan becomes effective. Please see discussion in Ambac's December 31, 2010 Form 10-K.
- 4) Claims presented and not paid are included in total impairment losses and our net insurance reserves.

Expense Analysis

2010					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	\$ 21,222	\$ 16,268	\$ 14,997	\$ 15,109	\$ 67,596
Non-compensation	16,829	32,949	21,118	20,890	91,786
gross underwriting and operating expenses	38,051	49,218	36,115	35,999	159,382
Ceding commissions and change in deferred acquisition costs . .	12,445	9,714	5,085	11,797	39,041
Total Financial Guarantee underwriting and operating expenses . .	50,496	58,932	41,200	47,796	198,423
Financial Services operating expenses	3,627	3,124	3,460	3,529	13,740
Corporate and other operating expenses	11,948	12,645	13,695	4,014	42,302
Total underwriting and operating expenses, net of deferred expenses. .	\$ 66,070	\$ 74,701	\$ 58,354	\$ 55,339	\$ 254,464
Total gross underwriting and operating expenses	\$ 53,625	\$ 64,987	\$ 53,269	\$ 43,542	\$ 215,423
2009					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Financial Guarantee underwriting and operating expenses:					
Compensation	\$ 28,974	\$ 24,334	\$ 26,765	\$ 14,412	\$ 94,485
Non-compensation ⁽¹⁾	8,320	17,497	10,586	18,296	54,699
gross underwriting and operating expenses	37,294	41,831	37,351	32,708	149,184
Ceding commissions and change in deferred acquisition costs . .	19,318	7,011	(9,339)	9,544	26,534
Total Financial Guarantee underwriting and operating expenses . .	56,612	48,842	28,012	42,252	175,718
Financial Services operating expenses	3,951	3,541	3,316	1,780	12,588
Corporate and other operating expenses⁽¹⁾	4,021	(3,337)	5,975	11,501	18,160
Total underwriting and operating expenses, net of deferred expenses. .	\$ 64,584	\$ 49,046	\$ 37,303	\$ 55,533	\$ 206,466
Total gross underwriting and operating expenses	\$ 45,266	\$ 42,035	\$ 46,642	\$ 45,989	\$ 179,932

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

Historical Financial Guarantee Exposures Outstanding ⁽¹⁾

(\$ Millions Net Par Value)	December 31,				Segregated Account December 31, 2010
	2010	2009	2008	2007	
Public Finance:					
Lease and tax backed	\$65,843	\$73,081	\$77,060	\$88,147	\$120
General obligation	48,241	54,047	58,296	63,977	11
Utility	26,360	30,835	32,166	37,976	394
Transportation	20,722	22,501	22,306	25,466	883
Higher education	15,279	16,577	17,959	20,685	-
Housing	9,878	10,247	10,862	11,531	-
Health care	9,603	11,987	15,115	27,161	88
Other	3,423	3,892	4,457	6,010	-
Total Public Finance	199,349	223,167	238,221	280,953	1,496
Structured Finance:					
Mortgage-backed & home equity	27,488	32,407	36,995	43,078	27,488
Other CDOs	11,463	18,313	19,988	22,174	595
Student loan	11,408	14,518	16,644	18,372	11,207
Investor-owned utilities	10,685	13,212	14,650	17,055	390
Asset-backed and conduits	10,005	16,455	25,443	36,407	56
CDO of ABS >25% MBS	-	16,718	23,190	29,127	-
Other	2,750	3,092	3,499	4,485	333
Total Structured Finance	73,799	114,715	140,409	170,698	40,069
International Finance ⁽²⁾:					
Investor-owned and public utilities	10,861	10,388	8,492	10,384	-
Asset-backed and conduits	10,738	13,691	16,383	19,290	95
Sovereign/sub-sovereign	7,119	6,859	5,980	7,347	74
Other CDOs	6,775	9,083	12,784	15,572	1,385
Transportation	6,744	7,584	6,870	7,784	376
Mortgage-backed & home equity	1,898	3,386	3,669	10,106	696
Other	1,571	1,533	1,502	1,891	-
Total International Finance	45,706	52,524	55,680	72,374	2,626
Grand Total	\$318,854	\$390,406	\$434,310	\$524,025	\$44,191
Percent of Total Net Par Outstanding					
Public Finance	62.5%	57.2%	54.9%	53.6%	3.4%
Structured Finance	23.2%	29.4%	32.3%	32.6%	90.7%
International Finance	14.3%	13.4%	12.8%	13.8%	5.9%
Total Net Par Outstanding	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Included in the above exposures are structured credit derivatives. Total structured credit derivative net par outstanding amounted to \$18,766, \$43,276, \$53,918 and \$64,988 at December 31, 2010, 2009, 2008 and 2007, respectively.

(2) International transactions include components of domestic exposure.

Geographic Distribution of Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	December 31,		December 31,			
	2010	%	2009	2008	2007	2006
Domestic:						
California	\$39,210	12.3%	\$43,388	\$45,343	\$53,434	\$54,829
New York	20,944	6.6%	22,865	25,972	31,923	34,232
Florida	15,910	5.0%	17,816	18,724	22,462	24,225
Texas	14,776	4.6%	16,941	17,674	19,898	18,837
New Jersey	10,415	3.3%	11,654	12,204	14,309	13,445
Illinois	9,351	2.9%	10,472	10,544	12,592	12,898
Massachusetts	6,576	2.1%	8,255	8,184	10,338	10,231
Pennsylvania	6,036	1.9%	7,405	10,879	13,444	13,973
Colorado	5,786	1.8%	6,392	6,818	7,570	7,635
Washington	5,710	1.8%	6,124	6,249	6,874	7,184
Mortgage and asset-backed	37,493	11.8%	48,862	62,438	79,485	81,054
Other states	100,941	31.7%	137,708	153,601	179,322	166,302
Total Domestic	273,148	85.7%	337,882	378,630	451,651	444,845
International:						
United Kingdom	22,215	7.0%	22,840	20,151	27,207	27,253
Australia	6,292	2.0%	6,034	4,952	6,400	6,126
Italy	3,674	1.2%	3,821	2,843	3,017	2,167
Austria	999	0.3%	1,149	905	491	370
Turkey	848	0.3%	1,842	1,913	1,995	1,588
Internationally diversified	7,793	2.4%	9,914	14,937	16,550	19,180
Other international	3,885	1.2%	6,924	9,979	16,714	17,514
Total International	45,706	14.3%	52,524	55,680	72,374	74,198
Grand Total	\$318,854	100.0%	\$390,406	\$434,310	\$524,025	\$519,043

Rating Distribution of Net Financial Guarantee Exposures ⁽¹⁾

As of December 31, 2010

Rating	Percentage of Guaranteed Portfolio		
	Public Finance	Structured and International	Total
AAA	<1	3	1
AA	30	12	23
A	55	23	43
BBB	13	28	19
BIG	2	34	14
	100	100	100

(1) Based upon Ambac ratings. See Note 2 on the Table of Contents page.

Largest Domestic Public Finance Exposures⁽¹⁾

(\$ Millions)	Ambac Rating ⁽²⁾	AADS ⁽³⁾	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$207.8	\$3,094	1.0%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	\$161.0	2,062	0.6%
Washington State - GO	AA	\$145.6	1,873	0.6%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	\$149.3	1,694	0.5%
Bay Area Toll Authority, CA Toll Bridge Revenue ⁽⁴⁾	AA -	\$84.4	1,670	0.5%
MTA, NY, Transportation Revenue (Farebox) ⁽⁴⁾	A	\$91.1	1,447	0.5%
New Jersey Turnpike Authority Revenue	A	\$84.8	1,266	0.4%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	\$94.0	1,248	0.4%
Massachusetts Commonwealth - GO	AA	\$87.1	1,228	0.4%
Los Angeles Unified School District, CA - GO	AA -	\$86.0	1,126	0.4%
South Carolina Transportation Infrastructure Bank Revenue	A	\$74.7	1,038	0.3%
Central Texas Turnpike, System Revenue	BBB +	\$102.9	986	0.3%
Port Authority of New York & New Jersey, Consolidated Revenue	AA -	\$70.0	921	0.3%
New York City, NY - GO	AA	\$49.0	893	0.3%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A	\$54.3	884	0.3%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	\$73.8	846	0.3%
Puerto Rico Highways & Transportation Authority, Transportation Revenue ⁽⁴⁾	BBB +	\$50.8	828	0.3%
University of California Board of Regents, General Revenue	AA -	\$47.4	826	0.3%
New York City, NY Water and Sewer System Revenue	AA -	\$53.1	807	0.3%
Puerto Rico Sales Tax Financing Corporation	A +	\$168.0	805	0.3%
New Jersey Economic Development Authority - School Facilities Construction	A +	\$50.5	802	0.3%
Chicago, IL - GO	A +	\$38.3	782	0.2%
South Carolina Public Service Authority, Revenue	AA	\$42.2	760	0.2%
Hawaii State - GO	AA	\$59.3	717	0.2%
Cook County, IL - GO	AA	\$51.1	686	0.2%
Total:			<u>\$29,289</u>	<u>9.2%</u>

Largest Domestic Healthcare Exposures

(\$ Millions)	Ambac Rating ⁽²⁾	AADS ⁽³⁾	Net Par Outstanding	% of Total Net Par Outstanding
Sisters of Mercy Health System - Missouri	AA -	\$32.7	\$341	0.1%
Wellstar Health System - Georgia	A +	\$14.7	226	0.1%
ProMedica Healthcare Oblig Grp - Ohio	A +	\$13.1	224	0.1%
Catholic Healthcare Partners - Ohio	A	\$15.6	202	0.1%
Rockingham Memorial Hospital - Virginia	BBB +	\$11.7	190	0.1%
Swedish Health Services - Washington	A	\$16.5	188	0.1%
University of Colorado Hospital Authority - Colorado	A	\$15.4	182	0.1%
Willis-Knighton Medical Center - Louisiana	BBB +	\$15.4	171	0.1%
Children's Medical Center of Dallas - Texas	A +	\$14.0	169	0.1%
New York City Health and Hospitals Corporation	A	\$18.5	160	0.1%
Total:			<u>\$2,053</u>	<u>0.6%</u>

1) Excludes Healthcare exposures.

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

3) Average Annual Debt Service, net of reinsurance.

4) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated a portion of this transaction to the Segregated Account. On October 8, 2010 a plan of rehabilitation for the Segregated Account (the "Segregated Account Rehabilitation Plan") was filed in the Dane County Circuit Court in Wisconsin (the "Rehabilitation Court"). The Rehabilitation Court confirmed the Segregated Account Rehabilitation Plan on January 24, 2011. The effective date of the Segregated Account Rehabilitation Plan will be determined by the Rehabilitator. Claims on Segregated Account Policies remain subject to a payment moratorium until the Segregated Account Rehabilitation Plan becomes effective. Please see discussion in Ambac's December 31, 2010 Form 10-K.

Largest Structured Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Private Commercial Asset-Backed Transaction	BBB +	\$2,159	0.7%
CDO of ABS < 25% MBS	A +	2,031	0.6%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 ⁽²⁾	BIG	1,633	0.5%
Iowa Student Loan Liquidity Corporation Revenue Bonds ⁽²⁾	BIG	1,497	0.5%
Vermont Student Assistance Corporation Revenue Bonds ⁽²⁾	BIG	1,377	0.4%
Private Consumer Asset-Backed Transaction	AA	1,266	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 ⁽²⁾	BIG	1,105	0.3%
The National Collegiate Student Loan Trust 2007-4 ⁽²⁾	BIG	1,052	0.3%
The National Collegiate Student Loan Trust 2007-3 ⁽²⁾	BIG	1,031	0.3%
Ballantyne Re Plc ⁽³⁾	BIG	900	0.3%
Cendant Rental Car Funding	BIG	820	0.3%
Michigan Higher Education Student Loan Authority ⁽²⁾	BIG	812	0.3%
Spirit Master Funding	BBB	799	0.3%
Countrywide Revolving Home Equity Loan Trust 2005-F ⁽²⁾	BIG	629	0.2%
Timberlake Financial, LLC	BBB	620	0.2%
Sonic Capital LLC	BBB -	602	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 ⁽²⁾	BIG	581	0.2%
Countrywide Asset-Backed Certificates Trust 2005-16 ⁽²⁾	BIG	573	0.2%
Progress Energy Carolinas, INC	A -	558	0.2%
Massachusetts Educational Financing Authority Revenue Bonds ⁽²⁾	BIG	554	0.2%
Option One Mortgage Loan Trust 2007-FXD1 ⁽²⁾	BIG	553	0.2%
National Collegiate Master Student Loan Trust I ⁽²⁾	BIG	534	0.2%
Privately Placed RMBS Transaction ⁽²⁾	BIG	526	0.2%
Ares XI CLO, Ltd.	AA +	508	0.2%
Local Insight Media LLC	BIG	496	0.2%
Total:		<u>\$23,216</u>	<u>7.3%</u>

Largest International Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation ⁽³⁾	A +	\$2,084	0.7%
Telereal Securitisation plc ⁽³⁾	A +	1,761	0.6%
Romulus Finance s.r.l. ⁽³⁾	BIG	1,505	0.5%
Punch Taverns Finance plc-UK Pub Securitisation ⁽³⁾	BBB +	1,303	0.4%
Channel Link Enterprises ⁽³⁾	BBB -	1,154	0.4%
Aspire Defence Finance plc ⁽³⁾	BBB -	1,141	0.4%
Regione Campania ⁽³⁾	A -	1,084	0.3%
Powercor Australia	A -	1,045	0.3%
Ostregion Investmentgesellschaft NR 1 SA ⁽³⁾	BBB -	994	0.3%
Dampier to Bunbury Natural Gas Pipeline	BBB	916	0.3%
National Grid Electricity Transmission ⁽³⁾	A -	875	0.3%
RMPA Services plc ⁽³⁾	BBB +	819	0.3%
Capital Hospitals plc ⁽³⁾	BBB -	776	0.2%
CDO of HY Corporate	AA	767	0.2%
Private CMBS Transaction ⁽³⁾	AAA	729	0.2%
Sydney Airport	BBB	717	0.2%
United Energy Distribution	BBB	713	0.2%
CitiPower	A -	710	0.2%
Spirit Issuer plc ⁽³⁾	BBB -	699	0.2%
Scotia Gas Networks ⁽³⁾	BBB	698	0.2%
National Grid Gas ⁽³⁾	A -	679	0.2%
Babcock & Brown Air Funding I Limited	BBB +	665	0.2%
Anglian Water ⁽³⁾	A -	624	0.2%
CDO of HY Corporate	AAA	615	0.2%
Broadcast Australia	BBB	588	0.2%
Total:		<u>\$23,661</u>	<u>7.4%</u>

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

2) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated a portion of this transaction to the Segregated Account. On October 8, 2010 a plan of rehabilitation for the Segregated Account (the "Segregated Account Rehabilitation Plan") was filed in the Dane County Circuit Court in Wisconsin (the "Rehabilitation Court"). The Rehabilitation Court confirmed the Segregated Account Rehabilitation Plan on January 24, 2011. The effective date of the Segregated Account Rehabilitation Plan will be determined by the Rehabilitator. Claims on Segregated Account Policies remain subject to a payment moratorium until the Segregated Account Rehabilitation Plan becomes effective. Please see discussion in Ambac's December 31, 2010 Form 10-K.

3) All or a portion of transaction guaranteed by Ambac Assurance UK, Ltd.

Net Exposure Amortization ⁽¹⁾

As of December 31, 2010

(\$ Millions)	Total		Segregated Account	
	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding	Estimated Net Debt Service Amortization	Ending Net Debt Service Outstanding
2011.....	\$28,678	\$480,751	\$4,977	\$57,856
2012.....	27,135	453,616	4,114	53,742
2013.....	28,768	424,848	3,611	50,131
2014.....	26,392	398,456	2,953	47,178
2015.....	26,537	371,919	2,343	44,835
2011-2015.....	\$137,510	\$371,919	\$17,998	\$44,835
2016-2020.....	113,912	258,007	8,895	35,940
2021-2025.....	89,386	168,621	7,554	28,386
2026-2030.....	66,692	101,929	6,572	21,814
After 2030.....	101,929	-	21,814	-
Total.....	\$509,429		\$62,833	

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of December 31, 2010. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.

Ambac Assurance

Claims-Paying Resources ⁽¹⁾ and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	December 31, 2010	December 31, 2009	
Contingency reserve	\$512,604	\$352,168	
Capital and Surplus ⁽²⁾	1,026,920	801,869	
Qualified statutory capital	1,539,524	1,154,037	
Unearned premiums	1,934,462	2,390,084	
Losses and loss adjustment expenses	2,478,435	1,141,274	
Estimated impairment losses on credit derivatives	-	3,841,324	
Policyholders' reserves	5,952,421	8,526,719	
Present Value of Future Installment Premiums ⁽³⁾	1,075,404	2,262,821	
Ambac Assurance UK Ltd. Claims-Paying Resources ⁽⁴⁾	937,391	-	
Total Claims-Paying Resources	\$7,965,216	\$10,789,540	
Net financial guarantees in force	\$509,428,738	\$619,566,032	
Claims-Paying Ratio ⁽⁵⁾	64 : 1	57 : 1	
Gross financial guarantees in force	\$554,700,426	\$677,552,493	
Gross par outstanding	\$345,127,082	\$422,236,827	
	Fourth	Full	Full
	Quarter	Year	Year
	2010	2010	2009
Ambac Assurance statutory financial ratios:			
Loss ratio ⁽⁶⁾	114.3%	248.0%	189.4%
Expense ratio ⁽⁷⁾	64.0%	54.6%	24.6%

- 1) Total claims-paying resources is a term used by the rating agencies to quantify total resources available to pay claims in their stress case scenarios. Rating agencies may apply adjustments to claims-paying resources to reflect their views of realization.
- 2) Surplus Notes with a par value of \$2,050 million are included in the December 31, 2010 capital and surplus. The Surplus Notes rank senior to Ambac's equity investment in Ambac Assurance. There is residual value to Ambac in Ambac Assurance only to the extent that funds remain at Ambac Assurance after the payment of claims under outstanding financial guaranty policies and the redemption, repurchase or repayment in full of the Surplus Notes and Ambac Assurance's auction market preferred shares.
- 3) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts (excluding Ambac UK for December 31, 2010) and credit derivatives. Present value calculations utilize Ambac internal estimates discounted at 3.7% and 4.8% at December 31, 2010 and December 31, 2009, respectively.
- 4) On September 28, 2010 Ambac Assurance entered into a commutation and release agreement with Ambac UK pursuant to which the reinsurance agreement between Ambac Assurance and Ambac UK was commuted. Subsequent to the commutation and release, Ambac UK's claims paying resources will become available to Ambac Assurance only to the extent Ambac UK receives approval from its regulator to dividend monies to Ambac Assurance.
- 5) Claims-paying Ratio is net financial guarantees in force divided by total claims-paying resources.
- 6) Loss ratio represents statutory net incurred losses divided by statutory net earned premiums for Ambac Assurance.
- 7) Expense ratio represents statutory underwriting expenses (including reinsurance commissions) divided by net premiums written for Ambac Assurance.

Ambac Assurance
Rollforward of Statutory Capital and Surplus

(in thousands)

	For the year ended December 31, 2010	For the year ended December 31, 2009
Surplus to Policyholders, beginning of period	\$ 801,869	\$ 1,554,448
Net loss	(1,471,903) ⁽¹⁾	(2,479,612)
Issuance of surplus notes - general account	2,000,000	-
Issuance of surplus notes - segregated account	50,000	-
Change in contingency reserves	(159,271)	1,578,541
Change in nonadmitted assets and deferred income tax	(138,305)	79,351
Preferred stock activity	(817)	76,313
Other changes in surplus	(54,653)	(7,172)
Surplus to Policyholders, end of period	<u>\$ 1,026,920</u>	<u>\$ 801,869</u>

⁽¹⁾ Includes the impact of : (i.) estimated impairment losses on credit derivatives of approximately \$658.5 million, and (ii.) statutory loss and loss expenses incurred of approximately \$1,650.4 million, all offset by: (iii.) net earned premiums of \$665.5 million, and (iv.) net investment income of \$252.8 million.



Ambac Financial Group, Inc.
One State Street Plaza
New York, New York 10004
212-668-0340
212-509-9190 (fax)

▶ www.ambac.com