

Ambac



Ambac Financial Group, Inc.

1st Quarter 2008 Financial Highlights April 23, 2008

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Conference Call Agenda

- ▶ **Michael Callen, Chief Executive Officer- Business Overview and Update**
 - Market and Rating Agency Update
- ▶ **Sean Leonard, Chief Financial Officer- Financial Results**
 - Capital Raise and Rating Agencies
 - Earnings
 - MTM, Impairment and Reserves
 - Liquidity
- ▶ **David Wallis, Chief Risk Officer- Portfolio Review**
 - Direct MBS
 - CDOs of ABS
 - Consumer Asset Update

Forward-Looking Statements

This presentation contains statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of management's forward-looking statements here or in other publications may turn out to be wrong and are based on Ambac's management'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) changes in the economic, credit, foreign currency or interest rate environment in the United States and abroad; (2) the level of activity within the national and worldwide credit markets; (3) competitive conditions and pricing levels; (4) legislative and regulatory developments; (5) changes in tax laws; (6) changes in our business plan, including changes resulting from our decision to discontinue writing new business in the financial services area, to significantly reduce new underwriting of structured finance business and to discontinue all new underwritings of structured finance business for six months; (7) the policies and actions of the United States and other governments; (8) changes in capital requirements whether resulting from downgrades in our insured portfolio or changes in rating agencies' rating criteria or other reasons; (9) changes in Ambac's and/or Ambac Assurance's credit or financial strength ratings; (10) changes in accounting principles or practices relating to the financial guarantee industry or that may impact Ambac's reported financial results; (11) inadequacy of reserves established for losses and loss expenses; (12) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (13) credit risk throughout our business, including large single exposures to reinsurers; (14) market spreads and pricing on insured collateralized debt obligations ("CDOs") and other derivative products insured or issued by Ambac; (15) credit risk related to residential mortgage securities and CDOs; (16) the risk that holders of debt securities or counterparties on credit default swaps or other similar agreements seek to declare events of default or seek judicial relief or bring claims alleging violation or breach of covenants by Ambac or one of its subsidiaries; (17) the risk that our underwriting and risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss as a result of unforeseen risks; (18) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting, or FAS 133, to the portion of our credit enhancement business which is executed in credit derivative form; (19) operational risks, including with respect to internal processes, risk models, systems and employees; (20) the risk of decline in market position; (21) the risk that market risks impact assets in our investment portfolio; (22) the risk of credit and liquidity risk due to unscheduled and unanticipated withdrawals on investment agreements; (23) changes in prepayment speeds on insured asset-backed securities; (24) factors that may influence the amount of installment premiums paid to Ambac; (25) the risk that we may be required to raise additional capital, which could have a dilutive effect on our outstanding equity capital and/or future earnings; (26) our ability or inability to raise additional capital, including the risks that regulatory or other approvals for any plan to raise capital are not obtained, or that various conditions to any plan, either imposed by third parties or imposed by Ambac or its Board of Directors, are not satisfied and thus potentially necessary capital raising transactions do not occur, or the risk that for other reasons the Company cannot accomplish any potentially necessary capital raising transactions; (27) the risk that Ambac's holding company structure and certain regulatory and other constraints, including adverse business performance, affect Ambac's ability to pay dividends and make other payments; (28) 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; (29) other additional factors described in the Risk Factors section of Ambac's Current Report on Form 8-K dated March 12, 2008 and in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and in and also disclosed from time to time by Ambac in its subsequent reports on Form 10-Q and Form 8-K, which are or will be available on the Ambac web site at www.ambac.com and at the SEC's web site, www.sec.gov; and (30) 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.

Capital Raise: Sources and Uses

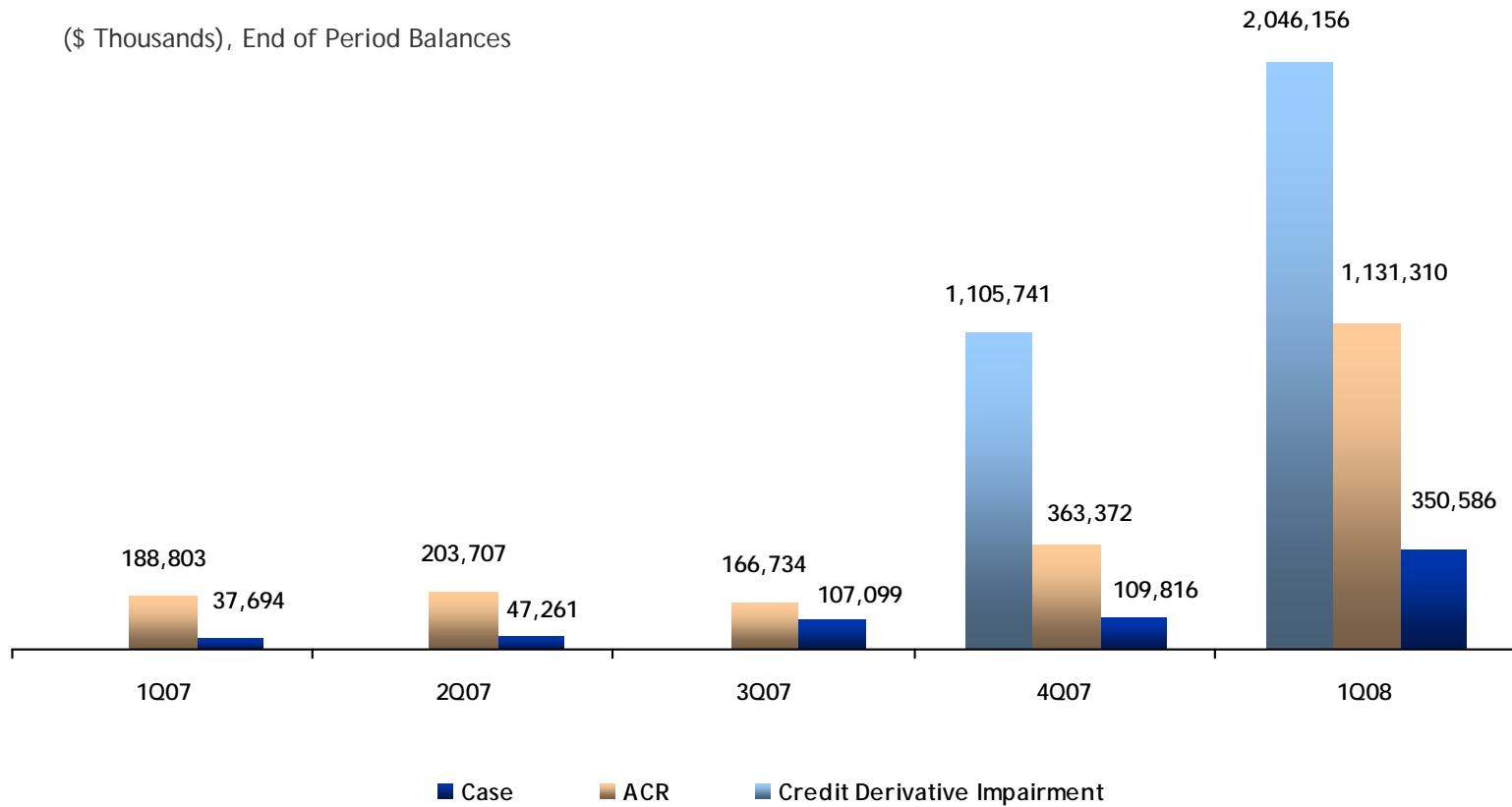
- ▶ Ambac raised \$1.5 billion of capital during the quarter
 - \$1.25 billion of common equity
 - \$250 mm of equity units which will convert to common equity in 2011
- ▶ Net cash proceeds of \$1.4 billion were received on March 12, 2008
- ▶ \$100 million of proceeds were maintained at the holding company
- ▶ Capital contribution of \$1.3 billion to Ambac Assurance
- ▶ Triple-A ratings affirmed by S&P and Moodys and double-A rating affirmed by Fitch
 - Outlook remains negative reflecting mortgage market uncertainty

1Q08 Financial Highlights

- ▶ GAAP net loss: \$1.66 billion or (\$11.69) per share
- ▶ Mark-to-market on the Credit Default Swaps of \$1.7 billion continues to be driven primarily by the mortgage related CDO exposures
- ▶ Impairment and reserves for the quarter were primarily driven by:
 - Financial Guarantees of RMBS transactions: \$1,046 million
 - CDOs of ABS: \$940.4 million (impairment embedded within the MTM adjustment)
 - Investment portfolio supporting the Investment Agreement Business: \$95 million
- ▶ Cumulative impairment to date:
 - Single A CDO squared exposures: approximately 100%
 - Double A CDO squared exposure: 60%

Loss Reserves and Credit Derivative Impairments

(\$ Thousands), End of Period Balances



Strong Liquidity to Meet Claim Payments...

Claim Payments¹

(\$ Thousands)

2005	2006	2007	1Q 08	Expected Remaining 2008 ²
\$86,739	\$105,568	\$(2,128)	\$34,053	\$150,661

- ▶ Estimated net future installment premiums and fees on Credit Derivatives for period 4/1/08-12/31/08: \$331.3 million
- ▶ Investment earnings are projected to be in excess of \$500 million for 2008

¹ Net of Reinsurance

² For RMBS and Credit Derivatives only

Mortgage and Financial Market Disruption Related Losses

Pre-Tax Mortgage and Financial Market Disruption-Related Losses

(\$ Millions)	Financial Guarantee		Financial Services		Grand Total
	Loss & Loss Exp.	Net Change in Fair Value of Credit Derivatives	Derivative Prods.	Other than Temp Impairment Losses	
Asset-backed securities				\$82.2	\$82.2
CDO of ABS	-	1,725.2 ¹	-	-	\$1,725.2
RMBS - Subprime	6.8	-	-	-	\$6.8
RMBS - Alt-A	199.7	-	-	95.4	\$295.1
RMBS - Second Lien	834.5	-	-	-	\$834.5
RMBS - Other	4.8	-	-	-	\$4.8
Credit Spread Widening on Municipal Bonds	-	-	73.7	-	40.9
Total	\$1,045.8	\$1,725.2	\$73.7	\$177.6	\$40.9
Grand Total					\$3,063.2

- ▶ If CDS policies were written in insurance form (excluding MTM impact) economic impairment would be \$940.4 million
- ▶ Second liens continue to drive losses in the direct RMBS portfolio
- ▶ Mark-to-market on credit derivatives continues to be driven by CDO of ABS
 - ▶ Very low values have been attributed to the CDO2 transactions

¹ Includes \$940.4 million of impairment

² Total Return Swaps

Quarterly Financial Guarantee Earnings Components

(\$ Thousands)

	1Q07	2Q07	3Q07	4Q07	1Q08
Normal Earned Premium ¹	\$191,833	\$ 195,315	\$ 198,424	\$ 203,340	\$ 189,843
Investment Income	\$ 112,064	\$ 113,190	\$ 115,825	\$ 122,802	\$ 120,014
Gross Operating Expenses	\$ 49,177	\$ 48,877	\$ 50,628	\$ 47,037	\$ 38,703

- ▶ 1Q08 Normal Earned Premium reflects the impact of the December 2007 Assured Guaranty Reinsurance bulk cession (\$6.9mm)
- ▶ Reduction in Gross Financial Guarantee Underwriting and Operating Expenses of 18% from the fourth quarter of 2007 to the first quarter of 2008 due to lower compensation costs and premium taxes

¹ Includes fees on credit derivative contracts.

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Portfolio Performance Update

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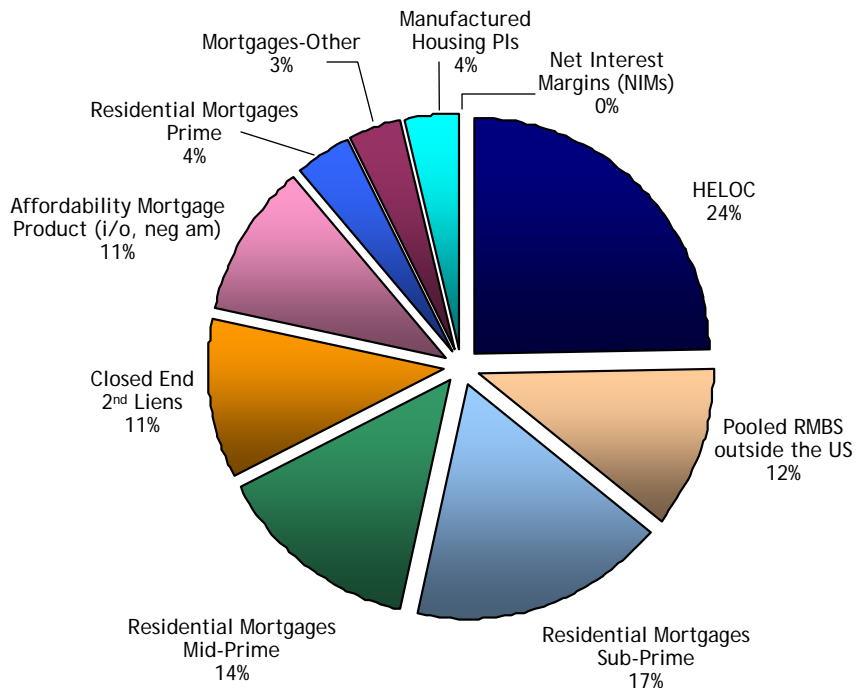
Mortgage-Related Insured Portfolio Performance Update

- ▶ **Direct RMBS: \$46.7 billion of net par insured as of 3/31/08 versus \$52 billion at 12/31/07**
 - Closed-End Seconds \$5.0 billion
 - HELOC: \$11.4 billion
 - Mid-Prime (Alt A): \$6.5 billion
 - Sub-Prime: \$8.1 billion

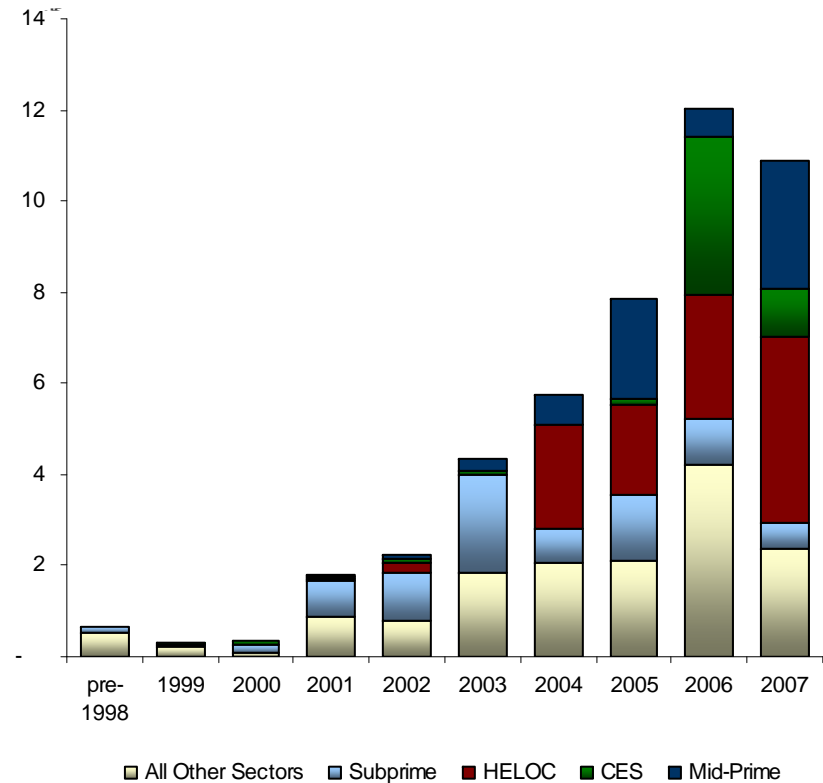
- ▶ **CDO of ABS (>25% MBS) portfolio: \$32 billion of net par insured**
 - High-Grade CDO of ABS: \$26.0 billion
 - Mezzanine CDO of ABS: \$0.5 billion
 - CDO of CDOs: \$2.5 billion
 - Includes commitment to provide a financial guarantee on CDOs: \$2.9 billion

Direct RMBS Portfolio Composition and Vintage

\$46.7 Billion in Net Par Outstanding
as of 3/31/08



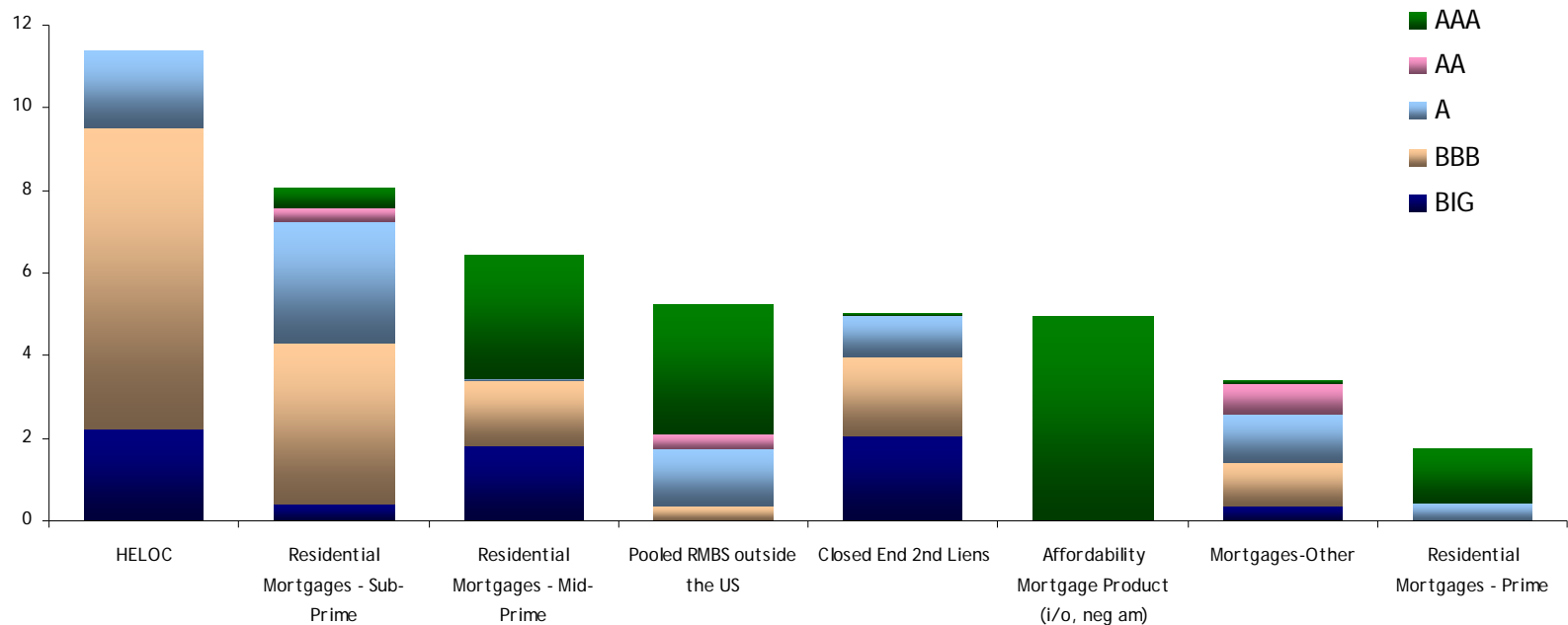
Outstanding Net Par by Vintage



► \$11.3 billion or 69% of Closed-End Second and HELOC exposure was originated in 2006- 2007

Portfolio Summary: Product Type and Ambac Rating

Portfolio Composition by Rating Distribution (\$ billions)



- ▶ Certain Closed-End Second and HELOC Transactions have shown marked deterioration
- ▶ Certain Mid-Prime (Alt-A) Transactions are seeing a buildup in loans in foreclosure and REO
- ▶ The Sub-Prime portfolio is generally performing satisfactorily in market context, being assisted by markedly fewer originations in the period 2005-07

Impairment Summary as of 3/31/08

(\$mm)	CES	HELOC	MID PRIME	SUB PRIME
Total Net Par Outstanding	\$5,018	\$11,379	\$6,455	\$8,077
% of Total rated BIG	41%	19%	24%	5%
US GAAP Reserves ¹	\$636	\$432	\$200	\$16
% of Total RMBS Reserve	48%	33%	15%	1%

¹ These four sectors represent 98% of total RMBS Reserve of \$1.3bn

HELOC Performance Summary

	Prime	Non-Prime 2005-07	Originated <2005
Net Par Outstanding as of 3/31/08	\$4,757	\$4,527	\$2,095
% of Impaired	0%	19%	0%
Weighted Average Cumulative Collateral Loss	0.16%	3%	1.4%
Weighted Average Loan Age (months)	22	28	44

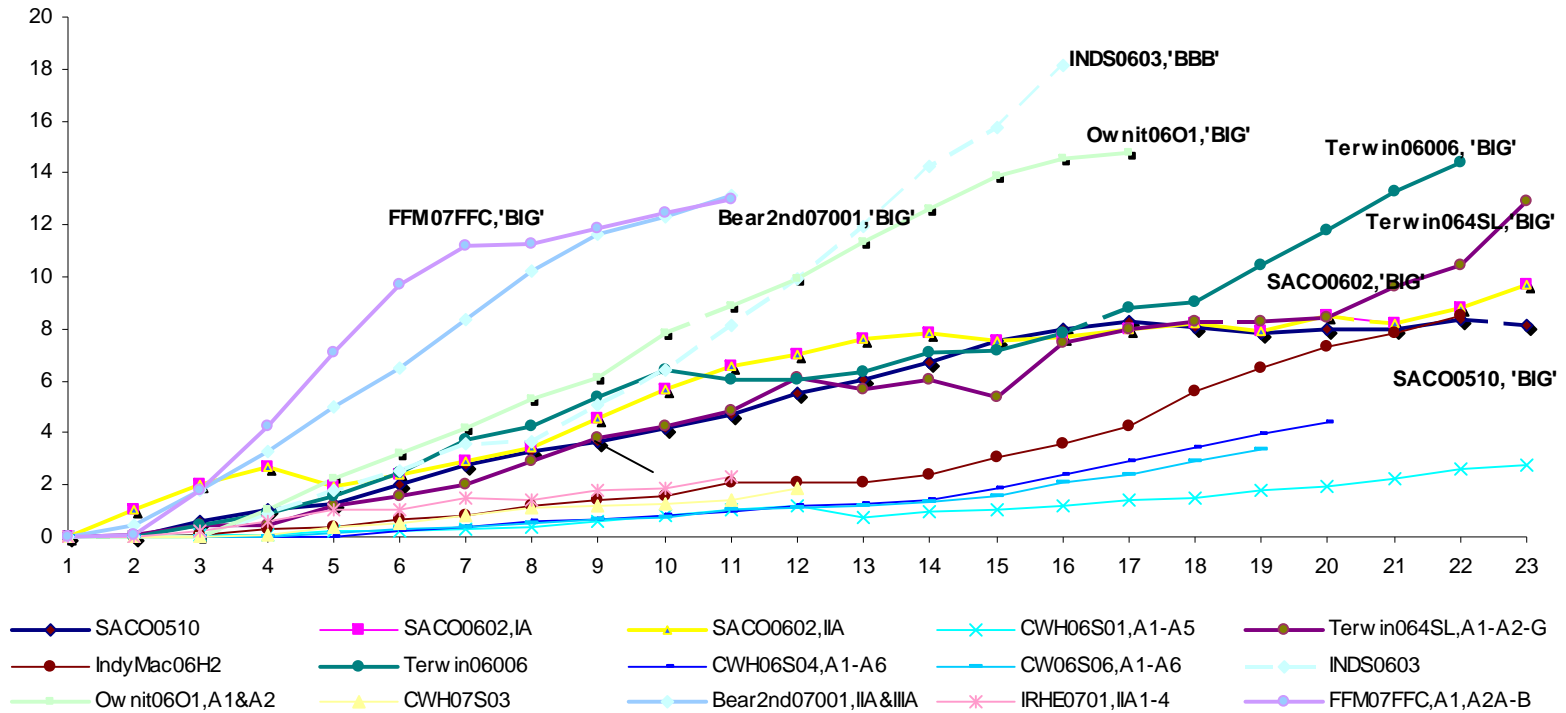
- ▶ Typically 720-745 FICO formed within existing customer relationship
- ▶ Typically 695-710 FICO, less propensity to be formed within existing customer relationship

Closed-End Second Lien Performance Update Aggregate CES portfolio \$5.0 billion

- ▶ Certain Closed-End Second (“CES”) transactions have shown significant deterioration in the last few months, although the CES portfolio remains BBB+ on average
- ▶ ABK Portfolio Update
 - 7 (representing \$2.1bn) of 33 transactions are now BIG and represent 41% by net par of the CES portfolio. All 7 transactions have reserves posted against them
 - The 7 transactions are represented by 3 issuers and were originated in 2005-07
 - No claims paid to date
- ▶ The charts following illustrate delinquency and loss trends focusing on select underperforming transactions
 - 60+ delinquency as a % of current balance
 - Net Cumulative Loss as a % of original balance

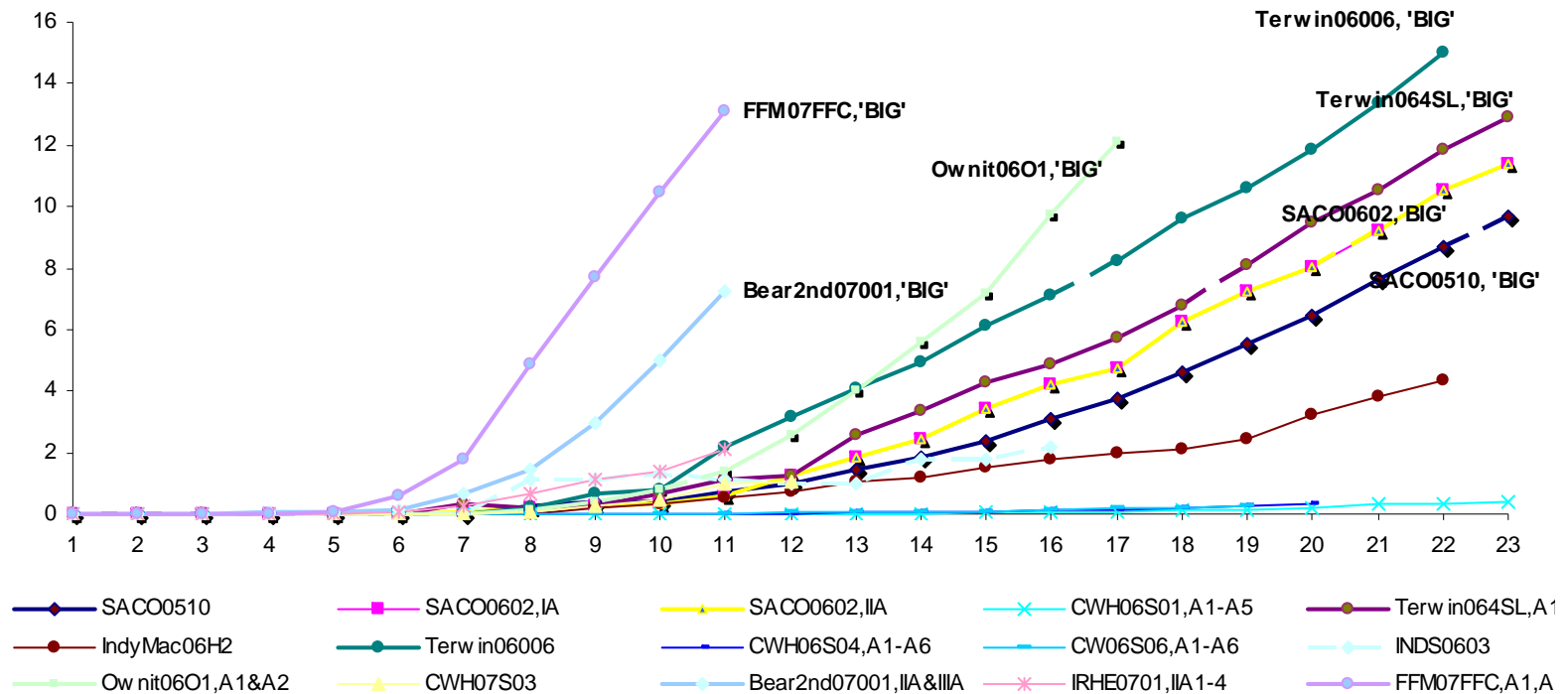
Closed-End Second 2005-07 Vintage 60+ Delinquencies for Select Underperforming Deals

2005-07 Vintage - 60+ DELINQ(%)



CES 2005-07 Vintage Cumulative Loss for Select Underperforming Deals

2005-07 Vintage - NET CUMULATIVE LOSS(%)



- ▶ Rapid escalation of losses, particular in the Bear & First Franklin transactions
- ▶ Terwin and Ownit transactions pay principal at legal final

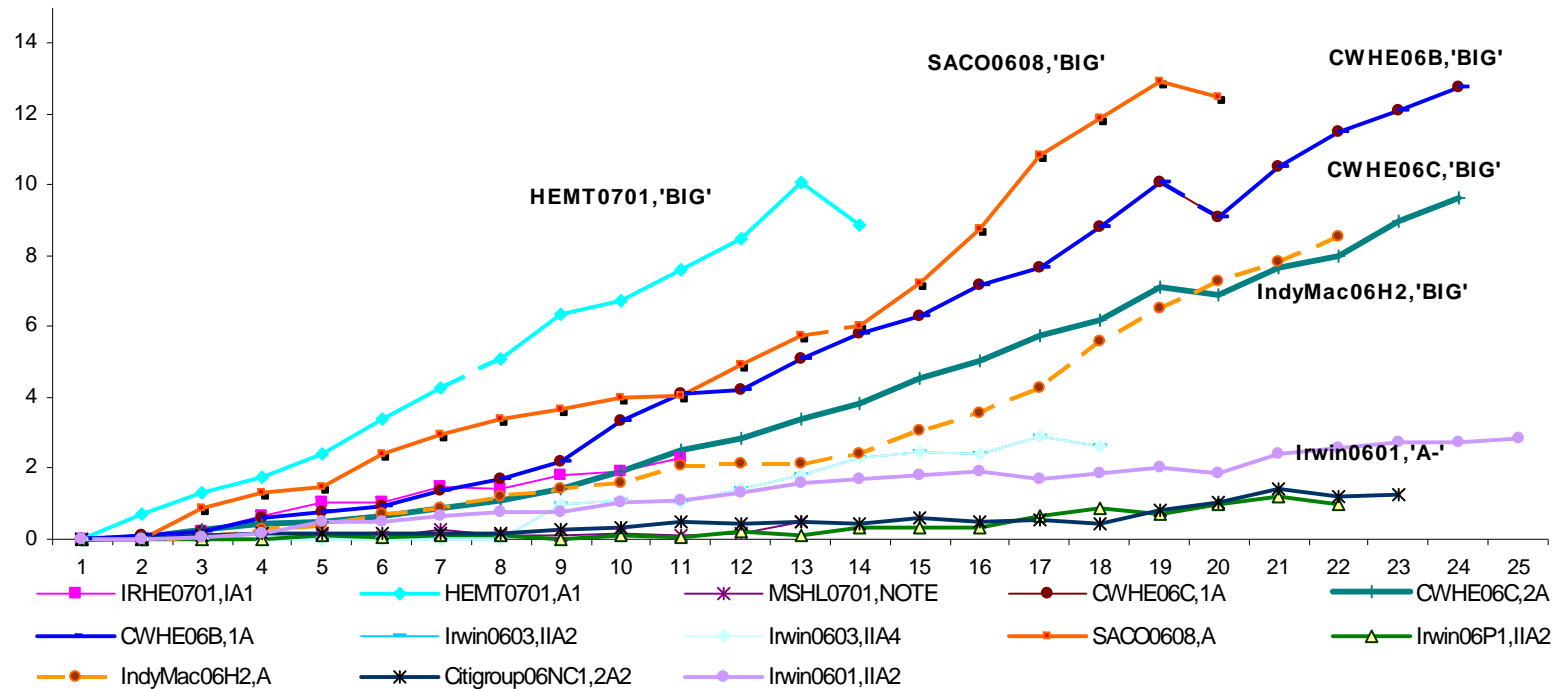
HELOC Performance Update

Aggregate HELOC Portfolio \$11.4 billion

- ▶ Certain HELOC transactions have shown significant deterioration in the last few months although the HELOC portfolio remains BBB+ on average
- ▶ ABK portfolio update
 - 7 (\$2.2 bn) of 46 transactions are now BIG, representing 20% of net par of the HELOC portfolio
 - The 7 transactions are represented by 5 issuers and were originated in 2005-07
- ▶ The charts following illustrate delinquency and loss trends focusing on select underperforming transactions
 - 60+ delinquency as a % of current balance
 - Net Cumulative Loss as a % of original balance

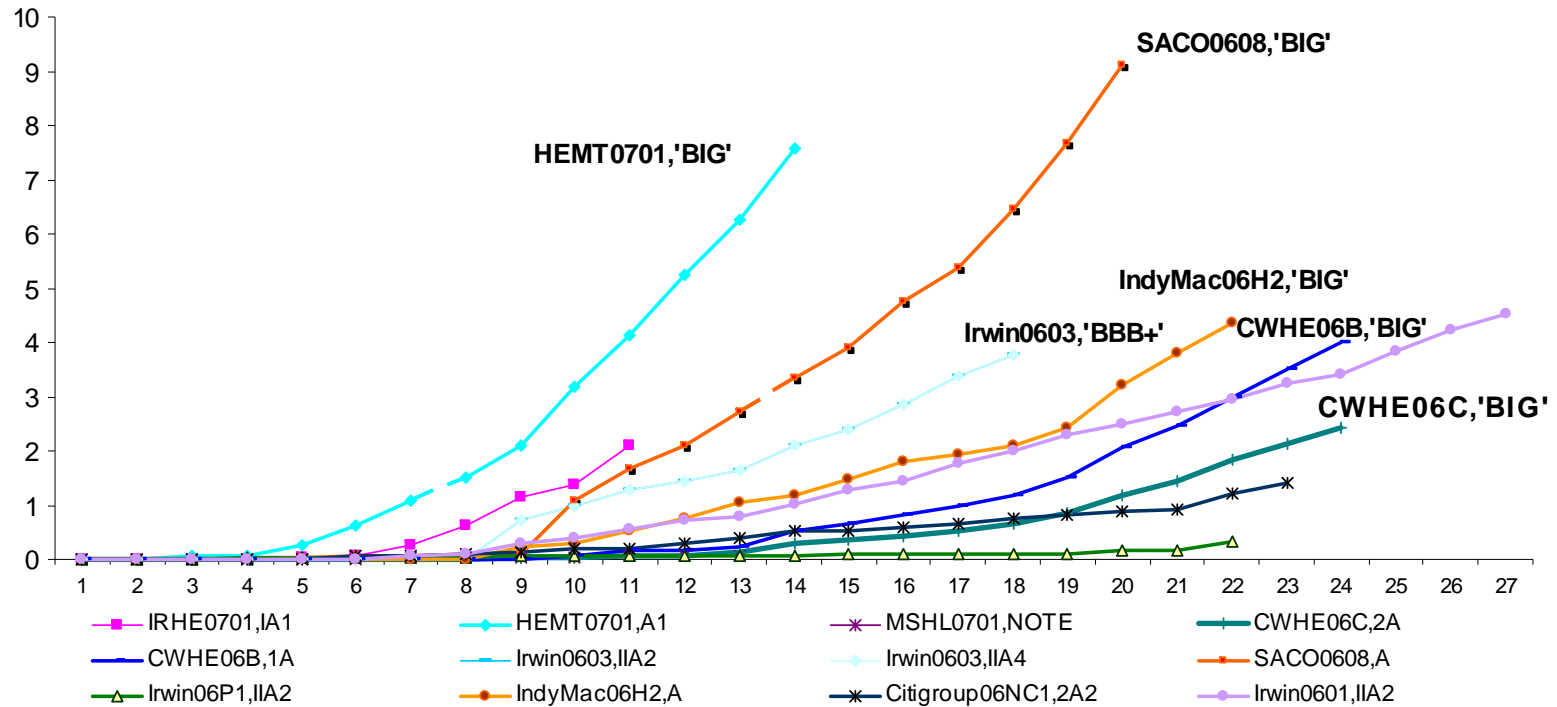
HELOC 2006-2007 Vintage 60+ Delinquencies for Select Underperforming Deals

60+ DELINQ(%)



HELOC 2006-2007 Vintage Cumulative Loss for Select Underperforming Deals

NET CUMULATIVE LOSS(%)



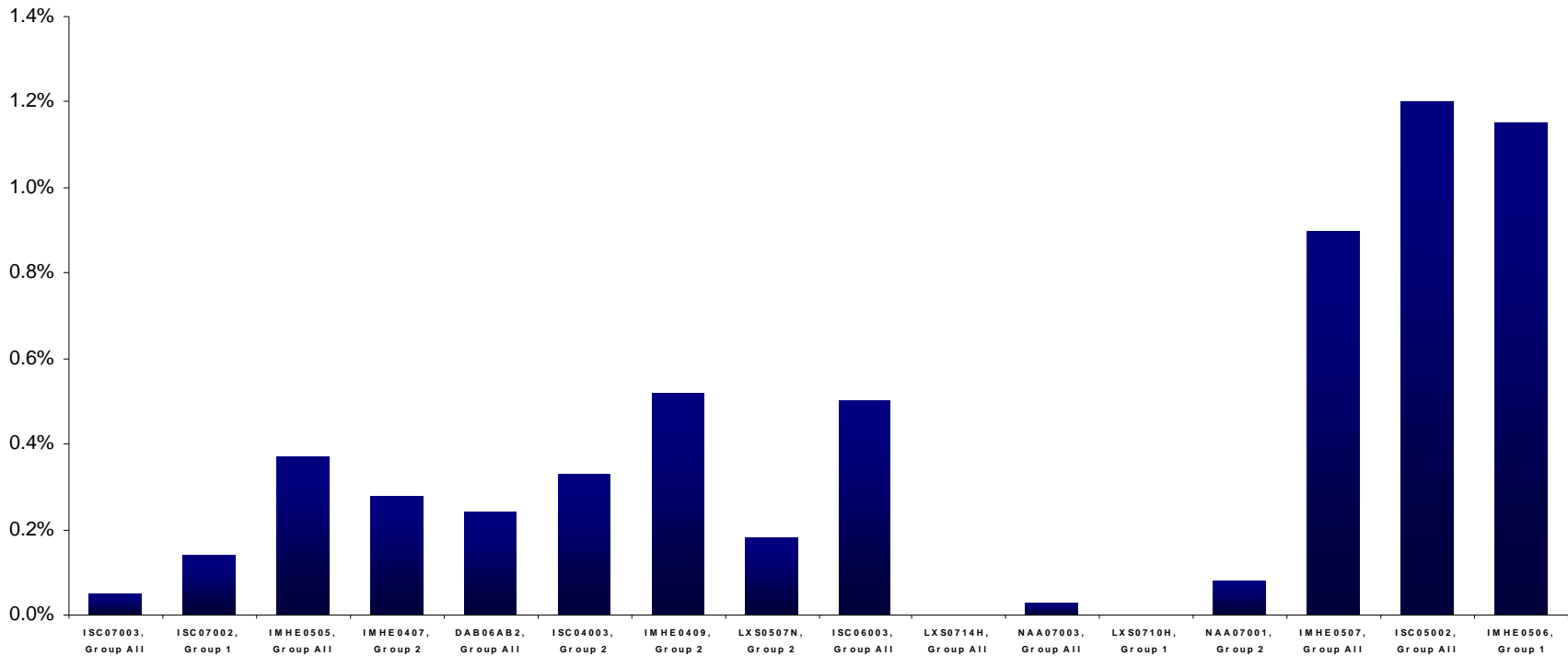
- ▶ Rising default rates have resulted in cumulative net claims payments of \$41.2M as of 3/31/08 across 4 transactions

Mid-Prime (Alt A) Portfolio Performance Update Aggregate Mid Prime Portfolio \$6.5 billion

- ▶ Certain Mid-Prime (Alt A) transactions have shown deterioration in the last few months
- ▶ This deterioration is predominantly apparent in transactions originated in 2005 and, particularly, 2006 /07
- ▶ A limited number of these transactions are now below investment grade given collateral loss expectations of 20-25%
- ▶ The charts following illustrate foreclosure and loss trends for underperforming transactions in the 2005-07 vintage
 - Net Cumulative Loss as a % of original balance
 - Foreclosure plus REO as a % of current balance

Mid-Prime (Alt A) 2006-2007 Vintage Cumulative Loss for Select Underperforming Deals

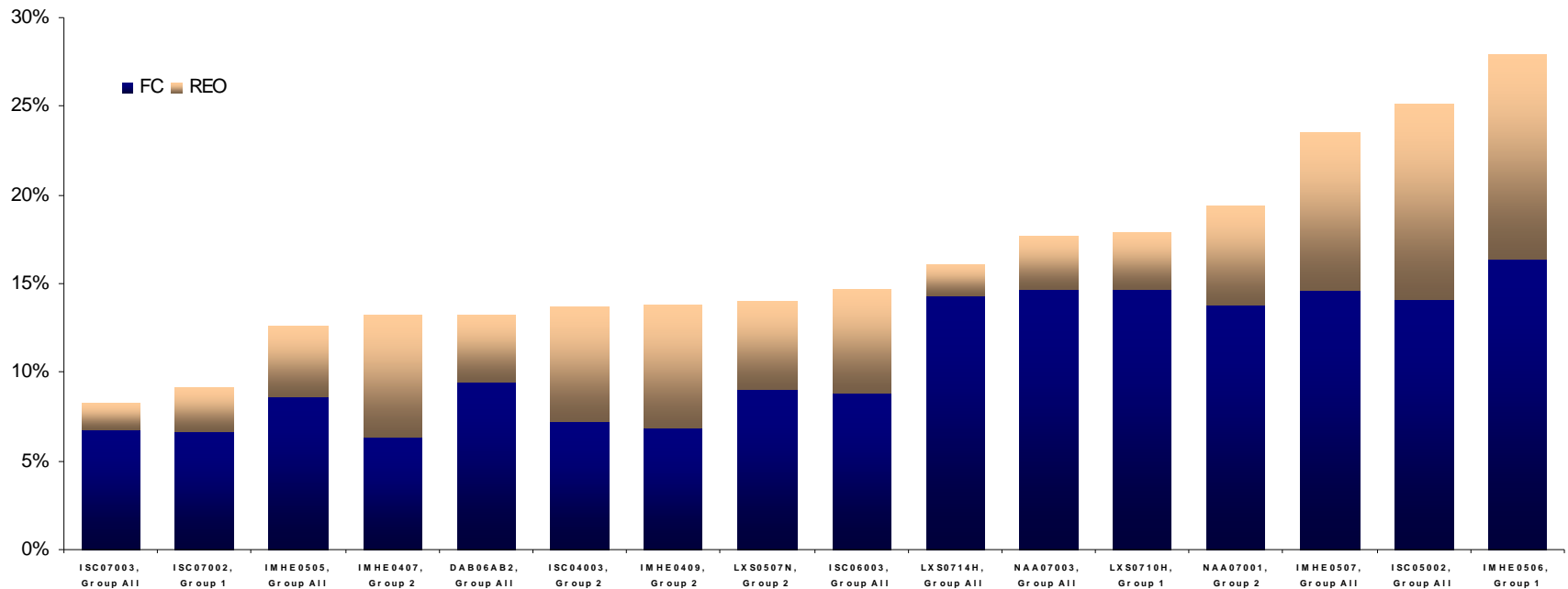
Selected ABK Mid-Prime: Net Cumulative Loss
(% of Original Balance)



- ▶ Relatively low cumulative losses give superficial comfort although there is a build of loans in foreclosure and REO, which may give rise to a rapid increase in cumulative losses (see next page)

Mid-Prime 2006-2007 Vintage Foreclosure & REO for Select Deals

Selected ABK Mid-Prime: Foreclosures & REO
(% of BC)



- ▶ Early and rapid build up of Foreclosure and REO buckets likely to produce rapid escalation of cumulative losses
- ▶ Although severities may be relatively modest (e.g., 35%), relatively low credit enhancement means some transactions will likely be below investment grade given projected cumulative losses of 20-25%

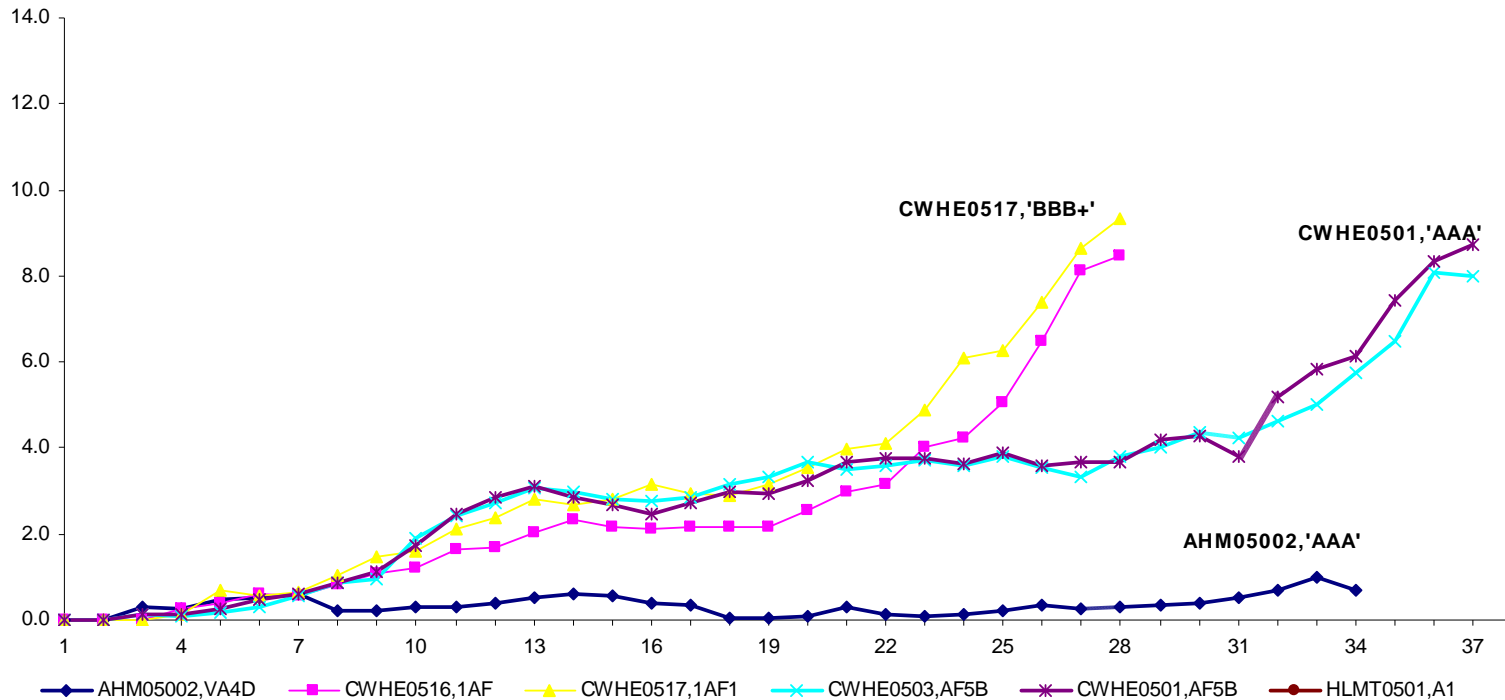
Sub-Prime Performance Update

Aggregate Sub-Prime Portfolio \$8.1 billion

- ▶ The sub-prime portfolio is performing satisfactorily in market context and remains A- on average
- ▶ ABK Portfolio Update
 - 7 (\$425.0m) of 91 transactions are now BIG primarily due to tail-risk, representing 5% by net par of the sub prime portfolio
 - The 7 transactions are represented by 2 issuers and were originated in 2002 or earlier
 - 2006 - 07 transactions continue to perform satisfactorily and represent \$1.6bn or 19% of the sub prime portfolio
- ▶ The charts following illustrate delinquency and loss trends focusing on select underperforming transactions
 - 60+ delinquency as a % of current balance
 - Net Cumulative Loss as a % of original balance

Sub-Prime Portfolio 2005 Vintage, \$1.5 billion 60+ Delinquencies for Select Deals

60+ DELINQ(%)

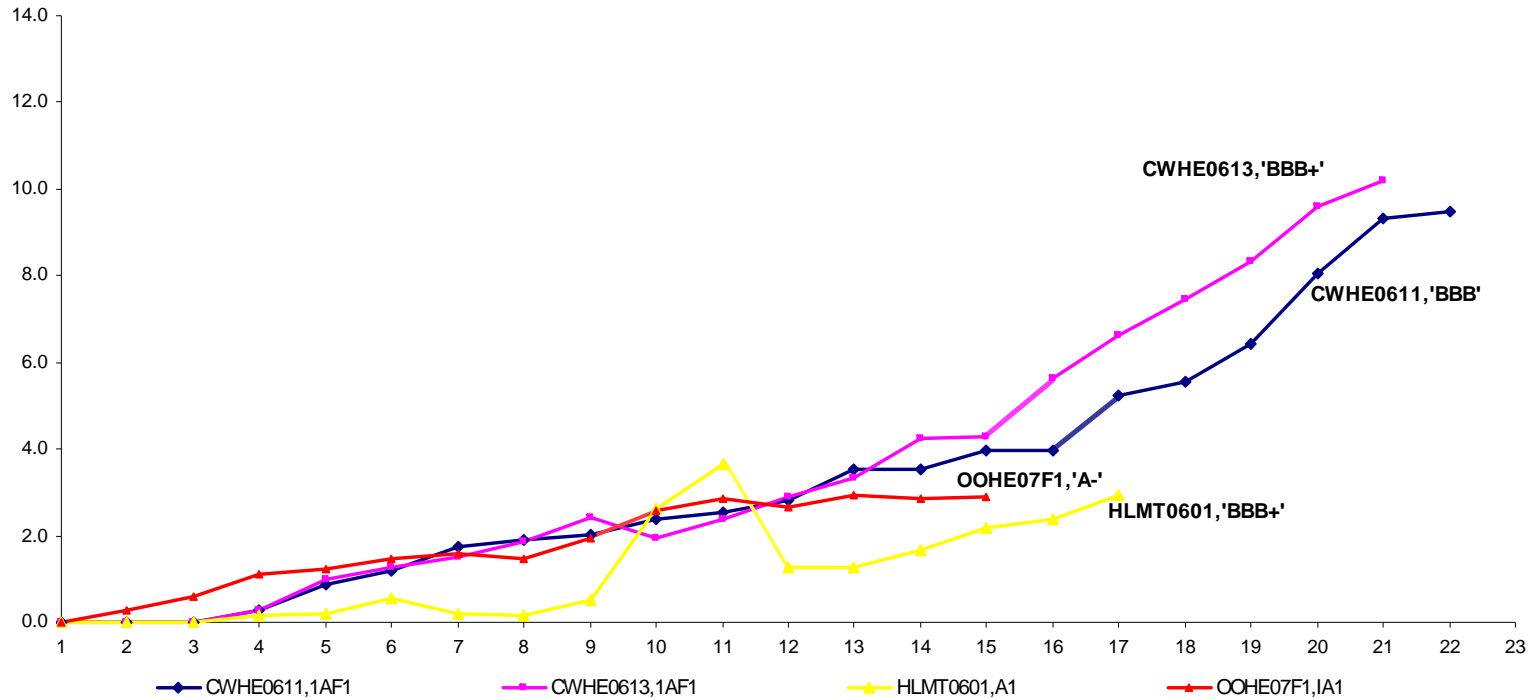


► Average rating BBB+ performance satisfactory in market context

Sub-Prime Portfolio 2006-2007 Vintage, \$1.6 billion

60+ Delinquencies for Select Deals

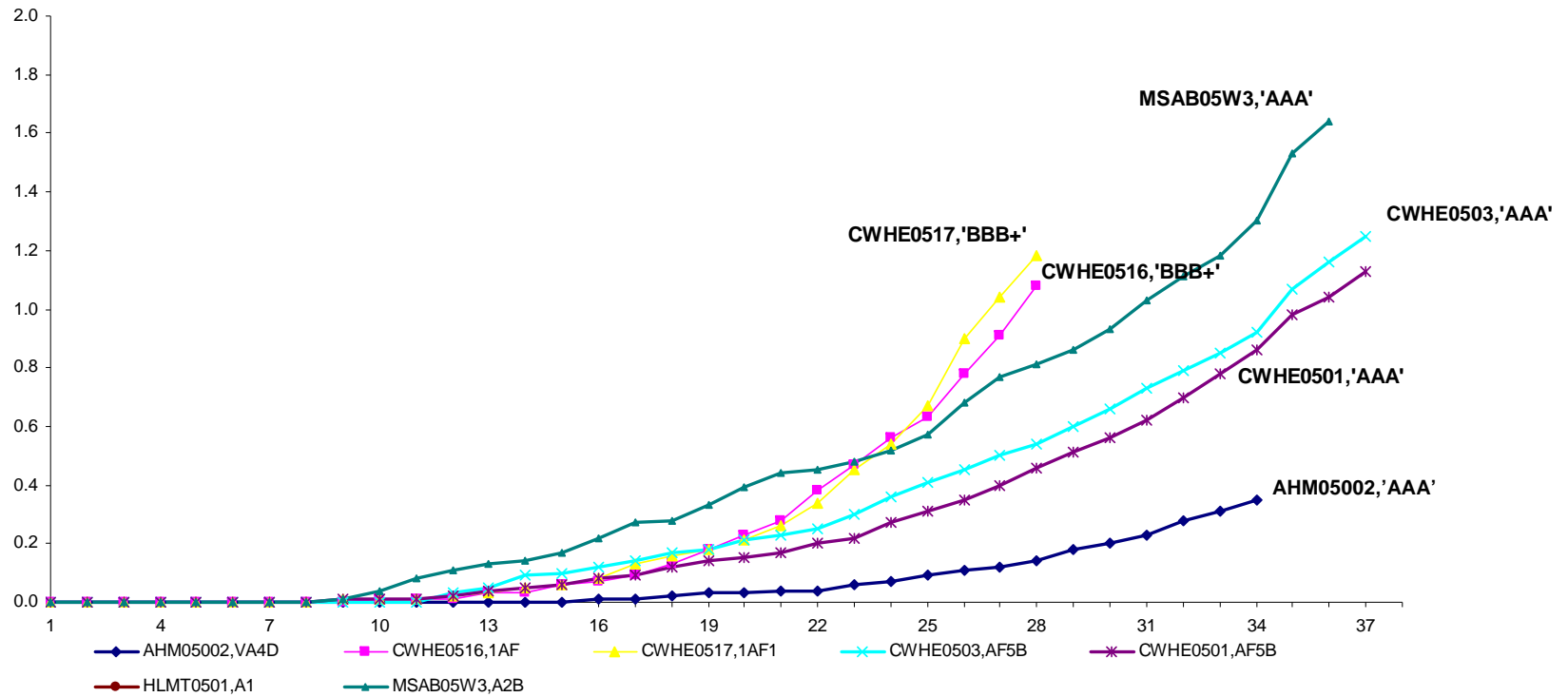
60+ DELINQ(%)



► Average rating BBB+ performance satisfactory in context

Sub-Prime Portfolio Vintage 2005 Cumulative Loss for Select Underperforming Deals

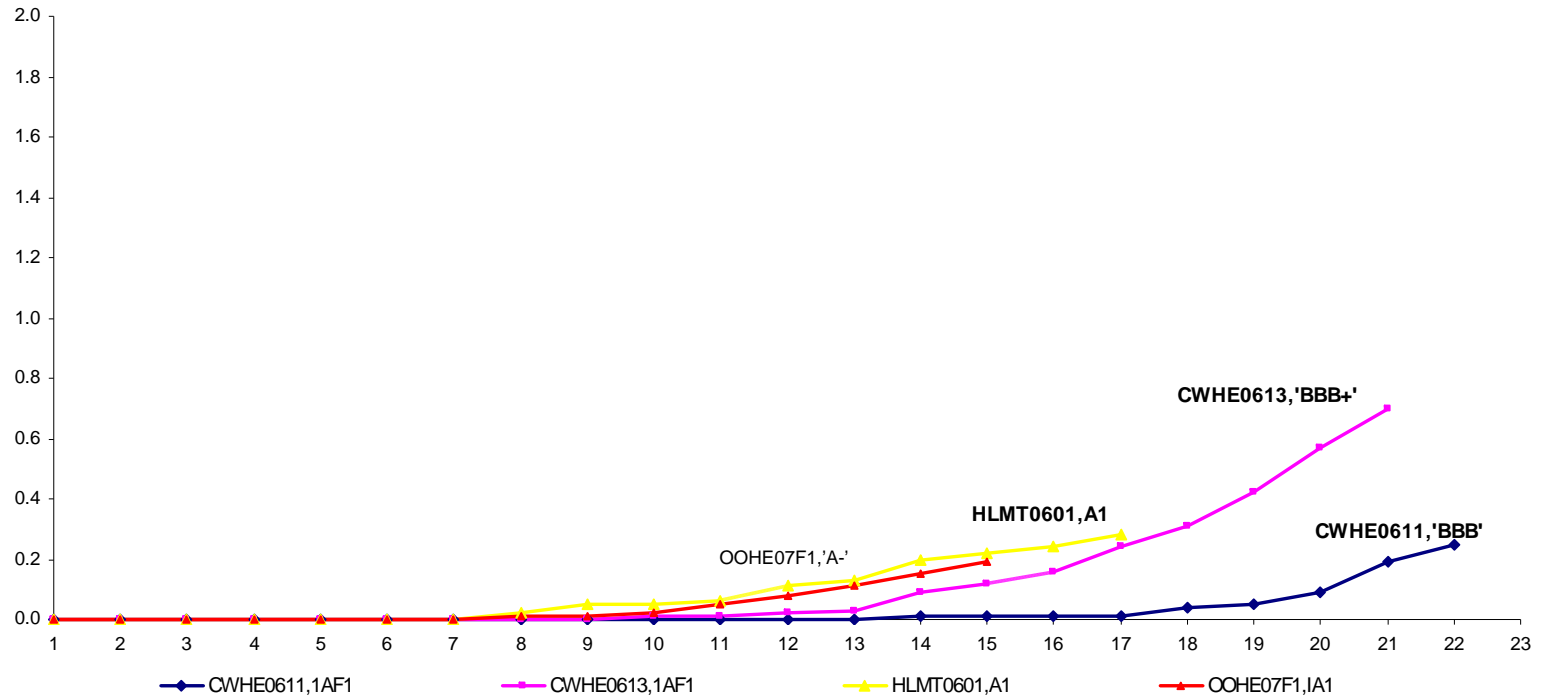
NET CUMULATIVE LOSS(%)



- ▶ Performance is in line/a little below the 2000 vintage, which is tracking to a cumulative loss of approximately 8%
- ▶ No claims expected

Sub-Prime Portfolio Vintage 2006-2007 Cumulative Loss for Select Underperforming Deals

NET CUMULATIVE LOSS(%)



- ▶ Performance is in line/a little above the 2000 vintage, which is tracking to a cumulative loss of approximately 8%
- ▶ No claims expected

Summary of Loss Estimation Methodology for 2nd Lien Transactions

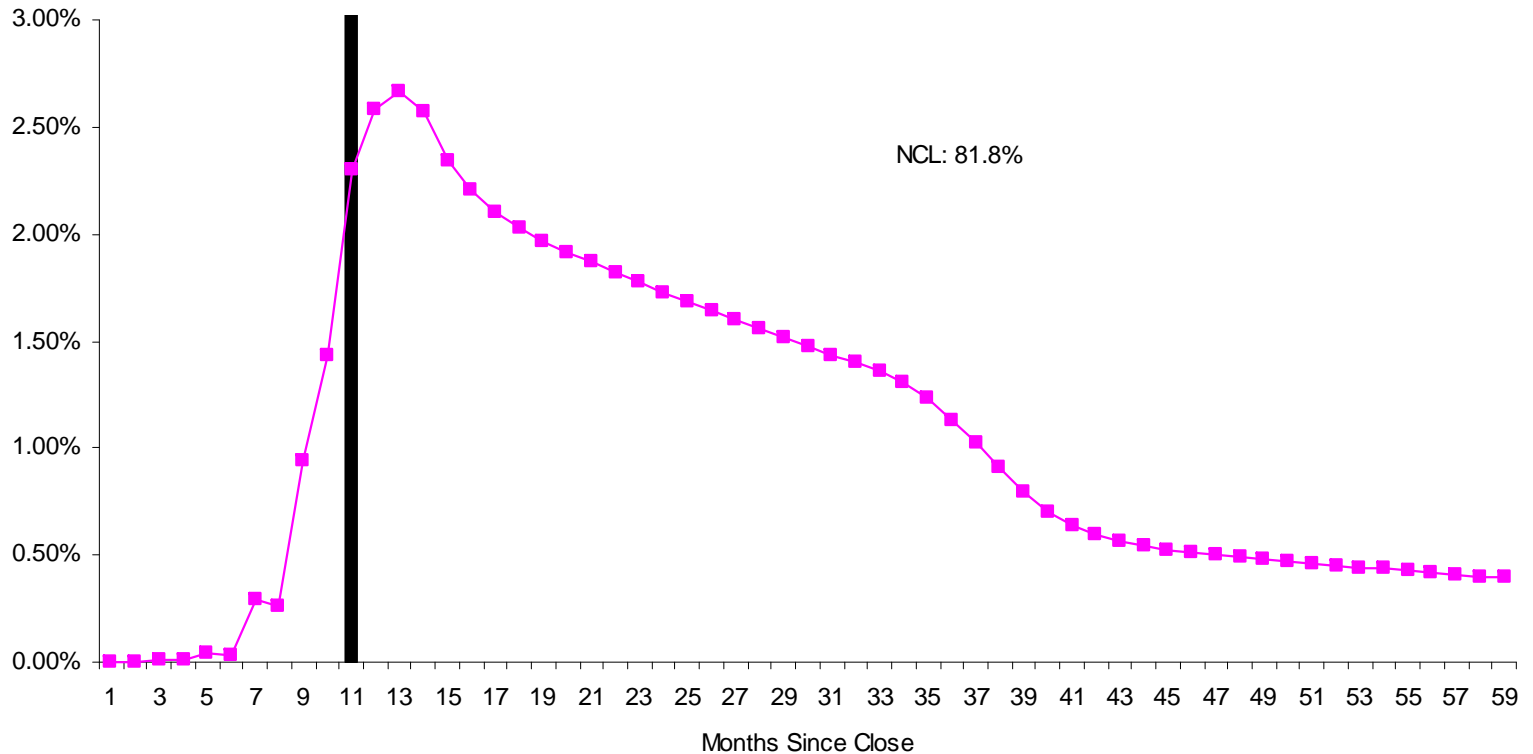
- ▶ Ambac predominantly uses a “roll rate” methodology (i.e. an analysis of the tendency for borrowers to migrate across states of delinquency and potentially cause collateral loss) to calculate potential future claims in respect of 2nd Lien product
- ▶ The methodology looks at current and appropriate historic data (e.g. 100% LTV sub prime data from the late 1990’s) to estimate likely patterns of “bucket migration”
- ▶ Once the roll rates and losses are calculated, the particular transaction structure (subordination, over-collateralization, excess spread, etc) is modeled in Intex incorporating a default curve (which governs the timing of loss) whilst also taking into account the effect of prepayments. This results in an overall picture of potential transaction cashflows

Summary of Loss Estimation Methodology for 2nd Lien Transactions

- ▶ Given recent very adverse performance, the above analysis presently forecasts extremely high collateral losses in respect of a limited number of specific transactions
- ▶ Example: Bear Stearns 2007-01, closed in April 2007
 - NCL to date 9.9%
 - Projected NCL 81.8%
 - Projected collateral loss as a % of current collateral 86%
- ▶ A reasonable estimate of projected collateral loss for the above transaction might have been @10-12%, with the transaction having an A+ rating at inception and being structured to withstand @28-30% collateral loss
- ▶ The results of this analysis are shown in the chart following which plots Monthly Loss Rate (MLR) for the 11 months of the transaction's life plus the future projection

Bear Stearns 2007-1 Monthly Loss Rate Projected Collateral Loss of 81.8%

Bear Stearns 2007-1 MRL (3m average, % of OB)



- ▶ Rapid escalation of Monthly Realized Loss plus declining voluntary prepayment rates to 6%
- ▶ However, given subordinated bonds first claim not expected until September 08

- ▶ Ambac is aggressively remediating its RMBS portfolio
- ▶ Currently, 17 transactions are the subject of diagnostic, forensic and legal scrutiny involving outside assistance. Actions include:
 - Model-based screening for unexpectedly poorly performing loans
 - Analysis of serious delinquency buckets
 - Loan level document review
 - A review of legal documents focusing on representations and warranties
- ▶ Hypotheses are being built which involve fraudulent activity in various guises

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CDO of ABS Performance Update

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CDO of ABS (Net Par \$mm)

	31-Dec-07	%	31-Mar-08	%
High Grade CDOs of ABS	\$26,152	81%	\$25,979	81%
Mezzanine CDOs of ABS	503	2%	497	2%
CDO Squared of CDOs of ABS	2,472	8%	2,472	8%
Commitments to issue policy on ABS CDOs	2,983	9%	2,921	9%
Total	\$ 32,110	100%	\$ 31,869	100%

Product Type and Ambac Rating

CDO of ABS Ratings Migration (by ABK Rating)

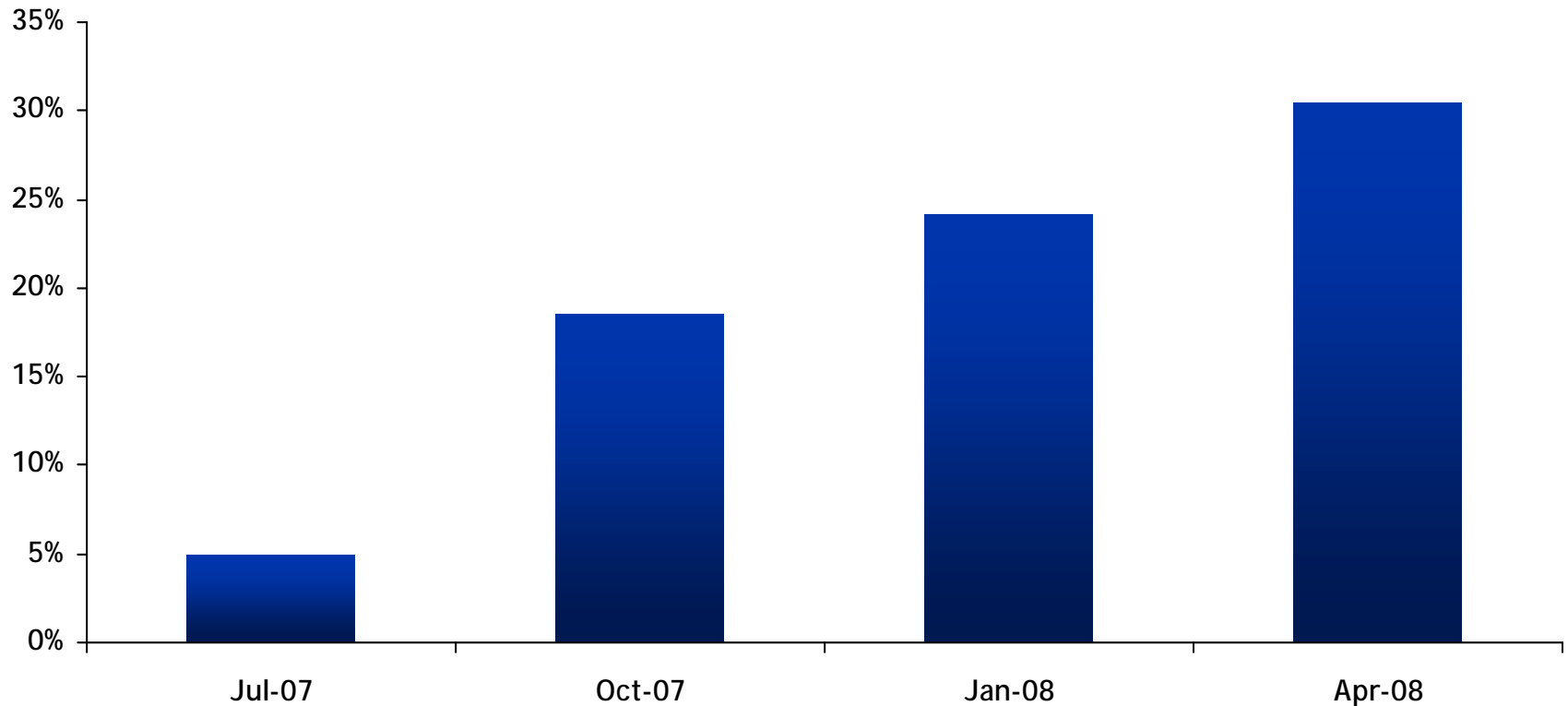
	At Close	%	31-Dec-07	%	31-Mar-08	%
AAA	\$31,939	98%	\$2,661	8%	\$1,663	5%
AA	510	2%	11,481	36%	3,982	13%
A	-	0%	10,831	34%	7,148	22%
BBB	-	0%	4,241	13%	12,105	38%
BIG	-	0%	2,896	9%	6,971	22%
Total	\$32,449	100%	\$32,110	100%	\$31,869	100%

CDO Squared Portfolio: \$2.472 billion

- ▶ 4 transactions
- ▶ 2 transactions exclusively contain mezzanine formerly single A-rated tranches of inner CDO's
- ▶ Overall credit has deteriorated as underlying RMBS tranches have been progressively downgraded
 - This downgrading gives rise to possible liquidations of inner CDO's
 - Some Super Senior investors have chosen to liquidate despite distressed valuations following write-downs
 - Distressed liquidation values are likely to give 100% severities for subordinated inner CDO tranches

Pace of RMBS Downgrades has not Slowed

Percent Collateral Downgraded
for ABS CDOs (source UBS)



- ▶ Collateral downgrades have resulted in approximately \$400 billion of CDO downgrades by S&P (Analysis as of April 16, 2008)

CDO of High Grade

- ▶ **\$4.1 billion are rated BIG**
 - Performance was primarily caused by poor performance in the CDO buckets;
 - 30-40% buckets versus subordination of 19-20%;
 - Weak performance in a large BBB bucket affected one transaction;
- ▶ **\$7.1 billion are rated single A and \$9.1 billion rated BBB**
 - Positions are closely monitored to ensure appropriate cash flow distributions;
 - Trigger points for an Event of Default and Ambac's liquidation and manager removal rights have been verified to ensure fast response of remediation efforts;
- ▶ **Potential claims payments under Ambac's CDS are estimated to be several years out, with principal claims in particular likely being many years away**

Impairments on the ABS CDO Portfolio

As of 3/31/08	Net Par	Impairment	% Impaired
CDO Squared	\$ 2,472	\$1,721	70%
HG / Mezz CDO	\$26,476	\$ 326	1%
Commitment to Issue a Financial Guaranty on ABS CDOs	\$ 2,921	\$ -	-%
Total	\$ 32,869	\$2,047	6

▶ Ratings-Based Analysis

- Assign ratings to underlying collateral (determines default probability)
- Assign LGD mean and standard deviation based on rating, tranche thickness, vintage, etc.
- Assign correlation among collateral default rates based on collateral type and vintage

▶ Drill Down/Roll Up

- Analyze RMBS losses in Intex based on CDR, CPR, Interest Rate and Severity Assumptions
- Model inner CDO losses based on EOD analysis

▶ Structural Analysis

- OC and IC triggers
- Waterfall diversion elements
- Event of Default trigger
- Liquidation trigger
- Manager change trigger

- ▶ Explore purchasing credit protection on some or all of the transactions
- ▶ Initiate discussions on potentially restructuring Ambac's exposure
 - Ensure maximum recovery
 - Identify and mitigate possible credit events
 - Accelerations and Liquidation possibilities being evaluated
 - Review reinvestment opportunities
- ▶ Working with outside parties to generate the widest range of possible alternatives

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Appendix 1 CLOs and Consumer Asset Update

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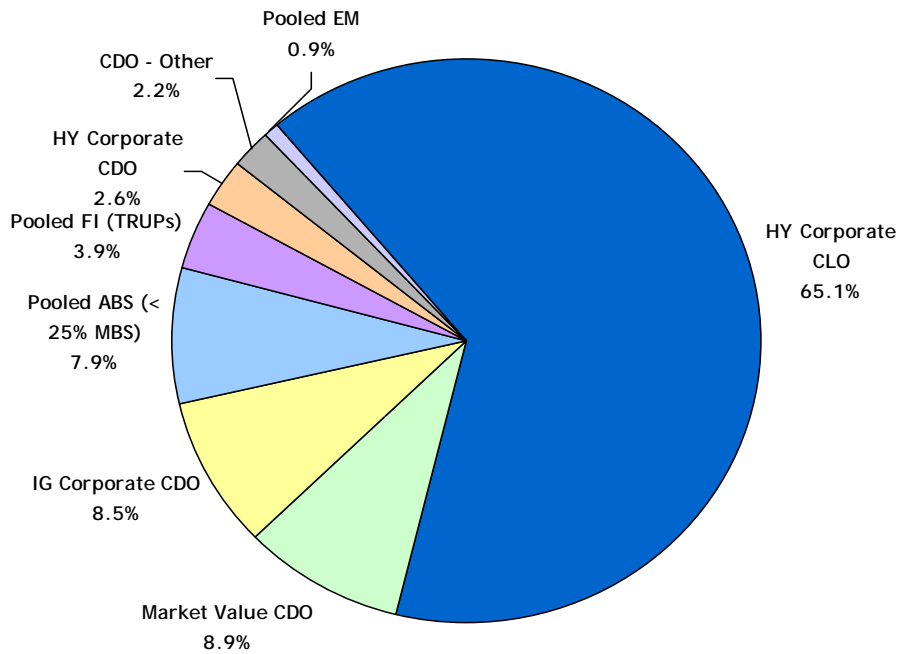
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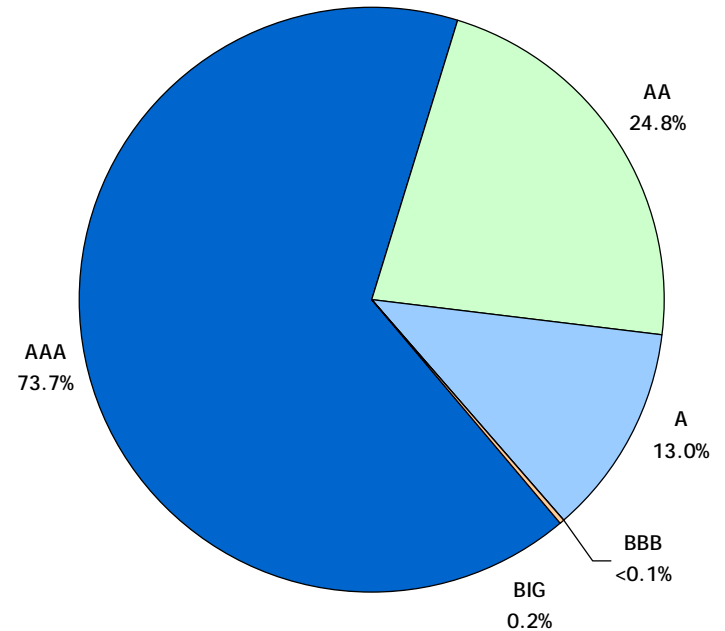
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CDO (<25% RMBS) Net Par by Bond Kind: \$35.7bn Net Par

Net Par by Bond Kind



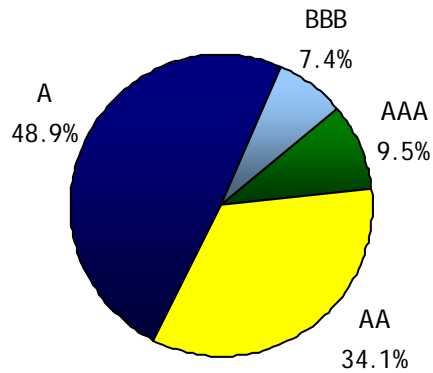
Net Par by Rating



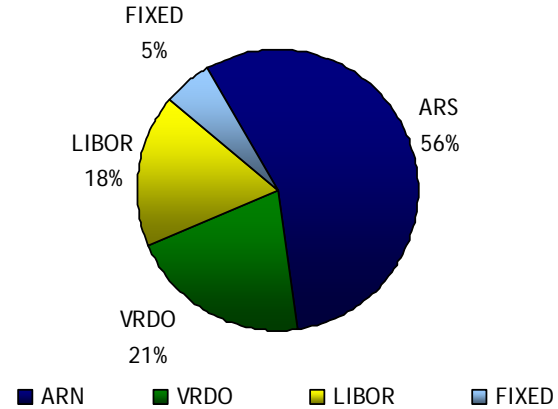
- ▶ CLO portfolio is generally well positioned going into a potentially stressed credit environment

Student Loans Portfolio Update (\$18.0 billion Net Par)

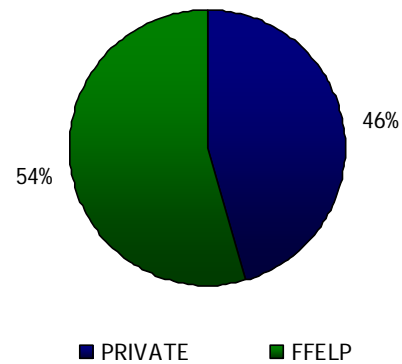
CURRENT AMBAC RATINGS



STUDENT LOAN BOOK BY DEBT TYPE



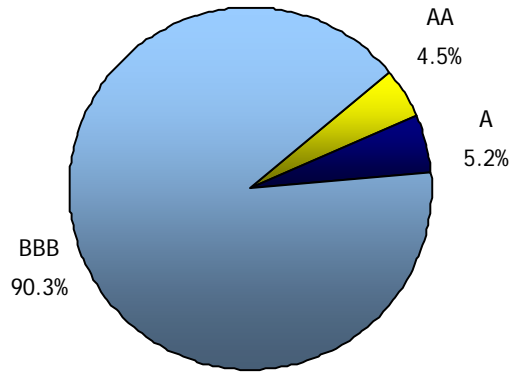
FFELP VS. PRIVATE



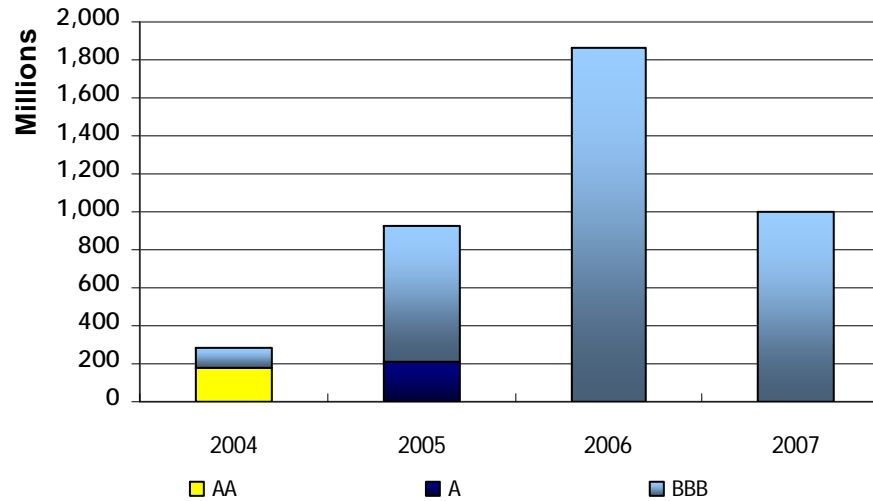
- ▶ Underlying collateral performing satisfactorily

Sub-Prime Auto: Ambac Ratings & Net Par

1Q08 ABK Rating



Total Net Insured Par by Origination and ABK Ratings¹

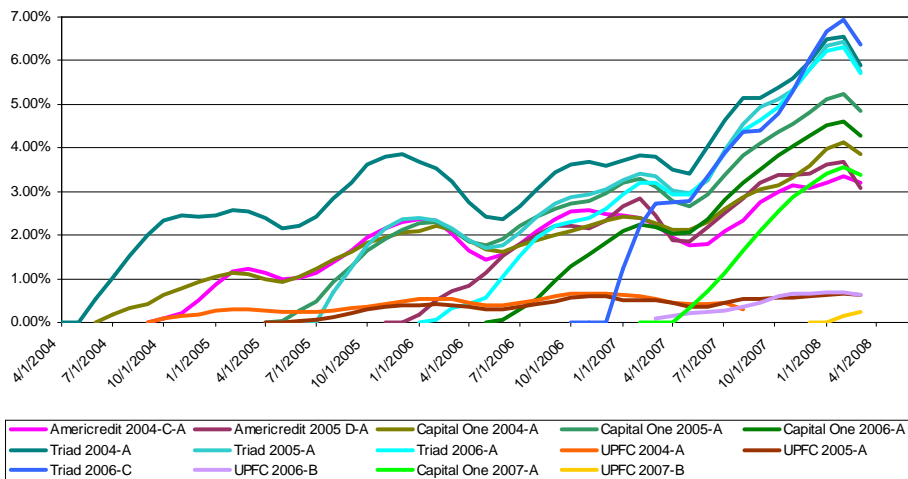


¹ Reflects sub-prime auto by original ABK rating

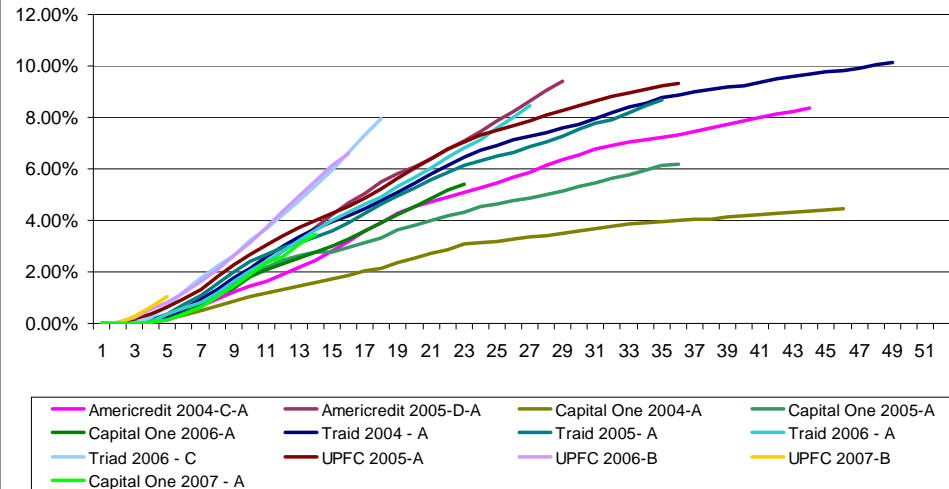
Sub-Prime Auto Portfolio Performance Trends and Analysis

- ▶ Delinquencies and losses have generally risen, although are not presently at levels of significant concern
- ▶ Cumulative net loss performance is very largely in line with expectations. Late 2005/2006 vintage demonstrating higher losses, but are still well within our breakeven case

3 Mon Avg 60+ Day Delinquency Performance



Cumulative Net losses



Asset Backed Summary

- ▶ Student Loan Portfolio (\$18.0BN Net Par)
 - Underlying collateral performing satisfactorily

- ▶ Subprime Auto (\$4.1BN Net Par)
 - Some collateral deterioration but all transactions IG. One transaction on preliminary watch list as an XS spread trigger, designed to support the transaction, has been breached. No claims expected

- ▶ All ABS issuers face the generic issue of market access / liquidity given the current credit market hiatus

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Appendix 2 Earnings and Capital Adequacy

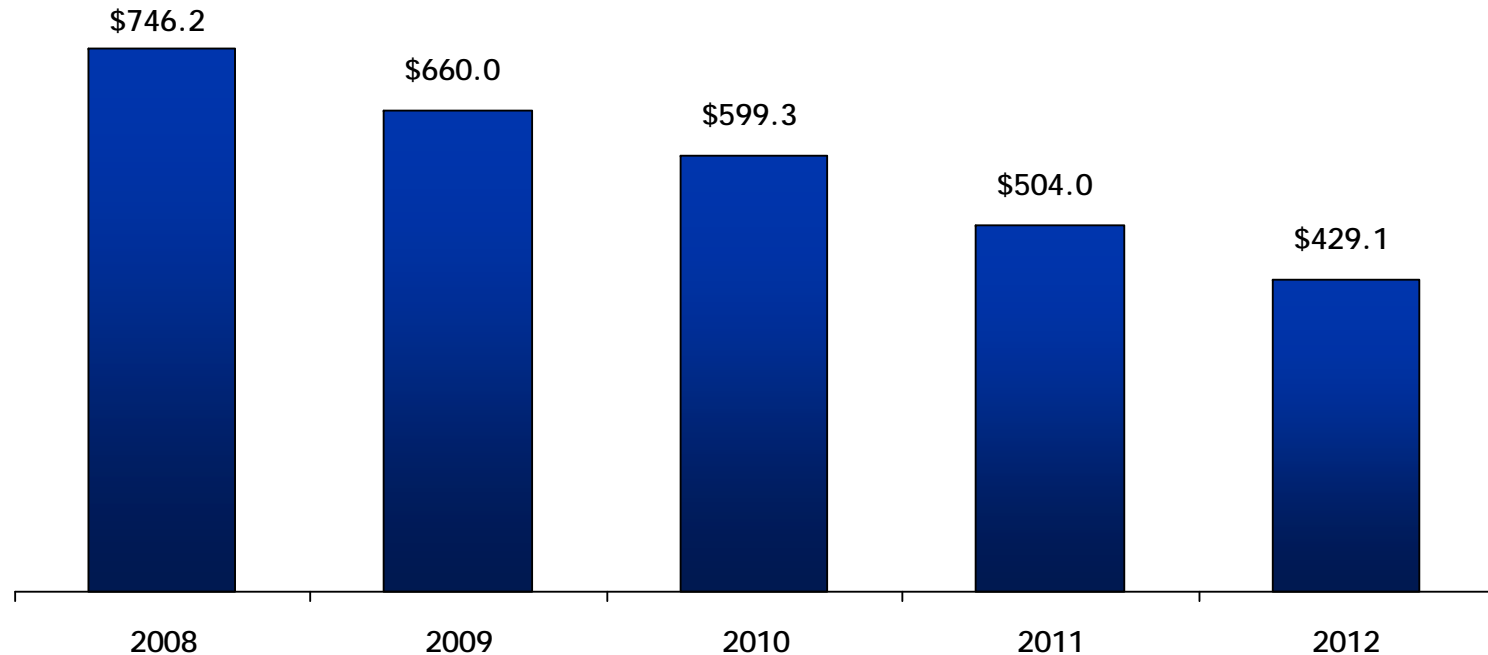
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Substantial Embedded Premium Earnings and Fees on Credit Derivative Contracts in Existing Portfolio (in millions)



- ▶ Premium earnings based upon scheduled amortization of net unearned premiums and estimated future installment premiums and fees on credit derivative contracts as per 3/31/08 Operating Supplement.
- ▶ Investment income generates substantial additional earnings: \$120 million in 1Q'08 based on \$12.0 billion Financial Guarantee investment portfolio as of 3/31/08.
- ▶ Net proceeds from \$1.5 billion capital raise will generate additional investment earnings

AAA Capital Adequacy Requirements by Rating Agencies

	Moody's Total Capital Ratio Total hard and soft capital relative to maximum amount of credit losses (present value) with 99.99% confidence	S&P Margin of Safety Insurer's capital resources as multiple of losses in "worst-case" depression scenario	Fitch Core Capital Adequacy Ratio Adjusted claims-paying resources over required claims-paying resources at the level of confidence Fitch requires for a given ratings level, where 1.0x is minimum for that rating level
AAA Target	1.30	1.25	1.00
Result ¹	1.24	1.33	0.75
Approximate excess capital (\$ millions) ¹	(\$661)	\$400	(\$4,924)
Date of publication	3/12/2008	2/25/2008	3/12/2008

- ▶ Moody's model amortization of insured exposures is estimated to generate at least \$1.2 billion of economic capital in 2008 (approximately \$100 mm per month)
- ▶ Amortization in 1Q 2008 has already generated an estimated \$390 million of capital relief in Moody's model
- ▶ March 2008 capital raise of \$1.5 billion is well in excess of S&P calculated shortfall of \$400MM at 12/31/2007

¹ Represents Ambac's estimate based on publicly disclosed information by the respective Rating Agencies

Rating Agency Mortgage-Related Stress Loss Estimates

(\$B)	S&P Stress Losses ⁽¹⁾	Moody's Stress Losses ⁽²⁾	Fitch Stress Losses ⁽³⁾
RMBS	\$2.5	\$2.0	\$2.1
CDOs	\$3.7	\$3.4	\$8.0
Total	\$6.2	\$5.4	\$10.1

Present Value / Pre-Tax estimates

(\$B)	S&P After Tax Stress Losses ⁽¹⁾	Moody's After Tax Stress Losses ⁽²⁾	Fitch After Tax Stress Losses ⁽³⁾
RMBS	\$1.6	\$1.30	\$1.37
CDOs	\$2.4	\$2.21	\$5.20
Total	\$4.0	\$3.51	\$6.57

- ▶ S&P is the only rating agency to give credit for taxes in their model.

(1) Standard and Poor's Stress Test - 2/25/2008

(2) Moody's Stress Test - 3/12/2008

(3) Fitch Stress Test - 3/12/2008

Statutory Capital and Dividends

- ▶ Changes to Ambac Assurance's Surplus to Policyholders for the 1Q is as follows:

(in thousands)	
Surplus to Policyholders, 1/1/2008	\$3,316,143
Capital Contribution	\$1,310,706
1st Quarter Loss	\$(844,991)
Dividends Paid to Holding Company	\$(54,635)
Contingency Reserves and Other	\$(98,122)
Surplus to Policyholders, 3/31/08	\$3,629,301

- ▶ 2008 Dividends Limitation, without special approval, is \$331 million (or 10% of 12/31/07 Surplus to Policyholders).
- ▶ Dividends from Ambac Assurance to the parent company for 2008 are expected to be \$216 million (or \$54 million a quarter)
- ▶ Dividends of \$54 million for the first quarter of 2008 have been paid

Holding Company: Cash Sources and Uses

Amounts in (\$ 000s)

Sources:		Uses:	
Cash 1/1/2008	\$ 52,440	Debt Service	\$ 24,525
Dividends Received from Subsidiaries	\$ 54,635	Dividends to Shareholders	\$ 7,114
Contribution After Capital Raise	\$ 100,000	Other Outflows (primarily Expenses)	\$ 30,684
Other Inflows	\$ 8,000		
Total Sources	<u>\$ 215,075</u>	Total Uses	<u>\$ 62,323</u>
Cash 3/31/2008	\$ 152,752		

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Appendix 3 Financial Guarantee Investment Portfolio

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Financial Guarantee Investment Portfolio

March 31, 2008

Fixed Income Investment Portfolio

As of March 31, 2008

INCOME ANALYSIS BY TYPE OF SECURITY	Fair Value	Amortized Cost	Yield to Maturity	Weighted Average After-Tax Yield	YTD Investment Income
Financial Guarantee investments:					
Long-term investments					
U.S. government obligations	\$320,610	\$317,678	2.69%	1.75%	\$1,602
U.S. agency obligations	274,690	265,740	4.18%	2.72%	2,161
Municipal obligations	8,794,402	8,652,941	4.54%	4.46%	91,668
Foreign obligations	324,893	303,976	4.76%	3.09%	3,873
Corporate obligations	419,814	395,282	6.00%	3.90%	5,384
Mortgage and asset-backed securities	838,007	830,495	4.77%	3.10%	10,477
Total long-term investments.....	10,972,416	10,766,112	4.55%	4.17%	115,165
Short-term investments	1,023,541	1,023,541	2.74%	2.08%	5,712
Other	12,787	12,903			3,903
Total Financial Guarantee investments.....	12,008,744	11,802,556	4.39%	3.98%	124,780

Highly Liquid Securities

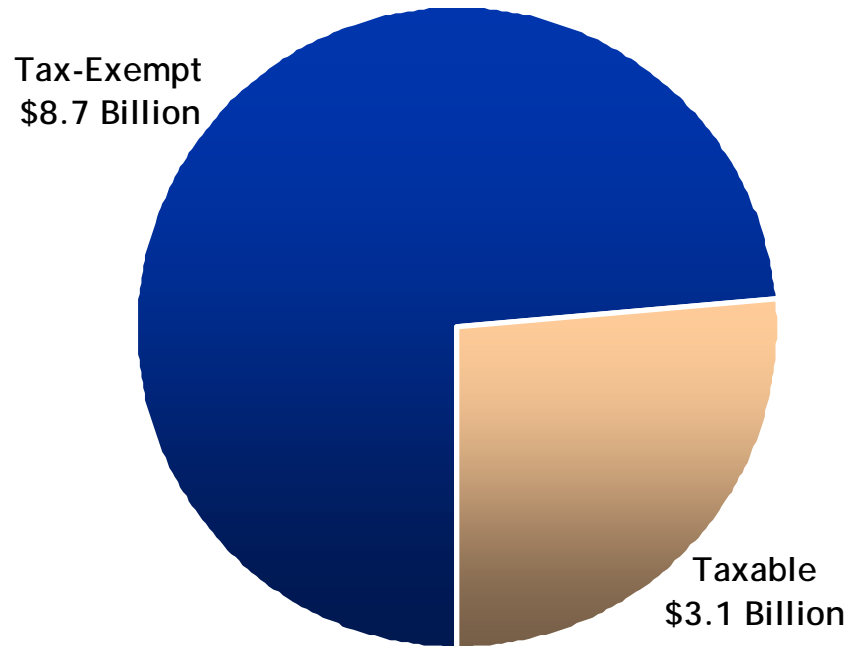
(\$ thousands)	Fair Value	Amortized Cost
Short Term	\$1,023,541	\$1,023,541
US Treasury	320,610	317,678
US Agency	274,690	265,740
US Agency MBS	756,627	751,724
Muni Pre-Refunded	1,367,709	1,286,667
Muni Natural AAA	1,020,535	1,026,873
Muni Natural AA and Insured AA Underlying	4,593,650	4,574,114
	<u>\$9,357,362</u>	<u>\$9,246,337</u>

Financial Guarantee Investment Portfolio

Monthly Expected Cash Generation (\$ million)

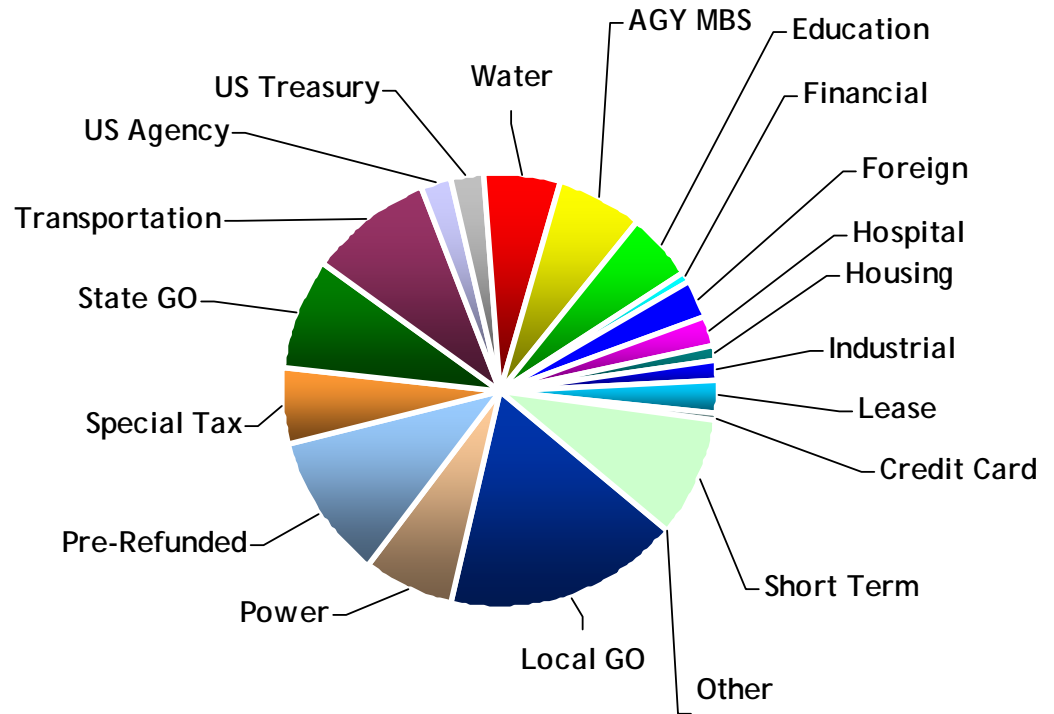
	MuniPortfolio Expected Principal	MuniPortfolio Expected Interest	Taxable Portfolio Expected Principal	Taxable Portfolio Expected Interest	Total
Apr-2008	0	0	13	8	21
May-2008	28	22	13	8	71
Jun-2008	5	42	12	4	63
Jul-2008	50	51	16	9	126
Aug-2008	0	41	72	10	123
Sep-2008	0	16	11	5	32
Oct-2008	23	12	11	8	54
Nov-2008	2	26	11	10	49
Dec-2008	5	42	11	4	62
Jan-2009	33	49	11	8	101
Feb-2009	14	41	10	9	74
Mar-2009	0	16	10	5	31
	160	358	201	88	807

Financial Guarantee Investment Portfolio Tax Status

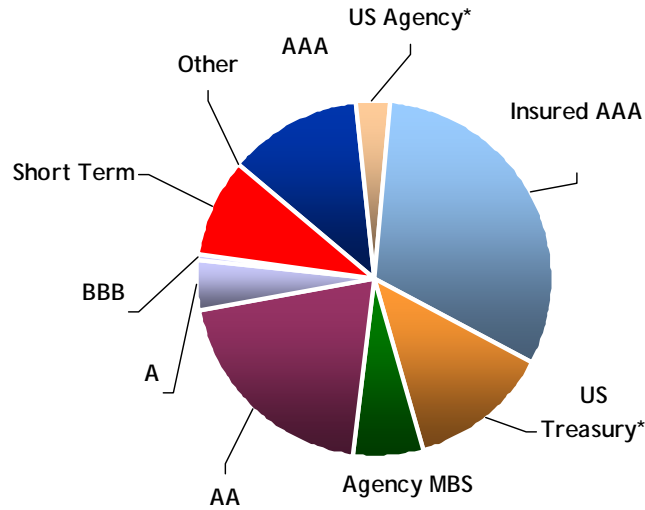


Financial Guarantee Investment Portfolio Sector Allocation

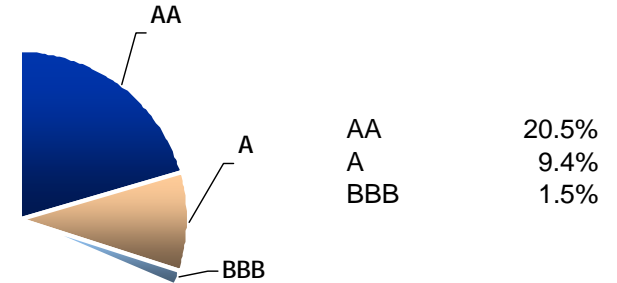
Local GO	17.6%
Pre-Refunded	11.0%
Transportation	9.2%
Short Term	8.7%
State GO	8.2%
Power	6.5%
Agency MBS	6.4%
Special Tax	5.5%
Water	5.5%
Education	4.9%
US Treasury	2.7%
Foreign	2.6%
Lease	2.4%
Hospital	2.3%
US Agency	2.2%
Industrial	1.4%
Housing	1.2%
Financial	0.9%
Credit Card	0.7%
Other	0.1%



Financial Guarantee Investment Portfolio Quality Breakdown



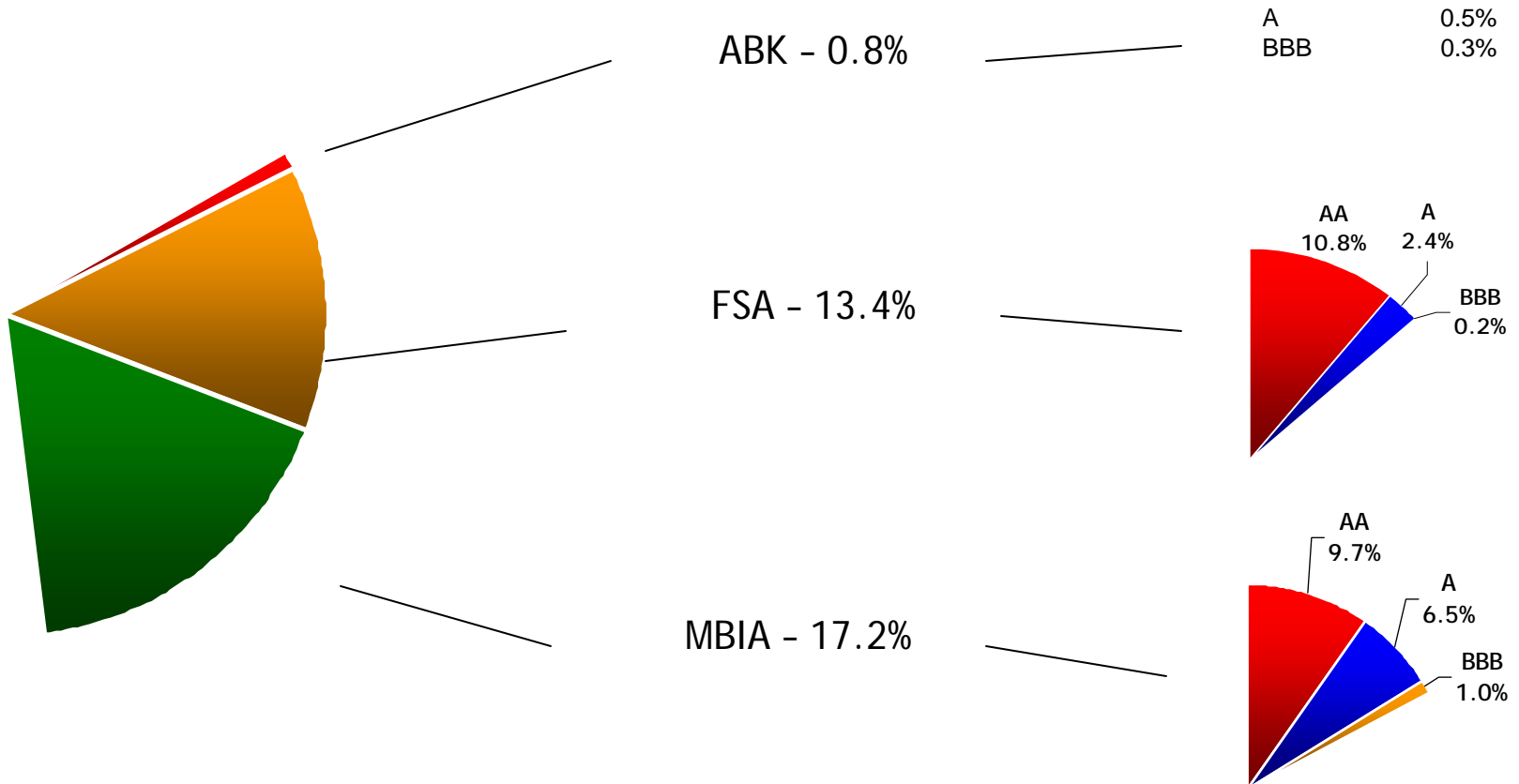
Insured Underlying Rating



Insured AAA	31.4%
US Treasury*	12.7%
US Agency*	3.3%
Agency MBS	6.3%
AAA	12.1%
AA	20.2%
A	4.6%
BBB	0.6%
Short Term	8.7%
Other	0.1%

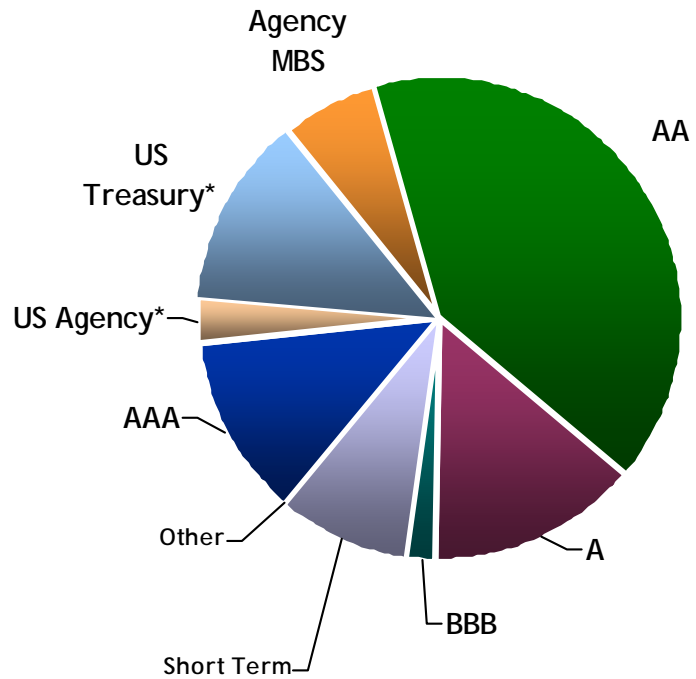
Source: Lower of Moody's or S&P
*Includes Escrowed Municipals

Financial Guarantee Investment Portfolio Guarantor and Underlying Credit Rating Breakdown



Financial Guarantee Investment Portfolio Quality Breakdown Ignoring Insurance

US Treasury	12.7%
US Agency	3.3%
Agency MBS	6.3%
AAA	12.1%
AA	40.7%
A	14.0%
BBB	2.1%
Short Term	8.7%
Other	0.1%



*Includes Escrowed Municipals

Capital Raise Proceeds Long Term Investment Strategy

- ▶ **50% Taxable (3 to 7 years)**
 - 50% To be purchased immediately
 - 35% US Treasury 1.80% - 3.00%
 - 15% US Agency 2.90% - 4.10%
 - 50% US Agency Debentures to be purchased over 60-90 days

- ▶ **50% Tax-Exempt (7.4 year targeted duration)**
 - Purchased as appropriate securities are available
 - Advance refunded with US Treasury collateral
 - Natural AAA and AA rated
 - Insured with minimum AA- underlying rating (majority FSA insured)

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Appendix 4 Business Update

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Business Activity Driven by Secondary Market Opportunities

- ▶ Most of the secondary markets production for the first quarter occurred in early January, but two hospital transactions closed in late February and generated over \$350,000 in CEP
- ▶ Although below last year’s volume, activity has been increasing since the capital raise and ratings confirmations in March
 - Secondary Markets CEP during the first three weeks of April exceeds the CEP generated in the entire first quarter
- ▶ Most transactions since the capital raise have been to restore triple-A ratings on paper insured by monolines that have suffered ratings downgrades
- ▶ These transactions include GOs, transportation bonds, lease bonds, tax revenue bonds and utility bonds
- ▶ The pricing environment has improved significantly from last year’s historical low levels

Period	No. of Transactions	Net Par Insured (mm)	CEP (mm)
1Q08	17	\$ 50.2	\$0.8
(April only as of 4/18/08)	21	\$102.9	\$1.6

Update on Variable Rate Debt Initiatives

- ▶ Ambac has successfully worked with our clients to help them lower their borrowing costs on auction and variable rate debt in over 100 transactions
- ▶ Ambac has approved \$700 million in conversions to Ambac-wrapped fixed-rate deals
 - University of Cincinnati
 - Southern Indiana Gas & Electric
 - Kentucky Utilities
 - Cascade Healthcare
 - Catholic Healthcare
- ▶ Ambac has consented to over 75 term conversions (totaling \$4 billion) that allow the issuers to tap into different investor bases, or to temporarily buy their own securities
 - Palm Beach County School Board
 - Alaska IDA
 - Pasadena
 - City of Babylon
 - Pacific Gas & Electric
 - St. Anthony's Medical Center, St. Louis, MO

Update on Variable Rate Debt Initiatives

- ▶ In the Variable Rate Debt Obligations (VRDO) market, Ambac has worked with banks to amend the bank agreements that provide liquidity to the bonds. The borrowing costs of Ambac-wrapped VRDO's have decreased by 100-200 basis points for over \$1 billion in securities (8 deals)
 - Utah Water
 - Intermountain Power Agency
 - The Medical Center of Central Georgia
- ▶ Another liquidity feature that has been added to VRDO transactions is a direct pay letter of credit wrapped around the Ambac guaranteed obligation. We have completed two such transactions, have approved several more which are pending closing, and are actively working with commercial banks on programs to offer this product to other Ambac clients
 - University of South Florida
- ▶ Ambac has also worked on other consents and structural changes to wrapped bonds that offer the flexibility our clients need to ride out adverse market conditions. These include agreements to change remarketing agents, and consents to effectuate bond exchanges or refundings when in the best interest of our clients

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Appendix 5: Exposure to the Financial Guaranty Sector

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Exposure to the Financial Guaranty Sector (By Rating)

(\$ thousands)

	Reinsurance Ceded	Investment portfolio - FG	Investment portfolio - FS	CDS	TRS	Total
AAA	18,950	3,697	533	1,403	195	24,778
AA	66,282	-	-	218	-	66,500
A	1,219	-	-	105	-	1,324
BIG	712	1,283	116	40	-	2,151
Total	87,163	4,980	649	1,766	195	94,753

Exposure to the Financial Guaranty Sector (By Bond Type)

	Reinsurance Ceded	Investment portfolio - FG	Investment portfolio - FS	Credit Default Swap	Total Return Swap	Total
Public Finance:						
Lease and tax backed	12,158	738	24	-	30	12,950
General obligation	7,351	1,710	13	-	-	9,074
Utility	6,174	885	11	-	-	7,070
Health care	10,082	218	-	-	-	10,300
Transportation	6,280	901	-	-	-	7,181
Higher education	3,431	387	-	-	-	3,818
Housing	1,425	52	-	59	-	1,536
Other	371	10	-	-	31	412
Total Public Finance	<u>47,272</u>	<u>4,901</u>	<u>48</u>	<u>59</u>	<u>61</u>	<u>52,341</u>
Structure Finance:						
Mortgage-backed & home equity	2,673	-	113	-	-	2,786
CDO of ABS > 25% MBS	455	-	-	-	-	455
Other CDO's	378	-	65	299	-	742
Asset-backed and conduits	6,117	-	206	-	-	6,323
Student loan	4,812	-	40	-	-	4,852
Investor-owned utilities	4,250	55	-	-	-	4,305
Other	1,960	-	177	-	134	2,271
Total Structured Finance	<u>20,645</u>	<u>55</u>	<u>601</u>	<u>299</u>	<u>134</u>	<u>21,734</u>
International Finance:						
Other CDO's	882	-	-	-	-	882
Asset-backed and conduits	4,813	-	-	293	-	5,106
Mortgage-backed & home equity	924	-	-	-	-	924
Investor-owned and public utilities	6,067	-	-	875	-	6,942
Sovereign/sub-sovereign	3,159	-	-	88	-	3,247
Transportation	2,604	24	-	152	-	2,780
Other	797	-	-	-	-	797
Total International Finance	<u>19,246</u>	<u>24</u>	<u>-</u>	<u>1,408</u>	<u>-</u>	<u>20,678</u>
Grand Total	<u>87,163</u>	<u>4,980</u>	<u>649</u>	<u>1,766</u>	<u>195</u>	<u>94,753</u>
Percent of Total Net Par Outstanding						
Public Finance	54.2%	98.4%	7.4%	3.3%	31.3%	55.2%
Structured Finance	23.7%	1.1%	92.6%	16.9%	68.7%	22.9%
International Finance	22.1%	0.5%	0.0%	79.8%	0.0%	21.9%
Total Net Par Outstanding	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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Appendix 6: Investment Agreement Business

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Investment Agreement Book - Liability Details

Diverse source of funds with differing types of withdrawal probability, frequency and magnitude

(\$MM)

	1Q08 Book Value	4Q07 Book Value	Purpose
Contingent Draw	3,961	4,014	
ABS CDO (10 deals)	2,014	2,059	Escrow of funded debt and equity for CDS claims, P&I payment
CLN (22)	1,283	1,283	Escrow of funded debt for CDS claims, P&I payment (62% AAA debt)
Debt Service (81)	438	443	Reserve used to pay debt service if pledged revenues insufficient
Structured Insurance (2)	139	139	Escrow of funded debt for insurance portfolio experience, P&I payment
Capital Interest (3)	87	90	Pay debt service interest costs during the development stage
Fixed Draw	2,833	3,347	
Construction (9)	1,098	1,247	Escrow of debt proceeds for the payment of international project costs
CLN (73)	875	875	Escrow of funded debt for CDS claims (only at maturity), P&I payment
Defeasance (41)	860	1,225	Escrow of debt or equity proceeds to secure final payment at maturity
Full Flexible	311	379	
Construction (5)	306	374	Escrow of debt proceeds for the payment of municipal project costs
Float Fund (4)	5	5	Escrow of recurring cash proceeds for the payment of debt service
Total	7,105	7,740	

* Book Values reflect hedge adjustments

Investment Agreement Book - Downgrade Cure Provisions

\$2B collateralized at inception, additional collateral needed at various rating triggers

Balance as of 1st Q '08

Investment Agreement: Collateral Obligations (excluding applicable haircuts)						
at	AAA	AA+	AA	AA-	A+	A
Balance (in 000's)	7,213,702	7,213,702	7,213,702	7,213,702	7,213,702	7,213,702
Uncollateralized	5,129,637	5,070,214	5,070,214	4,965,984	2,252,133	717,633
Return Monies	-	6,880	6,880	83,307	488,815	510,648
Collateralized	2,084,065	2,136,608	2,136,608	2,164,410	4,472,754	5,985,421

Amounts in dollars

- ▶ At inception, \$2.1B (29%) of Investment Agreements have assets from our investment portfolio pledged in specific and segregated accounts
- ▶ Rating requirements and cure provisions vary across deals
- ▶ Typical cures include funds to be returned, collateral to be pledged and an additional collateral haircut based on asset type
- ▶ Upon downgrade to "AA-", \$5.0B of IAs would not require a cure provision, \$0.1B of funds would be returned and \$2.2B of funds would be collateralized with existing assets from our investment portfolio

Investment Agreement Book - Investment Portfolio Overview

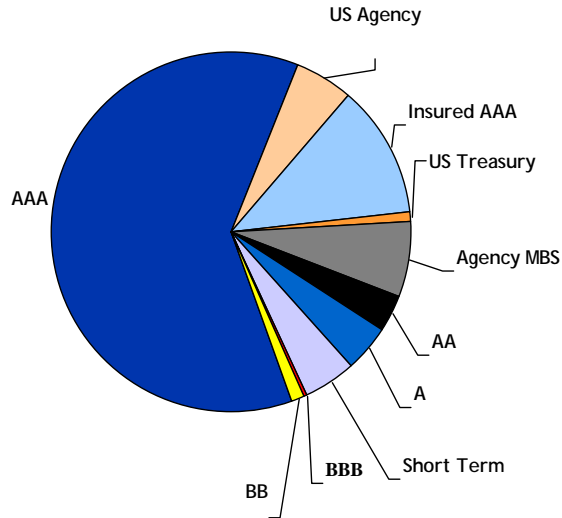
Diversified high quality assets with long term positive profile

- ▶ Consists predominantly of high grade fixed income securities diversified across ABS, RMBS, GSE, Corporate and Taxable Municipal assets.
- ▶ About 91% in book value is rated Aaa/AAA including wrapped securities, U.S. government, agency obligations and cash.
- ▶ Over 83% in book value is rated Aa/AA or better when ignoring the wrap.
- ▶ The decline in market value during the 1st Qtr 2008 is concentrated in RMBS Alt-A and consumer ABS classes:
 - RMBS Alt-A: Acceleration in 60+ Delinquencies and slowing prepay speeds negatively impacted '06 & '07 vintages. The market continues to severely discount the value of Alt-A's without regard to underlying credit quality and structural merits of individual deals.
 - Student Loans: Legislative changes have impacted the cost of funds and economics to primary FFELP issuance, which has led to uncertainty and secondary market disruption.
 - Credit Cards & Autos: Impacted from general sub-prime contagion.
 - CLO: Makes up 80% of our CDO exposure and was negatively impacted by leveraged loan credit spread widening and general balance sheet issues at Banks.
 - Wrapped positions: 12% AAA wrapped (ABK, MBIA, FSA and AGO) and 2% wrapped by FGIC were impacted as the market continues to discount the value of monoline insurance.
- ▶ Although market valuations have continued to deteriorate over the past 3 months due to the mortgage and liquidity crisis, the portfolio is largely hold to maturity with unrealized losses expected to reverse over time.

Investment Agreement Book - Quality Breakdown

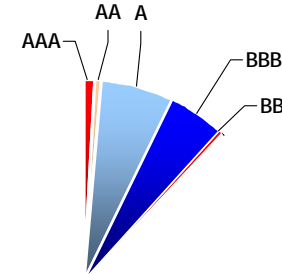
Predominantly Aaa/AAA

Portfolio Holdings



AAA	61.7%	
Insured AAA	12.0%	
Agency MBS	6.5%	
U.S. Agency	5.3%	
Short Term	4.8%	
U.S. Treasury	0.8%	91.1%
AA	3.3%	
A	4.3%	
BBB*	0.2%	
BB*	1.1%	

AAA Insured Underlying Rating



AAA	0.7%
AA	0.6%
A	6.1%
BBB	4.3%
BB	0.3%
Total	12.0%

Source: Lower of Moody's or S&P
 *BBB's & BB's are FGIC wrapped bonds
 Based on Book Value at 3/31/08

Investment Agreement Book - RMBS Alt-A Positions

Mainly Super Senior tranches performing with sufficient loss coverage

- ▶ The RMBS-Alt-A positions represent mostly first lien mortgages in super senior tranches of Aaa/AAA RMBS deals issued from 2004 to 2007.
- ▶ Market value of the Alt-A holdings declined by \$781 mm from 12/31/07 to 3/31/08 primarily due to an increase in unrealized loss of \$662 mm and a credit impairment write-down of \$95 mm.
- ▶ All of the tranches held in our portfolio are performing and most are considered money good bonds.
- ▶ Extensive surveillance and cash flow analysis is performed on each Alt-A position stressing various risk factors. Most positions have sufficient credit support to withstand base case and stress case tests.

Alt-A Vintage	
2007	38%
2006	43%
2005	17%
2004	2%

Alt-A Structure Priority		
1st Pay	33%	98.7% Super Sn
2nd Pay	9%	100% Super Sn
3rd Pay	58%	100% Super Sn

Performance Summary	
Weighted Average Current Support	20.8%
Weighted Average Projected Cumulative Losses	12.7%
Weighted Average Loss Coverage	1.6
Weighted Average WALA	20.6

- ▶ Based on our modeled base case, we expect some credit impairment on only 5 tranches, estimated to be only \$17.3 mm at 3/31/08.
- ▶ Default, loss, timing and prepay assumptions and other risk factors are constantly adjusted as new information and seasoning is obtained.

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Appendix 7: Book Value versus Adjusted Book Value

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Price Relative to Book Value is at Historical Lows Reflecting Market Assumptions/Projections on Portfolio Performance

