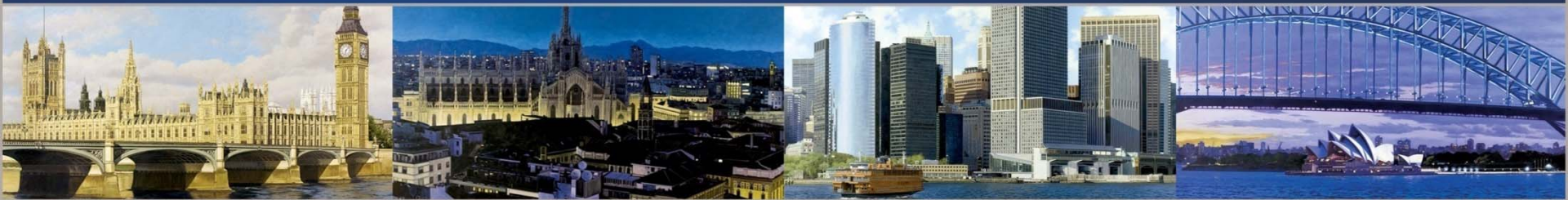


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Ambac Financial Group, Inc.

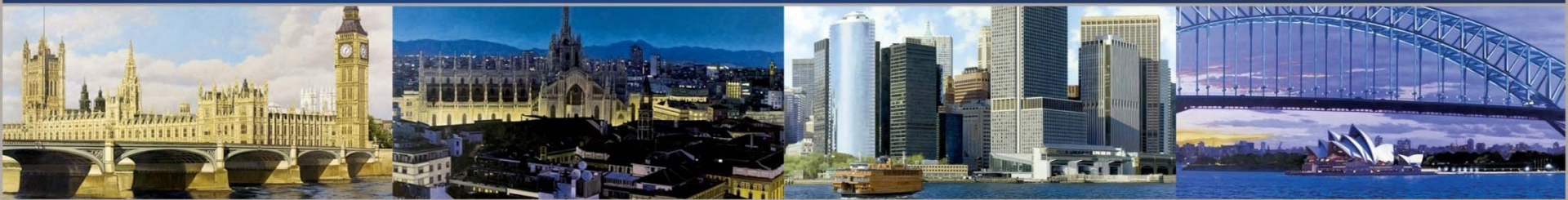
1st Quarter 2009 Financial Highlights
May 11, 2009

Strategic Priorities

► Strategic Priorities for 2009

- Manage and stabilize the insured portfolio for the benefit of all stakeholders
 - Hired Greg Raab as Chief Risk Officer
- Investment in superior risk analytics to capitalize on the market's need to rebuild infrastructure, to support greater transparency and provide risk oversight for credit-related products
 - Leverage existing capabilities; and
 - Selectively seek to build/partner to complement existing skill base
- Launch Everspan, a back to basics, municipal-only, well-capitalized guarantor
 - In active discussions to seek “outside capital” to ensure separateness
 - Targeting highest available ratings for a “pure-play” public finance insurer

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1st Quarter 2009 Financial Summary

FAS 163 Implementation Impact on Balance Sheet

Implemented on January 1, 2009

(\$ Mn)	Balance at December 31, 2008	Balance at January 1, 2009	Change
Assets	\$17,250	\$22,860	\$5,610
Liabilities	\$20,339	\$26,330	\$5,991
Equity	(\$3,089)	(\$3,470)	(\$381)

- ▶ Premiums receivable (asset) and ceded premiums payable (liability) increased to reflect the recording of the PV of future installment premiums discounted at risk-free rate. Ceded premiums payable is net of future ceding commission receivable on reinsured policies. See 1Q Operating Supplement for further detail.
- ▶ Unearned premium reserves (liability) and deferred ceded premiums (asset) increased to reflect recording of PV of future installment premiums discounted at risk-free rate offset by the change in the premium earnings methodology to the level-yield method. See 1Q Operating Supplement for further detail.
- ▶ Loss and loss expense reserves (liability) and reinsurance recoverable (asset) increased to reflect estimated losses based on probability-weighted cash flows discounted at risk free rate instead of a best estimate of cash flows discounted at a rate using the after-tax investment yield of the investment portfolio; offset by the requirement to recognize loss reserves only for the excess of the expected loss over the unearned premium reserve on a transaction basis. See 1Q Operating Supplement for further detail.
- ▶ Note that throughout this presentation, earned premiums and loss and loss expenses in 2009 and 2008 are not comparable due to implementation of this standard

Summary Financial Results

(\$ Mn)	1Q 2009	1Q 2008
Net premiums earned*	197	187
Net investment income, x VIE	97	120
Net realized investment (losses)/gains (FG)	(743)	22
Net change in fair value of credit derivatives	1,546	(1,708)
Loss and loss expenses*	740	1,043
Financial services pre-tax (loss) income	11	(289)
Income/(loss) before income taxes	280	(2,791)
Net loss	(392)	(1,660)

- ▶ 1Q 2009 GAAP net income per share: \$1.36
- ▶ Net change in fair value of credit derivatives driven by wider Ambac credit spreads partially offset by lower prices and downgrades of mortgage-related CDO exposures
- ▶ 1Q 2009 provision for loss and loss adjustment expenses relates, primarily, to Alt-A “affordability” RMBS transactions

* Amounts reported for net premiums earned and loss and loss expenses in 2009 and 2008 are not comparable due to implementation of FAS 163.

Earnings Measures

Amounts in USD	First Quarter	
	2009	2008
Net loss per share	(\$1.36)	(\$11.69)
Effect of net security losses	(1.86)	4.75
Operating loss	(3.22)	(6.94)
Effect of accelerated earnings	(0.09)	(0.14)
Core loss	<u>(3.31)</u>	<u>(7.08)</u>

- ▶ Operating loss excludes the impact of unrealized gains/losses from the credit derivative portfolio, but not the impact of estimated credit impairment within the portfolio
- ▶ Core loss further excludes the net income impact of accelerated earned premiums from refundings

Holding Company Liquidity

\$ in thousands

AFG cash and s/t investments at 3/31/2009	\$177,754
Projected debt service for remainder of year	(\$82,853)
Projected AFG expenses	(\$9,376)
Interest income	\$622
AFG projected cash at 12/31/2009	\$86,477
Annual debt service	\$113,316
Annual debt service coverage at 3/31/09	1.57

- ▶ Intercompany loans receivable at 12/31/08 were settled during the first quarter
- ▶ Statutory net loss for 2008 prohibits dividends from Ambac Assurance in 2009 without approval from Wisconsin Office of the Commissioner of Insurance (OCI)

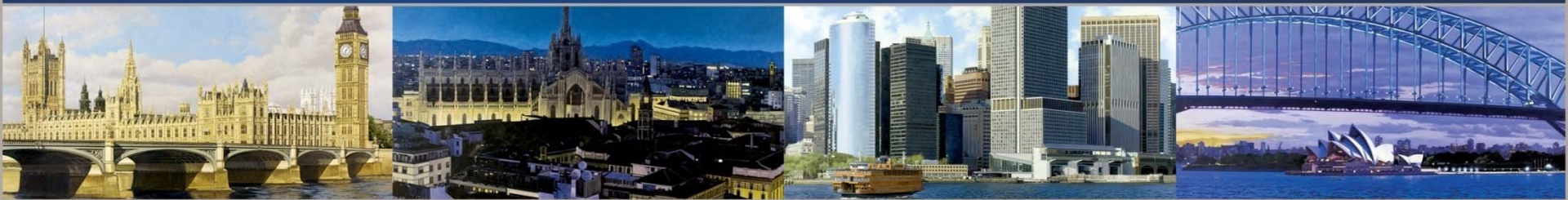
Statutory Capital and Dividends

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

	1Q 2009
Beginning Surplus to Policyholders	\$1,554,448
Net loss	(232,220)
BIG investments, not impaired	(992,273)
Contingency Reserves	(32,010)
Preferred Stock Activity	93,141
Other	3,391
Ending Surplus to Policyholders	<u>\$394,477</u>
Claims Paying Resources	<u>\$11,957,000</u>

- ▶ Statutory net loss includes the impact of impairment on Alt-A investment portfolio securities of \$331 Mn and net losses incurred of \$232 Mn
- ▶ Ambac Assurance does not have any ordinary dividend capacity to parent company for 2009

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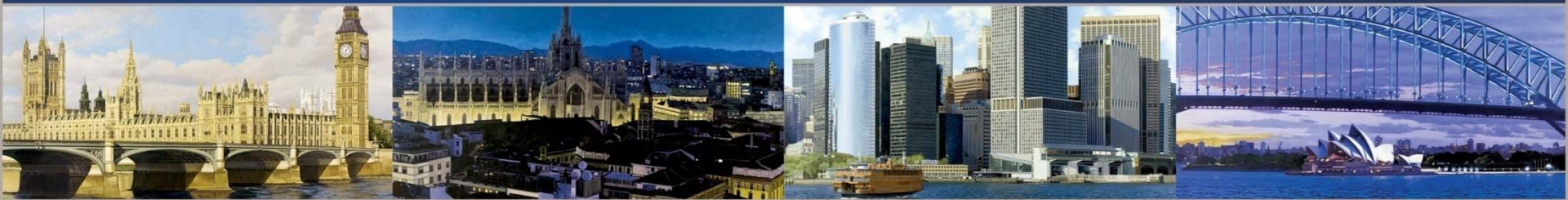


Portfolio Performance Update

De-risking Strategy

- ▶ **Active monitoring and remediation continue to add value and minimize tail risk as the portfolio de-leverages**
 - Proactive and aggressive remediation and surveillance will limit losses
- ▶ **Portfolio issues confined to largely RMBS-related product**
 - Heightened focus on servicer oversight and transfer opportunities
- ▶ **Acute market stress also providing opportunities**
 - Opportunities to restructure CDO portfolio
 - Consolidation of CDO collateral management activity
 - Transaction hitting triggers, resulting in faster amortization of wrapped debt
- ▶ **Reduced exposure to weak and downgraded counterparties**
 - Reinsurance clawbacks where UPR and reserves are recaptured as cash and future premium earnings are retained

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Direct RMBS

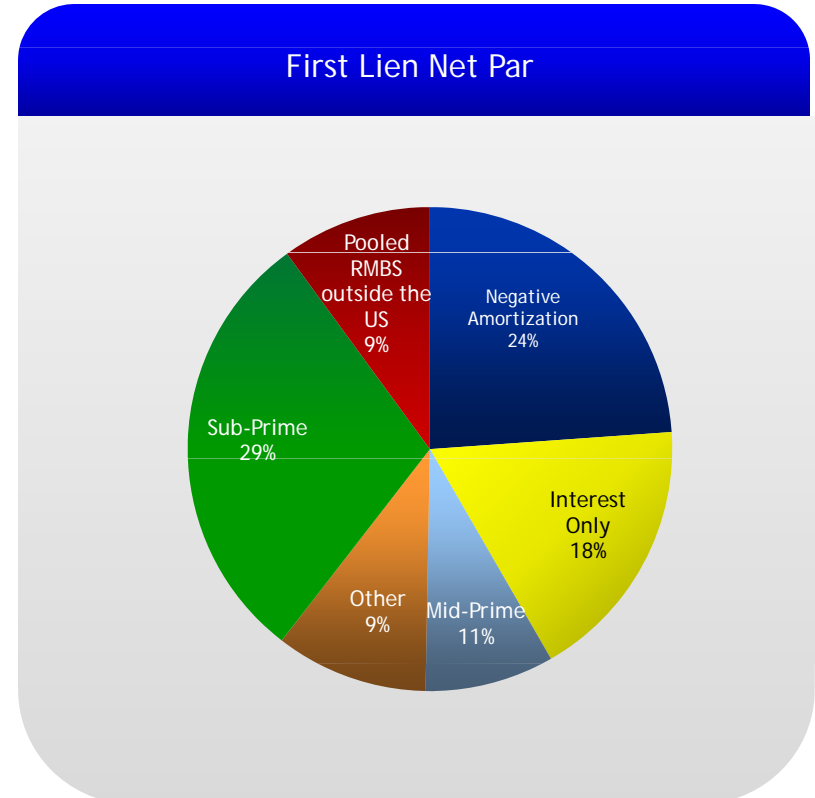
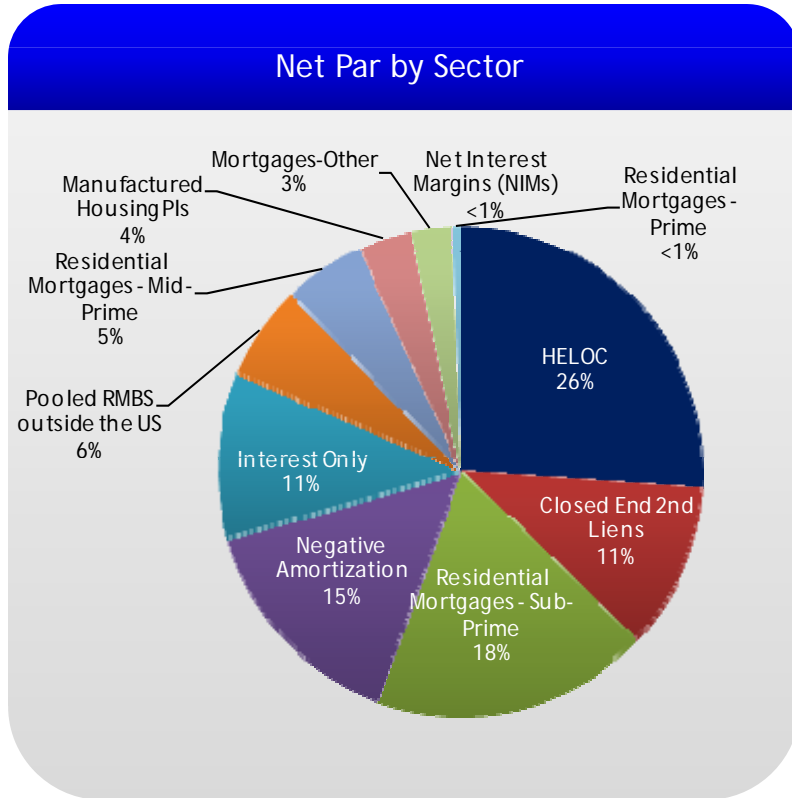
Direct Residential Mortgage Asset Portfolio

► Direct RMBS

- Approximately 350 exposures and \$38.1 Bn of net par at end of 1Q 2009, down \$1.5 Bn or about 4% from YE 2008
- 45% of net par is rated Below Investment Grade (Ambac internal ratings)
- 1Q reserves up \$460 Mn (ex FAS 163 implementation adj) to \$2,452 Mn, largely on increases in negative amortization and other Alt-A transactions
- Second lien reserves account for 48% of RMBS reserves
- Average monthly claims of approximately \$89 Mn during the quarter, down modestly from the prior quarter. Claims paid to date have primarily been for second lien exposures
- Timeline for claim payments largely compressed in the next 3-5 years
- Continued strong focus on remediation and recoveries from representation and warranty breaches as well as increased servicer oversight

Direct RMBS Portfolio Composition and Rating Distribution

- Net Par was \$38.1 Bn at 3/31/09; first lien collateral comprised 63% of total outstanding



- Deterioration in the direct RMBS book for the quarter was driven by the mid-prime sector and increasingly by affordability products like Negative Amortization ("Neg Am") and Interest Only ("I/O") mortgages

First Lien RMBS: Mid-Prime/Affordability Product Collateral Performance Trends

► Mid-Prime /Affordability Product

- The majority of the reserve additions for the quarter relate to first lien product, predominately the segment generically known as “Affordability Product,” including Negative Amortization and Interest Only loans
- These products allowed borrowers to more readily purchase homes at price levels that otherwise might be deemed “unaffordable”
 - These mortgages have uneven payments that skewed lower at the front end. They represented new products that were underwritten with little or no performance history
 - Neg Am mortgages (aka Option Arms) allowed borrowers to defer payments up to a point which was capped in both time from closing and the deferral amount
 - I/O mortgages had structurally lower payments in the beginning
- Slower prepayment rates reflect the challenges of homeowners seeking to refinance
- Alt-A liquidations and loss severities have been increasing over the last two quarters
- Despite the deterioration, claim payments related to first lien mortgages have been modest

▶ Closed-End Second and HELOCs

- Roll rates remain elevated, but some flattening; severities in some cases are breaching 100% due to carry costs. Too early to analyze the impact of the Making Home Affordable Program for Second Liens on Ambac's second lien transactions
- Bank-originated HELOCs, which previously showed stable performance, are starting to experience stress as general economic conditions have deteriorated
- Second lien reserving methodology remained consistent from the prior quarter; home prices are expected to remain depressed through September 2010
- Almost all of the \$268 Mn in claim payments in the quarter relate to second lien product

RMBS Remediation - Three Areas of Focus

- ▶ Representation and Warranty breaches in connection with home loan origination
 - Significant recoveries (\$882 Mn booked through 1Q 2009) expected for non-compliant underlying home loans in our pools
 - Litigation underway with one counterparty re: four transactions (Bear Stearns 07-IA, II-A / III-A, SACO 05-10, 06-2, 06-8)
 - Defendant's motion to dismiss was denied on March 20, 2009
 - Aggressive loan put-backs underway with two additional counterparties

RMBS Remediation - Three Areas of Focus (cont'd.)

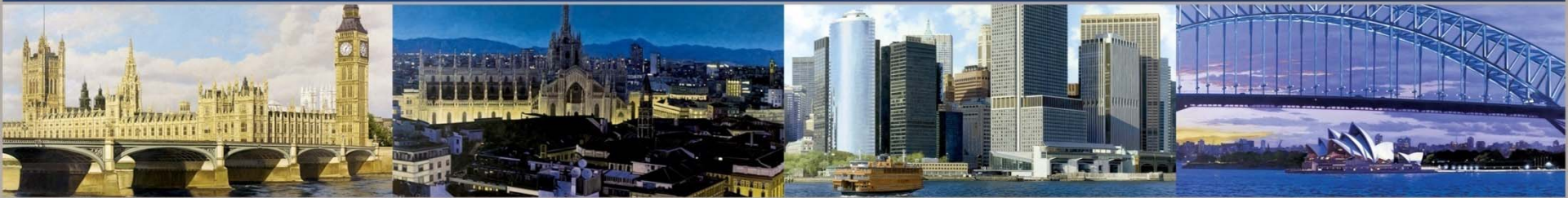
▶ Servicing

- Recurring servicer reviews
- Working with servicers to maximize collateral performance through loan modifications based on federal guidelines and servicer recommendations
- Asserting rights when servicers do not perform per their contractual obligation
 - Results in servicing transfers, audits and potential legal action

▶ Government Actions

- Actively involved in proposed Government programs relating to buybacks and loan modifications
- Impact of loan modifications is unclear
- Stabilization of the housing market and increased affordability for qualifying homeowners will be a positive result

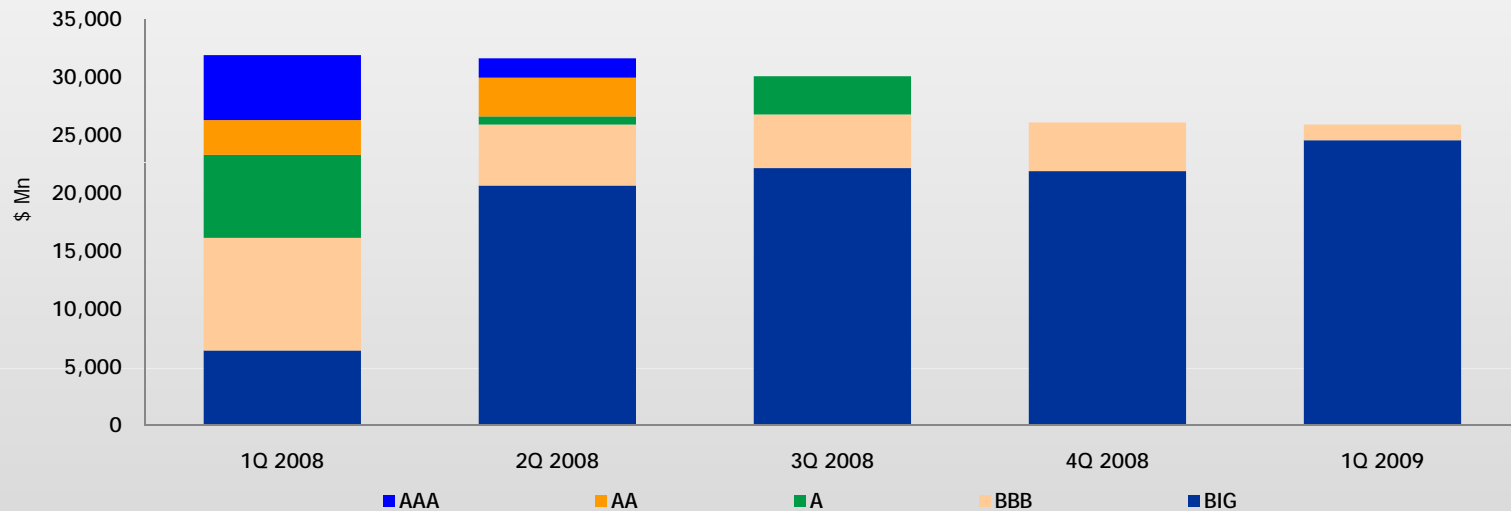
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CDO of ABS Performance Update

Declining Rating Trend of the ABS CDOs Continues

CDO of ABS Insured Par vs. Ambac Rating



- ▶ 1Q 2009 ratings deterioration reflects lower rated RMBS collateral
 - 24* deals comprise approximately \$25.9 Bn in net par at 1Q 2009
 - 95% rated BIG (Ambac internal rating) by net par outstanding, all originally rated AAA
 - \$3.7 Bn of impairments is essentially flat compared to 4Q 2008

*Including \$2.9 billion commitment to issue a financial guaranty policy on a pool of ABS CDOs

CDO of ABS Portfolio: Underlying Collateral Trends

- ▶ Net impairment was essentially flat for 1Q 2009
- ▶ Cumulative losses and severities assigned to select underlying RMBS collateral types and vintages remained largely unchanged for the quarter
- ▶ Synthetic High Grade ABS CDOs pose the greatest near term risk with the potential for some claims to be paid on settling credit events in a couple of deals in 2009
- ▶ Impairments to date of \$3.7 Bn (excluding 2008 settlements); projected claims largely to be paid 15-30 years out
- ▶ Focus will continue to be on risk reduction through the following:
 - Commutations
 - Maximizing control party rights and legal remedies
 - Acceleration on EODs, policing trustee actions, changing collateral managers / reducing management fees, etc
 - Restructuring to limit cash flow leakage to junior notes
 - Preserve collateral interest and principal cash flow for senior wrapped notes

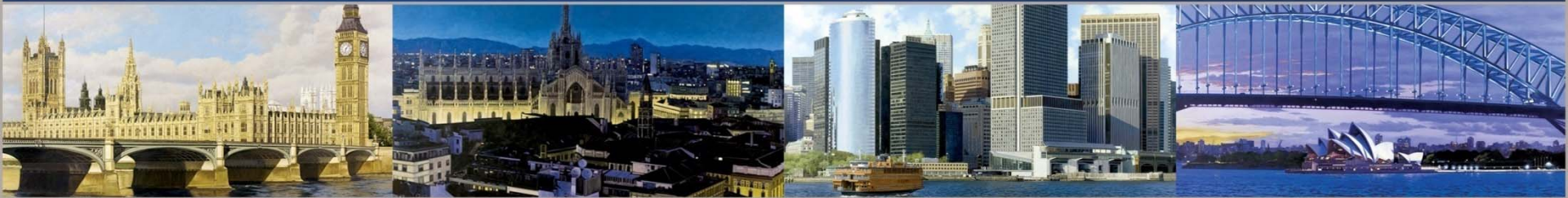
Non-RMBS Portfolio

- ▶ Non-RMBS reserves amount to \$445 Mn at March 31, 2009
 - Three international small business loan securitizations (\$532 Mn net par) are suffering due to the bankruptcy of the company that originated the loans
 - A \$137 Mn excess of loss reinsurance transaction drew a reserve due to ongoing uncertainty following a member firm's bankruptcy
 - Reserves increased on two groups of predominately U.S. government guaranteed student loan programs in anticipation of restructuring to utilize the Department of Education conduit program for a large portion of the underlying loans
 - Underlying issue is VRDO funding cost, not credit
- ▶ We initiated legal action against one of the investment managers in the structured insurance transaction that draws the largest reserve in our non-RMBS portfolio

Non-RMBS Portfolio (cont'd.)

- ▶ The risk profile of our four rental company fleet securitizations (\$4 Bn total net par) has increased as these companies face manufacturer bankruptcies
 - Automaker bankruptcies negatively impact the residual values
 - On a positive note, Chrysler's repurchase agreements with the auto rental companies is not stayed and the U.S. government is guaranteeing the company's warranty and extended service programs
- ▶ Leverage lease portfolio continues to downsize (reduced by \$900 Mn in the quarter) as lessee issuers handle replacement obligations triggered by our downgrade
- ▶ Two Kazakh financial future flow transactions (\$358 Mn total net par) are presently operating under strong transaction structures following the collapse of that country's banking system

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Appendix 1: Financial Summary Update

Financial Guarantee Investment Portfolio

Fixed Income Investment Portfolio

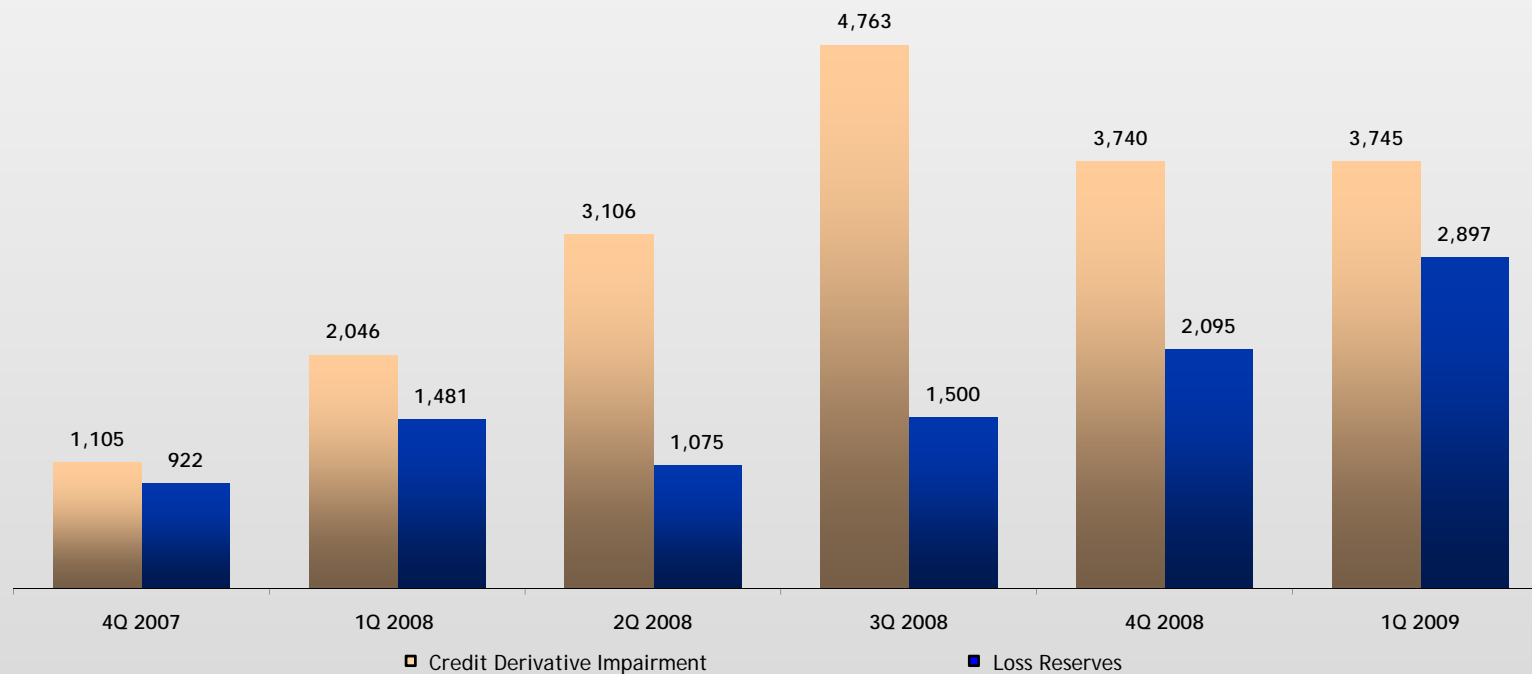
As of March 31, 2009

INCOME ANALYSIS BY TYPE OF SECURITY	Fair	Amortized	Yield to	Weighted	YTD
Investment category (\$ thousands)	Value	Cost	Maturity	Average After-Tax Yield	Investment Income
Financial Guarantee investments:					
Long-term investments					
U.S. government obligations	\$148,901	\$144,394	2.37%	1.54%	\$862
U.S. agency obligations	110,515	103,172	4.22%	2.75%	1,104
Municipal obligations	4,279,447	4,311,598	4.72%	4.57%	51,232
Foreign obligations	153,772	147,830	4.22%	2.74%	1,550
Corporate obligations	232,069	251,838	5.73%	3.72%	3,748
Mortgage and asset-backed securities	1,607,323	2,739,362	8.12%	5.28%	37,120
Total long-term investments.....	6,532,027	7,698,194	5.90%	4.68%	95,616
Short-term investments	834,142	834,142	0.57%	0.40%	2,247
Other	3,368	3,368			3,228
Total Financial Guarantee investments.....	\$7,369,537	\$8,535,704	5.38%	4.26%	\$101,091

Highly Liquid Securities	Fair	Amortized
(\$ thousands)	Value	Cost
Short Term	\$834,142	\$834,143
US Treasury	148,901	144,393
US Agency	110,515	103,172
US Agency MBS	140,578	136,014
Muni Pre-Refunded	119,706	112,128
Muni Natural AAA	517,366	517,805
Muni Natural AA and Insured AA Underlying	2,462,677	2,465,801
	<u>\$4,333,884</u>	<u>\$4,313,457</u>

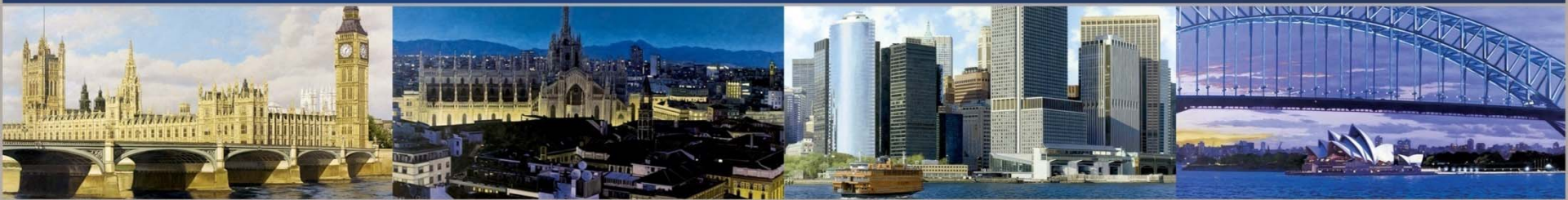
Loss Reserves and Credit Derivative Impairments

End of Period Balances (\$ Mn)



- ▶ Credit derivative impairment from 4Q 2008 to 1Q 2009 is relatively flat
- ▶ Loss reserve increase during the quarter primarily related to Alt-A affordability RMBS

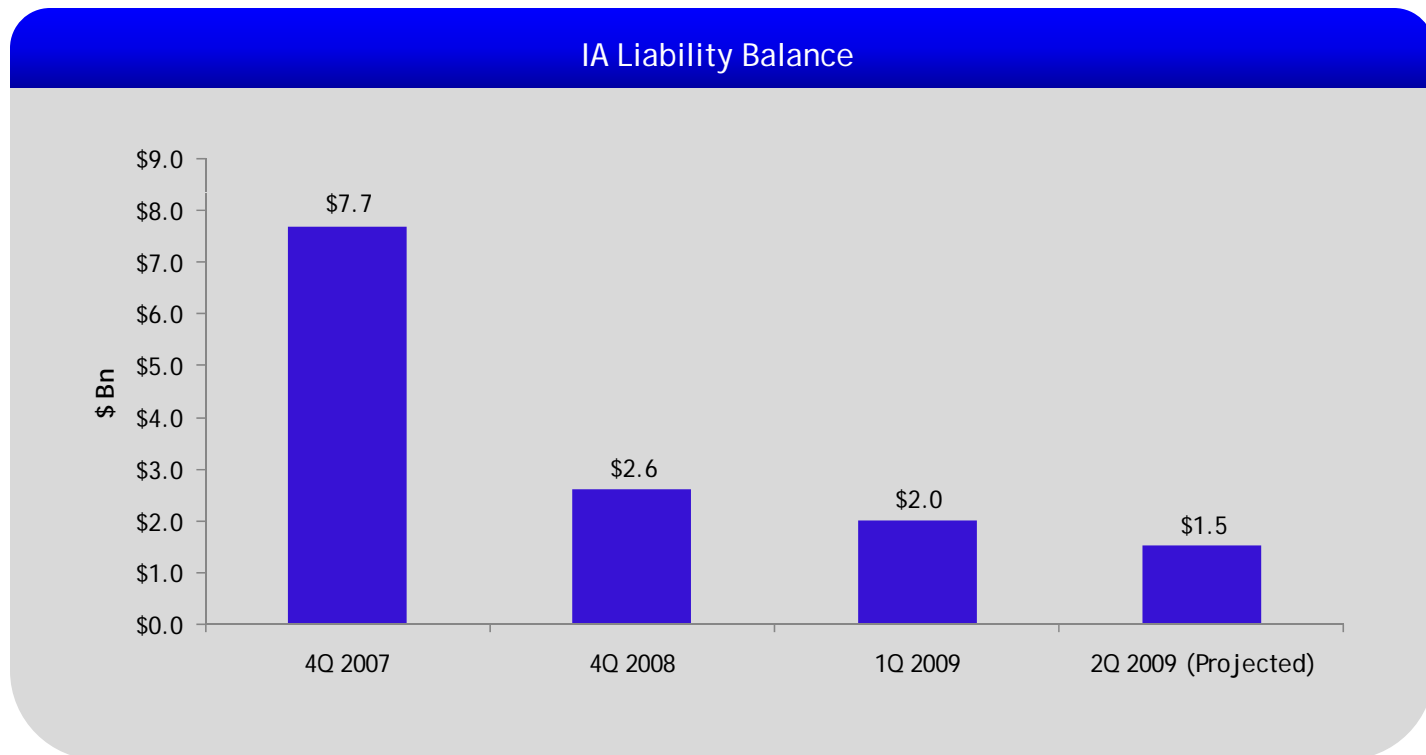
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Appendix 2: Financial Services Update

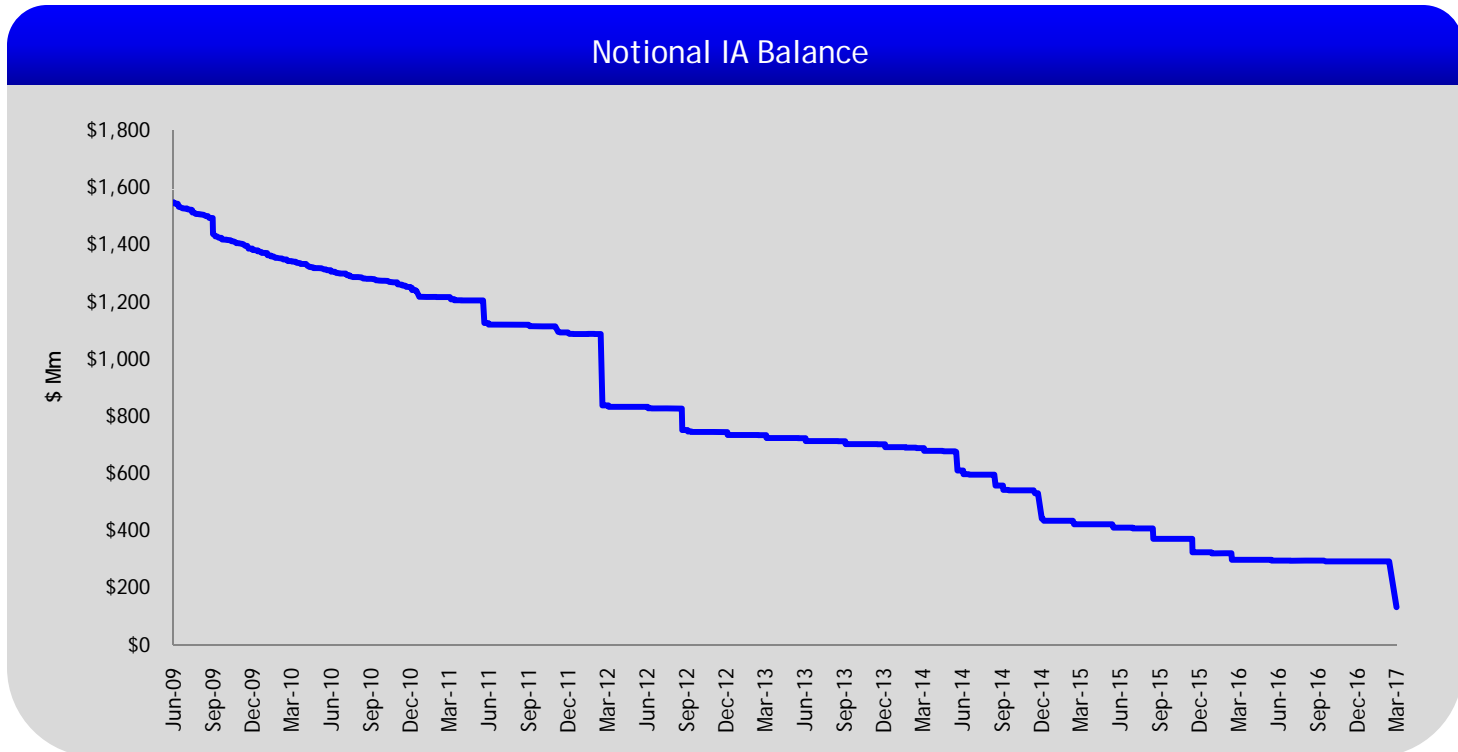
Investment Agreement Liability Balance

- ▶ Significant run-off continues with a projected balance of approximately \$1.5 Bn by mid-year 2009



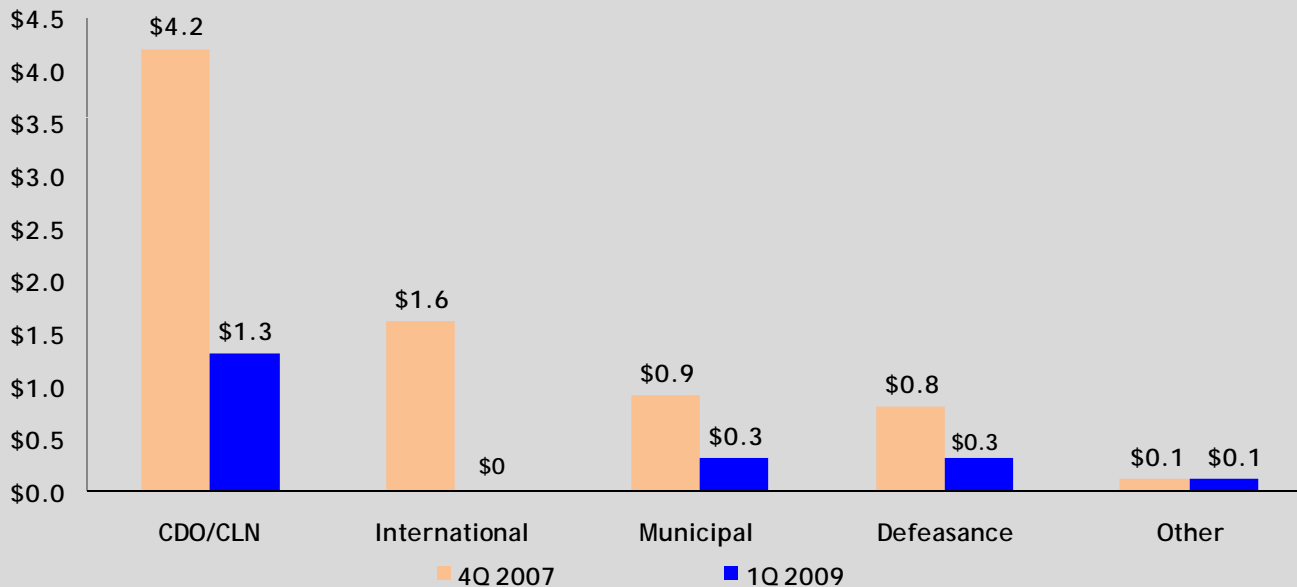
Projected IA Balance

- IA balance projected to run-off gradually after 2Q 2009; Estimated weighted average life is 4.9 years and final maturity is 11/2039



IA Market Segment and Withdrawal Risk

IA liabilities have decreased significantly reducing withdrawal risk



*Balances represent IA liability amount outstanding at hedged US dollar amounts, excluding accrued but unpaid interest

Swap Book: Size and Collateralization Profile

(\$ Mn)	3/31/2009	12/31/2008
<u>Book Size:</u>		
Number of Positions	583	612
Gross Notional (not including hedges)	\$ 8,871	\$ 9,210
<u>Collateral Posting Metrics:</u>		
Collateral Posting Requirement (Net)	\$ 697	\$ 848
<u>Additional Collateral Posting Requirements for:</u>		
10 bp fall in USD interest rates	\$ 14.5	\$ 14.0
1% rise in USD vs GBP	\$ 1.0	\$ 2.5
1% rise in JPY vs USD	\$ 6.8	\$ 7.6
1% rise in EUR vs USD	\$ 5.2	\$ 5.4

- ▶ A concerted effort to unwind positions has significantly reduced Ambac's collateral posting obligations and sensitivities

Swap Portfolio Update (3/31/2009)

- ▶ The impact of Ambac's downgrade to Ba3 by Moody's on April 13, 2009 was isolated to the Swap Book
 - Resulted in additional triggering of potential termination events
 - If contracts are terminated and Ambac is in a net liability position, collateral will be returned to Ambac (treasuries, cash or U.S. government agencies). The amount of collateral returned would be approximately equal to the termination amount, resulting in no meaningful liquidity issues
 - With the support of AAC, Ambac Financial Services has been able to meet all collateral and termination requirements
- ▶ Ambac has successfully maintained a hedged book

Total Return Swap Book

- ▶ Book continues to decrease along with associated risks
 - TRS book was significantly reduced during 2008 and was reduced an additional \$50 Mn in the first quarter
- ▶ Additional collateral posting requirements could be satisfied with capacity that remains under AAC lines for TRS. Any amounts greater than this capacity would require OCI approval, who have historically been very supportive

(\$ Mn)	3/31/2009	12/31/2008	Change
<u>Portfolio Reduction:</u>			
Number of Positions	8	9	(1)
TRS Outstanding Notional	\$169	\$ 219	(\$ 50)

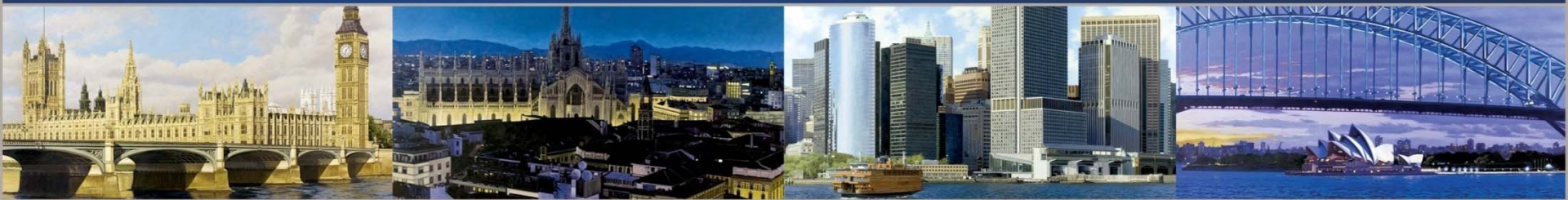
AAC Affiliate Support to Financial Services Businesses

- ▶ Affiliate support has satisfied liquidity needs and additional capacity remains

As of 3/31/2009 (\$ Mn)	Approved Limit ^[1]	Amount Used
<u>IA Book:</u>		
Purchase of Assets by AAC at Statutory Value	\$ 3,000	\$ 2,901
Unsecured Lending from AAC	1,600	800
Secured Lending from AAC	1,200	200
<u>Swap Book:</u>		
Lending from AAC	850	850
<u>TRS Book:</u>		
Purchase of Underlying Bond by AAC	250	227
Capital Contributions for Collateral Posting	\$ 60	\$ 46

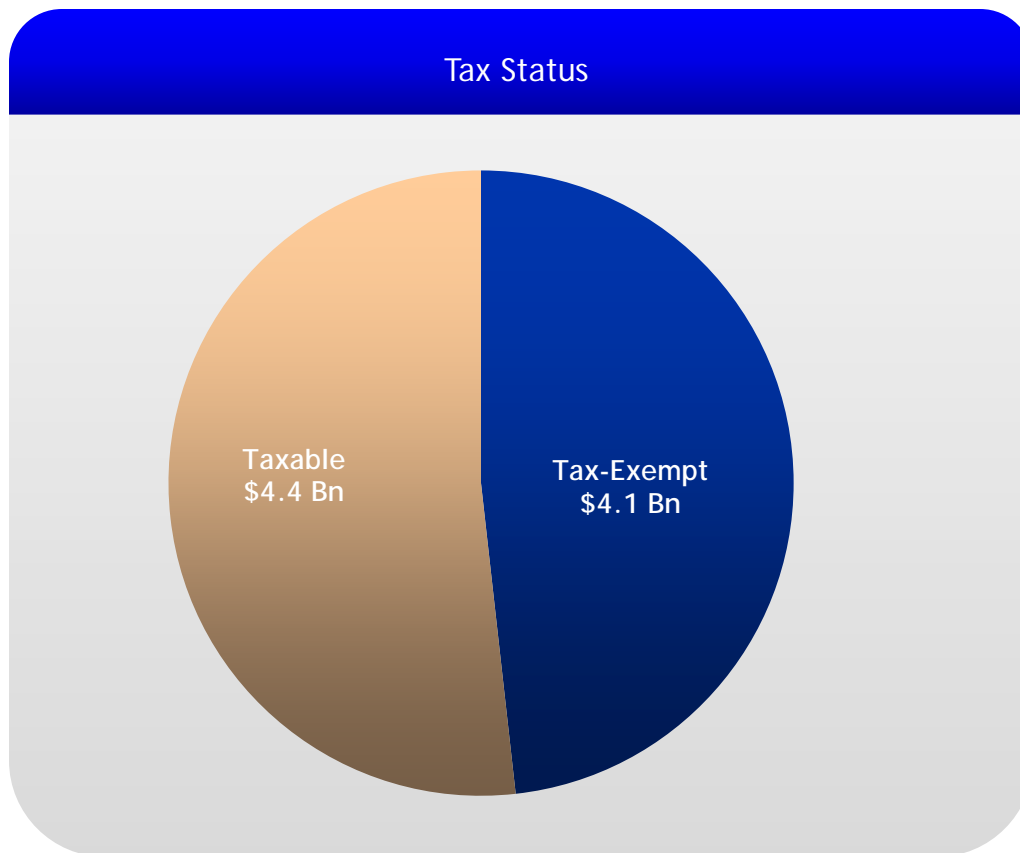
[1] Approval received from the office of the Commissioner of Insurance for the State of Wisconsin.

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Appendix 3: Financial Guarantee Investment Portfolio

All information based on amortized cost as of March 31, 2009 unless otherwise indicated



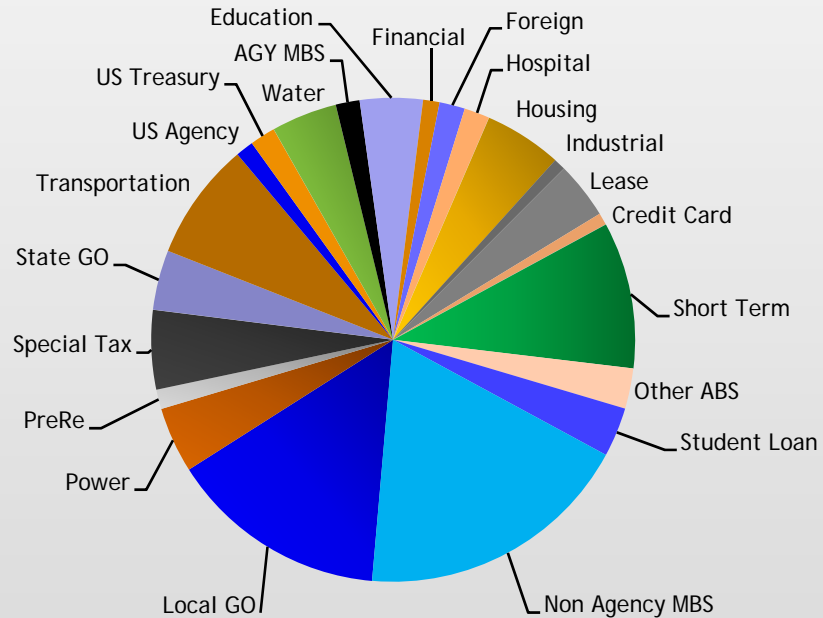
Financial Guarantee Investment Portfolio

12 Month Expected Cash Generation (\$ Mn)

	MuniPortfolio Expected Principal	MuniPortfolio Expected Interest	Taxable Portfolio Expected Principal	Taxable Portfolio Expected Interest	Total
Apr-2009	0	5	11	7	23
May-2009	0	17	14	10	42
Jun-2009	3	21	16	12	52
Jul-2009	1	25	15	14	55
Aug-2009	1	15	13	14	43
Sep-2009	0	8	23	14	46
Oct-2009	1	6	13	10	30
Nov-2009	0	17	15	12	44
Dec-2009	9	21	15	13	59
Jan-2010	4	25	15	13	57
Feb-2010	3	15	15	12	45
Mar-2010	0	8	28	15	51
	21	186	194	147	548

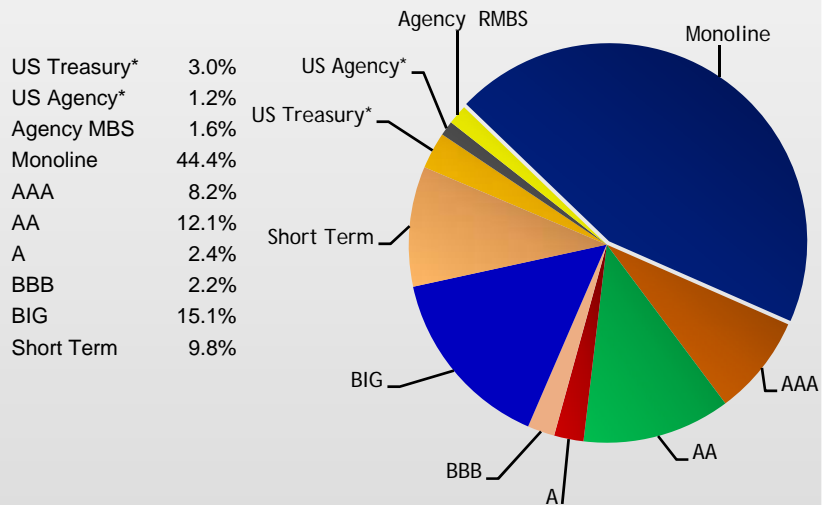
Sector Allocation

Non Agency MBS	18.5%
Local GO	14.6%
Short Term	9.8%
Transportation	7.9%
Special Tax	5.3%
Housing	5.2%
Power	4.4%
Water	4.4%
Education	4.2%
State GO	4.0%
Lease	3.8%
Student Loan	3.3%
Other ABS	2.7%
Foreign	1.7%
US Treasury	1.7%
Hospital	1.7%
Agency MBS	1.6%
Pre-Refunded	1.3%
US Agency	1.2%
Financial	1.1%
Industrial	0.8%
Credit Card	0.8%



Financial Guarantee Investment Portfolio

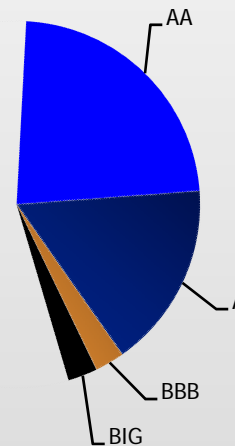
Quality Breakdown



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

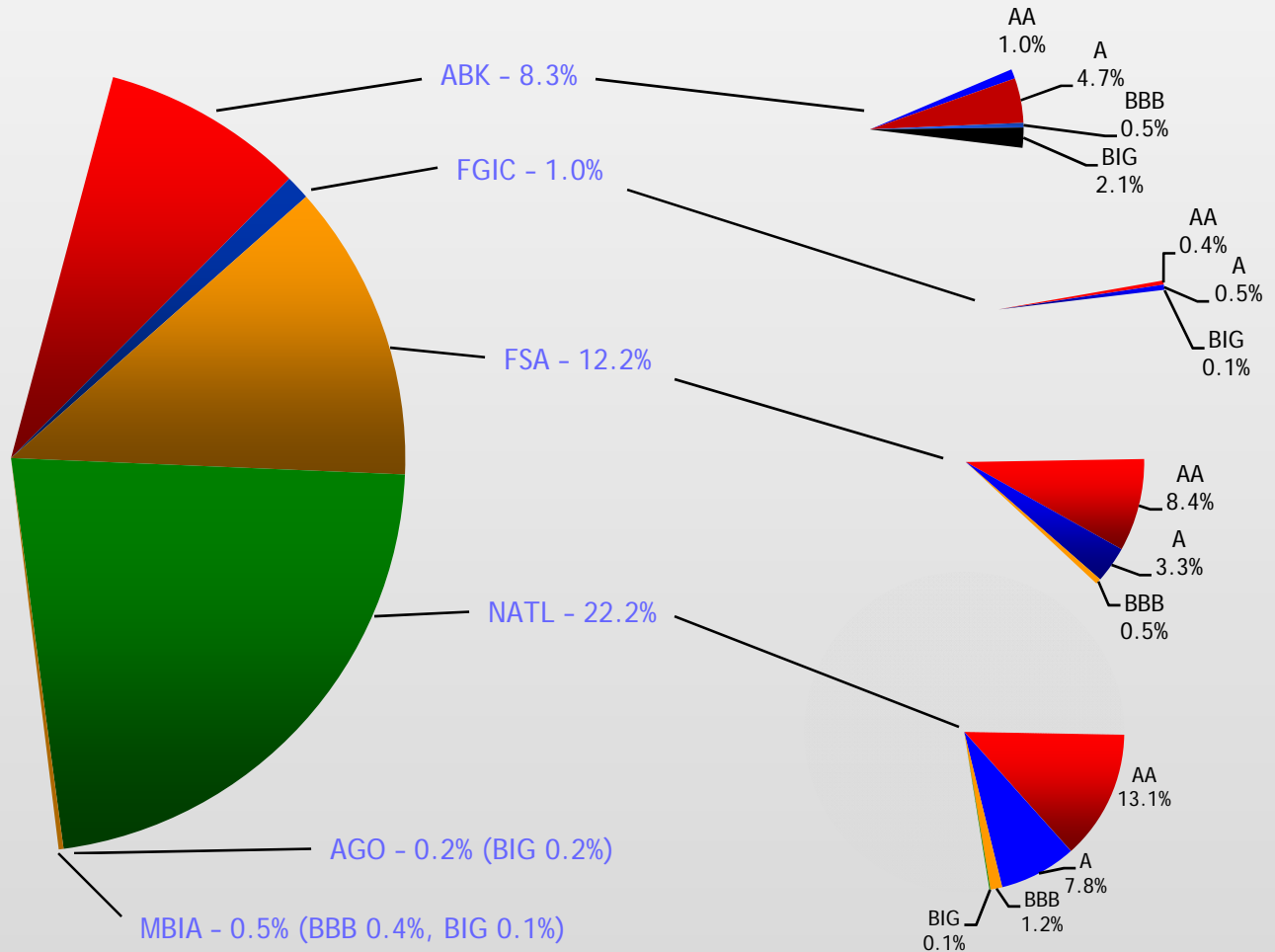
Quality Breakdown Insured Underlying Rating

AA	22.9%
A	16.3%
BBB	2.6%
BIG	2.6%



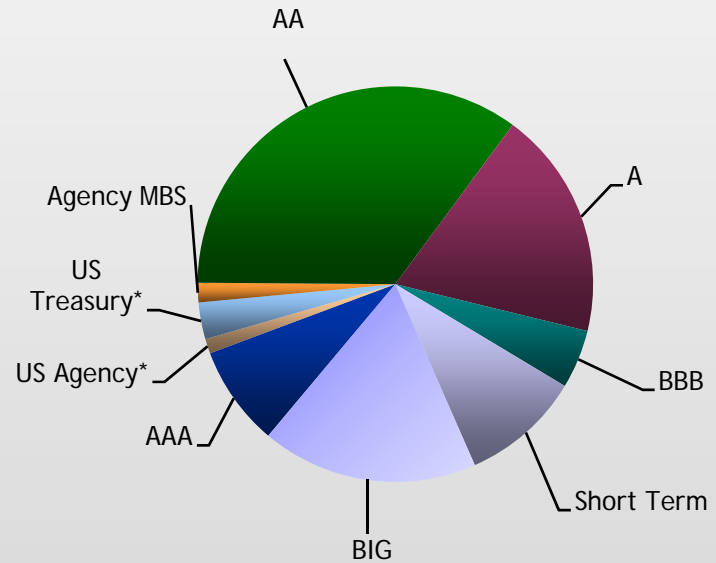
Financial Guarantee Investment Portfolio

Monoline and Underlying Credit Rating Breakdown



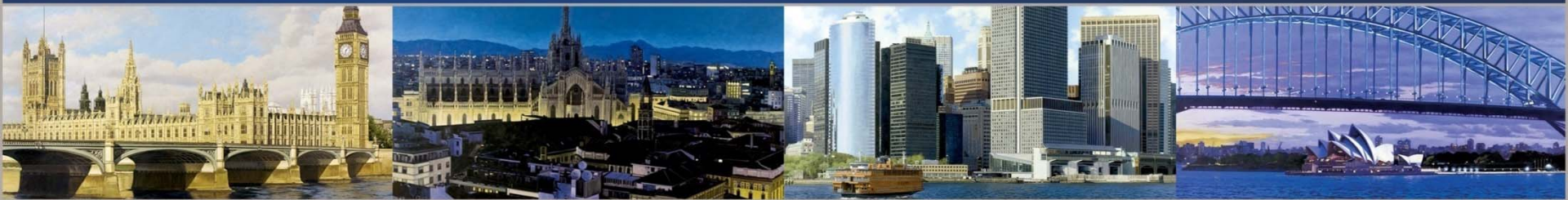
Quality Breakdown Ignoring Insurance

US Treasury*	3.0%
US Agency*	1.2%
Agency MBS	1.6%
AAA	8.2%
AA	35.0%
A	18.7%
BBB	4.8%
BIG	17.7%
Short Term	9.8%



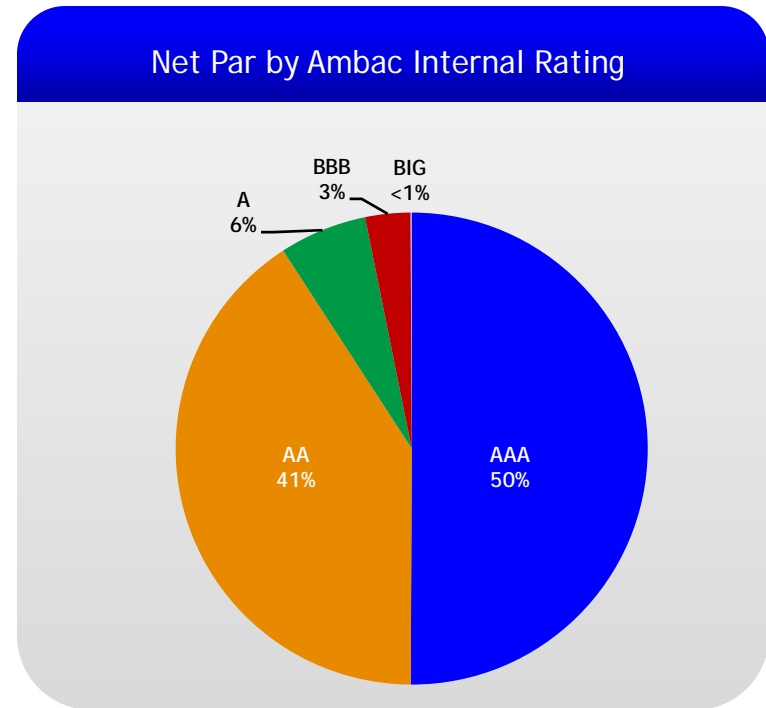
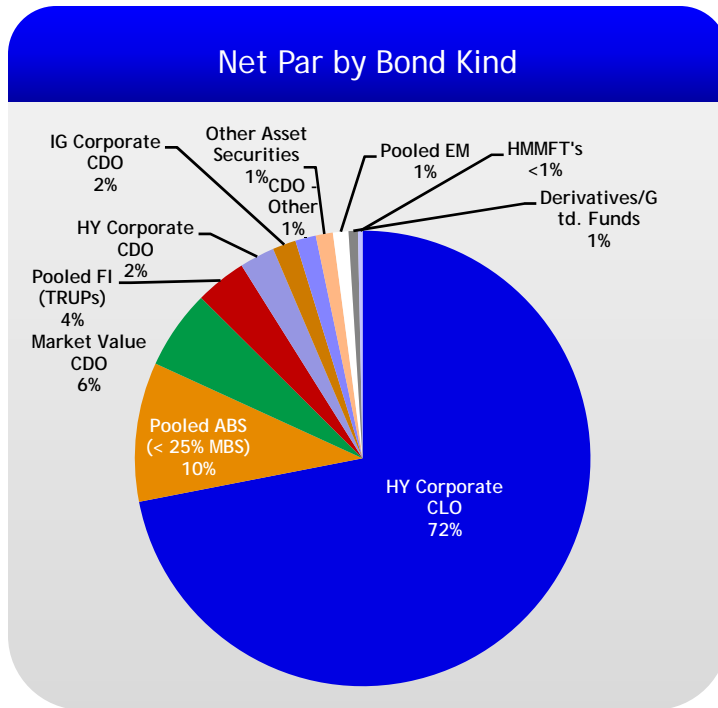
*Includes Escrowed Municipals

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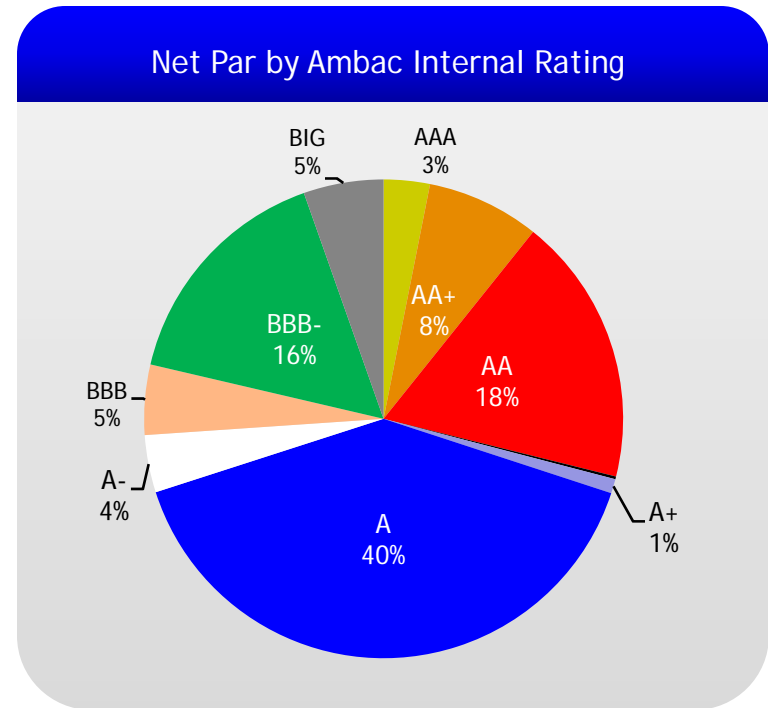
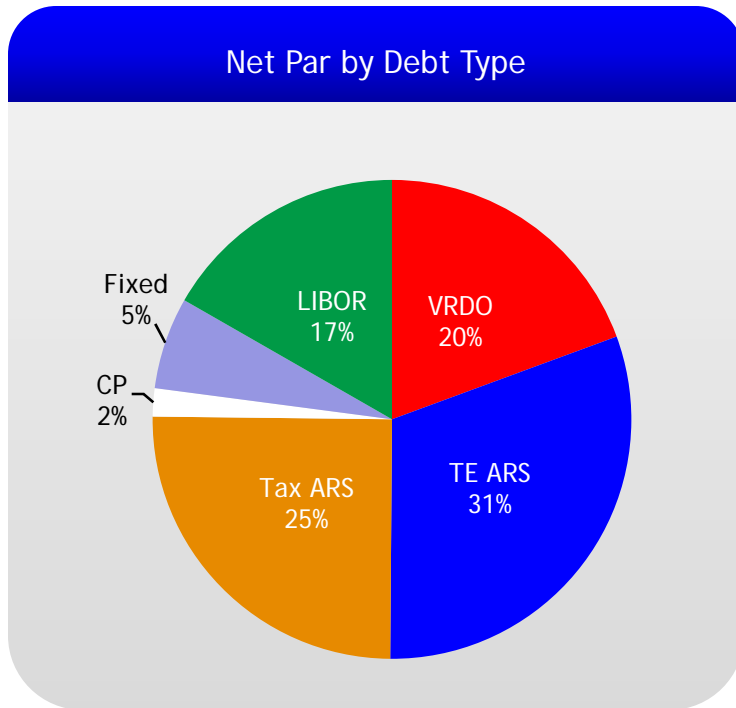
Appendix 4: Update on CDO Portfolio (excluding CDO of ABS)

CDO Portfolio (excluding CDO of ABS)



- ▶ CDO Net Par (excluding CDO of ABS) was \$28.8 Bn at the end of 1Q 2009
- ▶ Portfolio is comprised mainly of high yield corporate CLOs
- ▶ Over 90% of the portfolio is rated AA or better by Ambac

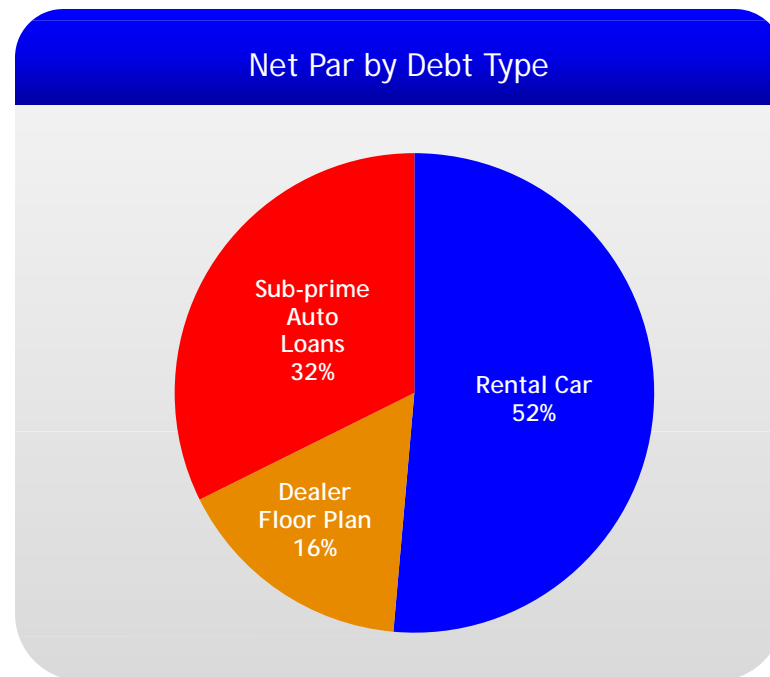
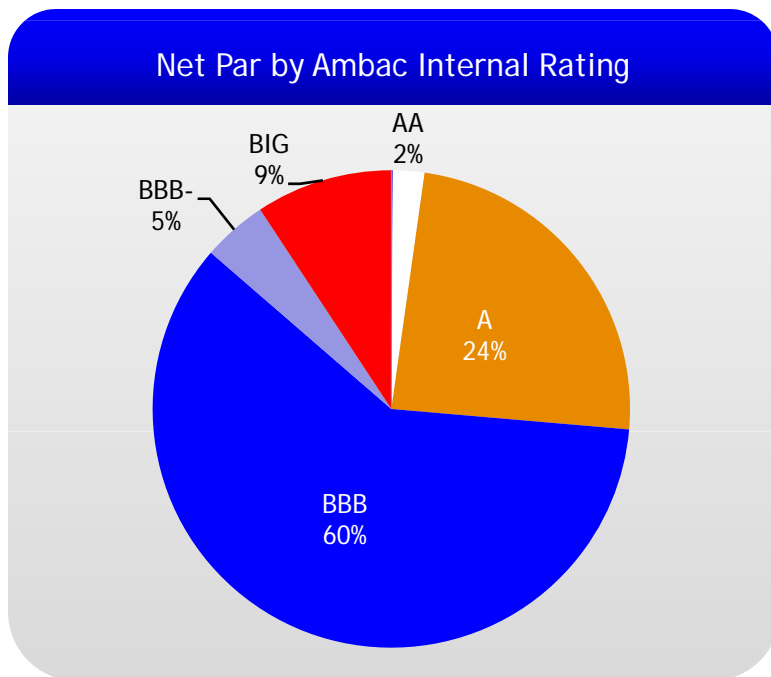
Student Loan Exposure



- ▶ Net Par in Student Loans is in 64 transactions totaling \$16.2 Bn at the end of 1Q 2009
- ▶ Approximately 47% of Ambac’s portfolio consists of FFELP loans, which have limited credit risk due to a minimum 97% U.S. Government guarantee
- ▶ Many student loan issuers are working to refinance their variable rate debt either through a direct pay letter of credit or the Department of Education’s ABCP Conduit

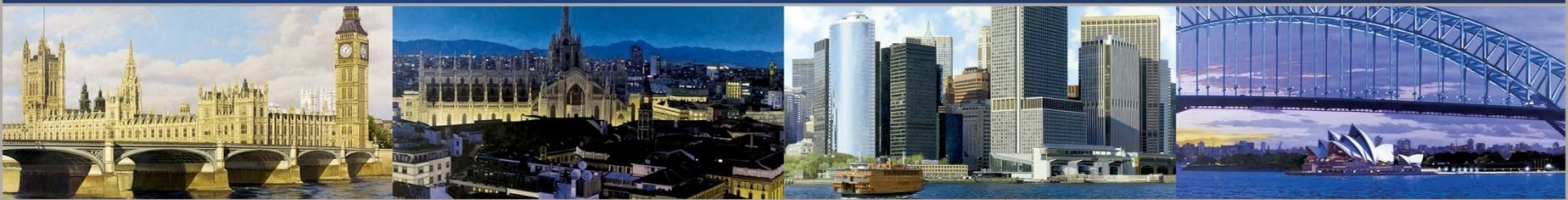
Auto Exposure

- ▶ Net Par in the Auto Sector is comprised of three asset types across 20 transactions and totaled \$7.6 Bn at the end of 1Q 2009



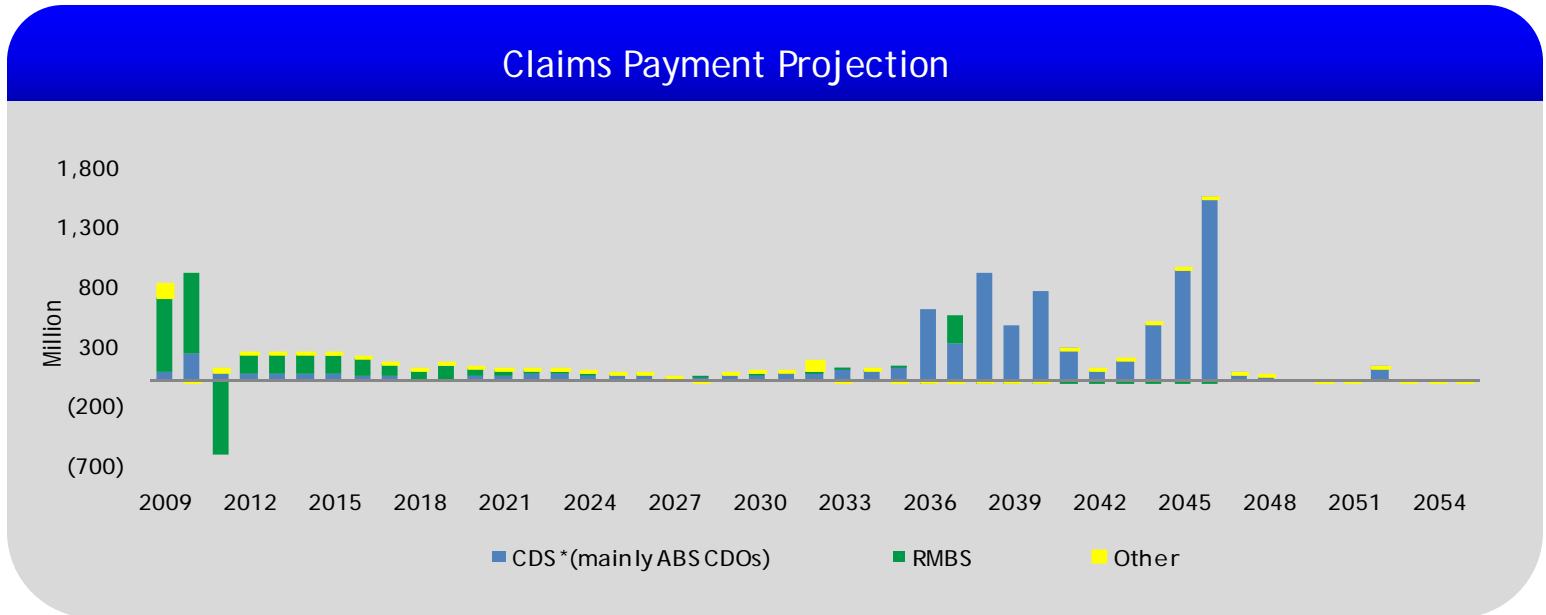
- ▶ All BIG exposure is within the rental car portfolio
- ▶ Ambac’s exposure to Chrysler’s bankruptcy filing is limited to several auto rental deals; Ambac does not have exposure to any Chrysler dealer floor plan transactions
- ▶ The potential GM bankruptcy would impact several rental car and dealer floor plan transactions
- ▶ The sub-prime auto portfolio benefits from short average lives and fixed cash reserve accounts

Ambac



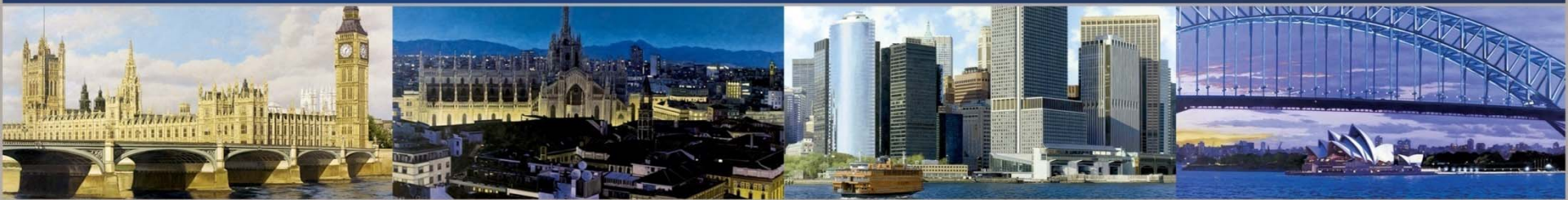
Appendix 5: RMBS and CDO Claim Payment Projection

RMBS and CDO Claims Payment Projection



- ▶ Majority of RMBS claims will occur over the next 3 to 5 years
- ▶ Only exceptions to this payment profile are three closed end second deals where payments of ultimate principal are due at maturity
- ▶ High Grade CDO of ABS claims are largely comprised of back-ended principal payments

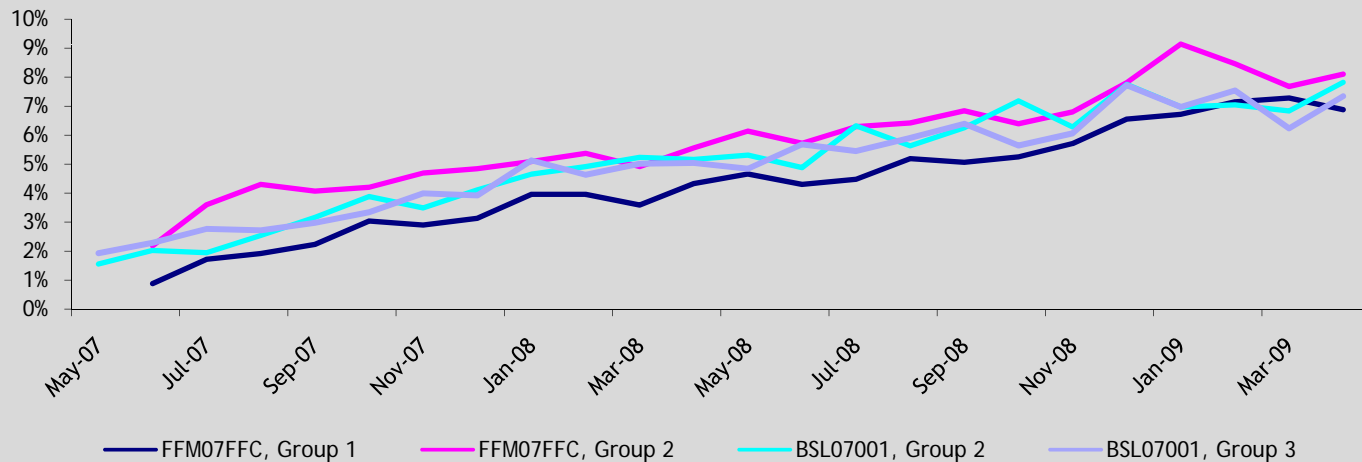
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Appendix 6: RMBS Portfolio Additional Information

Second Lien Performance Trends

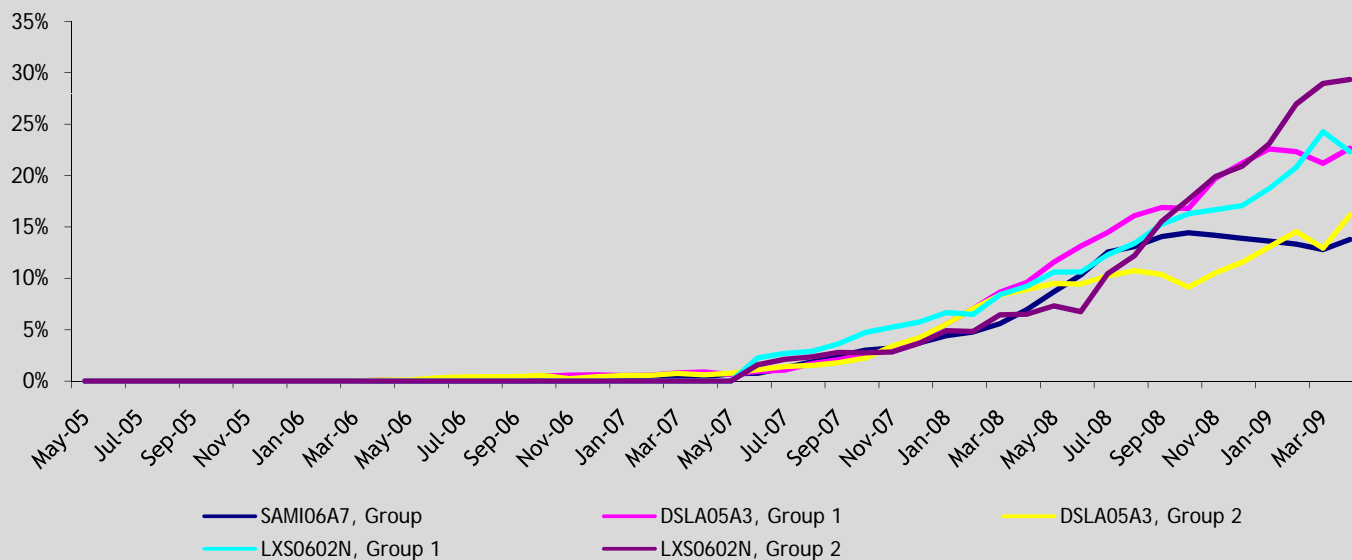
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- ▶ The worst performance is seen in the 2006/2007 vintages due to poor origination
- ▶ Roll rates remain elevated, though show signs of flattening; severities in some cases are breaching 100% due to carry costs

First Lien RMBS Performance Trends - Select Affordability Product (Neg Am) Foreclosure and REO Levels

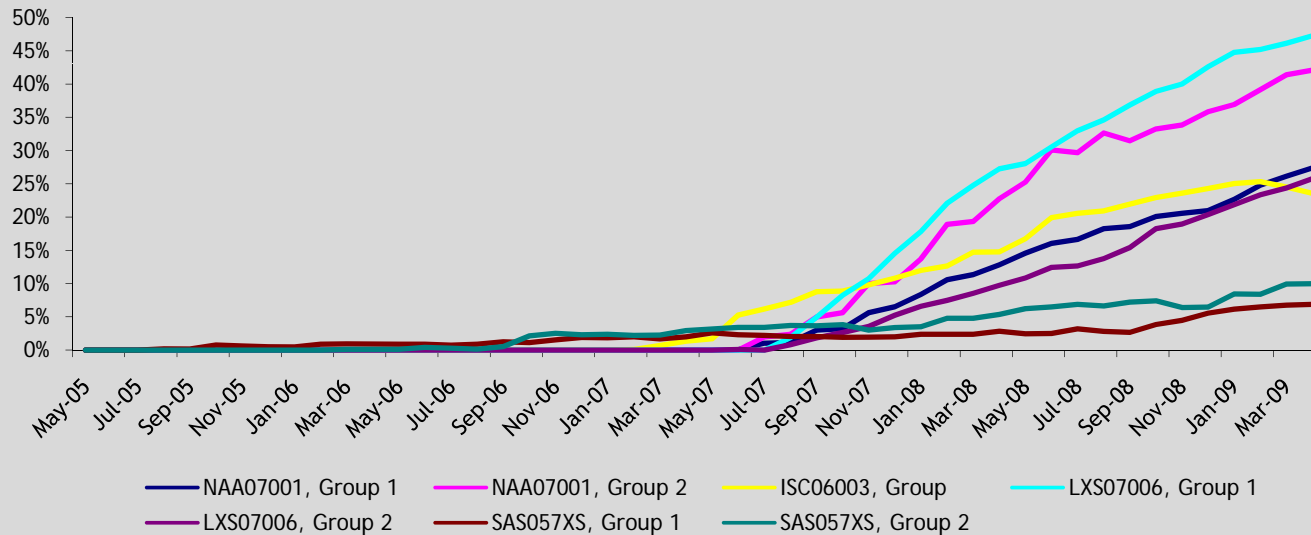
Selected Ambac Neg Am RMBS: Foreclosure + REO



- ▶ REO liquidations observed in certain transactions, but overall foreclosure and REO levels continue to rise

First Lien RMBS Performance Trends - Select Affordability Product (I/O's) Foreclosure and REO Levels

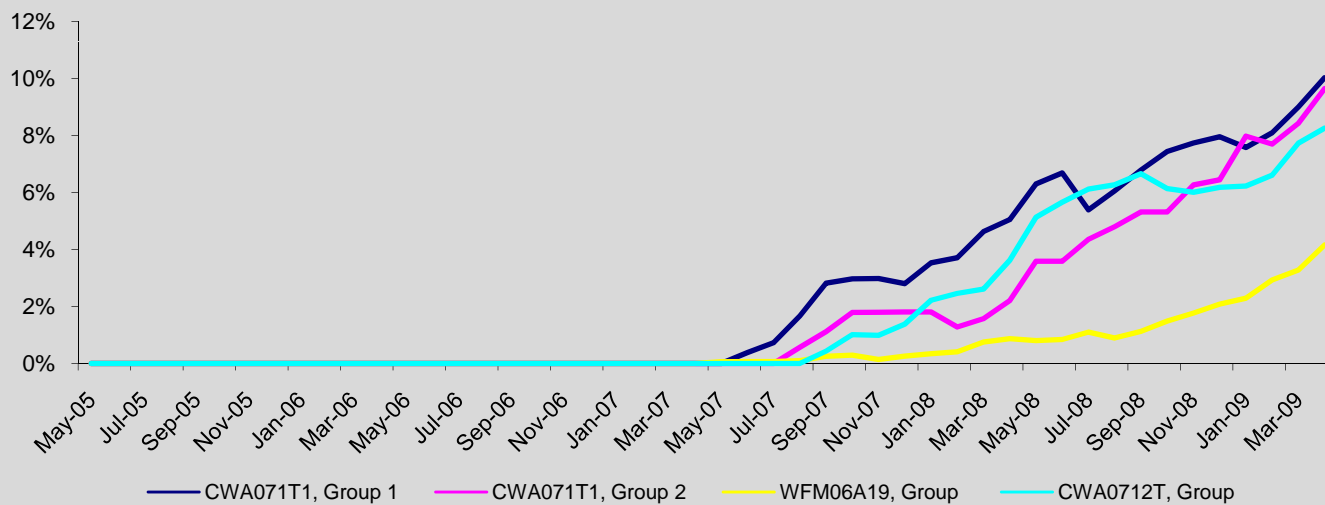
Selected Ambac I/O RMBS: Foreclosure + REO



- Foreclosure and REO levels on the worst performers (two 2007 vintage transactions) approaching 50%

First Lien RMBS Performance Trends - Select Mid-Prime Foreclosure and REO Levels

Selected Ambac Mid-Prime RMBS: Foreclosure + REO



- ▶ Mid-prime foreclosure and REO balances continue to rise, but overall levels are less than in Affordability Products (Neg Am and I/O's)

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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. 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