

Exposure to Hurricane Katrina

Updated December 31, 2006

During the third quarter 2005, Ambac recorded a \$92.0 million (pre-tax) loss provision related to its exposure to municipalities in Louisiana, Mississippi and Alabama impacted by Hurricane Katrina. Our initial estimate considered all available information affecting bonds insured by us and did not include any specific governmental support. During the third quarter 2006, the loss reserve estimate was reduced by \$39 million. The primary reason for the decrease in the reserve was the recent support from state and federal governments, particularly in the greater New Orleans region. In July 2006, the state of Louisiana issued \$400 million of Gulf Zone bonds supported by the full faith and credit of the state. Proceeds from the issuance will be used to pay portions of debt service of certain issuers within Orleans Parish over the next 12 to 36 months. This liquidity injection was a very positive development and had a significant impact on our reserve estimate. Additionally, we have recently observed positive factors that have helped influence the general positive credit migration of several credits within the classified portfolio including, but not limited to, indirect federal programs recently initiated in Louisiana and Mississippi and recovering tax bases in certain locations including greater New Orleans. A small portion of the reserve takedown is associated with normal amortization of certain bonds on the classified list. At December 31, 2006, the loss reserve estimate was \$50.1 million.

In determining our loss estimate, our analysis continues to consider the unprecedented nature of the disaster, including the displacement of the communities' residents, and the unique aspects of each insured bond, such as the nature of the revenue source, the level of debt service reserves, if any, and other transaction projections. The credit loss estimation process involves the exercise of considerable judgment. Due to the nature of the loss reserve estimate, Ambac's ultimate actual loss associated with the hurricane may be materially different from the current estimate and thereby may affect future operating results. Ambac will continue to assess the impact of Hurricane Katrina on subsequent periods as more information becomes available to us.

Included in the table below is information related to Ambac's Public Finance classified exposures against which Ambac has established its estimated reserve.

Ambac's Public Finance Classified Exposure by Asset Class
Net Par as of December 31, 2006 (\$ millions)

Bond Type	Greater New Orleans	Other Louisiana	Mississippi	Alabama	Total
General obligation	\$ 281	-	\$ 62	\$ 2	\$ 345
Leases and tax backed	354	-	-	-	354
Transportation	12	-	-	-	12
University	14	-	-	-	14
Utility	-	\$ 2	-	-	2
Grand Total	\$ 661	\$ 2	\$ 62	\$ 2	\$ 727