FORM 10-K405

AMBAC FINANCIAL GROUP INC - ABK

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Annual report. The Regulation S-K Item 405 box on the cover page is checked

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1999	Commission File Number 1-10777

Ambac Financial Group, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State of incorporation)	13-3621676 (I.R.S. employer identification

One State Street Plaza New York, New York (Address of principal executive offices)	10004 (Zip code)

(212) 668-0340
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 per share and Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of voting stock held by non-affiliates of the Registrant as of March 14, 2000 was $3,026,518,517 (based upon the closing price of the Registrant's shares of the New York Stock Exchange on March 14, 2000, which was $43.938). For purposes of this information, the outstanding shares of Common Stock which were owned by all directors and executive officers of the Registrant were deemed to be shares of Common Stock held by affiliates.

As of March 14, 2000, 69,788,425 shares of Common Stock, par value $0.01 per share, (net of 891,959 treasury shares) were outstanding.

Documents Incorporated By Reference

Portions of the Registrant's Annual Report to Stockholders for the year ended December 31, 1999 are incorporated by reference into Parts II and IV hereof. Portions of the Registrant's Proxy Statement dated March 31, 2000 in connection with the Annual Meeting of Stockholders to be held on May 10, 2000 are incorporated by reference into Part III hereof.

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Part I

Item 1. Business.

GENERAL

Ambac Financial Group, Inc. (the "Company"), headquartered in New York City, is a holding company whose subsidiaries provide financial guarantee products and other financial services to clients in both the public and private sectors around the world. The Company was incorporated on April 29, 1991. The Company provides financial guarantees for municipal and structured finance obligations through its principal operating subsidiary, Ambac Assurance Corporation ("Ambac Assurance"). Through its financial services subsidiaries, the Company provides investment agreements, interest rate swaps, investment advisory and cash management services, primarily to states, municipalities and their authorities.

Ambac Assurance is primarily engaged in guaranteeing municipal and structured finance obligations and is the successor of the oldest municipal bond insurance company, which wrote the first municipal bond insurance policy in 1971. Financial guarantee products written by Ambac Assurance in both the primary and secondary markets guarantee payment when due of the principal of and interest on the guaranteed obligation. In the case of a default on a guaranteed obligation, payments under the financial guarantee policy may not be accelerated by the policyholder without Ambac Assurance's consent. Ambac Assurance seeks to minimize the risk inherent in its financial guarantee portfolio by maintaining a diverse portfolio, which spreads its risk across a number of criteria, including issue size, type of bond, geographic area and obligor. As of December 31, 1999, Ambac Assurance's net financial guarantee in force (after giving effect for reinsurance) was $374.5 billion. See "Financial Guarantee in Force" below.

Ambac Credit Products L.L.C. ("ACP"), a wholly-owned subsidiary of Ambac Assurance, provides credit protection in the global markets in the form of structured credit derivatives. These structured credit derivatives involve private transactions with high quality counterparties. These contracts require ACP to make payments upon the occurrence of certain defined credit events relating to an underlying obligation (generally a fixed income security). Structured credit derivatives issued by ACP are guaranteed by Ambac Assurance. See "Business Segments -- Financial Guarantee" below and "Management's Discussion and Analysis -- Market Risk" in the Company's 1999 Annual Report to Shareholders.

Ambac Assurance has earned triple-A ratings, the highest ratings available from Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group ("S&P"), Fitch IBCA, Inc., ("Fitch") and Japan Rating and Investment Information, Inc. ("Japan R&I"). These ratings are an essential part of Ambac Assurance's ability to provide credit enhancement. See "Rating Agencies" below.

The Company's investment agreement business ("IA Business"), conducted through its subsidiary, Ambac Capital Funding, Inc. ("ACFI") provides investment agreements primarily to states, municipalities and their authorities. Investment agreements written by ACFI are rated triple-A by virtue of Ambac Assurance's financial guarantee. Investment agreements are primarily used by municipal bond issuers to invest bond proceeds until the proceeds can be used for their intended purpose, such as financing construction. The investment agreement provides for the guaranteed return of principal invested, and for the payment of interest thereon at a guaranteed rate. See "Investment Agreements" below.

The Company provides interest rate swaps through its subsidiary Ambac Financial Services, L.P. ("AFSLP") primarily to states, municipalities and their authorities, and other entities in connection with their financings. The interest rate swaps provided by AFSLP are guaranteed by Ambac Assurance and provide a financing alternative that may reduce an issuer's overall borrowing costs. See "Interest Rate Swaps" below.

The Company provides investment advisory, cash management and fund administration services through its subsidiary, Cadre Financial Services, Inc. ("Cadre"), and broker/dealer services through its subsidiary, Cadre Securities, Inc. ("Cadre Securities"), primarily to school districts, hospitals and health organizations, and municipalities.

As a holding company, Ambac Financial Group, Inc. is largely dependent on dividends from Ambac Assurance, its principal operating subsidiary, to pay dividends on its capital stock, to pay principal and interest on its indebtedness, to pay its operating expenses, and to make capital investments in its subsidiaries. Dividends from Ambac Assurance are subject to certain insurance regulatory restrictions. See "Insurance Regulatory Matters -- Wisconsin Dividend Restrictions" below and "Management's Discussion and Analysis -- Liquidity and Capital Resources" in the Company's 1999 Annual Report to Stockholders.

Materials in this Form 10-K may contain information that includes or is based upon forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995. Forward-looking statements give the Company's expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results.

Any or all of our forward-looking statements here or in other publications may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the Company's actual future results. The Company's actual results may vary materially, and there are no guarantees about the performance of the Company's stock. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Among factors that could cause actual results to differ materially are: (1) changes in the economic, credit or interest rate environment in the United States and abroad; (2) the level of activity within the national and worldwide debt markets; (3) competitive conditions and pricing levels; (4) legislative and regulatory developments; (5) changes in tax laws; and (6) other risks and uncertainties that have not been identified at this time. Ambac undertakes no obligation to publicly correct or update any forward-looking statement if we later become aware that it is not likely to be achieved. You are advised, however, to consult any further disclosures we make on related subjects in our reports to the Securities Exchange Commission.

BUSINESS SEGMENTS

The following paragraphs describe the business operations of Ambac Financial Group, Inc. and its subsidiaries (sometimes collectively referred to as "the Company") for the Company's two reportable segments: Financial Guarantee and Financial Services.

Financial Guarantee

Generally, financial guarantee insurance written by Ambac Assurance guarantees to the holder of the underlying obligation timely payment of principal and interest by the issuer on such obligation in accordance with its original payment schedule. Accordingly, in the case of issuer default on the guaranteed obligation, payments under the financial guarantee policy may not be accelerated by the policyholder without Ambac Assurance's consent.

Financial guarantee insurance is a form of credit enhancement that benefits both the issuer and the investor. Issuers benefit because their securities are sold with a higher credit rating than securities of the issuer sold without credit enhancement, resulting in interest cost savings and greater marketability. In addition, for complex financings and obligations of issuers that are not well known by investors, credit enhanced obligations receive greater market acceptance than obligations without credit enhancement. Investors benefit from greater marketability and a reduction in the risk of loss associated with issuer default.

Structured credit derivatives written by ACP provide credit protection in respect of specific securities, loans or other credits. Should a defined credit event occur, ACP would generally pay a claim equivalent to the difference between the par value and market value of the underlying obligation. The majority of ACP's contracts are partially hedged with various financial institutions or structured with first loss protection. Such structuring mitigates ACP's risk of loss and the price volatility of these financial instruments.

The Company derives financial guarantee revenues from: (i) premiums earned over the life of the obligations insured or covered under a credit derivative; (ii) net investment income; (iii) net realized gains and losses; (iv) certain structuring fees; and (v) mark-to-market gains/losses on credit derivatives transactions. Financial guarantee revenues were $474.1 million, $408.4 million and $339.2 million in 1999, 1998 and 1997, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 17 of Notes to Consolidated Financial Statements in the Company's 1999 Annual Report to Stockholders.

Financial guarantee products are sold in three principal markets: the U.S. Municipal Market, the U.S. Structured Finance and Asset-backed Market, and the International Market.

U. S. Municipal Market

Until 1993, Ambac Assurance was almost exclusively focused on the municipal market in the United States. The U.S. municipal market includes taxable and tax-exempt bonds, notes and other evidences of indebtedness issued by states, political subdivisions (e.g., cities, counties, towns and villages), water, sewer, electric and other utility districts, airports, higher educational institutions, hospitals, transportation and housing authorities and other similar authorities and agencies. Municipal obligations are generally supported by either the taxing authority of the issuer or the issuer's or underlying obligor's ability to collect fees or assessments for certain projects or public services. More recently, the municipal market has expanded to include structured and asset-backed bond issues for tax liens, sports stadiums, lease pools and other municipal assets. The following table sets forth the volume of new issues of long-term (longer than 12 months) municipal bonds and the volume of new issues of insured long-term municipal bonds over the past ten years in the United States.

U.S. Long-Term Municipal Market

($ in Billions)	Total Volume	Insured Volume	Insured Bonds as Percentage of Total Volume
1990	$127.8	$ 33.5	26.2%
1991	172.4	51.9	30.1
1992	234.7	80.8	34.4
1993	292.2	107.8	36.9
1994	164.8	61.4	37.3
1995	160.3	68.5	42.7
1996	183.5	85.5	46.6
1997	220.7	107.5	48.7
1998	285.9	145.3	50.8
1999	219.3	104.3	47.6

Source: Amounts, except for 1999, are based upon estimated data reported by The Bond Buyer's 1999 Yearbook. The 1999 amounts are Ambac Assurance estimates, compiled from industry sources including Securities Data-Company, Inc. and The Bond Buyer. Amounts represent gross par amounts issued or insured, respectively, during such year.

The foregoing table illustrates the changes in the total volume and insured volume of new issues of municipal bonds over the past ten years. Changes in volume of municipal bond issuance during this period are primarily attributable to changes in refunding activity related to the then-current interest rate environment, along with steady growth in the underlying market. Insured volume, as a percentage of total volume, which had grown consistently from 1990 through 1998, has now declined slightly and is not expected to increase or decrease materially from current levels.

Although there have been certain monetary defaults in bond issues of substantial amounts, incidents of monetary default on municipal bonds have historically been infrequent. Based upon data reported by the Association of Financial Guaranty Insurors, the percentage of insured municipal bonds experiencing monetary defaults in recent years is low relative to the entire municipal market. The relatively low incidence of municipal bond defaults may be partially the result of safeguards developed over the years since the Great Depression of the 1930's, when a great number of municipal defaults occurred. Such safeguards include the imposition of issuer debt limits, greater supervision by state governments of local debt administration, and more thorough credit reviews by investment firms, rating agencies and institutional investors. While these safeguards address many of the causes of earlier defaults, they may be inadequate to prevent an increased level of defaults in the future caused by presently unforeseen economic and other factors.

U.S. Structured Finance and Asset-backed Market

Insurance of securities in the U.S. structured finance and asset-backed market is typically issued in connection with structured financings or securitizations in which the securities being issued are secured by or payable from a specific pool of assets having an ascertainable cash flow or market value and held by a special purpose issuing entity. Such obligations include, but are not limited to, mortgage-backed securities and pools of home equity loans, credit card receivables, trade receivables or other assets. While most structured finance and asset-backed obligations are secured by or represent interest in pools of assets, Ambac Assurance has also guaranteed structured finance and asset-backed obligations secured by one or a few assets.

In general, structured finance and asset-backed obligations are payable only from cash flow generated by a pool of assets and take the form of either "pass-through" obligations, which represent interests in the related assets, or "pay-through" obligations, which generally are debt obligations which are collateralized by the related assets. Both types of obligations also generally have the benefit of over-collateralization or one or more forms of credit enhancement to mitigate credit risks associated with the related assets.

Structured finance and asset-backed obligations generally entail two forms of risks: asset risk, which relates to the amount and quality of asset coverage; and structural risk, which relates to the extent to which the transaction structure protects the interests of the investors, and therefore the guarantor.

In general, the amount and quality of asset coverage required is determined by the historical performance of the assets. The future performance of the underlying pool of assets will generally determine whether the amount of over-collateralization or other credit enhancement ultimately is sufficient to protect investors, and therefore the guarantor, against adverse asset performance. The ability of the servicer of the assets to properly service and collect the underlying assets often is a factor in determining future asset performance.

Structural risks addressed by asset-backed transactions include bankruptcy and tax risks. Structured and asset-backed securities are usually designed to protect the investors, and therefore the guarantor, from the bankruptcy or insolvency of the entity that originated the underlying assets as well as from the bankruptcy or insolvency of the servicer of those assets (the servicer of the assets is typically responsible for collecting cash payments on the underlying assets and forwarding such payments, net of servicing fees, to the special purpose issuing entity). Related issues that often arise concern whether the sale of the assets by the originator to the issuer of the asset-backed obligations would be respected in the event of the bankruptcy or insolvency of the originator and whether the servicer of the assets may be permitted or required to delay the remittance to investors of any cash collections held by it or received by it after the time it becomes subject to bankruptcy or insolvency proceedings. In addition, servicer risk is often present in these transactions. Generally, servicer risk is the risk that inefficiencies at the servicer level contribute to a decline in the collections of borrower payments in the transaction. Ambac Assurance addresses these risks through its credit underwriting guidelines, standards and procedures.

The U.S. structured finance and asset-backed market in which Ambac Assurance provides financial guarantees is broad and disparate, comprising public issues and private placements. The increasingly varied classes of assets securitized or guaranteed, and the recent rapid development of the market, make estimating the size of the aggregate U.S. structured finance and asset-backed markets difficult. Two of the most developed sectors of this market are public asset-backed and mortgage-backed securities. According to Asset-Backed Alert, volume in these two markets combined totaled $298.7 billion and $319.0 billion in 1999 and 1998, respectively. Approximately 21% and 19% of those markets were insured in 1999 and 1998, respectively.

International Market

Outside of the United States, sovereign and sub-sovereign issuers, structured and asset-backed issuers, utilities and other issuers are increasingly using financial guarantee products, particularly in markets throughout Western Europe. A number of important trends in international markets have contributed to this expansion. In the United Kingdom, Australia and elsewhere, ongoing privatization efforts have shifted the burden of funding from the government to public and private capital markets, where investors may seek the security of financial guarantee products. In Europe, Japan and Latin America, there is growing interest in asset-backed securitization.

While the principles of securitization have been increasingly applied in overseas markets, development in particular countries has varied due to the sophistication of the local capital markets and the impact of financial regulatory requirements, accounting standards and legal systems. It is anticipated that securitization will continue to expand internationally, albeit at varying rates in each country. Ambac Assurance insures both asset-backed and structured transactions, sovereign and sub-sovereign debt issues, utilities, and other obligations in selected international markets.

Ambac Assurance believes that the structural risk profile of the international business it guarantees is generally the same as in the U.S. However, an understanding of the unique risks related to the particular country and region that could impact the credit of the issuer is necessary. These risks include legal and political environments, capital market dynamics, exposures to foreign exchange, and the degree of governmental support. Ambac Assurance monitors these risks carefully and addresses them through its credit underwriting guidelines, standards and procedures.

In 1997, Ambac Assurance capitalized a subsidiary in the United Kingdom, Ambac Assurance UK Limited ("Ambac UK"), which is authorized to conduct certain classes of general financial guarantee business in the United Kingdom. Ambac UK is the Company's primary vehicle for directly issuing financial guarantee policies in the United Kingdom and Europe. Ambac UK has entered into net worth maintenance and reinsurance agreements with Ambac Assurance which support its triple-A ratings.

In 1995, Ambac Assurance and MBIA Insurance Corporation ("MBIA") formed an unincorporated joint venture, MBIA. AMBAC International (the "Joint Venture"), to market financial guarantees outside of the United States. Since the inception of the Joint Venture, the two companies have guaranteed a combined total par amount of approximately $41.6 billion of international exposure under the Joint Venture. Under the Joint Venture, financial guarantee policies are issued separately by each of the companies. While retaining the right to act individually, each company has the opportunity to reinsure up to 50 percent of the international financial guarantee business written by the other company as part of the Joint Venture. Customer preference, licensing and market considerations determine which company insures a transaction. On March 21, 2000, Ambac Assurance and MBIA announced the restructuring of their Joint Venture arrangement. While Ambac Assurance and MBIA will continue having reciprocal reinsurance arrangements for international business, the companies will market and originate financial guarantees independently, with the exception of business conducted in Japan. The Company believes that the restructuring of the Joint Venture will not result in any reduction in premiums written from international business, although no assurances can be given that such a reduction will not occur.

Underwriting and Surveillance

Underwriting guidelines, policies and procedures have been developed by Ambac Assurance's management with the intent that Ambac Assurance guarantee only those obligations which, in the opinion of Ambac Assurance analysts, are of investment grade quality.

Ambac Assurance's financial guarantee activity outside of the U.S. market became significant in 1996. Geographically, the markets receiving Ambac Assurance's primary international focus have been the United Kingdom, Australia, France, Japan and certain parts of Latin America. In addition, Ambac has guaranteed transactions in which the geographic risk is spread over multiple countries. The types of international obligations guaranteed have primarily been asset-backed securities, sovereign and sub-sovereign obligations, special revenue and infrastructure obligations, collateralized bond obligations and collateralized loan obligations. Management has developed underwriting standards for international risks that are consistent with those applied to risks in the United States. It believes that risk associated with its international book of business is similar in risk type to its domestic structured finance book of business.

The underwriting process involves review of structural, legal and credit issues, including compliance with current Ambac Assurance underwriting standards. These standards are reviewed periodically by management.

Ambac Assurance's policy is to reduce default risk, and the severity of loss experienced upon the occurrence of a default, associated with the obligations guaranteed by it to the extent practicable. The decision to guarantee an issue is based upon such factors as the issuer's ability to repay the bonds, the bond's security features and the bond's structure, rather than upon an actuarial or statistical prediction of the likelihood that the issuer will default on the underlying debt obligation. Ambac Assurance guarantees only those bonds on which it expects not to incur a loss. However, losses may occur from time to time and it is Ambac Assurance's policy to provide for loss reserves that are adequate to cover potential losses. See "Losses and Reserves" below. Underwriting criteria have been developed for each bond type, reflecting the differences in, for example, economic and social factors, debt management, project essentiality, financial management, legal and administrative factors, revenue sources and security features.

All requests for insurance are reviewed by members of Ambac Assurance's underwriting staff, which is divided into major underwriting groups. The underwriting process is designed to screen issues carefully and begins with a thorough credit analysis by the primary analyst assigned to the issue. The credit is then reviewed within the primary analyst's underwriting group. At a minimum, the primary analyst's recommendation to qualify or reject an issue must be approved by a concurring analyst and an underwriting officer. The number of additional approvals required for a particular credit depends on the aggregate amount of Ambac Assurance's existing or potential exposure to the credit. In some cases, the structure of the credit or whether it is the first time such credit or structure is being reviewed are determining factors in the approval/review process. On large credits where the aggregate exposure exceeds a certain pre-determined amount, or new types of credit exposure, the underwriting decision must be approved by a credit committee comprised of senior underwriting officers and an attorney in addition to the analysts and underwriting officer mentioned above. Ambac Assurance assigns internal ratings to individual exposures as part of the underwriting process and at surveillance reviews. These internal ratings, which represent Ambac Assurance's independent judgments, are based upon underlying credit parameters similar to those used by rating agencies.

Ambac Assurance determines premium rates on the basis of the bond type and its perception of the risk it is assuming based on the credit strength of the bond issue. Factors considered in pricing include term to maturity, structure of the issue, and credit and market factors including, but not limited to, security features, the presence or absence of a debt service reserve fund or additional credit enhancement features and the interest rate spread between insured and uninsured obligations with characteristics similar to those of the proposed bond issue. Critical in assessing risk are factors such as the credit quality of the issuer, type of issue, the repayment source, the type of security pledged, the presence of restrictive covenants, and the bond's maturity. Each bond issue is evaluated in accordance with, and the final premium rate is a function of, the particular factors as they relate to such issue. The premium rate for a new issue also take into account the benefits to be obtained by the issuer, as well as the cost and the projected return to Ambac Assurance.

Surveillance groups and other credit professionals review the financial guarantee portfolio for concentration of risk by (i) specific bond types; (ii) geographic location; and (iii) size of issue. The separate underwriting groups are also responsible for portfolio surveillance. Portfolio surveillance analysts schedule and execute regular and ad hoc reviews of credits in the book of business. Risk-adjusted surveillance strategies have been developed for each bond type. Review periods and scope of review vary by bond type based upon the risk inherent in the nature of the credits. The focus of the surveillance review is to determine credit trends and recommend appropriate classification and review periods.

Those issues that are either in default or have developed problems that, with the passage of time, may lead to a claim or loss are tracked closely by the appropriate surveillance team. Internal or outside counsel reviews the documents underlying any problem credit and an analysis is prepared outlining Ambac Assurance's rights and potential remedies, the duties of all parties involved and recommendations for corrective actions. This analysis, along with the schedule of corrective actions, is reviewed in the regular remedial credit meetings. Ambac Assurance also meets with issuers to reach agreement upon the nature and the scope of the problem and to discuss the issuers' operating plans.

In many instances, Ambac Assurance, under the terms of the documents governing the underlying obligation, has the ability, among other things, to direct that audits be performed with respect to servicer and trustee contractual responsibilities and to meet with the appropriate officials to outline Ambac Assurance's concerns and rights. When the underlying economics so indicate, Ambac Assurance may aid in a restructuring to improve the debt service coverage.

The rating agencies also monitor the credits underlying Ambac Assurance's financial guarantee in force and, in most cases, advise Ambac Assurance of the credit rating each issue would receive if it were not insured.

Surveillance of the credit quality of underlying reference entities in ACP's credit derivatives portfolio is performed on a daily basis. Credit spreads, which act as a measure of the market's perception of an issuer's credit quality, are monitored to identify potential problems. In addition, published credit ratings and current news reports are monitored regularly.

The Company has a Portfolio Risk Management Committee ("PRMC") which has established various procedures and controls to monitor and manage credit risk. The PRMC is comprised of senior credit professionals and senior management of the Company. Its scope is enterprise-wide and its focus is on risk measurement, risk/return optimization, and capital attribution in a portfolio context. This committee works closely with the senior credit committees of each underwriting group to assure that credit criteria are appropriate, maintained, and systematically and consistently applied.

Financial Guarantees Written

Ambac Assurance provides financial guarantees for obligations in the U.S. Municipal Finance market, U.S. Structured Finance and Asset-backed market and the International market. Total gross par guaranteed for the years ended December 31, 1999, 1998 and 1997 was $73.3 billion, $61.5 billion and $45.5 billion, respectively.

Financial Guarantees Written - U.S. Municipal Finance Market

Ambac Assurance guaranteed gross par of $32.5 billion, $33.9 billion and $29.5 billion in 1999, 1998 and 1997, respectively, in the U.S. Municipal Finance market. In the U.S. Municipal Finance market, an issuer typically pays an up-front premium to Ambac Assurance at the time the policy is issued. Premiums are usually quoted as a percentage of the total amount of principal and interest that is scheduled to become due during the life of the bonds.

Proposed new municipal bond issues are submitted to Ambac Assurance by issuers (or their investment bankers or financial advisors) to determine their suitability for financial guarantee. Municipal bond issues are sold on either a competitive or a negotiated basis. With respect to competitive issues, an issuer will publish a notice of sale soliciting bids for the purchase of a proposed issue of municipal bonds. Potential bidders on the bonds then form syndicates. These syndicates then solicit a determination from some or all of the financial guarantors whether an issue is suitable for financial guarantee and at what premium rate and on what terms. The syndicate then determines whether to bid on the issue with a financial guarantee (and if so, with which financial guarantor) or without a financial guarantee. The issuer then generally selects the syndicate with the lowest bid. In a negotiated offering, the issuer has already selected an investment bank and that investment bank solicits premium quotes and terms from the financial guarantors.

Ambac Assurance also provides guarantees on bonds outstanding in the secondary market that are typically purchased by an institution to facilitate the sale of municipal bonds in its portfolio or inventory. The guaranty generally increases the sale price of bonds (typically by an amount greater than the cost of the policy) and affords a wider secondary market and therefore greater marketability to a given issue of previously issued bonds. As is the case with new issues, the premium is generally payable in full at the time of policy issuance. Ambac Assurance employs the same underwriting standards on secondary market issues that it does on new municipal bond issues.

The new issue U.S. Municipal market includes guarantees designed to satisfy debt service reserve fund requirements of municipal bond issuers. These policies insure the availability of an amount not to exceed the debt service reserve fund requirement for the issues, which in most cases is the lesser of one year's maximum principal and interest payments or approximately 10% of the original principal amount of a bond issue. The issuer must reimburse any amounts drawn under the debt service reserve fund policy within a specified time period and at a specified interest rate.

As of December 31, 1999 and 1998, net outstanding par exposure related to municipal bond transactions was $173.0 billion and $156.9 billion, respectively.

Financial Guarantees Written - U.S. Structured Finance and Asset-Backed Market

Ambac Assurance guaranteed gross par of $33.4 billion, $22.6 billion and $12.8 billion in 1999, 1998 and 1997, respectively, in the U.S. Structured Finance and Asset-backed market.

Within this market, Ambac Assurance is active in several segments, the largest of which are the mortgage-backed and home equity loan and commercial asset-backed markets.

Within the mortgage-backed and home equity loan market, Ambac Assurance seeks to work with higher quality, well-capitalized issuers. The issuers typically originate or purchase first lien mortgages, home equity loans or home equity lines of credit, which are in turn sold by the issuers in the form of asset-backed securities. In considering whether to guarantee these securities, Ambac Assurance analyzes the quality of the underlying assets, the structure of the securitization, the experience and financial strength of the servicer of the underlying assets and the credit quality of the issuer. All of these factors, along with market conditions determine the premium rate to be charged for the guarantee.

The commercial asset-backed area includes providing levels of credit enhancement for commercial paper asset-backed conduits ("conduits") and other asset-backed securitizations. Conduits are used by issuers to efficiently fund assets in the short-term commercial paper market. Typically sponsored by financial institutions, customers sell financial assets such as trade receivables to the conduits, which in turn issue commercial paper to fund the purchase of the assets. When Ambac Assurance underwrites a new conduit for insurance it evaluates, among other factors: (i) the quality of the assets to be sold to the conduit; (ii) the process by which the sponsoring financial institution adds assets to the conduit; (iii) the quality of the management team of the conduit and the financial institution sponsoring the conduit; and (iv) the structure of the conduit itself. All these factors, along with competitive conditions, are used in determining the premium rate to be charged. In addition to providing program level enhancement covering the entire conduit structure, Ambac Assurance also may provide financial guarantee against the default of a specific security sold into a conduit.

Premiums for structured finance and asset-backed policies are based on a percentage of either principal or principal and interest insured. The timing of the collection of structured finance and asset-backed premiums varies among individual transactions; some being collected in a single payment at policy inception date, and others being collected periodically (e.g., monthly, quarterly or annually). As of December 31, 1999 and 1998, net outstanding par exposure related to U.S. structured finance and asset-backed transactions was $53.0 billion and $32.9 billion, respectively.

Financial Guarantees Written - International Market

Ambac Assurance guaranteed gross par of $7.4 billion, $5.0 billion and $3.1 billion in 1999, 1998 and 1997, respectively, in the International market.

Ambac Assurance's strategy in the international markets is to strengthen its franchise in developed markets by focusing on high quality infrastructure, structured finance, securitization, and utility finance transactions, and in emerging markets by focusing on top tier future flow transactions (structured transactions secured by future inflows of assets) and collateralized debt obligations.

Premiums for international policies are based on a percentage of either principal or principal and interest guaranteed. The timing of the collection of international structured finance and asset-backed premiums varies among individual transactions; some being collected in a single payment at policy inception date, and others being collected periodically (i.e., monthly, quarterly or annually). As of December 31, 1999 and 1998, net outstanding par exposure related to international transactions was $14.3 billion and $8.5 billion, respectively.

Financial Guarantees in Force

Ambac Assurance underwrites and prices financial guarantees on the assumption that the guarantee will remain in force until maturity of the underlying bonds. Ambac Assurance estimates that the average life of its guarantees on new issue par in force at December 31, 1999 was 10 1/2 years. The 10 1/2 year average life is determined by applying a weighted average calculation, using the remaining years to maturity of each guaranteed bond, and weighting them on the basis of the remaining par guaranteed. No assumptions are made for prepayments or future refundings of guaranteed issues. Municipal bonds generally have provisions that allow the issuer to prepay all or a portion of the outstanding amount prior to maturity.

Ambac Assurance seeks to maintain a diversified financial guarantee portfolio designed to spread its risk based on a variety of criteria, including issue size, type of bond, geographic area and issuer.

As of December 31, 1999, the total net par amount of guaranteed bonds outstanding was $240.3 billion.

Types of Bonds

The table below shows the distribution by bond type of Ambac Assurance's guaranteed portfolio as of December 31, 1999.

Guaranteed Portfolio by Bond Type
as of December 31, 1999

Bond Type	Net Par Amount Outstanding	%of Total Net Par Amount Outstanding
($ In Millions)		
U.S. Municipal Finance:		
Lease and tax-backed revenue....................................	$ 40,874	17%
General obligation..	39,777	17
Utility revenue...	28,867	12
Health care revenue...	18,628	8
Transportation revenue..	10,247	4
Investor-owned utilities..	9,393	4
Higher education..	9,172	4
Housing revenue...	7,033	3
Student loans...	5,474	2
Other...	3,550	1
Total U.S. Municipal Finance..................................	173,015	72
U.S. Structured Finance:		
Mortgage-backed and home equity................................	33,294	14
Asset-backed and conduits......................................	16,398	7
Other..	3,270	1
Total Structured Finance......................................	52,962	22
Total Domestic..	225,977	94
International:..		
Asset-backed and conduits.....................................	6,023	3
Structured credit derivatives.................................	2,110	1
Utilities...	1,188	1
Mortgage-backed and home equity...............................	1,172	-
Sovereign/sub-sovereign.......................................	1,097	-
Other...	2,740	1
Total International...	14,330	6
Grand Total...	$240,307	100%

Historically, International included all transactions conducted through the Joint Venture. Joint Venture transactions may include components of domestic exposure.

The table below shows the percentage, by bond type, of new business guaranteed by Ambac Assurance during each of the last five years.

New Business Guaranteed by Bond Type (1)

Bond Type	1999	1998	1997	1996	1995
U.S. Municipal Finance:					
General obligation....................	9%	10%	18%	16%	23%
Utilities (2).........................	9	12	12	15	16
Lease and tax-backed revenue..........	9	15	17	23	16
Health care revenue...................	4	8	8	7	8
Transportation revenue................	4	2	2	3	5
Higher education......................	3	2	3	3	3
Student loans.........................	2	1	1	3	5
Housing revenue.......................	1	2	3	3	5
Other.................................	1	1	1	0	0
Total Municipal Finance.............	42	53	65	73	81
U.S. Structured Finance:					
Mortgage-backed and home............. Equity...........................	30	22	18	12	8
Asset-backed and conduits............	16	15	9	4	5
Other................................	2	2	3	3	1
Total Structured Finance............	48	39	30	19	14
Total Domestic.................	90	92	95	92	95
International:					
Asset-backed and conduits............	4	4	1	6	2
Structured credit derivatives........	4	0	0	0	0
Mortgage-backed and home............. Equity...........................	1	0	1	0	0
Sovereign/sub-sovereign..............	0	0	1	0	0
Utilities............................	0	1	1	0	0
Other................................	1	3	1	2	3
Total International................	10	8	5	8	5
Grand Total........................	100%	100%	100%	100%	100%

(1) Stated as a percentage of total net par amount guaranteed during such year.
(2) Includes investor-owned utilities.

Issue Size

Ambac Assurance seeks a broad coverage of the market by guaranteeing small and large issues alike. Ambac Assurance's financial guarantee exposure as of December 31, 1999 reflects the historical emphasis on issues guaranteed with an original par amount of less than $25 million in the municipal market. However, with the entrance into the U.S. Structured Finance and International markets in recent years, Ambac Assurance's emphasis has evolved towards larger deals. The following table sets forth the distribution of Ambac Assurance's guaranteed portfolio as of December 31, 1999, with respect to the original size of each guaranteed issue:

Original Par Amount Per Issue
as of December 31, 1999

Original Par Amount	Number of Issues	% of Total Number of Issues	Net Par Amount Outstanding	% of Total Net Par Amount Outstanding
			($ In Millions)	
Less than $10 million..........	9,062	65%	$ 23,789	10%
$10-25 million.................	2,378	17	29,022	12
$25-50 million.................	1,156	8	32,136	13
Greater than $50 million.......	1,408	10	155,360	65
	14,004	100%	$240,307	100%

Geographic Area

Ambac Assurance is licensed to write business in the U.S. and abroad. As of December 31, 1999, the ten largest U.S. states, as measured by net par amount outstanding, accounted for approximately 47% of Ambac Assurance's total net par amount outstanding. The following table sets forth the geographic distribution of Ambac Assurance's insured exposure as of December 31, 1999.

Guaranteed Portfolio by Geographic Area as of December 31, 1999

Geographic Area	Net Par Amount Outstanding	% of Total Net Par Amount Outstanding
($ In Millions)		
Domestic:		
California..	$ 25,225	11%
New York..	16,576	7
Pennsylvania..	14,498	6
Florida...	13,406	6
Texas...	9,352	4
Illinois..	8,097	3
Ohio..	6,917	3
New Jersey..	6,762	3
Massachusetts...	6,366	2
Michigan..	5,661	2
Mortgage and asset-backed.....................................	49,693	21
Other states..	63,424	26
Total Domestic...	225,977	94
International:		
United Kingdom..	2,416	1
Japan...	1,485	1
France..	738	-
Australia...	722	-
Mexico..	569	-
Internationally diversified...................................	5,686	3
Other International...	2,714	1
Total International..	14,330	6
Grand Total..	$240,307	100%

Mortgage and asset-backed obligations include guarantees with multiple locations of risk within the United States. Internationally diversified includes structured credit derivatives and other guarantees with multiple locations of risk globally. Historically, International included all transactions conducted through the Joint Venture. Joint Venture transactions may include components of domestic exposure.

Single Risk

Ambac Assurance has adopted underwriting and exposure management policies designed to limit the net guarantees in force for any one credit. In addition, Ambac Assurance uses reinsurance to limit net exposure to any one credit. As of December 31, 1999, Ambac Assurance's net par amount outstanding for its 20 largest credits, totaling $12.8 billion, was approximately 5% of Ambac Assurance's total net par amount outstanding with no one credit representing more than 1% of Ambac Assurance's total net par amount outstanding. Ambac Assurance is also subject to certain regulatory limits and rating agency guidelines on exposure to a single credit. See "Insurance Regulatory Matters" and "Rating Agencies," below.

Underlying Ratings

The following table sets forth Ambac Assurance's financial guarantee portfolio by underlying rating prior to being guaranteed by Ambac Assurance, as of December 31, 1999:

Insured Portfolio by Underlying Rating (1)
as of December 31, 1999

Rating	Net Par Amount Outstanding	% of Total Net Par Amount Outstanding
($ In millions)		
AAA	$ 3,496	1%
AA	29,179	12
A	131,571	55
BBB	75,082	31
BIG (2)	979	less than 1
	$240,307	100%

(1) Ratings represent Ambac Assurance internal ratings.
(2) Represents those bonds which have been categorized as "below investment grade" by Ambac Assurance.

Losses and Reserves

Ambac Assurance's policy is to provide for loss and loss adjustment expense reserves that are adequate to cover potential unidentified losses inherent to the portfolio, as well as losses that may arise from guaranteed obligations which are currently or imminently in monetary default. The active credit reserve ("ACR") represents an estimate of unidentified losses from our guaranteed obligations. As of December 31, 1999, Ambac Assurance's ACR was $94.8 million. When a monetary default occurs or is imminent with respect to a particular guaranteed obligation, a case basis reserve is established in an amount that is sufficient to cover the present value of the anticipated defaulted debt service payments over the expected period of default and the estimated expenses associated with settling the claims, less estimated recoveries under salvage or subrogation rights. In estimating the losses on monetary defaults, Ambac Assurance makes its assessment based on the full term of the guaranteed obligation. All or part of the case basis reserve may be allocated from available ACR. Ambac Assurance's net case basis reserves totaled $26.2 million at December 31, 1999.

The most recent three-year history of Ambac Assurance's loss reserves, and losses and loss adjustment expenses incurred and paid, is detailed in the table below:

Reserve for Losses and Loss Adjustment Expenses

	Years Ended December 31,		
	1999	1998	1997
($ In Thousands)			
Reserve for losses and loss adjustment expenses at January 1,	$115,794	$103,345	$ 60,613
Less: reinsurance recoverable	3,638	4,219	393
Net reserve for losses and loss adjustment expenses at January 1,	112,156	99,126	60,220
Losses and loss adjustment expenses incurred	11,000	6,000	2,854
Losses and loss adjustment expenses paid (net of salvage received)	(2,181)	7,030	(2,474)
Net balance for Connie Lee, at acquisition	--	--	38,526
Net reserve for losses and loss adjustment expenses at December 31,	120,975	112,156	99,126
Plus: reinsurance recoverable	500	3,638	4,219
Reserve for losses and loss adjustment expenses at December 31,	$121,475	$115,794	$103,345

Management of Ambac Assurance believes that the reserves for losses and loss adjustment expenses are adequate to cover the ultimate net costs of claims, but the reserves are necessarily based on estimates and there can be no assurance that the ultimate liability will not exceed such estimates. See Note 2 of Notes to Consolidated Financial Statements in the Company's 1999 Annual Report to Stockholders.

Competition

The financial guarantee business is highly competitive. Ambac Assurance's principal competitors in the market for financial guarantees are three other triple-A rated monoline insurance companies, Financial Guaranty Insurance Company ("FGIC"), Financial Security Assurance Inc. ("FSA") and MBIA. In addition, banks, multiline insurers and reinsurers, and lower rated financial guarantee insurance companies represent additional participants in the broader market. The principal competitive factors are: (i) premium rates; (ii) conditions precedent to the issuance of a policy related to the structure and security features of a proposed bond issue; (iii) the financial strength of the guarantor; and (iv) the quality of service provided to issuers, investors and other clients of the issuer. With respect to each of these competitive factors, Ambac Assurance believes it is on equal footing with each of its principal competitors.

Financial guarantee insurance also competes domestically and internationally with other forms of credit enhancement, including letters of credit and guarantees (for example, mortgage guarantees where pools of mortgages secure debt service payments) provided by banks and other financial institutions, some of which are governmental agencies. Letters of credit are most often issued for periods of less than 10 years, although there is no legal restriction on the issuance of letters of credit having longer terms. Thus, financial institutions and banks issuing letters of credit compete directly with Ambac Assurance to guarantee short-term notes and bonds with a maturity of less than 10 years.

In order to enter the financial guarantee market certain requirements must be met, most restrictive of which is that a significant minimum amount of capital is required of a financial guarantor in order to obtain financial strength ratings by the rating agencies. In addition, under the New York law, a monoline financial guarantor must have at least $75 million of paid-in capital and surplus and maintain thereafter at least $65 million of policyholders' surplus. A similar law in California imposes a $100 million minimum capital and surplus requirement, with a maintenance requirement thereafter of $75 million.

Reinsurance

State insurance laws and regulations (as well as the rating agencies) impose minimum capital requirements and single risk limits on financial guarantee insurance companies, limiting the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. Such companies can use reinsurance to diversify risk, increase underwriting capacity, reduce additional capital needs, stabilize shareholder returns and strengthen financial ratios. See "Insurance Regulatory Matters," below.

Ambac Assurance has facultative reinsurance agreements with certain high quality reinsurers that allow Ambac Assurance to reduce its large risks, to manage its portfolio of insurance by bond type and geographic distribution, and to provide additional capacity for frequent bond issuers. Under these agreements, portions of Ambac Assurance's interests and liabilities are ceded on an issue-by-issue basis. A ceding commission is withheld to defray Ambac Assurance's underwriting expenses. In addition, Ambac Assurance and MBIA have entered into facultative reinsurance agreements whereby each company may reinsure the other on risks guaranteed internationally.

Historically, Ambac Assurance had employed treaty insurance programs that provided quota share and surplus share reinsurance. Under such programs, Ambac Assurance ceded a percentage of certain insured policies along with a surplus layer in excess of the quota share. Effective January 1, 1997, Ambac Assurance discontinued ceding new business under the quota share and surplus share reinsurance programs and only uses facultative reinsurance agreements to reduce its risks and manage its insurance portfolio.

As of December 31, 1999, Ambac Assurance had retained approximately 87% of its gross financial guarantees in force of $430.5 billion and had ceded approximately 13% to its treaty and facultative reinsurers. See Note 11 of Notes to Consolidated Financial Statements in the Company's 1999 Annual Report to Stockholders.

As a primary financial guarantor, Ambac Assurance is required to honor its obligations to its policyholders whether or not its reinsurers perform their obligations under the various reinsurance agreements with Ambac Assurance. To minimize its exposure to significant losses from reinsurer insolvencies, Ambac Assurance evaluates the financial condition of its reinsurers, prepares annual written reviews of such reinsurers and monitors for concentrations of credit risk. Ambac Assurance's current primary reinsurers are American Re, AXA Re Finance, Capital Reinsurance Company, Enhance Reinsurance Company, and MBIA.

Rating Agencies

Moody's, S&P, Fitch and Japan R&I periodically review the business and financial condition of Ambac Assurance and other companies providing financial guarantees. These rating agencies' reviews focus on the guarantor's underwriting policies and procedures and the quality of the obligations guaranteed. The rating agencies frequently perform assessments of the credits guaranteed by Ambac Assurance to confirm that Ambac Assurance continues to meet the capital allocation criteria considered necessary by the particular rating agency to maintain Ambac Assurance's triple-A ratings. A rating by Moody's, S&P, Fitch or Japan R&I, however, is not a "market rating" or a recommendation to buy, hold or sell any security. Ambac Assurance's ability to attract new business or to compete with other triple-A rated financial guarantors, and its results of operations and financial condition, would be materially adversely affected by any reduction in its ratings.

Insurance Regulatory Matters

General Law

Ambac Assurance is licensed to do business as an insurance company in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the territory of Guam. Ambac U.K., Ambac Assurance's wholly-owned subsidiary, is licensed to transact insurance in the United Kingdom. Ambac Assurance is subject to the insurance laws and regulations of the State of Wisconsin (the "Wisconsin Insurance Laws"), its state of incorporation, and the insurance laws and regulations of other states in which it is licensed to transact business. Ambac U.K. is subject to the insurance laws and regulations of the United Kingdom. These laws and regulations, as well as the level of supervisory authority that may be exercised by the various state insurance departments, vary by jurisdiction. They generally require financial guarantors to maintain minimum standards of business conduct and solvency, meet certain financial tests, file certain reports with regulatory authorities, including information concerning their capital structure, ownership and financial condition. They generally require prior approval of certain changes in control of domestic financial guarantors and their direct and indirect parents and the payment of certain dividends and distributions. In addition, these laws and regulations require approval of certain inter-corporate transfers of assets and certain transactions between financial guarantors and their direct and indirect parents and affiliates. They generally require that all such transactions have terms no less favorable than terms that would result from transactions between parties negotiating at arm's length. Ambac Assurance is required to file quarterly and annual statutory financial statements in each jurisdiction in which it is licensed. It is subject to single and aggregate risk limits and other statutory restrictions concerning the types and quality of investments and the filing and use of policy forms and premium rates. Additionally, Ambac Assurance's accounts and operations are subject to periodic examination by the Office of the Commissioner of Insurance of the State of Wisconsin (the "Wisconsin Commissioner") (the last such examination having been conducted in 1997 for the period ended December 31, 1996) and other state insurance regulatory authorities. See Note 8 of Notes to Consolidated Financial Statements in the Company's 1999 Annual Report to Stockholders.

The Company believes that Ambac Assurance is in material compliance with all applicable insurance laws and regulations.

Insurance Holding Company Laws

Under the Wisconsin insurance holding company laws, any acquisition of control of the Company and thereby indirect control of Ambac Assurance requires the prior approval of the Wisconsin Commissioner. "Control" is defined as the direct or indirect power to direct or cause the direction of the management and policies of a person. Any purchaser of 10% or more of the outstanding voting stock of a corporation is presumed to have acquired control of that corporation and its subsidiaries unless the Wisconsin Commissioner, upon application, determines otherwise. For purposes of this test, the Company believes that a holder of common stock having the right to cast 10% of the votes which may be cast by the holders of all shares of common stock of the Company would be deemed to have control of Ambac Assurance within the meaning of the Wisconsin Insurance Laws.

Pursuant to these laws, both FMR Corp. and J.P. Morgan & Co. Incorporated each obtained approval from the Wisconsin Insurance Commissioner to acquire greater than 10% of the Company's outstanding stock. As of December 31, 1999 their respective percentages of ownership were approximately 11.0% and 10.4%. In their respective requests for approval from the Wisconsin Commissioner, each entity disclaimed any present intention to exercise control over the Company or Ambac Assurance or to control or attempt to control the management or operations of the Company or Ambac Assurance.

The Wisconsin insurance holding company laws also require prior approval by the Wisconsin Commissioner of certain transactions between Ambac Assurance and companies affiliated with Ambac Assurance.

Wisconsin Dividend Restrictions

Pursuant to the Wisconsin Insurance Laws, Ambac Assurance may declare dividends, subject to any restriction in its articles of incorporation, provided that, after giving effect to the distribution, it would not violate certain statutory equity, solvency, income and asset tests. Distributions to the shareholder (other than stock dividends) must be reported to the Wisconsin Commissioner. Extraordinary dividends must be reported prior to payment and are subject to disapproval by the Wisconsin Commissioner. An extraordinary dividend is defined as a dividend or distribution, the fair market value of which, together with all dividends from the preceding 12 months, exceeds the lesser of: (a) 10% of policyholders' surplus as of the preceding December 31; or (b) the greater of: (i) statutory net income for the calendar year preceding the date of the dividend or distribution, minus realized capital gains for that calendar year; or (ii) the aggregate of statutory net income for the three calendar years preceding the date of the dividend or distribution, minus realized capital gains for those calendar years and minus dividends paid or credited and distributions made within the first two of the preceding three calendar years.

During 1999, 1998 and 1997, Ambac Assurance paid to the Company cash dividends on its common stock totaling $52.0 million, $48.0 million and $44.0 million, respectively. See Note 8 of Notes to Consolidated Financial Statements in the Company's 1999 Annual Report to Stockholders.

New York Financial Guarantee Insurance Law

New York's comprehensive financial guarantee insurance law governs the conduct of business of all financial guarantors licensed to do business in New York, including Ambac Assurance. This law requires a financial guarantor to contribute to a contingency reserve an amount equal to 50% of premiums as they are earned on a statutory basis on policies written prior to July 1, 1989. With respect to policies written on and after July 1, 1989, it must make contributions over a period of 20 years for municipal bonds and 15 years for all other obligations. Contributions continue until the contingency reserve for such insured obligations equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed (varying from 0.55% to 2.50%, depending upon the type of obligation guaranteed). This reserve must be maintained for the periods specified above, except that withdrawals by the guarantor may be permitted under specified circumstances in the event that actual loss experience exceeds certain thresholds or if the reserve accumulated is deemed excessive in relation to the guarantor's outstanding guaranteed obligations. Financial guarantors are also required to maintain case basis loss and loss adjustment expense reserves and unearned premium reserves on bases established by the regulations.

The New York financial guarantee insurance law establishes single risk limits applicable to all obligations issued by a single entity and backed by a single revenue source. Under the limit applicable to municipal bonds, the guaranteed average annual debt service for a single risk, net of reinsurance and collateral, may not exceed 10% of the sum of the guarantor's policyholders' surplus and contingency reserves. In addition, guaranteed principal of municipal bonds attributable to any single risk, net of reinsurance and collateral, is limited to 75% of the guarantor's policyholders' surplus and contingency reserves. Additional single risk limits, which generally are more restrictive than the municipal bond single risk limit, are also specified for several other categories of guaranteed obligations, including structured finance obligations.

Aggregate risk limits are also established on the basis of aggregate net liability and policyholders' surplus requirements. "Aggregate net liability" is defined as outstanding principal and interest of guaranteed obligations, net of reinsurance and collateral. Under these limits, policyholders' surplus and contingency reserves must at least equal a percentage of aggregate net liability that is equal to the sum of various percentages of aggregate net liability for various categories of specified obligations. The percentage varies from 0.33% for municipal bonds to 4.00% for certain non-investment grade obligations.

Financial Guarantee Insurance Regulation in Other States

The Wisconsin insurance laws and regulations governing municipal bond guarantors are similar to those in New York. Under the Wisconsin regulations, Ambac Assurance must establish a contingency reserve in an amount equal to 50% of net statutory earned premium on municipal bond financial guarantee policies. This reserve must be maintained for 20 years. However, the regulations provide that compliance with contingency reserve provisions under statutes in other jurisdictions that result in greater contributions than under the Wisconsin regulations is deemed to constitute compliance with the Wisconsin regulations. The Wisconsin regulations also include certain single and aggregate risk limitations. The average annual debt service for any single issue of municipal bonds may not exceed 10% of Ambac Assurance's policyholders' surplus. In addition, Ambac Assurance's cumulative net liability, defined as one-third of one percent of the guaranteed unpaid principal and interest covered by current municipal bond insurance policies, may not exceed its qualified statutory capital, which is defined as the sum of its capital and surplus and contingency reserve.

California has financial guarantee insurance laws similar in structure to those of New York. None of the risk limits established in California's legislation with respect to business transacted by Ambac Assurance are more stringent in any material respect than the corresponding provisions in the New York financial guarantee insurance statute. California law requires a financial guarantor to contribute to a contingency reserve an amount equal to 50% of premiums as they are earned on a statutory basis on policies written prior to July 1, 1989. With respect to policies written on and after July 1, 1989, it must make contributions over a period of 20 years for municipal bonds and 15 years for all other obligations until the contingency reserve for such insured obligations equals a percentage of principal outstanding (varying from 0.80% to 3.00%, depending upon the type of obligation guaranteed). This reserve must be maintained for the periods specified above, except that withdrawals by the financial guarantor may be permitted under specified circumstances in the event that actual loss experience exceeds certain thresholds or if the reserve accumulated is deemed excessive in relation to the financial guarantor's outstanding insured obligations. Ambac Assurance's reported contingency reserve is equal to the greater of the required reserve as calculated under New York and California law.

In addition to the laws and regulations of New York, Wisconsin and California, Ambac Assurance is subject to laws and regulations of other states concerning the transaction of financial guarantees, none of which is more stringent in any material respect than the New York financial guarantee insurance statute.

Financial Services

The Company's Financial Services Segment provides investment agreements, interest rate swaps, and investment advisory and fund administration services, principally to states, municipalities and their authorities, school districts, and hospitals and health organizations.

Financial services revenues are derived from: (i) net investment income; (ii) net swap revenues; (iii) fund management and advisory revenues; and (iv) net realized gains and losses. Excluding transactions with affiliates, total revenues were $48.5 million, $32.4 million and $34.6 million in 1999, 1998 and 1997, respectively. See "Management's Discussion and Analysis" and Note 17 of Notes to Consolidated Financial Statements in the Company's 1999 Annual Report to Stockholders.

The principal competitive factors among providers of investment agreements are: (i) contract interest rates; (ii) conditions precedent to the issuance of a policy related to the structure and security features of a proposed investment contract; (iii) the financial strength of the financial guarantee provider; and (iv) the quality of service provided to issuers, investors and other clients of the issuer. With respect to each of these competitive factors, the Company believes that ACFI is on equal footing with each of its principal competitors.

The principal competitive factors among providers of interest rate swap contracts are: (i) pricing of contracts; (ii) the financial strength of the financial guarantee provider; (iii) the ability to structure a complete financial package; and (iv) the quality of service provided to issuers, investors and other clients of the issuer. With respect to each of these competitive factors, the Company believes that AFSLP is on equal footing with each of its principal competitors.

The principal competitive factors among providers of investment advisory and fund administration services are: (i) pricing of services; (ii) investment returns; (iii) the ability to provide services tailored to customers' needs; and (iv) the quality of service provided to customers. With respect to each of these competitive factors, the Company believes that Cadre and Cadre Securities are on equal footing with each of their principal competitors.

Investment Agreements

The principal purpose of ACFI is providing investment agreements, including investment repurchase agreements, primarily to states, municipalities and their authorities. Investment agreements are used by municipal bond issuers to invest bond proceeds until such proceeds can be used for their intended purpose, such as financing construction. The investment agreement provides for the guaranteed return of principal invested, as well as the payment of interest thereon at a guaranteed rate and is rated triple-A by virtue of Ambac Assurance's financial guarantee policy, which guarantees its payment obligations.

ACFI manages its balance sheet to protect against a number of risks inherent in its business including liquidity, market (principally interest rate) and credit risk. See "Management's Discussion and Analysis -- Market Risk" in the Company's 1999 Annual Report. ACFI is managed with the goal of matching the effective duration of the invested assets, including hedges, to the effective duration of the investment agreement liabilities. Its goal is to match the expected cash flow of invested assets (including hedges) to funded liabilities in order to minimize market and liquidity risk.

A source of liquidity risk is the ability of some counterparties to withdraw moneys on dates other than those specified in the draw down schedule. Liquidity risk is somewhat mitigated by provisions in certain of the municipal investment agreements that limit an issuer's ability to draw on the funds and by risk management procedures that require the regular re-evaluation and re-projection of draw down schedules. Investments are restricted to fixed income securities with a minimum average portfolio credit quality of Aa/AA. Based upon management's projections, ACFI maintains funds invested in cash and cash equivalents to meet short-term liquidity needs.

The following table sets forth the net payments due under ACFIs' settled investment agreements in each of the next five years ending December 31, and the period thereafter, based on expected call dates:

Investment Agreements Obligations

($ In Thousands)	Principal Amount (1)
2000	$2,457,817
2001	1,384,598
2002	483,254
2003	69,164
2004	40,466
All later years	973,549
	$5,408,848

(1) As of December 31, 1999, the interest rates on these agreements ranged from 4.00% to 8.14%.

ACFI currently uses interest rate swap contracts in the normal course of business for hedging purposes as part of its overall interest rate risk management. Some of its interest rate swap agreements have been entered into with its affiliate, AFSLP. Other derivative contracts that have been used by ACFI, and may be used in the future, include financial instruments with off-balance sheet risk such as interest rate futures contracts, and purchased interest rate option contracts. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements.

Interest rate swap contracts are agreements where ACFI agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts or the difference between different interest rate indices calculated by reference to an agreed upon notional amount.

Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and are settled in cash. Initial margin requirements are met in cash or other financial instruments, and changes in the contract values are settled daily. Futures contracts have little credit risk since futures exchanges are the counterparties.

Interest Rate Swaps

AFSLP provides interest rate swaps primarily to states, municipalities and their authorities, and other entities in connection with their financings. In addition, AFSLP also provides interest rate swaps to ACFI, an affiliate. AFSLP is subject to changes in the relationship between tax-exempt and taxable interest rates, referred to as "basis risk." If actual or projected tax-exempt interest rates change in relation to taxable rates, AFSLP will experience an unrealized mark-to-market gain or loss. The interest rate swaps provided by AFSLP are guaranteed by Ambac Assurance through policies that guarantee the obligations of AFSLP and its counterparties.

AFSLP is a limited partnership. Ambac Assurance, the sole limited partner, owns a limited partnership interest representing 90% of the total partnership interests of AFSLP. Ambac Financial Services Holdings, Inc. ("AFS Holdings"), a wholly-owned subsidiary of the Company, the sole general partner, owns a general partnership interest representing 10% of the total partnership interest in AFSLP.

In the ordinary course of business, AFSLP manages a variety of risks - principally (i) credit; (ii) market; (iii) liquidity; (iv) operational; and (v) legal. These risks are identified, measured, and monitored through a variety of control mechanisms, which are in place at different levels throughout the organization. See "Management's Discussion and Analysis -- Market Risk" in the Company's Annual Report.

Investment Advisory and Cash Management

In December 1996, the Company acquired certain assets and assumed certain liabilities of Cadre. Cadre is registered as an investment adviser with the SEC. As a registered adviser, Cadre is subject to regulation in certain aspects of its business, particularly with respect to investment advisory services provided to investment companies and clients. Cadre provides investment advisory and administrative services to money market funds that are primarily offered to qualified participants, including school districts, healthcare service providers and municipalities.

In June 1997, the Company acquired certain assets and assumed certain liabilities of Cadre Securities. Cadre Securities principal business is the distribution of money market funds to the education, healthcare and municipal sectors, as well as the brokering of short-term fixed income securities trades on behalf of its clients. It also serves as placement agent and dealer for securities issued by its affiliates in private placement transactions. Cadre Securities is registered as a broker-dealer with the SEC and with certain states that require such registration, and it is a member of the National Association of Securities Dealers, Inc. As a registered broker-dealer, Cadre Securities is subject to the net capital requirements of Rule 15c3-1 of the Securities Exchange Act of 1934, as amended, which is designed to measure the general financial condition and liquidity of a broker-dealer. In accordance with this rule, the ratio of aggregate indebtedness to net capital ("net capital ratio") shall not exceed 15 to 1. At December 31, 1999, Cadre Securities had net capital of $202,668, which was $102,668 in excess of its required net capital of $100,000. The net capital ratio was 3.7 to 1.

At December 31, 1999, Cadre and Cadre Securities provided services to approximately 3,000 clients with approximately $6.9 billion in assets.

Fees from the money market funds for which Cadre and Cadre Securities perform services are based on percentages of the average daily net assets of such funds. Cadre Securities receives fees for brokering short-term fixed income securities trades by marking up the price of the securities purchased and sold on behalf of clients. These fees are recorded upon execution of the trades since, at that time, substantially all of Cadre Securities' obligations have been fulfilled.

Investments and Investment Policy

As of December 31, 1999, the consolidated investments of the Company had an aggregate fair value of approximately $9.0 billion and an aggregate amortized cost of approximately $9.3 billion. These investments are managed internally by officers of the Company, who are experienced investment managers. In the normal course of business, the Company uses derivative contracts for hedging purposes as part of its overall interest rate risk management. These derivative contracts may include interest rate futures contracts, interest rate swap agreements and purchased interest rate option contracts. All investments, including derivative contracts, are effected in accordance with the general objectives and guidelines for investments established by each subsidiary's Board of Directors. These guidelines encompass credit quality, risk concentration and holding period, and are periodically reviewed and revised as appropriate.

Pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company has designated all investments as "available-for-sale" and reports them at fair value. Unrealized gains and losses are excluded from earnings and reported as a component of "Accumulated Other Comprehensive (Loss) Income", in stockholders' equity, net of tax.

As of December 31, 1999, Ambac Assurance's investment portfolio had an aggregate fair value of approximately $3.7 billion and an aggregate amortized cost of approximately $3.9 billion. Ambac Assurance's investment policy is designed to achieve diversification of its portfolio and only permits investment in investment grade fixed income securities, consistent with its goal to achieve the highest after-tax, long-term return. This policy takes into consideration Ambac Assurance's desire for both current income and long-term capital growth. Ambac Assurance is subject to limits on types and quality of investments imposed by the insurance laws and regulations of the States of Wisconsin and New York. In compliance with these laws, Ambac Assurance's Board of Directors approves each specific investment transaction of Ambac Assurance. See "Insurance Regulatory Matters - General Law," above.

As of December 31, 1999, ACFI's investment portfolio had an aggregate fair value of approximately $5.2 billion and an aggregate amortized cost of $5.4 billion. ACFI's investment policy is designed to achieve the highest after-tax return on equity, subject to minimum average quality ratings. For further discussion, see "Investment Agreements," above.

The following tables provide certain information concerning the investments of the Company:

Investments by Rating (1)
as of December 31, 1999

Rating	% of Investment Portfolio
AAA (2)	77%
AA	12
A	9
BBB	-
Not Rated	2
	100%

(1) Ratings represent S&P classifications. If unavailable, Moody's rating is used.
(2) Includes U.S. Treasury and agency obligations, which comprised approximately 27% of the total investment portfolio.

Summary of Investments
As of December 31,

Investment Category	1999 Carrying Value	1999 Weighted Average Yield (1) (2)	1998 Carrying Value	1998 Weighted Average Yield (1) (2)	1997 Carrying Value	1997 Weighted Average Yield (1) (2)
($ In Thousands)						
Long-term investments:						
Taxable bonds	$6,001,199	6.28%	$6,082,903	6.61%	$4,545,177	6.75%
Tax-exempt bonds	2,737,272	5.78	2,539,379	6.13	2,228,667	6.20
Total long-term investments	8,738,471	6.13	8,622,282	6.47	6,773,844	6.55
Short-term investments (3):	220,896	5.56	119,528	5.69	136,278	5.43
Total investments	$8,959,367	6.11%	$8,741,810	6.45%	$6,910,122	6.52%

(1) Yields presented include assets held in the IA Business portfolio. Interest expense on related investment agreements was $299.5 million, $263.6 million and $186.7 million in 1999, 1998 and 1997, respectively.
(2) Yields are stated on a pre-tax basis, based on average amortized cost.
(3) Includes taxable and tax-exempt investments.

Investments by Security Type
As of December 31,

Investment Category	1999 Carrying Value	1999 Weighted Average Yield (1) (2)	1998 Carrying Value	1998 Weighted Average Yield (1)(2)	1997 Carrying Value	1997 Weighted Average Yield (1) (2)
($ In Thousands)						
Municipal obligations (4)	$2,962,939	5.80%	$2,801,324	6.19%	$2,298,996	6.20%
Corporate securities	1,008,504	7.10	1,435,427	7.33	1,093,587	7.61
U.S. government obligations	62,479	6.10	122,896	5.80	139,598	6.25
Mortgage- and asset-backed securities (includes U.S. Government Agency obligations) (3)	4,704,549	6.08	4,262,635	6.36	3,222,756	6.46
Other	--	--	--	--	18,907	3.72
Total long-term investments	8,738,471	6.13	8,622,282	6.47	6,773,844	6.55
Short-term investments (4)	220,896	5.56	119,528	5.69	136,278	5.43
Total investments	$8,959,367	6.11%	$8,741,810	6.45%	$6,910,122	6.52%

(1) Yields presented include assets held in the IA Business portfolio. Interest expense on related investment agreements was $299.5 million, $263.6 million and $186.7 million in 1999, 1998 and 1997, respectively.
(2) Yields are stated on a pre-tax basis, based on average amortized cost.
(3) The actual maturity dates of mortgage- and asset-backed securities are uncertain because the underlying mortgages may be paid prior to the stated maturity of such securities. This possibility of prepayment creates the risk

that the Company will be unable to replace such investments with securities of comparable yield.

(4) Includes taxable and tax-exempt investments.

Distribution of Investments by Maturity
as of December 31, 1999

Maturity	Amortized Cost	Estimated Fair Value
($ In Thousands)		
Due in one year or less (1)	$ 296,784	$ 296,646
Due after one year through five years	284,950	292,852
Due after five years through ten years	402,370	402,065
Due after ten years	3,488,560	3,263,255
	4,472,664	4,254,818
Mortgage- and asset-backed securities (2)	4,776,416	4,704,549
Total investments	$9,249,080	$8,959,367

(1) Includes securities with a fair value of $75.7 million, which are classified as long-term investments in the tables above but which mature within one year.
(2) The actual maturity dates of mortgage- and asset-backed securities are uncertain because the underlying mortgages may be paid prior to the stated maturity of such securities. This possibility of prepayment creates the risk that the Company will be unable to replace such investments with securities of comparable yield.

For further discussion, see Note 3 of Notes to Consolidated Financial Statements in the Company's 1999 Annual Report to Stockholders.

Employees

As of December 31, 1999, the Company and its subsidiaries had 331 employees. None of the employees is covered by collective bargaining agreements. The Company considers its employee relations to be satisfactory.

Item 2. Properties.

The principal executive offices of the Company are located at One State Street Plaza, New York, New York 10004. The telephone number is (212) 668-0340.

Ambac Assurance maintains its principal executive offices at One State Street Plaza, New York, New York 10004, which consists of approximately 121,000 square feet of office space, under an agreement that expires on September 30, 2019.

Ambac UK maintains its principal offices at Hasilwood House, 60 Bishopgate, London EC2N4BE, England, which consists of 7,100 square feet of office space, under an agreement that expires in December 2006.

Cadre maintains its principal executive office at 905 Marconi Avenue, Ronkonkoma, New York 11779. The Company owns the office building. It consists of approximately 15,000 square feet of office space and storage.

Item 3. Legal Proceedings.

There are no material lawsuits pending, or to the knowledge of the Company threatened, to which the Company or any of its majority-owned subsidiaries is a party.

Item 4. Submission of Matters to a Vote of Security-Holders.

There were no matters submitted to a vote of security holders during the fourth quarter of 1999.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Information relating to the principal market on which the Company's Common Stock is tradable, the high and low sales prices per share for each full quarterly period within the two most recent fiscal years, and the frequency and amount of any cash dividends declared for the two most recent fiscal years is set forth on page 53 of the Company's 1999 Annual Report to Stockholders and such information is incorporated herein by reference. Information concerning restrictions on the payment of dividends is set forth in Item 1 above under the caption "Insurance Regulatory Matters - Wisconsin Dividend Restrictions." As of March 20, 2000, there were 75 stockholders of record of the Company's Common Stock, which is listed on the New York Stock Exchange.

Item 6. Selected Financial Data.

Selected financial data for the Company and its subsidiaries for each of the last five fiscal years is set forth under the captions "Financial Highlights" and "Five Year Highlights" on pages 4 and 5, respectively, of the Company's 1999 Annual Report to Stockholders. Such information is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto contained on pages 33 through 51 of such Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth under the same caption on pages 23 through 31 of the Company's 1999 Annual Report to Stockholders. Such information is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto contained on pages 33 through 51 of such Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative and Qualitative Disclosures About Market Risk is set forth under the caption Risk Management on pages 29 to 31 of the Company's 1999 Annual Report to Stockholders. Such information is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto contained on pages 33 to 51 of such Annual Report.

Item 8. Financial Statements and Supplementary Data.

The 1999 Consolidated Financial Statements, together with the Notes thereto and the Independent Auditors' Report thereon, are set forth on pages 32 through 51 of the Company's 1999 Annual Report to Stockholders. Such information is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Part III

Item 10. Directors and Executive Officers of the Registrant.

Information relating to the Company's directors and executive officers is set forth on pages 7, 11, 12, 29 and 30 of the Company's 2000 Proxy Statement and such information is incorporated herein by reference.

Item 11. Executive Compensation.

Information relating to compensation of the Company's directors and executive officers is set forth on pages 9 and 10 and on pages 13 to 22 of the Company's 2000 Proxy Statement and such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information relating to security ownership of certain beneficial owners and management is set forth on pages 5 to 7 of the Company's 2000 Proxy Statement and such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

None.

Part IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as a part of this report:

1. Financial Statements

The following consolidated financial statements included in the 1999 Annual Report to Stockholders are incorporated herein by reference under Part II, Item 8:

2. Financial Statement Schedules

The financial statement schedules filed herein, which are the only schedules required to be filed, are as follows:

3. Exhibits

The following items are annexed as exhibits:

Exhibit Number	Description
3.01	Conformed Amended and Restated Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on July 11, 1997. (Filed as Exhibit 4.05 to the Company's Quarterly Report for the quarter ended September 30, 1997 and incorporated herein by reference.)
3.02	Conformed Copy of the Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on May 13, 1998. (Filed as Exhibit 4.04 to the Company's Quarterly Report for the quarter ended June 30, 1998 and incorporated herein by reference.)
3.03	By-laws of the Company, as amended through January 28, 1998. (Filed as Exhibit 3.02 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
4.01	Definitive Engraved Stock Certificate representing shares of Common Stock. (Filed as Exhibit 4.01 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
4.02	Indenture, dated as of August 1, 1991, between the Company and The Chase Manhattan Bank (National Association), Trustee. (Filed as Exhibit 4.01 to the Company's Registration Statement on Form S-3 (Reg. No. 33-59290) and incorporated herein by reference.)
4.03	Indenture dated as of April 1, 1998, between the Company and First Union National Bank, Trustee. (Filed as Exhibit 5.2 to the Company's Current Report on Form 8-K dated April 1, 1998 and incorporated herein by reference.)

4.04	Rights Agreement, dated as of January 31, 1996, between Ambac Financial Group, Inc. and Citibank N.A., as Rights Agent, including all exhibits thereto. (Filed as Exhibit 1 to the Company's Registration Statement on Form 8-A dated February 27, 1996 and incorporated herein by reference.)
4.05	Form of 9.38% Debenture due August 1, 2011. (Filed as Exhibit 4.02 to the Registration Statement on Form S-1 (Reg. No. 33-40385) and incorporated herein by reference.)
4.06	Form of 7.50% Debenture due May 1, 2023. (Filed as Exhibit 4.06 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference.)
4.07	Form of 7.08% Debenture due March 31, 2098. (Filed as Exhibit 5.3 to the Company's Current Report on Form 8-K dated April 1, 1998 and incorporated herein by reference.)
10.01	Second Amended and Restated Employment Agreement dated as of December 2, 1997, between the Company and Phillip B. Lassiter. (Filed as Exhibit 10.01 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
10.02	Ambac Financial Group, Inc. 1991 Stock Incentive Plan, as amended as of December 2, 1997 (Filed as Exhibit 10.02 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference.)
10.03*	Ambac Financial Group, Inc. 1997 Equity Plan, amended as of October 28, 1997. (Filed as Exhibit 10.03 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
10.04*	Ambac Financial Group, Inc. 1991 Non-Employee Directors Stock Plan (Filed as Exhibit 10.09 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992 and incorporated herein by reference.)
10.05*	Ambac Financial Group, Inc. 1997 Non-Employee Directors Equity Plan. (Filed as Exhibit 4.2 to the Company's Registration Statement on Form S-8 (Reg. No. 333-52449) and incorporated herein by reference.)
10.06*	Ambac Financial Group, Inc. 1997 Executive Incentive Plan. (Filed as Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997 and incorporated herein by reference.)

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* Management contract or compensatory plan, contract or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

10.07*	Ambac Financial Group, Inc. Deferred Compensation Plan for Outside Directors, effective as of December 1, 1993 and amended and restated as of October 26, 1999. (Filed as Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1999 and incorporated herein by reference.)
10.08*	Ambac Financial Group, Inc. 1997 Equity Plan Senior Officer Deferred Compensation Sub-Plan of the 1997 Equity Plan effective as of October 26, 1999 (Filed as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1999 and incorporated herein by reference.)
10.09*	Form of Amended and Restated Management Retention Agreement dated as of December 2, 1997. (Filed as Exhibit 10.08 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
10.10*	The Ambac Financial Group, Inc. Non-Qualified Savings Incentive Plan (effective as of January 1, 1995). (Filed as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1995, and incorporated herein by reference.)
10.11*	Amendment Number 1 to the Ambac Financial Group, Inc. Non-Qualified Savings Incentive Plan effective as of April 30, 1997. (Filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
10.12*	Ambac Financial Group, Inc. Excess Benefits Pension Plan (Amended and Restated as of January 1, 1994) (As amended through October 25, 1995). (Filed as Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1995, and incorporated herein by reference.)
10.13*	Amendment Number 1 to the Ambac Financial Group, Inc. Excess Benefits Pension Plan effective as of April 30, 1997. (Filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
10.14*	Supplemental Pension Agreement between the Company and Philip B. Lassiter dated April 30, 1997. (Filed as Exhibit 10.24 in the Company's Quarterly Report Form 10-Q for the quarter ended June 30, 1997, and incorporated herein by reference.)
10.15*	Supplemental Pension Agreement between the Company and David L. Boyle dated April 30, 1997. (Filed as Exhibit 10.25 in the Company's Quarterly Report Form 10-Q for the quarter ended June 30, 1997, and incorporated herein by reference.)
10.16*	Ambac Financial Group, Inc. Supplemental Pension Plan (Amended and Restated as of January 1, 1995) (As amended through October 25, 1995). (Filed as Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1995, and incorporated herein by reference.)

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* Management contract or compensatory plan, contract or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

10.17*	Amendment Number 1 to the Ambac Financial Group, Inc. Supplemental Pension Plan effective as of April 30, 1997. (Filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
10.18*	Agreement and General Release between Joseph V. Salzano, the Company and Ambac Assurance Corporation dated December 29, 1999.
10.19	Lease Agreement, dated as of January 1, 1992 between South Ferry Building Company and Ambac Assurance Corporation. (Filed as Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1992 and incorporated herein by reference.)
10.20	Amendment to Lease Agreement dated August 1, 1997 between South Ferry Building Company and Ambac Assurance Corporation. (Filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.)
10.21	Tax Settlement Agreement, dated as of March 30, 1993, among Citicorp, Citibank, N.A., Citicorp Financial Guaranty Holdings, Inc., Ambac Financial Group, Inc., Ambac Assurance Corporation, American Municipal Bond Holding Company and Health Care Investment Analysts, Inc. (Filed as Exhibit 10.02 to the Company's Registration Statement on Form S-3 (Registration No. 33-59290) and incorporated herein by reference.)
10.22	Conformed copy of Amended U.S. $150,000,000 Credit Agreement, dated as of August 3, 1999 (the "BNS Credit Agreement") among the Company and Ambac Assurance Corporation as the Borrowers, Certain Commercial Lending Institutions as the Lenders, Citibank, N.A., as the Documentation Agent, First National Bank of Chicago, as the Co-Agent, and The Bank of Nova Scotia, acting through its New York Agency, as the Arranger and the Administrative Agent. (Filed as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999 and incorporated herein by reference.)
10.23	$750,000,000 Amended and Restated Credit Agreement, dated December 2, 1999 between Ambac Assurance Corporation and various banks and Deutsche Bank AG (New York Branch), as Agent.
10.24	Joint Venture Agreement Ambac Assurance Corporation and MBIA Insurance Company dated as of September 11, 1995. (Filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference.)

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* Management contract or compensatory plan, contract or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

10.25	Conformed Copy of U.S. $50,000,000 Revolving Credit Agreement, dated as of July 1, 1999 among Ambac Credit Products, LLC, the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages thereof, and The Bank of New York, as Agent for the Lenders. (Filed as Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999 and incorporated herein by reference.)
12.01	Statement re computation of ratios.
13.01	Annual Report to Stockholders for the fiscal year ended December 31, 1999. (Furnished for the information of the Securities and Exchange Commission and not deemed "filed" as part of this Form 10-K except for those portions that are expressly incorporated by reference.)
21.01	List of Subsidiaries of Ambac Financial Group, Inc.
24.01	Power of Attorney from Phillip B. Lassiter.
24.02	Power of Attorney from Michael A. Callen.
24.03	Power of Attorney from Renso L. Caporali.
24.04	Power of Attorney from Richard Dulude.
24.05	Power of Attorney from W. Grant Gregory.
24.06	Power of Attorney from C. Roderick O'Neil.
27.00	Financial Data Schedule.
99.01	Ambac Assurance Corporation and Subsidiaries Consolidated Financial Statements (with independent auditors' report thereon) as of December 31, 1999 and 1998.

(b) Reports on Form 8-K:

There were no reports on <u>Form 8-K</u> filed during the fourth quarter of 1999. However, on January 27, 2000, the Company filed a Current Report on <u>Form 8-K</u> with its January 26, 2000 press release containing unaudited financial information and accompanying discussion for the three months ended December 31, 1999 and the year ended December 31, 1999. On March 13, 2000, the Company filed a Current Report on <u>Form 8-K</u> containing consolidated financial statements (with independent auditors' report thereon) of Ambac Assurance Corporation and Subsidiaries as of December 31, 1999 and 1998. On March 22, 2000, the Company filed a Current Report on <u>Form 8-K</u> with its March 21, 2000 press release announcing that the Company and MBIA Inc. had decided to restructure their international joint venture.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMBAC FINANCIAL GROUP, INC.
(Registrant)

Dated: March 30, 2000

By: /s/ Frank J. Bivona
Name: Frank J. Bivona
Title: Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Phillip B. Lassiter* Phillip B. Lassiter	Chairman, President and Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2000
/s/ Frank J. Bivona Frank J. Bivona	Executive Vice President, and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2000
Michael A. Callen* Michael A. Callen	Director	March 30, 2000
Renso L. Caporali* Renso L. Caporali	Director	March 30, 2000
Richard Dulude* Richard Dulude	Director	March 30, 2000
W. Grant Gregory* W. Grant Gregory	Director	March 30, 2000
C. Roderick O'Neil* C. Roderick O'Neil	Director	March 30, 2000

* Frank J. Bivona, by signing his name hereto, does hereby sign this Annual Report on Form 10-K on behalf of each of the directors and officers of the Registrant after whose typed names asterisks appear pursuant to powers of attorney duly executed by such directors and officers and filed with the Securities and Exchange Commission as exhibits to this report.

By: /s/ Frank J. Bivona
Frank J. Bivona
Attorney-in-fact

INDEPENDENT AUDITORS' REPORT ON SCHEDULES AND CONSENT

The Board of Directors
Ambac Financial Group, Inc.:

The audits referred to in our report dated January 21, 2000, included the related financial statement schedules as of December 31, 1999 and 1998 and for each of the years in the three-year period ended December 31, 1999, included in this Form 10-K. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We consent to the use of our reports incorporated by reference in the registration statement (No. 333-43695) on Form S-3, and the registration statements (Nos. 33-47970, 33-63134, 33-47971, 33-44913 and 333-52449) on Form S-8 of Ambac Financial Group, Inc.

/s/ KPMG LLP
New York, New York
March 30, 2000

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
SCHEDULE I - SUMMARY OF INVESTMENTS
Other Than Investments in Related Parties
December 31, 1999
(Dollar Amounts in Thousands)

Type of Investment	Amortized Cost	Estimated Fair Value	Amount at which shown in the balance sheet
U.S. Government obligations	$ 63,197	$ 62,479	$ 62,479
Municipal obligations	3,094,469	2,962,939	2,962,939
Mortgage- and asset-backed securities (includes U.S. Government Agency obligations)	4,776,416	4,704,549	4,704,549
Corporate obligations	1,094,102	1,008,504	1,008,504
Other	220,896	220,896	220,896
Total investments	$9,249,080	$8,959,367	$8,959,367

AMBAC FINANCIAL GROUP, INC.
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (PARENT COMPANY ONLY)
Condensed Balance Sheets
December 31, 1999 and 1998
(Dollar Amounts in Thousands Except Share Data)

	1999	1998
ASSETS		
Assets:		
Cash	$ 3	$ 116
Investments in subsidiaries	2,422,278	2,275,995
Fixed income securities, at fair value (amortized cost of $6,169 in 1999 and $205,456 in 1998)	5,695	209,182
Short-term investments, at cost (approximates fair value)	12,323	24,144
Other investments	3,074	1,522
Current income taxes receivable	1,913	--
Deferred income taxes receivable	17,516	12,984
Other assets	17,650	23,586
Total assets	$ 2,480,452	$ 2,547,529
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Debentures	$ 423,995	$ 423,929
Current income taxes payable	--	1,029
Accrued interest payable	6,797	6,797
Accounts payable and other liabilities	31,210	19,684
Total liabilities	462,002	451,439
Stockholders' equity:		
Preferred stock, par value $0.01 per share; authorized shares - 4,000,000; issued and outstanding shares - none	--	--
Common Stock, par value $0.01 per share; authorized shares - 200,000,000 at December 31, 1999 and 1998; issued shares - 70,680,384 at December 31, 1999 and 1998	707	707
Additional paid-in capital	525,012	519,305
Accumulated other comprehensive (loss) income	(187,540)	159,313
Retained earnings	1,713,446	1,449,832
Common Stock held in treasury at cost, 722,592 shares at December 31, 1999 and 738,381 at December 31, 1998	(33,175)	(33,067)
Total stockholders' equity	2,018,450	2,096,090
Total liabilities and stockholders' equity	$ 2,480,452	$ 2,547,529

AMBAC FINANCIAL GROUP, INC.
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (PARENT COMPANY ONLY)
Condensed Statements of Operations
Three Years Ended December 31,
(Dollar Amounts in Thousands)

	1999	1998	1997
Revenues:			
Dividend income	$ 52,000	$ 48,000	$ 44,000
Interest and other income	10,567	14,336	7,047
Net realized gains	797	2,507	748
Total revenues	63,364	64,843	51,795
Expenses:			
Interest expense	33,470	29,722	19,053
Operating expenses	6,506	6,815	2,826
Total expenses	39,976	36,537	21,879
Income before income taxes and equity in undistributed net income of subsidiaries	23,388	28,306	29,916
Federal income tax benefit	(10,260)	(6,274)	(5,433)
Income before equity in undistributed net income of subsidiaries	33,648	34,580	35,349
Equity in undistributed net income of subsidiaries	274,269	219,414	187,681
Net income	307,917	253,994	223,030

AMBAC FINANCIAL GROUP, INC.
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (PARENT COMPANY ONLY)
Condensed Statements of Stockholders' Equity
Three Years Ended December 31,
(Dollar Amounts in Thousands)

	1999		1998		1997	
Retained Earnings:						
Balance at January 1	$1,449,832		$1,262,740		$1,072,418	
Net income	307,917	$ 307,917	253,994	$253,994	223,030	$223,030
Dividends declared -	(29,366)		(26,571)		(24,165)	
Exercise of stock options	(14,937)		(40,331)		(8,543)	
Balance at December 31	$1,713,446		$1,449,832		$1,262,740	
Accumulated Other Comprehensive (Loss) Income:						
Balance at January 1	$ 159,313		$ 135,223		$ 58,911	
Unrealized (losses) gains on securities, ($552,645), $36,476, and $121,347, pre-tax, in 1999, 1998 and 1997, respectively) (1)		(346,211)		23,889		76,155
Foreign currency gain		(642)		201		157
Other comprehensive (loss) income	(346,853)	(346,853)	24,090	24,090	76,312	76,312
Total comprehensive (loss) income		$(38,936)		$278,084		$299,342
Balance at December 31	$ (187,540)		$ 159,313		$ 135,223	
Preferred Stock:						
Balance at January 1 and December 31	$ --		$ --		$ --	
Common Stock:						
Balance at January 1	$ 707		$ 707		$ 353	
Stock split effected as dividend	--		--		354	
Balance at December 31	$ 707		$ 707		$ 707	
Additional Paid-in Capital:						
Balance at January 1	$ 519,305		$ 500,107		$ 498,401	
Issuance of stock	--		--		(3,506)	
Exercise of stock options	5,707		19,198		5,566	
Stock split effected as dividend	--		--		(354)	
Balance at December 31	$ 525,012		$ 519,305		$ 500,107	
Common Stock Held in Treasury at Cost:						
Balance at January 1	$ (33,067)		$ (26,295)		$ (15,067)	
Cost of shares acquired	(17,626)		(52,738)		(40,397)	
Shares issued under equity plans	17,518		45,966		29,169	
Issued to acquire subsidiary	--		--		--	
Balance at December 31	$ (33,175)		$ (33,067)		$ (26,295)	
Total Stockholders' Equity at December 31	$2,018,450		$2,096,090		$1,872,482	

(1) Disclosure of reclassification amount:

	1999	1998	1997
Unrealized holding (losses) gains arising during period	$(351,412)	$34,526	$88,744
Less: reclassification adjustment for net (losses) gains included in net income	(5,201)	10,637	12,589

Net unrealized (losses) gains on securities	$(346,211) $23,889 $76,155

AMBAC FINANCIAL GROUP, INC.
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (PARENT COMPANY ONLY)
Condensed Statements of Cash Flows
Three Years Ended December 31,
(Dollar Amounts in Thousands)

	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 307,917	$ 253,994	$ 223,030
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net income of Subsidiaries	(274,269)	(219,414)	(187,681)
Gain on sale of investments	(797)	(2,507)	(748)
(Decrease) increase in current income taxes payable	(2,942)	5,605	(1,510)
Decrease (increase) in other assets	5,936	(13,710)	(4,770)
Other, net	(5,188)	(16,843)	(15,945)
Net cash provided by operating activities	30,657	7,125	12,376
Cash flows from investing activities:			
Proceeds from sales of bonds	16,627	69,097	39,728
Purchases of bonds	(22,625)	(206,430)	--
Change in short-term investments	11,821	(10,552)	2,130
Other, net	(1,544)	(1,489)	--
Net cash provided by (used in) investing activities	4,279	(149,374)	41,858
Cash flows from financing activities:			
Dividends paid	(29,366)	(26,571)	(24,165)
Proceeds from issuance of debentures	--	193,700	--
Purchases of treasury stock	(17,626)	(52,738)	(40,397)
Proceeds from sale of treasury stock	17,518	45,966	29,169
Contribution to subsidiaries	(5,575)	(18,000)	(18,842)
Net cash (used in) provided by financing activities	(35,049)	142,357	(54,235)
Net cash flow	(113)	108	(1)
Cash at January 1	116	8	9
Cash at December 31	$ 3	$ 116	$ 8
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 37,000	$ 60,000	$ 12,861
Interest expense	$ 33,848	$ 30,072	$ 19,687

Supplemental disclosure of non-cash financing activities:

Ambac Financial Group, Inc. contributed fixed income securities to Ambac Assurance Corporation amounting to $101,479 and $107,533 in April 1999 and November 1999, respectively.

AMBAC FINANCIAL GROUP, INC.
SCHEDULE II - CONDENSED FINANCIAL INFORMATION
OF REGISTRANT (PARENT COMPANY ONLY)
Note to Condensed Financial Information

The condensed financial information of Ambac Financial Group, Inc. for the years ended December 31, 1999, 1998 and 1997, should be read in conjunction with the consolidated financial statements of Ambac Financial Group, Inc. and Subsidiaries and the notes thereto. Investments in subsidiaries are accounted for using the equity method of accounting.

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
SCHEDULE IV - REINSURANCE
(Dollar Amounts in Thousands Except Percentages)

Insurance Premiums Written	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
Year ended December 31, 1997............	$277,814	$32,452	$ 8,349	$253,711	3.29%
Year ended December 31, 1998............	$333,652	$49,563	$27,359	$311,448	8.78%
Year ended December 31, 1999............	$420,669	$61,845	$24,573	$383,397	6.41%

INDEX TO EXHIBITS

Exhibit Number	Description
10.18	Agreement and General Release between Joseph V. Salzano, the Company and Ambac Assurance Corporation dated December 29, 1999.
10.23	$750,000,000 Amended and Restated Credit Agreement, dated December 2, 1999 between Ambac Assurance Corporation and various banks and Deutsche Bank AG (New York Branch), as Agent.
12.01	Statement re computation of ratios.
13.01	Annual Report to Stockholders for the fiscal year ended December 31, 1999. (Furnished for the information of the Securities and Exchange Commission and not deemed "filed" as part of this Form 10-K except for those portions that are expressly incorporated by reference.)
21.01	List of Subsidiaries of Ambac Financial Group, Inc.
24.01	Power of Attorney from Phillip B. Lassiter.
24.02	Power of Attorney from Michael A. Callen.
24.03	Power of Attorney from Renso L. Caporali.
24.04	Power of Attorney from Richard Dulude.
24.05	Power of Attorney from W. Grant Gregory.
24.06	Power of Attorney from C. Roderick O'Neil.
27.00	Financial Data Schedule.
99.01	Ambac Assurance Corporation and Subsidiaries Consolidated Financial Statements (with independent auditors' report thereon) as of December 31, 1999 and 1998.

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EXHIBIT 10.18

December 21, 1999
as amended December 29, 1999

Joseph V. Salzano, Esq.
2 Charlton Street, #6A
New York, NY 10014

Dear Mr. Salzano:

This Agreement and General Release ("Agreement") sets forth our agreement regarding your employment relationship with Ambac Assurance Corporation ("Ambac"), and the termination of that relationship. As a result of discussions between you and Ambac, it has been decided that a mutually agreed upon resignation is in the best interest of both parties. By signing this Agreement, you hereby acknowledge and agree to the following terms and conditions concerning your resignation from Ambac:

1. Effective Date of Resignation.

Your Resignation as an employee of Ambac shall be effective April 28, 2000 (the "Resignation Date").

During the period from the date of this Agreement through February 11, 2000 (the "Employment Period"), you will continue to report to the President and Chief Executive Officer and continue to perform your full-time duties.

During the period from February 12, 2000 through April 28, 2000 (the "Transition Period") you will be on-call and no longer be required to report to the office unless requested. You agree to make yourself available to provide information or assistance concerning work within your responsibilities at Ambac, as requested by the President and Chief Executive Officer of Ambac.

2. Severance Pay.

(a) During the Employment and Transition Periods, you will continue to receive your regular salary.

(b) You will be paid severance, the total sum of which will be $225,000. Said amount will be paid in a lump sum, within twenty business days of the Effective Date of this

Agreement (as defined in Paragraph 20 of this Agreement). Said payment will be net of applicable Federal, state and local taxes.

3. Bonuses for 1999.

You will be paid a bonus of $125,000 for work performed during the calendar year 1999. Said amount will be paid at the same time bonuses are paid to Ambac's general population for the 1999 performance year. Said payment will be net of applicable Federal, state and local taxes. If you do not sign this Agreement and, following the Resignation Date, Exhibit A following or if you revoke this Agreement, you forfeit your right to any payment provided for in this paragraph 3 and, to the extent any payment has been made, you agree to return all payments made pursuant to this paragraph.

4. Benefits.

From the date of this Agreement through the Resignation Date, your current benefit elections will continue. During this period, you will be required to make your normal employee contribution to benefit coverage and will be subject to any increases in employee contribution that a regular employee with like coverage may be required to pay.

After the Resignation Date, you will continue to be covered under Ambac's medical and dental plans through May 31, 2000. During this period, you will be required to make your normal employee contribution for benefit coverage and will be subject to any increases in employee contribution that a regular employee with like coverage may be required to pay. Thereafter, you will be eligible for continued benefits under the applicable provisions of COBRA.

5. Vacation.

You will be paid any accrued and unused vacation earned through the Resignation Date. Your accrued and unused vacation through the Resignation Date totals 5 days. Said vacation time will be paid with your last regular paycheck.

6. Stock Options and Restricted Stock Units.

i) As of the date of this Agreement, 167,501 of the Ambac stock options that have been granted to you by the Compensation and Organization Committee of Ambac Financial Group, Inc.'s Board of Directors are vested. As of the Resignation Date, an additional 37,666 options will have vested. In consideration of your entering into this Agreement and this Agreement becoming irrevocable, the following options will vest on the Effective Date of this Agreement: 1,333 granted January 27, 1998 and 12,000 granted on January 26, 1999.

ii) After the Effective Date, you will have thirty days from the Resignation Date to exercise the options with 1991 through 1993 grant dates, you will have six months from the Resignation Date to exercise the options with 1994 through 1996 grant dates and one year from the Resignation Date to exercise the vested stock options granted in 1997, 1998 and 1999. The terms of the 1997 Equity Plan and the General Terms and Conditions of the respective stock option grants shall govern in the event of death or disability. Any vested options not exercised within the time frames set forth above will be forfeited.

iii) As of the date of this Agreement, none of the Ambac Restricted Stock Units that have been granted to you are vested. One-half of the RSUs granted to you in January 1999 will be vested as of January 26, 2000. These RSUs will be settled no later than the January following your Resignation Date (January 2001). The balance of the RSUs granted to you will not vest and be forfeited. In lieu of the RSUs that will be forfeited, Ambac will pay you, during calendar year 1999, the sum of $40,000.

iv) As of the Resignation Date, you will not be subject to Ambac's Insider Trading Policies, but you will remain subject to provisions imposed by federal and state securities laws prohibiting insider trading. If you have any questions regarding this matter, please contact Ambac's General Counsel or Managing Director, Human Resources.

7. Outplacement

Ambac will engage an outplacement firm to provide you with job placement services for a period of three months or through the date upon which you secure new employment or engage in any consulting or independent contractor work, whichever is earlier. The terms and conditions of the outplacement services will be at Ambac's sole discretion. To affirmatively elect outplacement, please contact Ambac's Managing Director, Human Resources and Employment Counsel to initiate outplacement by July 30, 2000. If you do not commence outplacement by September 30, 2000, you forfeit this service.

8. Retirement Plans.

i) You will be vested in Ambac's Pension Plan as of your Resignation Date and, therefore, be entitled to a benefit as a vested participant from Ambac. Your pension benefit calculation will include all credited service through the Resignation Date.

ii) Through the Resignation Date, company-match and profit-sharing contributions will be credited on your behalf to the Ambac Financial Group, Inc. Savings Incentive Plan, subject to the terms and conditions of the Plan.

9. You agree and acknowledge that the payments and benefits to be made in accordance with paragraphs 2, 3, 4, 6 and 7 of this Agreement exceed any sums to which you would otherwise be entitled under any Ambac policy, plan and/or procedure.

10. Any Ambac property currently in your possession shall be returned to Ambac (at Ambac's expense) at your earliest convenience, but no later than February 11, 2000.

11. Confidentiality.

In consideration for the payments described above, you agree to the following:

(a) Ambac (Ambac refers to Ambac Financial Group, Inc. and all of its affiliates) is engaged in a highly competitive business and that, in connection with your employment, you have access to information relating to Ambac's business that provides Ambac with a competitive advantage, that is not generally known by persons not employed by Ambac, and that could not easily be determined or learned by someone outside Ambac (collectively, "Confidential Information"). Such Confidential Information includes, but is not limited to, the identity, characteristics and preferences of Ambac's customers (as defined below) and accounts, matters relating to information, pricing, fee and commission structures, trading policies and procedures, trade secrets, records, files, memoranda, documents, reports, and other written, printed or recorded materials and data, regardless of data storage method (collectively "Documents") received, created, or used by you during the course of your employment and other methods of doing business, whether or not marketed as confidential or secret. As used herein, "Customer" shall include all clients and actively pursued prospective clients of Ambac.

(b) You agree that before and after the Resignation Date, you shall not, directly or indirectly, use or disclose such Confidential Information, except as may be necessary in the good faith performance of your duties to Ambac. You acknowledge that all Confidential Information will remain the sole property of Ambac and will be returned by you to Ambac within five business days of the Resignation Date. The terms and conditions of this paragraph 11(a) and (b) are in addition to and do not supersede or replace the terms and obligations of Ambac's Code of Business Conduct.

(c) You further agree that from the Effective Date of this Agreement through six months following the Resignation Date, you will not, for any reason, unless Ambac consents in writing, hire or seek to hire, whether on your own behalf or on behalf of any other person or entity, any person who is an employee of Ambac at the Resignation Date, or who left the employ of Ambac within three months prior to such date. If you breach any of the terms of this paragraph 11(c), you forfeit your right to future payments provided for herein from the date of such breach and, to the extent any payments have been made, you agree to return all payments made pursuant to this Agreement.

(d) In view of the nature of Ambac's business, you also acknowledge that the restrictions contained in paragraph 11 are fair, reasonable and necessary to protect the legitimate business interests of Ambac and that Ambac will suffer irreparable harm in the event of any actual or intended violation by you of this paragraph. You, therefore, agree that, in the event of any actual or intended violation by you of paragraph 11(b) or 11(c), Ambac shall be entitled to a court order requiring you to cease any such violations in addition to and without prejudice to any other rights or remedies which may be available to Ambac through the legal system.

(e) You shall not be deemed to be in breach of any covenant set forth in this Agreement on the basis of any communications you may have with third parties relating to: (i) the fact of your employment by Ambac; (ii) your job titles at Ambac; (iii) the dates of your employment by Ambac; (iv) the responsibilities and authorities of your positions at Ambac; (v) the nature and extent of your achievements during employment by Ambac; and (vi) the names and positions of individuals with whom you worked during your employment at Ambac. You hereby authorize Ambac to provide the information responsive to items (i) through (iv) and (vi) to prospective employers.

(f) You shall not be deemed in breach of the confidentiality obligations set forth in paragraph 11 if, compelled by legal process or court order, you are to participate in any administrative, judicial or criminal investigation, probe, grand jury proceeding or other demand for testimony, information or documentation.

(g) Before initiating any litigation, Ambac shall give written notice to you if it believes you are in violation of any covenant or obligation under this agreement. Upon written request, you will receive Ambac's determination in writing regarding whether a particular activity or act would be deemed in breach of your obligations and/or covenants under this Agreement.

12. General Releases.

In consideration of the payments provided for in paragraphs 2, 3, 4, 6 and 7 of this Agreement, and other valuable consideration as set forth in this Agreement, you for yourself and for your heirs, executors, administrators, trustees, legal representatives and assigns (hereinafter collectively referred to as the "Releasors") hereby release and discharge Ambac, and any and all of its parent corporations, shareholders, subsidiaries, divisions, affiliated and related entities, employee benefit and/or pension plans or funds, successors and assigns, and any and all of its or their past, present or future officers, directors, agents, stockholders, fiduciaries, administrators, employees or assigns (whether acting as agents for Ambac or in their individual capacities) (hereinafter collectively referred to as "Releasees"), of and from any and all claims, demands, causes of action, and liabilities of any kind whatsoever, whether known or unknown, whether arising in law or in equity or arising out of any Federal, state or city constitution, statute, ordinance, bylaw or regulation (including but not limited to, all common law claims, all claims arising under the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964, as amended, the New York State Human Rights Law, the New

York City Administrative Code, and the like) or by reason of any act, omission, transaction, conduct or occurrence up to and including the Effective Date of this Agreement and General Release, which you ever had, now have or hereafter can, shall or may have against the Releasees for, upon or by reason of any act, omission, transaction, conduct or occurrence up to and including the date of this Agreement.

In consideration of the payments provided for in paragraphs 2, 3, 4, 6 and 7 of this Agreement, and other valuable consideration as set forth herein, you also agree to provide Ambac, on the Resignation Date, with an executed copy of a General Release in the form annexed hereto as Exhibit A.

Not withstanding the above, nothing herein precludes you from enforcing the terms of this Agreement or from initiating a claim arising under this Agreement.

13. (a) You represent and warrant that you will not commence, maintain, prosecute or participate in any action or proceeding of any kind (judicial or administrative) against any of the Releasees, arising out of any act, omission, transaction or occurrence happening up to and including the Effective Date of this Agreement, and have not done so as of the Effective Date of this Agreement.

    (b) Ambac represents and warrants that it will not commence or maintain any action or proceeding of any kind (judicial or administrative) against you, arising out of any act, omission, transaction or occurrence happening up to and including the Effective Date of this Agreement to the extent Ambac is aware of such act, omission, transaction or occurrence at the time this Agreement is executed.

14. The terms, conditions, and existence of this Agreement are and shall be treated as confidential and shall not hereafter be disclosed by you to any person or entity, except to attorneys, accountants, financial planning or tax advisors, or immediate family members, or as may be required by law. Any individual to whom the terms and conditions of this Agreement have been disclosed will be advised of the confidentiality requirements of this paragraph. You further agree not to solicit or initiate any demand by others not party to this Agreement for any disclosure of its terms and obligations regarding Confidential Information.

15. You agree not to make any derogatory statements of any kind about Ambac (or any of its subsidiaries, parents, affiliates or related business entities), or any present or former employee or director of Ambac relating to performance of his/her duties on behalf of Ambac (or any of its subsidiaries, parents, affiliates or related business entities) or act in a manner that is or may be directly harmful to Ambac (or any of its subsidiaries, parents, affiliates or related business entities).

16. Ambac agrees to direct all officers with the title of Vice President and above and with knowledge of the circumstances surrounding your Resignation to refrain from making any derogatory statements of any kind about you.

17. You agree to cooperate fully with Ambac and its employees by providing information to Ambac and its representatives, agents or advisors regarding any business matters with which you were involved on behalf of Ambac and to cooperate fully in the event of any litigation or legal, administrative or regulatory proceeding, the facts of which you have knowledge or regarding any business matters of which you have knowledge or information, including, but not limited to, providing testimony on behalf of Ambac at any legal, administrative or regulatory proceedings. Ambac will reimburse you for any lost wages and/or reasonable expenses for travel, lodging and meals that result from your compliance with this paragraph.

    To the extent you are a named party to any action, suit or proceeding as a result of your having been an officer or employee of the Company or any subsidiary thereof, the Company will indemnify you to the fullest extent permitted (including payment of expenses in advance of final disposition of a proceeding) by the laws of the State of Delaware, as in effect at the time of the subject act or omission, or by the Certificate of Incorporation and By-Laws of the Company, as in effect at such time or on the date of this Agreement, whichever affords the greatest protection to you, and you shall be entitled to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and officers (and to the extent the Company maintains such an insurance policy or policies, you shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage provided for any Company officer or director), against all costs, charges and expenses whatsoever incurred or sustained by you or your legal representatives at the time such costs, charges and expenses are incurred or sustained, in connection with such actions.

18. In the event of any breach of paragraphs 11 through 15 or paragraph 17, Ambac shall provide you with written notice (to the address set forth on page one of this Agreement) and you will have five business days from the date of receipt of said written notice to cure any curable breach. If you fail to cure any such breach or the breach is not curable, Ambac shall be released from any obligation to make any payment to you or on your behalf and provide any benefits under this Agreement. Ambac shall be further entitled to pursue any and all of its remedies under the law arising out of such breach including, but not limited to, recoupment of all monies paid to you by Ambac or as a result of your entering into this Agreement. In any action alleging breach of this Agreement, the prevailing party shall be entitled to recover reasonable costs and/or attorneys' fees incurred to enforce this Agreement.

19. The making of this Agreement is not intended, and shall not be construed, as an admission that Ambac, its subsidiaries, parents, affiliates, or related business entities, or

any person now or previously employed by Ambac or any of its subsidiaries, parents, affiliates, or related business entities, have violated any Federal, state, or local law (statutory or decisional), ordinance or any common law rule, or that Ambac, its subsidiaries, parents, affiliates, or related business entities, or any person now or previously employed by Ambac, its subsidiaries, parents, affiliates or related business entities, have committed any wrong against you.

20. You may accept this Agreement by signing it and returning it to Ambac. After signing this Agreement, you shall be given a period of seven (7) days (the "Revocation Period") during which you may revoke this Agreement by indicating your desire to do so in writing addressed to Ambac, Human Resources Department, Attention: Gregg L. Bienstock, Esq., One State Street Plaza, New York, New York 10004. This Agreement is effective eight (8) days following your signing of the Agreement and Exhibit A (the "Effective Date"). If you do not accept this Agreement, as indicated above, or in the event you revoke this Agreement or Exhibit A during the Revocation Period, this Agreement shall be null and void.

21. You represent and warrant you have carefully read this Agreement in its entirety; that you have an opportunity to consider fully the terms of this Agreement for twenty one (21) days; that you have been advised by Ambac in writing to consult with an attorney of your choice in connection with this Agreement, that you fully understand the significance of all of the terms and conditions of this Agreement; that you have discussed it with your independent legal counsel, or have had a reasonable opportunity to do so; that you have had answered to your satisfaction any questions you have asked with regard to the meaning and significance of any of the provisions of this Agreement; and that you are signing this Agreement voluntarily and of your own free will and assent to all of the terms and conditions contained herein.

22. Any disputes or controversies relating to this Agreement shall be interpreted under the laws of the State of New York without regard to conflicts laws principles thereof. If at any time after the date of the execution of this Agreement, any provision of this Agreement shall be held by any court of competent jurisdiction to be illegal, void, or unenforceable, such provision, however, shall have no effect upon and shall not impair the enforceability of any other provision of this Agreement, provided that upon a finding by a court of competent jurisdiction that the General Releases given by you are illegal and/or unenforceable, you shall be required to sign a valid release embodying substantially the same terms of the General Releases contained herein or, if you fail to do so, be required to pay Ambac all amounts paid to you or on your behalf by Ambac pursuant to this Agreement.

23. This Agreement constitutes the complete understanding between the parties. No other promises or agreements shall be binding unless in writing and signed by the parties.

/s/ Joseph Salzano 12/29/99

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Joseph V. Salzano Date

Ambac Financial Group, Inc.
Ambac Assurance Corporation

By: /s/ Gregg Bienstock 12/29/99

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Gregg L. Bienstock, Managing Director Date

Exhibit A

In consideration of the payments and other valuable consideration as set forth in the Agreement and General Release entered into by Ambac and Joseph V. Salzano on December __, 1999:

Joseph V. Salzano, for himself and for his heirs, executors, administrators, trustees, legal representatives and assigns (hereinafter collectively referred to as the "Releasors"), hereby releases and discharges Ambac, and any and all of its parent corporations, shareholders, subsidiaries, divisions, affiliated and related entities, employee benefit and/or pension plans or funds, successors and assigns, and any and all of its or their past, present or future officers, directors, agents, stockholders, trustees, fiduciaries, administrators, employees or assignees (whether acting as agents for Ambac or in their individual capacities) (hereinafter collectively referred to as "Releasees"), of and from any and all claims, demands, causes of action, and liabilities of any kind whatsoever, whether known or unknown, whether arising in law or in equity or arising out of any Federal, state or city constitution, statute, ordinance, bylaw or regulation (including but not limited to, all common law claims, all claims arising under the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964, as amended, the New York State Human Rights Law, the New York City Administrative Code, and the like) or by reason of any act, omission, transaction, conduct or occurrence up to and including the date of this Exhibit A, which you ever had, now have or hereafter can, shall or may have against the Releasees for, upon or by reason of any act, omission, transaction or occurrence, up to and including the date of this General Release.

____________________________________ _________
Joseph V. Salzano Date

Ambac Financial Group, Inc.
Ambac Assurance Corporation

By: _______________________________ _________
Gregg L. Bienstock, Managing Director Date
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EXHIBIT 10.23

FIRST AMENDMENT

to

AMENDED AND RESTATED CREDIT AGREEMENT

among

AMBAC ASSURANCE CORPORATION,

VARIOUS BANKS,

BANK OF AMERICA, NA,
as Syndication Agent,

THE BANK OF NEW YORK,
as Documentation Agent

and

DEUTSCHE BANK AG, NEW YORK BRANCH,
as Agent

Dated as of December 2, 1999

FIRST AMENDMENT

THIS FIRST AMENDMENT, dated as of December 2, 1999 (this "Amendment"), among AMBAC ASSURANCE CORPORATION, a Wisconsin stock insurance corporation (the "Borrower"), the financial institutions which have executed this Amendment below as Banks (as defined below), BANK OF AMERICA, NA, acting in its capacity as Syndication Agent pursuant to Section 11 of the Original Credit Agreement (as defined below), as amended hereby (in such capacity, the "Syndication Agent"), THE BANK OF NEW YORK, acting in its capacity as Documentation Agent pursuant to Section 11 of the Original Credit Agreement, as amended hereby (in such capacity, the "Documentation Agent"), and DEUTSCHE BANK AG, NEW YORK BRANCH, acting in its capacity as Agent pursuant to Section 11 of the Original Credit Agreement, as amended hereby (in such capacity, the "Agent").

W I T N E S S E T H:

WHEREAS, the Borrower, certain of the Banks and the Agent are parties to the Amended and Restated Credit Agreement, dated as of December 2, 1998, as supplemented as of May 3, 1999 (the "Original Credit Agreement" and, as amended by this Agreement and from time to time hereafter amended, supplemented or otherwise modified from time to time, the "Credit Agreement"); and

WHEREAS, at the request of the Borrower, the parties hereto have agreed, upon the terms and subject to the conditions hereinafter set forth, to extend the Expiry Date (as defined in the Credit Agreement), to increase the aggregate Commitments of the Banks from $575,000,000 to $750,000,000 and modify the Commitments (as defined in the Credit Agreement) of certain Banks, to provide for the appointment of the Syndication Agent and the Documentation Agent and otherwise to modify the Original Credit Agreement in certain respects;

NOW, THEREFORE, IT IS AGREED:

ARTICLE I

MODIFICATIONS TO CREDIT AGREEMENT

Section 1.01. Defined Terms. Except as otherwise specified herein, terms used in this Amendment and defined in the Credit Agreement shall have the meanings provided therein.

Section 1.02. Extension of Expiry Date. Section 3.04 of the Original Credit Agreement is hereby amended to replace the date "December 2, 2005" appearing therein with the date "December 2, 2006."

Section 1.03. Increase of Commitments.

(a) The aggregate Commitments of the Banks are hereby increased from $575,000,000 to $750,000,000, and the Commitments of the respective Banks and the other information set forth in Schedule 1 to the Credit Agreement are hereby amended and restated to read as set forth on Schedule 1 to this Amendment.

(b) Each Bank which is a party hereto and is not a party to the Original Credit Agreement hereby (i) confirms that it has received a copy of the Original Credit Agreement and the other Credit Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into the Credit Agreement; (ii) agrees that it will, independently and without reliance upon the Agent, the Syndication Agent, the Documentation Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; and (iv) to the extent legally entitled to do so, agrees to provide to the Borrower on or before the Amendment Effective Date (as defined in Section 4.05 below) the forms described in the penultimate sentence of Section 12.04(b) of the Credit Agreement. The initial address for each such Bank for purposes of Section 12.03 of the Credit Agreement shall be as set forth opposite such Bank's signature to this Amendment.

Section 1.04. Section 10.03. Section 10.03 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

"Section 10.03. Covenants. The Borrower or any of its Subsidiaries shall (i) default in the due performance or observance by it of any term, covenant or agreement contained in Section 8.01(e), 8.08, 8.09, 8.10, 8.11, 8.12 or 9 hereof and such default shall continue unremedied for a period of 15 Business Days after written notice to the Borrower by the Agent or Bank, or (ii) default in the due performance or observance by it of any term, covenant or agreement (other than those referred to in Sections 10.01 and 10.02 and clause (i) of this Section 10.03) contained in this Agreement and such default shall continue unremedied for a period of 30 days after written notice to the Borrower by the Agent or any Bank; or".

Section 1.05. Agents. Section 11.01 of the Original Credit Agreement is hereby amended to add the following two paragraphs at the end thereof.

"The Banks hereby designate Bank of America, NA as Syndication Agent to act as specified in the Credit Documents. Each Bank hereby irrevocably authorizes, and each holder of any Note by the acceptance of such Note shall be deemed irrevocably to authorize, the Syndication Agent to take such action on its behalf under the provisions of the Credit Documents and any other instruments and agreements referred to herein or therein and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Syndication Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto. The Syndication Agent may perform any of its duties hereunder by or through its officers, directors, agents or employees. For purposes of Sections 11.02 through 11.08 hereof, the term

"Agent" shall also include Bank of America, NA in its capacity as Syndication Agent.

"The Banks hereby designate The Bank of New York as Documentation Agent to act as specified in the Credit Documents. Each Bank hereby irrevocably authorizes, and each holder of any Note by the acceptance of such Note shall be deemed irrevocably to authorize, the Documentation Agent to take such action on its behalf under the provisions of the Credit Documents and any other instruments and agreements referred to herein or therein and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Documentation Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto. The Documentation Agent may perform any of its duties hereunder by or through its officers, directors, agents or employees. For purposes of Sections 11.02 through 11.08 hereof, the term "Agent" shall also include The Bank of New York in its capacity as Documentation Agent."

ARTICLE II

CONDITIONS PRECEDENT TO EFFECTIVENESS

This Amendment shall become effective as of the Amendment Effective Date, subject to the satisfaction (or waiver by the Banks) of the following conditions:

Section 2.01. No Default; Representations and Warranties. There shall exist no Default or Event of Default, and all representations and warranties set forth herein shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the Amendment Effective Date (or, in the case of any such representation or warranty which expressly refers by its terms to a specified date, as of such specified date).

Section 2.02. Execution of Amendment; Notes, etc.

(a) The Borrower, each Bank, the Agent, the Syndication Agent and the Documentation Agent shall have signed a copy hereof (whether the same or different copies) and shall have delivered the same to the Agent at its Notice Office.

(b) There shall have been delivered to each Bank having a new or modified Commitment pursuant to this Amendment a Note executed by the Borrower in the amount, maturity and as otherwise provided in the Credit Agreement.

(c) The Borrower, each Bank and the Agent shall have signed a copy of an amendment and restatement, dated as of the date of this Amendment, of the letter agreement, dated as of December 10, 1998, which was entered into pursuant to Section 3.01(a) of the Original Credit Agreement and sets forth the basis for the calculation of the Commitment Fees (such amendment and restatement, together with this Amendment and the additional Notes described in Section 2.02(b), the "Amendment Documents").

Section 2.03. Opinions of Counsel.

(a) The Agent shall have received an opinion addressed to it and the Banks and dated the Amendment Effective Date (i) from Stephen D. Cooke, Esq., Senior Vice-President and General Counsel of the Borrower covering the matters set forth in Exhibit A-1, (ii) from Shearman & Sterling, special New York counsel to the Borrower covering the matters set forth in Exhibit A-2, (iii) from DeWitt Ross & Stevens SC, special Wisconsin counsel to the Borrower covering the matters set forth in Exhibit A-3 [and (iv) from Sullivan & Worcester LLP, counsel to the Agent, in form and substance satisfactory to it].

(b) The Borrower shall have received an opinion addressed to each of the Borrower, Moody's and S&P and dated the Amendment Effective Date from counsel to each Bank having a new or modified Commitment pursuant to this Amendment, in form and substance satisfactory to each of them.

Section 2.04. Corporate Documents; Proceedings.

(a) The Agent shall have received a certificate, dated the Amendment Effective Date, signed by the President or any Vice President of the Borrower, and attested to by the Secretary or any Assistant Secretary of the Borrower, in the form of Exhibit B with appropriate insertions, together with copies of the resolutions of the Borrower referred to in such certificate.

(b) All corporate and legal proceedings and all instruments and agreements in connection with the transactions contemplated in this Amendment and the other Credit Documents shall be satisfactory in form and substance to the Agent, and it shall have received all information and copies of all documents and papers, including records of corporate proceedings and governmental approvals, if any, which the Agent reasonably may have requested in connection therewith, such documents and papers where appropriate to be certified by proper corporate or governmental authorities.

Section 2.05. Adverse Change, Rating, etc.

(a) Nothing shall have occurred (and no Bank shall have become aware of any facts or conditions not previously known) which such Bank shall reasonably determine has, or could reasonably be expected to have, a material adverse effect on the rights or remedies of such Bank, or on the ability of the Borrower to perform its obligations to such Bank or which has, or could reasonably be expected to have, a materially adverse effect on the business, operations, property, assets, liabilities or condition (financial or otherwise) of the Borrower.

(b) All necessary governmental (domestic and foreign) and third party approvals in connection with the transactions contemplated by this Amendment and the Credit Documents and otherwise referred to herein or therein shall have been obtained and remain in effect, and all applicable waiting periods shall have expired without any action being taken by any competent authority which restrains, prevents or imposes materially adverse conditions upon the consummation of the transactions contemplated hereby or by the Credit Documents and otherwise referred to herein or therein. Additionally, there shall not exist any judgment, order, injunction or other restraint issued or filed or a hearing seeking injunctive relief or other restraint pending or notified prohibiting or imposing materially adverse conditions upon the making of the Loans.

(c) On the Amendment Effective Date, the Borrower's Rating assigned by Moody's and S&P shall be Aaa and AAA, respectively.

Section 2.06. Litigation. No litigation by any entity (private or governmental) shall be pending or threatened with respect to this Amendment or any Credit Document or any documentation executed in connection herewith or therewith or the transactions contemplated hereby or thereby, or with respect to any material Indebtedness of the Borrower or which any Bank shall determine could reasonably be expected to have a materially adverse effect on the business, operations, property, assets, liabilities or condition (financial or otherwise) of the Borrower.

Section 2.07. Fees, etc. The Borrower shall have paid to the Agent and to the Banks all costs, fees and expenses (including, without limitation, legal fees and expenses) payable to the Agent and/or the Banks to the extent then due.

All of the certificates, legal opinions and other documents and papers referred to in this Section 2, unless otherwise specified, shall have been delivered to the Agent at its Notice Office.

ARTICLE III

REPRESENTATIONS, WARRANTIES AND AGREEMENTS

In order to induce the Agent, the Syndication Agent, the Documentation Agent and the Banks to enter into this Amendment, the Borrower makes the following representations, warranties and agreements as of the Amendment Effective Date, which shall survive the execution and delivery of this Amendment and the making of any Loans (it being understood and agreed that any representation or warranty which expressly refers by its terms to a specified date shall be required to be true and correct in all material respects only as of such date):

Section 3.01. Corporate Power and Authority. The Borrower has the corporate power to execute, deliver and perform the terms and provisions of the Amendment Documents to which it is party and has taken all necessary corporate action to authorize the execution, delivery and performance by it of each of such Amendment Documents. The Borrower has, or in the case of the Amendment Documents (other than this Amendment), by the Amendment Effective Date will have, duly executed and delivered each of the Amendment Documents to which it is party, and this Amendment constitutes and, when executed and delivered, each other Amendment Document will constitute, its legal, valid and binding obligation enforceable in accordance with its terms.

Section 3.02. No Violation. Neither the execution, delivery or performance by the Borrower of the Amendment Documents to which it is a party, nor compliance by it with the terms and provisions thereof, (i) will contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or governmental instrumentality, (ii) will conflict or be inconsistent with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any Lien (except pursuant to the Security Agreement) upon any of the property or assets of the Borrower or any of its Subsidiaries pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement, loan agreement or any other agreement, contract or instrument to which the Borrower or any of its Subsidiaries is a party or by which it or any of its property or assets is bound or to which it may be subject or (iii) will violate any provision of the Certificate of Incorporation or By-Laws of the Borrower or any of its Subsidiaries.

Section 3.03. Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except as have been obtained or made prior to the Amendment Effective Date), or exemption by, any governmental or public body or authority, or any subdivision thereof, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of any Amendment Document to which the Borrower is a party or (ii) the legality, validity, binding effect or enforceability of any such Amendment Document.

Section 3.04. Financial Statements; Financial Condition.

(a) The consolidated balance sheets of the Parent and its Subsidiaries at December 31, 1998 and March 31, 1999, June 30, 1999 and September 30, 1999 and the related consolidated statements, of operations and cash flows of the Parent and its Subsidiaries for the fiscal year or period, as the case may be, ended on such date and heretofore furnished to the Agent present fairly, subject, in the case of such balance sheets as at March 31, 1999, June 30, 1999 and September 30, 1999 and such statements of operations and cash flows for the three, six and nine months then ended, respectively, to year-end audit adjustments, the consolidated financial condition of the Parent and its Subsidiaries at such dates and the consolidated results of operations of the Parent and its Subsidiaries for the periods ended on such dates. All such financial statements have been prepared in accordance with generally accepted accounting principles and practices consistently applied, subject, in the case of such balance sheets as at March 31, 1999, June 30, 1999 and September 30, 1999 and such statements of operations and cash flows for the three, six and nine months then ended, respectively, to year-end audit adjustments. Since September 30, 1999, there has been no material adverse change in the business, operations, property, assets or condition (financial or otherwise) of the Parent or of the Borrower and its Subsidiaries taken as a whole.

(b) The Borrower's annual statements and its financial statements as filed with the Department for the year ended December 31, 1998 and its quarterly statements and financial statements as filed with the Department for the periods ended March 31, 1999, June 30, 1999 and September 30, 1999 heretofore furnished to the Agent present fairly, subject, in the case of such financial statements as at March 31, 1999, June 30, 1999 and September 30, 1999 and for the three, six and nine months then ended, respectively, to year-end audit adjustments, the financial condition of the Borrower as of the respective dates of such statements. Such annual and quarterly statements and financial statements were prepared in accordance with the statutory accounting principles set forth in the Wisconsin Insurance Law, all of the assets described therein were the absolute property of the Borrower at the dates set forth therein, free and clear of any liens or claims thereon, except as therein stated, and each such annual statement is a full and true statement of all the assets and liabilities and of the condition and affairs of the Borrower as of December 31 of the year covered thereby and of its income and deductions therefrom for the year ended on such date. Since September 30, 1999, there has been no material adverse change in the business, operations, property, assets or condition (financial or otherwise) of the Borrower or the Borrower and its Subsidiaries taken as a whole.

Section 3.05. Covered Portfolio. Substantially all of the Insured Obligations in the Covered Portfolio on the Amendment Effective Date were insured by the Borrower under Insurance Contracts in the form or forms heretofore supplied to the Agent in accordance with the Borrower's underwriting criteria. The Borrower has no reason to believe that its rights included among the Collateral are not valid and binding against the obligors thereunder in accordance with their respective terms, except insofar as enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights generally and the availability of equitable remedies, except for such Collateral which, in the aggregate, could not reasonably be expected to have a material adverse effect on the right and ability of the Collateral Agent, in accordance with the Security Agreement, to realize upon the Collateral as a whole.

Section 3.06. Confirmation of Representations and Warranties. The Borrower hereby confirms that its representations and warranties set forth in the Credit Documents to which it is a party are true and correct in all material respects as of the date hereof (or, in the case of any representation or warranty set forth in any Credit Document which expressly refers by its terms to a specified date, as of such specified date).

ARTICLE IV

MISCELLANEOUS

Section 4.01. Credit Agreement. Except as expressly modified as contemplated hereby, the Credit Agreement and the other Credit Documents are hereby confirmed to be in full force and effect in accordance with their respective terms. This Amendment is intended by the parties to constitute an amendment and modification to, and otherwise to constitute a continuation of, the Credit Agreement and the Credit Documents, and is not intended by any party and shall not be construed to constitute a novation thereof or of any Indebtedness of the Borrower thereunder. For purposes of the Credit Agreement and the other Credit Documents, the term "Banks" shall include each party which has executed this Amendment below as a Bank, and the term "Credit Documents" shall include this Amendment.

Section 4.02. Survival. All covenants, agreements, representations and warranties made herein or in any Credit Document or in any certificate, document or instrument delivered pursuant hereto or thereto shall survive the effective date hereof, the making of any Loan and the occurrence of the Expiry Date and shall continue in full force and effect so long as principal of or interest on any Loan or Note remains outstanding or unpaid, any other amount payable by the Borrower under the Credit Agreement, any Note or any other Credit Document remains unpaid or any other obligation of the Borrower to perform any other act hereunder or under the Credit Agreement, any Note or any other Credit Document remains unsatisfied or the Banks have any obligation to make a Loan or any other advance of moneys to the Borrower under the Credit Agreement.

Section 4.03. Governing Law. This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the law of the State of New York.

Section 4.04. Counterparts. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A set of counterparts executed by all the parties hereto shall be lodged with the Borrower and the Agent.

Section 4.05. Effectiveness. This Amendment shall become effective as of December 2, 1999 (the "Amendment Effective Date") when the Borrower, the Banks, the Agent, the Syndication Agent and the Documentation Agent shall have signed a copy hereof (whether the same or different copies) and shall have delivered the same to the Agent at its Notice Office and the conditions set forth in Section 2 shall have been satisfied or waived by the Banks, as evidenced by a written notice by the Agent to the Borrower confirming that the Agreement has become effective and setting forth the Amendment Effective Date. In the event that such written notice shall not have been delivered on or before December 10, 1999, the provisions of this Amendment shall become and be null and void.

Section 4.06. Headings Descriptive. The headings of the several sections and subsections of this Amendment are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Amendment.

Section 4.07. Amendment or Waiver. Neither this Amendment nor any terms hereof may be changed, waived, discharged or terminated except as provided in Section 12.12 of the Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Agreement as of the date first above written.

AMBAC ASSURANCE CORPORATION

By /s/ Robert W. Starr

Name:
Title: FVP & Treasurer

LANDESBANK HESSEN-THURINGEN
GIROZENTRALE

By /s/ Lisa S. Pent

Name:
Title: Senior Vice President, Manager

By /s/ John A. Sarno

Name:
Title: Vice President, Portfolio Manager

COOPERATIEVE CENTRALE
RAIFFEISEN-BOERENLEENBANK
B.A., "RABOBANK NEDERLAND",
NEW YORK BRANCH

By /s/ W. Pieter C. Kodde

Name:
Title: Senior Vice President

By /s/ Angela R. Reilly

Name:
Title: Vice President

BAYERISCHE LANDESBANK
GIROZENTRALE

By /s/ Scott M. Allison

Name:
Title: First Vice President

By /s/ Alexander Kohnert

Name:
Title: First Vice President

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK
BRANCH

By /s/ Lillian T. Lum

Name:
Title: Director

By /s/ Anne T. McKenna

Name:
Title: Vice President

535 Madison Avenue
New York, New York 10022
Attention: Franz Waas
Telecopy: (212) 584-1702

LANDESBANK BADEN-
WURTTEMBERG, NEW YORK
BRANCH

By______________________________
Name:
Title:

By /s/ Orly Watson

Name:
Title: Vice President

FIRST UNION NATIONAL BANK
OF NORTH CAROLINA

By /s/ Thomas L. Stitchberry

Name:
Title: Senior Vice President

KBC BANK N.V.

By /s/ Patrick L. Owens

Name:
Title: Vice President

By /s/ Robert Snauffer

Name:
Title: First Vice President

LLOYDS TSB BANK PLC (formerly known as Lloyds Bank PLC)

By /s/ Louise Miller

Name:
Title: Assistant VP, Structured Finance

THE CHASE MANHATTAN BANK

By /s/ Robert A. Fester

Name:
Title: Vice President

222 Broadway
New York, New York 10038
Attention: Richard Herder

BARCLAYS BANK PLC

By /s/ Richard Herder

Name:
Title: Director

BANK OF AMERICA, NA (formerly, known as Nationsbank, N.A.), individually and as Syndication Agent

By /s/ Joan L. D'Amico

Name:
Title: Principal

Insurance Division
One Wall Street, 17/th/ Floor
New York, New York 10288
Attention: Andrew Pollard
Telecopy: (212) 809-9520

THE BANK OF NEW YORK, Individually and as Documentation Agent

By /s/ Andrew J. Pollard

Name:
Title: Vice President

DEUTSCHE BANK AG, NEW YORK BRANCH, Individually and as Agent

By /s/ George-Ann Tobin

Name:
Title: Managing Director

By /s/ John S. McGill

Name:
Title: Director

SCHEDULE 1
TO FIRST AMENDMENT

COMMITMENTS

PART A
Commitments

Name	Commitment
Landesbank Hessen-Thuringen Girozentrale	$110,000,000.00
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch	80,000,000.00
The Bank of New York	75,000,000.00
Bayerische Landesbank Girozentrale	75,000,000.00
Westdeutsche Landesbank Girozentrale, New York Branch	75,000,000.00
Deutsche Bank AG, New York Branch	70,000,000.00
Landesbank Baden-Wurttemburg, New York Branch	50,000,000.00
Bank of America, NA	45,000,000.00
First Union National Bank of North Carolina	40,000,000.00
KBC Bank N.V.	40,000,000.00
Lloyds TSB Bank PLC	35,000,000.00
The Chase Manhattan Bank	30,000,000.00
Barclays Bank PLC	25,000,000.00
Total	$750,000,000.00

PART B

Part B Banks

Name
Bank of America, NA
The Bank of New York
Barclays Bank PLC
The Chase Manhattan Bank
Deutsche Bank AG, New York Branch
First Union National Bank of North Carolina
KBC Bank N.V.
Lloyds TSB Bank PLC
Westdeutsche Landesbank Girozentrale, New York Branch

PART C

Part C Banks/Contingent Commitments

Name	Commitment
Bayerische Landesbank Girozentrale	$100,000,000.00
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch	66,500,000.00
Total	$166,500,000.00

EXHIBIT A-1
TO FIRST AMENDMENT

Form of Opinion of Senior General Counsel of the Borrower

EXHIBIT A-2
TO FIRST AMENDMENT

Form of Opinion of Shearman & Sterling

EXHIBIT A-3
TO FIRST AMENDMENT

Form of Opinion of DeWitt Ross & Stevens SC

EXHIBIT B
TO FIRST AMENDMENT

AMBAC ASSURANCE CORPORATION

Officers' Certificate

I, the undersigned, Executive Vice President and Chief Financial Officer of Ambac Assurance Corporation, a Wisconsin stock insurance corporation (the "Borrower"), DO HEREBY CERTIFY that:

1. This Certificate is furnished pursuant to Section 2.04(a) of the First Amendment, dated December 2, 1999 (the "First Amendment"), to the Amended and Restated Credit Agreement, dated as of December 2, 1998, among the Borrower, various Banks, Bank of America, NA, as Syndication Agent, The Bank of New York, as Documentation Agent, and Deutsche Bank AG, New York Branch, as Agent (such Credit Agreement, as in effect on the date of this Certificate, being herein called the "Credit Agreement"). Unless otherwise defined herein capitalized terms used in this Certificate have the meanings assigned to those terms in the Credit Agreement.

2. The persons named below have been duly elected, have duly qualified as and at all times since ____________, 1999 (to and including the date hereof) have been officers of the Borrower, holding the respective offices below set opposite their names, and the signatures below set opposite their names are their genuine signatures.

Name	Office	Signature
Frank J. Bivona	Executive Vice President and Chief Financial Officer	____________________
Stephen D. Cooke	Senior Vice President, General Counsel and Secretary	____________________
Robert W. Starr	First Vice President and Treasurer	____________________

3. There have been no amendments adopted to the Borrower's Restated Articles of Incorporation or By-laws since December 2, 1998, and the copies thereof attached to the certificate, dated December 2, 1998 and delivered to the Agent pursuant to Section 5.04(a) of the Credit Agreement, remain true and correct copies thereof.

4. Attached hereto as Annex A is a true and correct copy of resolutions duly adopted by the Board of Directors of the Borrower at a meeting on October 27, 1999, at which a quorum was present and acting throughout, which resolutions have not been revoked, modified, amended or rescinded and are still in full force and effect. Except as attached hereto as Annex A, no resolutions have been adopted by the Board of Directors of the Borrower which deal with

the execution, delivery or performance of any of the Credit Documents, other than as may have been superseded or replaced by the resolutions attached hereto.

5. On the date hereof, the representations and warranties contained in Article 3 of the First Amendment are true and correct.

6. On the date hereof, no Default or Event of Default has occurred and is continuing.

7. I know of no proceeding for the dissolution or liquidation of the Borrower or threatening its existence.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of December, 1999.

AMBAC ASSURANCE CORPORATION

____
Name: Frank J. Bivona
Executive Vice President and Chief
Financial Officer

I, the undersigned, Secretary of the Borrower, DO HEREBY CERTIFY that:

1. Frank J. Bivona is the duly elected and qualified Executive Vice President and Chief Financial Officer of the Borrower and the signature above is his genuine signature.

2. The certifications made by Frank J. Bivona in items 2, 3 and 4 above are true and correct.

3. I know of no proceeding for the dissolution or liquidation of the Borrower or threatening its existence.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of December, 1999.

AMBAC ASSURANCE CORPORATION

____
Name: Stephen D. Cooke
Title: Senior Vice President, General Counsel and Secretary

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(EXHIBIT 12.01)

Ambac Financial Group, Inc.
Ratio of Earnings to Fixed Charges

The following table contains our ratio of earnings to fixed charges for each of the periods indicated:

	Years Ended December 31,				
	1999	1998	1997	1996	1995
Ratio of earnings to fixed charges	11.56x	10.50x	13.41x	17.91x	10.77x

____

We computed the ratio of earnings to fixed charges by dividing earnings before income taxes and extraordinary items plus fixed charges by the fixed charges. For the purpose of this ratio, fixed charges consist of interest expense incurred, capitalized interest, amortization of debt expense and one-third of rental payments under operating leases (an amount deemed representative of the appropriate interest factor).
</TEXT>
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EXHIBIT 13.01

Financial Highlights

4

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES	Years Ended December 31,				
(Dollars in millions, except share amounts)	1999	1998	1997	1996*	1995
STATEMENT OF OPERATIONS HIGHLIGHTS					
Gross premiums written	$ 445.2	$ 361.0	$ 286.2	$ 247.2	$ 193.3
Net premiums earned	264.4	212.7	154.0	136.6	111.8
Net investment income	209.3	186.2	159.7	144.9	131.0
Financial services net revenue	51.7	49.5	35.2	22.0	13.1
Total revenue	533.3	457.0	381.8	452.9	282.3
Losses and loss adjustment expenses	11.0	6.0	2.9	3.8	3.4
Financial guarantee underwriting and operating expenses	48.8	46.7	40.7	37.2	34.5
Financial services expenses	25.8	35.5	28.0	12.0	7.8
Interest expense	36.5	32.8	21.3	20.9	20.9
Net income	307.9	254.0	223.0	276.3	167.6
Net income per share	4.40	3.63	3.19	3.95	2.39
Net income per diluted share	4.31	3.56	3.13	3.91	2.37
Return on equity	15.0%	12.8%	12.8%	18.3%	13.8%
Cash dividends declared per common share	0.420	0.380	0.345	0.308	0.278

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES	As of December 31,				
(Dollars in millions)	1999	1998	1997	1996	1995
BALANCE SHEET HIGHLIGHTS					
Total investments, at fair value	$ 8,962.5	$ 8,748.4	$6,915.1	$5,200.5	$4,441.6
Prepaid reinsurance	218.0	199.9	183.5	168.8	153.4
Total assets	11,345.1	11,212.3	8,291.7	5,876.4	5,309.3
Unearned premiums	1,431.1	1,294.2	1,179.0	991.2	903.0
Losses and loss adjustment expenses	121.5	115.8	103.3	60.6	66.0
Obligations under investment agreements, investment repurchase agreements and payment agreements	6,140.3	5,956.8	4,321.0	2,754.6	2,426.9
Debentures	424.0	423.9	223.9	223.8	223.7
Total stockholders' equity	2,018.5	2,096.1	1,872.5	1,615.0	1,404.0

* 1996 includes a one-time gain from the sale of a subsidiary equal to $155.6 million pretax and $100.6 million after tax.

Five Year Highlights

TOTAL OPERATING REVENUES/1/
(DOLLAR IN MILLIONS)

[BARGRAPH APPEARS HERE]

1995	1996	1997	1998	1999
263.1	316.7	360.6	467.9	541.3

OPERATING EARNINGS PER DILUTED SHARES/2/
(DOLLARS)

[BARGRAPH APPEARS HERE]

1995	1996	1997	1998	1999
2.23	2.66	2.97	3.69	4.39

CORE EARNINGS PER DILUTED SHARE/2/
(DOLLARS)

[BARGRAPH APPEARS HERE]

1995	1996	1997	1998	1999
2.05	2.41	$2.75	3.32	4.10

ADJUSTED GROSS PREMIUMS WRITTEN/3/
(DOLLARS IN MILLIONS)

[BARGRAPH APPEARS HERE]

1995	1996	1997	1998	1999
216.6	286.8	329.3	458.0	595.0

1. Operating revenues exclude net realized gains and losses.

2 Core earnings and operating earnings are not substitutes for net income computed in accordance with Generally Accepted Accounting Principles (GAAP) but are important measures used by management, equity analysts and investors to measure financial results. Operating earnings exclude the effect on net income from net realized gains and losses and certain non-recurring items. Core earnings is defined as operating earnings less the effect on net income from insurance premiums earned from refundings and calls. The definitions of operating and core earnings used by Ambac Financial Group, Inc. may differ from definitions of operating and core earnings used by other public holding companies of financial guarantee insurers.

3 Adjusted gross premiums written ("AGP") is not promulgated under GAAP. It includes gross up-front premiums written plus the present value of estimated future installment premiums written on insurance policies and structured credit derivatives issued in the period. Additionally, AGP is reduced for amounts ceded to MBIA under our international joint venture. The definition of adjusted gross premiums written used by Ambac Financial Group, Inc. may differ from definitions of adjusted gross premiums written used by other public holding companies of financial guarantee insurers.

Management's Discussion and Analysis

General

Ambac Financial Group, Inc. ("AFGI"), headquartered in New York City, is a holding company whose affiliates provide financial guarantees and financial services to clients in both the public and private sectors around the world.

The following paragraphs describe the consolidated results of operations of AFGI and its affiliates (collectively referred to as the "Company") for 1999, 1998 and 1997, and its financial condition as of December 31, 1999 and 1998. These results are presented for the Company's two reportable segments: Financial Guarantee and Financial Services. This discussion should be read in conjunction with the consolidated financial statements included elsewhere in this report.

Materials in this annual report may contain information that includes or is based upon forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995. Forward-looking statements give the Company's expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results.

Any or all of the Company's forward-looking statements here or in other publications may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the Company's actual future results. The Company's actual results may vary materially, and there are no guarantees about the performance of the Company's stock. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Among factors that could cause actual results to differ materially are: (1) changes in the economic, credit or interest rate environment in the United States and abroad; (2) the level of activity within the national and worldwide debt markets; (3) competitive conditions and pricing levels; (4) legislative and regulatory developments; (5) changes in tax laws; and (6) other risks and uncertainties that have not been identified at this time. The Company undertakes no obligation to publicly correct or update any forward-looking statement if we later become aware that it is not likely to be achieved. You are advised, however, to consult any further disclosures we make on related subjects in the Company's reports to the SEC.

Results Of Operations

Consolidated Net Income. The Company's net income in 1999 was $307.9 million or $4.31 per diluted share, an increase of 21% from $254.0 million or $3.56 per diluted share in 1998. This increase was primarily attributable to growth in both Financial Guarantee and Financial Services operating income. Financial Guarantee revenues increased by $65.7 million, or 16%. Excluding realized gains and losses, Financial Guarantee revenues increased by 19%. Financial Services revenues increased by $16.1 million, or 50%, while its expenses decreased by $9.7 million, or 27%. Excluding realized losses, Financial Services revenues increased by 4%.

The Company's net income in 1998 increased 14% from $223.0 million or $3.13 per diluted share in 1997. This increase was primarily attributable to the growth in both Financial Guarantee and Financial Services revenues, partially offset by lower net realized gains and higher net realized losses in the Financial Guarantee segment and the Financial Services segment, respectively, in 1998.

Financial Guarantee

The Company provides financial guarantees for municipal and structured finance obligations through its principal operating subsidiary, Ambac Assurance Corporation ("Ambac Assurance"). Ambac Assurance's wholly-owned subsidiary, Ambac Assurance UK Limited, serves clients in the international market. Additionally, Ambac Assurance serves clients in international markets through its participation in an unincorporated joint venture with MBIA Insurance Corporation, MBIA. AMBAC International (the "JV Arrangement"). See Note 5 of Notes to Consolidated Financial Statements for further discussion about the JV Arrangement. Ambac Credit Products, L.L.C. ("ACP"), a

[PICTURE APPEARS HERE]

wholly-owned subsidiary of Ambac Assurance, also provides credit protection in the global markets in the form of structured credit derivatives.

Gross Par Value Written. Ambac Assurance guaranteed $73.3 billion of par value obligations during 1999, an increase of 19% from $61.5 billion in 1998. Par value written in 1998 represented an increase of 35% from $45.5 billion in 1997. Par value written in 1999 comprised $32.5 billion from the guarantee of municipal bond obligations, $33.4 billion from structured finance obligations and $7.4 billion from international obligations, versus $33.9 billion, $22.6 billion and $5.0 billion, respectively, in 1998 and $29.4 billion, $12.9 billion and $3.2 billion, respectively, in 1997. The 1999 decrease in guaranteed municipal bond obligations was affected by a 22% decline in total issuance that was largely offset by an overall increase in Ambac's municipal market share. The increases in guaranteed structured finance obligations during 1999 were principally in the mortgage-backed and asset-backed sectors while the 1999 increase in international obligations guaranteed resulted primarily from expansion of the financial guarantee product into structured credit derivatives.

Management anticipates, based on growth experienced in the last few years, that in the foreseeable future, the Company's structured finance and international businesses will grow more rapidly than the municipal business. Management believes that business written in the structured finance and international markets may see large quarterly variances primarily due to general market conditions and the developmental nature of these markets.

Gross Premiums Written. Gross premiums written in 1999 were $445.2 million, an increase of 23% from $361.0 million in 1998. Business activity in structured finance transactions as well as improved pricing in the municipal finance market has spurred this increase. Gross premiums written in 1998 increased 26% from $286.2 million in 1997. Increased new issue municipal finance and international premiums primarily drove this increase. The following table sets forth the amounts of gross premiums written and related gross par written by type:

(Dollars in millions)	1999		1998		1997	
	Gross Premiums Written	Gross Par Written	Gross Premiums Written	Gross Par Written	Gross Premiums Written	Gross Par Written
Municipal finance:						
Up-front:						
New issue	$ 261.5	$ 27,242	$ 228.2	$ 29,616	$ 178.9	$ 25,889
Secondary market	14.8	1,570	14.6	1,400	19.6	1,530
Sub-total up-front	276.3	28,812	242.8	31,016	198.5	27,419
Installment	21.7	3,649	17.7	2,899	13.5	2,024
Total municipal finance	298.0	32,461	260.5	33,915	212.0	29,443
Structured finance:						
Up-front	7.9	824	1.4	1,985	11.1	922
Installment	67.6	32,623	35.7	20,581	19.6	11,952
Total structured finance	75.5	33,447	37.1	22,566	30.7	12,874
International:						
Up-front	35.6	747	52.8	2,463	37.6	1,566
Installment	36.1	6,676	10.6	2,553	5.9	1,575
Total international	71.7	7,423	63.4	5,016	43.5	3,141
Total	$ 445.2	$ 73,331	$ 361.0	$ 61,497	$ 286.2	$ 45,458
Total up-front	$ 319.8	$ 30,383	$ 297.0	$ 35,464	$ 247.2	$ 29,907
Total installment	125.4	42,948	64.0	26,033	39.0	15,551
Total	$ 445.2	$ 73,331	$ 361.0	$ 61,497	$ 286.2	$ 45,458

[PICTURE APPEARS HERE]

Adjusted Gross Premiums/(1)/. While the majority of Ambac Assurance's municipal finance premiums written are collected up front at policy issuance, the majority of its structured finance premiums are collected on an installment basis. Adjusted gross premiums ("AGP") written, which are defined as gross up-front premiums written plus the present value of estimated future installment premiums written on insurance policies and structured credit derivatives issued in the period, were $595.0 million in 1999, up 30% from $458.0 million in 1998. The increase in 1999 was primarily due to the increased business activity in structured finance transactions, especially on mortgage-backed and asset-backed securities. AGP written in 1998 increased 39% from $329.3 million in 1997. The increase in 1998 was primarily due to increased up-front premiums written in the municipal finance market combined with the increase in the present value of structured finance and international installment policies. The aggregate net present value of estimated future installment premiums was $527.2 million, $308.4 million, and $210.8 million as of December 31, 1999, 1998 and 1997, respectively.

Ceded Premiums Written. Ceded premiums written in 1999 were $61.8 million, up 25% from $49.6 million in 1998. Ceded premiums written in 1998 were affected by a one-time cession of $11.6 million of the Connie Lee insured portfolio. Excluding the one-time cession in 1998, ceded premiums written in 1999 increased 63% over ceded premiums written in 1998. The increase was primarily due to increased gross premiums written as well as an overall increase in international premiums ceded under the JV Arrangement during 1999. Excluding the one-time Connie Lee cession discussed above, ceded premiums written in 1998 were 17% higher than ceded premiums written in 1997 of $32.5 million. Ceded premiums written were 14%, 11% (excluding the one-time cession), and 11% of gross premiums written in 1999, 1998 and 1997, respectively.

Net Premiums Earned. Net premiums earned during 1999 were $264.4 million, an increase of 24% from $212.7 million in 1998. This increase was primarily the result of the larger financial guarantee book of business, partially offset by decreased refundings, calls, and other accelerations of previously insured obligations (collectively referred to as "refundings") during the year. When a new or secondary market issue insured by Ambac Assurance has been refunded or called, the remaining unearned premium (net of refunding credits, if any) is generally earned at that time. Refunding levels vary depending upon a number of conditions, primarily the relationship between current interest rates and interest rates on outstanding debt. Net premiums earned in 1999 included $35.9 million (net income per diluted share effect of $0.29) from refundings of previously insured issues. Net premiums earned in 1998 included $46.9 million (net income per diluted share effect of $0.37) from refundings. Excluding the effect of accelerated earnings related to refundings, normal net premiums earned in 1999 were $228.5 million, an increase of 38% from $165.8 million in 1998. The increase in normal net premiums earned resulted from strong business written in all areas.

Net premiums earned during 1998 increased 38% from $154.0 million in 1997. This increase was primarily the result of the larger financial guarantee book of business and increased premiums earned from refundings. Net premiums earned in 1997 included $28.0 million (net income per diluted share effect of $0.22) from refundings. Excluding the effect of accelerated earnings related to refundings, normal net premiums earned in 1998 increased 32% from $126.0 million in 1997.

Net Fees Earned and Other Income. Net fees earned and other income in 1999 was $6.0 million, an increase of 3% from $5.8 million in 1998. Included in net fees earned and other income are revenues earned from structured credit derivatives, deal structuring fees and commitment fees. During 1999, Ambac Assurance's credit derivatives subsidiary, ACP, earned revenues of $3.9 million. Net fees earned and other income increased 32% in 1998 from $4.4 million in 1997. There were no revenues from structured credit derivatives in 1998 and 1997.

Net Investment Income. Net investment income in 1999 was $209.3 million, an increase of 12% from $186.2 million in 1998. This increase was primarily attributable to the growth of the investment portfolio resulting from the growth in the financial guarantee book of business. Additionally, investment income grew as a result of capital contributions from AFGI totaling approximately $200 million over the course of the year. The contributions were in the form of taxable securities. Investments in tax-exempt securities amounted to 74% of the total market value of the portfolio as of December 31, 1999, versus 74% and 75% as of December 31, 1998 and 1997, respectively. The average pre-tax yield-to-maturity on the investment portfolio was 6.08% as of December 31, 1999 compared with 6.17% and 6.40% for December 31, 1998 and 1997, respectively. Net investment income in 1998 increased 17% from $159.7 million in 1997. This increase was primarily attributable to the growth of the investment portfolio from ongoing operations and the net increase in the investment portfolio from the acquisition of Connie Lee.

Net Realized Gains (Losses). Net realized losses in 1999 were $5.7 million, compared to net realized gains of $3.7 million and $21.1 million in 1998 and 1997, respectively. Realized gains and losses are generated as a result of the ongoing management of the investment portfolio.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses in 1999 were $11.0 million, versus $6.0 million in 1998 and $2.9 million in 1997. Losses and loss adjustment expenses are based upon estimates of the ultimate aggregate losses inherent in the financial guarantee portfolio. The liability for losses and loss adjustment expenses consists of the active credit reserve ("ACR"), which represents an estimate of the expected annual levels of debt service defaults resulting from credit failures on currently guaranteed issues that are not presently or imminently in default, and case basis loss reserves for obligations in monetary default or, in the judgement of management, for which default is imminent. The Company regularly reviews its outstanding obligations to determine an appropriate reserve for losses and loss adjustment expenses. The following table summarizes the Company's loss reserves split between case basis loss reserves and ACR at December 31, 1999 and 1998:

(Dollars in millions)	1999	1998
Net loss and loss adjustment expense reserves:		
Case basis*	$ 26.2	$ 33.9
ACR	94.8	78.2
Total	$ 121.0	$ 112.1

/*/After netting reinsurance recoverable amounting to $0.5 million and $3.6 million in 1999 and 1998, respectively.

Paid losses, net of salvage received, were $2.2 million, ($7.0) million and $2.5 million in 1999, 1998 and 1997, respectively.

Underwriting and Operating Expenses. Underwriting and operating expenses were $48.8 million in 1999, an increase of 4% from $46.7 million in 1998. Underwriting and operating expenses in 1998 increased 15% from $40.7 million in 1997. Underwriting and operating expenses consist of gross underwriting and operating expenses, less the deferral to future periods of expenses and reinsurance commissions related to the acquisition of new insurance contracts, plus the amortization of previously deferred expenses and reinsurance commissions. In 1999, gross underwriting and operating expenses were $74.5 million, an increase of 10% from $67.8 million in 1998. During 1998, gross underwriting and operating expenses increased 15% from $59.2 million in 1997. The increases in gross underwriting and operating expenses in both 1999 and 1998 reflect the overall increased business activity in those years and are primarily attributable to higher compensation costs and premium taxes. Underwriting and operating expenses deferred were $45.9 million, $38.2 million, and $32.8 million in 1999, 1998 and 1997, respectively. The amortization of previously deferred expenses and reinsurance commissions was $20.8 million, $18.2 million, and $14.2 million in 1999, 1998 and 1997, respectively.

Financial Services

Through its financial services subsidiaries, the Company provides investment agreements, interest rate swaps, investment advisory and cash management services, principally to states, municipalities and their authorities, school districts, and hospitals and health organizations.

Revenues in 1999 were $51.7 million (excludes $3.1 million in net realized losses), versus $49.5 million (excludes $17.1 million in net realized losses) in 1998. This increase is primarily due to higher revenues on investment agreements from higher volume and improved net interest spreads, partially offset by lower revenues on interest rate swaps due to lower volume. In the fourth quarter of 1998, the Company discontinued development of electronic commerce applications for the municipal marketplace. This effort had been under way through an affiliate, Ambac Connect, Inc. ("Ambac Connect"). The decision resulted in an after-tax charge of $9.5 million, or $0.13 in net income per diluted share in 1998. This charge did not affect operating or core earnings(2). In 1998, the Company incurred a $15.7 million loss in a trading position. This trading position, which represented a small portion of the Company's assets, contained high quality municipal bonds hedged with Treasury futures. The loss was due to a change in the relationship between municipal and Treasury interest rates. This trading position was closed during the fourth quarter of 1998. The trading loss and the Ambac Connect charge were partially offset by $10.1 million of realized gains on fixed-income securities in the investment agreement business during 1998. Revenues in 1998 reflected a 41% increase from $35.2 million (excludes $0.6 million in net realized losses) in 1997. The increase was primarily due to higher revenues from interest rate swaps and investment agreements primarily resulting from increased volume.

Expenses in 1999 were $25.8 million, versus $32.5 million (excluding a $3.0 million restructuring charge for Ambac Connect) in 1998. This decrease was primarily due to savings related to the closing of Ambac Connect, as discussed above. Expenses in 1998 increased 33% from $24.5 million (excluding a $3.5 million 1997 restructuring charge for consolidating certain operations in New York). This increase resulted from higher compensation expenses in the investment agreement and swap businesses, as well as increased expenditures to develop the money management and electronic commerce businesses.

Corporate Items

Interest Expense. Interest expense in 1999 was $36.5 million, an increase of 11% from $32.8 million in 1998. The increase is primarily attributable to paying a full year's interest expense on AFGI's April 1998 issuance of $200 million in debentures. Interest expense in 1997 was $21.3 million.

Other Revenue. Other revenue includes investment income of AFGI. Other revenue decreased to $9.9 million in 1999 from $13.7 million in 1998, primarily due to capital contributions to Ambac Assurance totaling approximately $200 million (see "Net Investment Income" section above). Other revenue increased in 1998 from $7.2 million in 1997, primarily due to higher investment income generated from investing the proceeds of the $200 million in debentures.

Other Expenses. Other expenses include the operating expenses of AFGI. Other expenses were $6.5 million in 1999, $7.1 million in 1998, and $2.9 million in 1997. The primary reason for the escalating expenses from 1997 to 1998 was increased compensation costs.

Income Taxes. Income taxes for 1999 were at an effective rate of 23.9%, compared to 22.8% and 22.0% for 1998 and

1997, respectively. The increasing effective tax rate is primarily the result of the growth in underwriting profits in proportion to the primarily tax-advantaged investment income.

Supplemental Analytical Financial Data

Core Earnings/(2)/. In 1999, core earnings were $292.6 million, an increase of 24% from $236.5 million in 1998. This increase was primarily the result of continued higher normal premiums earned (defined as net premiums earned less the effect of refundings) from the growth in the financial guarantee book of business and higher net investment income from financial guarantee operations. In 1998, core earnings increased 21% from $195.8 million in 1997. The increase was primarily the result of higher normal premiums earned from the growth in the financial guarantee book of business and higher net investment income from financial guarantee operations, as well as higher revenues from the investment agreement and swap businesses in the financial services segment. Core earnings, which the Company reports as analytical data, exclude the effect on consolidated net income from net realized gains and losses, net insurance premiums earned from refundings and certain non-recurring items.

Operating Earnings/(2)/. Operating earnings in 1999 were $313.1 million, an increase of 19% from $263.3 million in 1998. Operating earnings in 1998 increased 24% from $211.8 million in 1997. The Company defines operating earnings as net income, less the effect of net realized gains and losses and certain non-recurring items.

Following is a table reconciling net income computed in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") to operating earnings and core earnings for the years ended December 31, 1999, 1998 and 1997:

(Dollars in millions)	1999	1998	1997
Net income	$ 307.9	$ 254.0	$ 223.0
Net realized losses (gains), after tax	5.2	7.1	(13.3)
Non-recurring item, after tax	-	2.2	2.1
Operating earnings	313.1	263.3	211.8
Premiums earned from refundings, after tax	(20.5)	(26.8)	(16.0)
Core earnings	$ 292.6	$ 236.5	$ 195.8

Liquidity And Capital Resources

AFGI Liquidity. AFGI's liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond the next twelve months), is largely dependent upon: (i) Ambac Assurance and other subsidiaries' ability to pay dividends or make payments to AFGI; and (ii) external financings. Pursuant to Wisconsin insurance laws, Ambac Assurance may declare dividends, provided that, after giving effect to the distribution, it would not violate certain statutory equity, solvency and asset tests. During 1999, Ambac Assurance paid dividends of $52.0 million on its common stock to AFGI. For further discussion, see Note 8 of Notes to Consolidated Financial Statements.

AFGI's principal uses of liquidity are payment of its operating expenses, interest on its debt, dividends on its shares of common stock, and capital investments in its subsidiaries. Based on the amount of dividends that it expects to receive from Ambac Assurance during 2000, and the income it expects to receive from its investment portfolio, management believes that AFGI will have sufficient liquidity to satisfy its needs over the next twelve months, including the ability to pay dividends on its common stock in accordance with its dividend policy. Beyond the next twelve months, Ambac Assurance's ability to declare and pay dividends to AFGI may be influenced by a variety of factors including adverse market changes, insurance regulatory changes and changes in general economic conditions. Consequently, although management believes that AFGI will continue to have sufficient liquidity to meet its debt service and other obligations over the long term, no guarantee can be given that Ambac Assurance will be permitted to dividend amounts sufficient to pay all of AFGI's operating expenses, debt service obligations and dividends on its common stock.

Ambac Assurance Liquidity. The principal uses of Ambac Assurance's liquidity are payment of operating expenses, reinsurance premiums, income taxes, and dividends to AFGI. Management believes that Ambac Assurance's operating liquidity needs can be funded exclusively from its operating cash flow. The principal sources of Ambac Assurance's liquidity are gross premiums written, scheduled investment maturities, net investment income and receipts from structured credit derivatives. During 1999, AFGI contributed $200 million of capital to Ambac Assurance to support the growth in the financial guarantee business.

Financial Services Liquidity. The principal uses of liquidity by Financial Services subsidiaries are payment of investment agreement obligations pursuant to defined terms, net obligations under interest rate swaps and related hedges, operating expenses, and income taxes. Management believes that its Financial Services liquidity needs can be funded primarily from its operating cash flow and the maturity of its invested assets. The principal sources of this segment's liquidity are proceeds from issuance of investment agreements, net investment income, maturities of securities from its investment portfolio (which are invested with the objective of matching the duration of its obligations under the investment agreements), net receipts from interest rate swaps and related hedges, and fees for investment management services. Additionally, from time to time, liquidity needs are satisfied by short-term intercompany loans from AFGI. The investment objectives with respect to investment agreements are to achieve the highest after-tax total return, subject to a minimum average quality rating of Aa/AA on invested assets, and to maintain cash flow matching of invested assets to funded liabilities to minimize interest rate and liquidity exposure. Financial Services maintains a portion of its assets in short-term investments and repurchase agreements in order to meet unexpected liquidity needs.

Credit Facilities. AFGI and Ambac Assurance have a revolving credit facility with three major international banks for $150 million, which expires in August 2000 and provides a two-year term loan provision. The facility is available for general corporate purposes, including the payment of claims. As of December 31, 1999 and 1998, no amounts were outstanding under this credit facility.

Ambac Assurance maintains third party capital support in the form of a seven-year irrevocable limited recourse credit facility from a group of highly rated banks. This credit facility provides liquidity to Ambac Assurance in the event claims from municipal obligations in its covered portfolio exceed specified levels. Repayment of amounts drawn under the credit facility are limited primarily to the amount of any recoveries of losses related to municipal policy obligations. During 1999, total third party capital support was increased from $555 million to $750 million and its expiration reset to December 2, 2006. As of December 31, 1999 and 1998, no amounts were outstanding under this facility.

ACP has a revolving credit facility with one major international bank for $50 million that expires in June 2000 and provides a three-year term loan provision. The facility is available to ACP for general corporate purposes, including payments in regard to its credit derivative activities. The credit facility became effective on July 1, 1999. As of December 31, 1999, no amounts were outstanding under this facility.

Stock Repurchase Program. The Board of Directors of AFGI has authorized the establishment of a stock repurchase program that permits the repurchase of up to 6,000,000 shares of AFGI's common stock. During 1999, AFGI acquired approximately 325,000 treasury shares for an aggregate amount of $17.6 million. Since inception of the Stock Repurchase Program AFGI has acquired approximately 4,573,000 shares for an aggregate amount of $160.3 million.

Adjusted Book Value./(3)/ Adjusted Book Value ("ABV") per share increased 6% to $44.68 at December 31, 1999 from $41.98 at December 31, 1998.

The following table reconciles book value per share to ABV per share as of December 31, 1999 and 1998:

	1999	1998
Book value per share	$ 28.85	$ 29.97
After-tax value of:		
Net unearned premium reserve	11.28	10.17
Deferred acquisition costs	(1.26)	(1.12)
Present value of installment premiums	4.90	2.86
Net unrealized gains on investment agreement liabilities	0.91	0.10
Adjusted book value per share	$ 44.68	$ 41.98

Balance Sheet. Total assets as of December 31, 1999 were $11.35 billion, relatively flat to $11.21 billion at December 31, 1998. Cash flows from operations and investment activities were largely offset by declines in the market values of the investment portfolio resulting from rising interest rates during 1999. Stockholders' equity as of December 31, 1999 was $2.02 billion, a decrease of 4% from $2.10 billion at year-end 1998. Net income for the year was more than offset by net unrealized losses in the investment portfolio (classified as "Accumulated Other Comprehensive (Loss) Income" in Stockholders' Equity).

The following table summarizes the composition of the Company's investment portfolio by segment at December 31, 1999, and 1998:

(Dollars in millions)	Financial Guarantee	Financial Services	Other	Total
1999				
Municipal obligations	$ 2,923.5	$ 39.4	$ -	$ 2,962.9
Corporate obligations	420.5	582.4	5.7	1,008.6
U.S. government obligations	60.9	1.6	-	62.5
Mortgage and asset-backed securities (includes U.S. government agency obligations)	111.0	4,593.5	-	4,704.5
Other	-	-	3.1	3.1
Total long-term	3,515.9	5,216.9	8.8	8,741.6
Short-term	207.1	1.5	12.3	220.9
Total investments	$ 3,723.0	$ 5,218.4	$ 21.1	8,962.5

Percent total	41.5%	58.2%	0.3%	100%
1998				
Municipal obligations	$ 2,757.2	$ 44.1	$ -	$ 2,801.3
Corporate obligations	328.1	980.1	127.2	1,435.4
U.S. government obligations	122.9	-	-	$ 122.9
Mortgage and asset-backed securities (includes U.S. government agency obligations)	101.8	4,078.9	81.9	4,262.6
Other	-	-	6.6	6.6
Total long-term	3,310.0	5,103.1	215.7	8,628.8
Short-term	93.9	1.5	24.1	119.5
Total investments	$ 3,403.9	$ 5,104.6	$ 239.8	8,748.3
Percent total	38.9%	58.4%	2.7%	100%

The Company's investment objectives for the Financial Guarantee portfolio are to maintain an investment duration that closely approximates the expected duration of related financial guarantee liabilities and achieve the highest after-tax net investment income while maintaining a conservative credit risk profile. The Financial Guarantee investment portfolio is subject to internal investment guidelines, which are approved by the Board of Directors. Such guidelines set forth minimum credit rating requirements and credit risk concentration limits. As of December 31, 1999 and 1998, the Company's Financial Guarantee investment portfolio had a weighted average credit rating of AA.

Approximately 87% and 82% of the Mortgage and Asset-Backed Securities in the Financial Guarantee portfolio is composed of securities issued by various U.S. government agencies, as of December 31, 1999 and 1998, respectively.

Short-term investments in the Financial Guarantee portfolio consisted primarily of money market funds, foreign and domestic time deposits, and discount notes.

The Financial Services investment portfolio consists primarily of assets funded with the proceeds from the issuance of investment agreement liabilities. The investment objectives of the portfolio are to match the investment security duration to the duration of related liabilities under the investment agreements and achieve the highest after-tax net investment income. The investment portfolio is subject to internal investment guidelines, approved by the Board of Directors. Such guidelines set forth minimum credit rating requirements and credit risk concentration limits. As of December 31, 1999 and 1998, the Company's Financial Services investment portfolio had a weighted average credit rating of AA.

Approximately 51% and 67% of the Mortgage and Asset-Backed Securities in the Financial Services portfolio is composed of securities issued by various U.S. government agencies, as of December 31, 1999 and 1998, respectively.

CASH FLOWS. Net cash provided by operating activities was $454.4 million, $327.8 million and $316.0 million during 1999, 1998 and 1997, respectively. These cash flows were primarily provided by the Financial Guarantee operations. Net cash provided by financing activities was $181.2 million, $1,723.0 million and $1,564.3 million during 1999, 1998 and 1997, respectively. This activity included $199.2 million, $1,391.9 million and $1,096.5 million in investment agreements issued (net of draws paid) in 1999, 1998 and 1997, respectively. The total cash provided by operating and financing activities was $635.6 million, $2,050.8 million and $1,880.3 million during 1999, 1998 and 1997, respectively. From these totals, $630.3 million, $2,051.8 million and $1,878.8 million was used in investing activities, principally net purchases of investment securities, during 1999, 1998 and 1997, respectively.

MATERIAL COMMITMENTS. The Company has made no commitments for material capital expenditures within the next twelve months.

RISK MANAGEMENT

In the ordinary course of business, the Company, through its affiliates, manages a variety of risks, principally credit, market, liquidity, operational and legal. These risks are identified, measured and monitored through a variety of control mechanisms, which are in place at different levels throughout the organization.

CREDIT RISK. The Company is exposed to credit risk in various capacities including as an issuer of financial guarantees, as counterparty to derivative and other financial contracts and as a holder of investment securities. The Company has a Portfolio Risk Management Committee ("PRMC") which has established various procedures and controls to monitor and manage credit risk. The PRMC is comprised of senior credit professionals and senior management of the Company. Its purview is enterprise-wide and its focus is on risk measurement, risk/return optimization, and capital attribution in a portfolio context.

All financial guarantees issued are subject to a formal underwriting process. Various factors affecting the credit worthiness of the underlying obligation are evaluated during the underwriting process. Senior credit personnel approve all transactions prior to issuing a financial guarantee. Subsequent to issuance of a financial guarantee, the Company periodically performs reviews of exposures according to a pre-determined schedule based on the risk profile of the insured obligations. The Company also monitors credit risk relating to derivative and other financial contracts.

The Company manages credit risk associated with its investment portfolio through adherence to specific investment guidelines. These guidelines establish limits based upon single risk concentration limits and minimum credit rating standards. Additionally, senior investment personnel monitor the portfolio on a continuous basis.

MARKET RISK. Market risk represents the potential for losses that may result from changes in the market value of a financial instrument as a result of changes in market conditions. The primary market risks that would impact the value of the Company's financial instruments are interest rate risk, basis risk (taxable interest rates relative to tax-exempt interest rates, discussed below) and credit spread risk. Below we discuss each of these risks and the specific types of financial instruments impacted. Senior managers in the Company's market risk management group are involved in setting and monitoring risk limits and the application of risk measurement methodologies. The estimation of potential losses arising from adverse changes in market conditions is a key element in managing market risk. The Company utilizes various systems, models and stress test scenarios to monitor and manage market risk. This process includes frequent analyses of both parallel and non-parallel shifts in the yield curve, "value-at-risk" and changes in credit spreads. These models include estimates, made by management, which utilize current and historical market information. The valuation results from these models could differ materially from amounts that would actually be realized in the market.

Financial instruments that may be adversely affected by changes in interest rates consist primarily of investment securities, investment agreement liabilities, debentures, and derivative contracts (primarily interest rate swaps) used for hedging purposes. The following table summarizes the estimated change in fair value (based primarily on the valuation models discussed above) on the net balance of the Company's investment securities, investment agreement liabilities, debentures and derivative hedges, assuming immediate changes in interest rates at specified levels at December 31, 1999 and 1998:

(Dollars in millions) Change in interest rates	Estimated fair value	Estimated change in fair value
1999:		
300 basis point rise	$ 2,513	$ (927)
200 basis point rise	2,814	(626)
100 basis point rise	3,123	(317)
Base Scenario	3,440	-
100 basis point decline	3,763	323
200 basis point decline	4,098	658
300 basis point decline	4,454	1,014
1998:		
300 basis point rise	$2,172	$ (758)
200 basis point rise	2,401	(529)
100 basis point rise	2,655	(275)
Base Scenario	2,930	-
100 basis point decline	3,215	285
200 basis point decline	3,500	570
300 basis point decline	3,802	872

Financial instruments that may be adversely affected by changes in basis include the Company's municipal interest rate swap portfolio. The Company, through its affiliate Ambac Financial Services, L.P. ("AFSLP"), is a provider of interest rate swaps to states, municipalities and their authorities and other entities in connection with their financings. AFSLP manages its business with the goal of being market neutral to changes in overall interest rates, while seeking to profit from retaining some basis risk. If actual or projected tax-exempt interest rates change in relation to taxable interest rates, the Company will experience an unrealized mark-to-market gain or loss. Since late 1995, most municipal interest rate swaps transacted by AFSLP contain provisions that are designed to protect the Company against certain forms of tax reform, thus mitigating its basis risk. The estimation of potential losses arising from adverse changes in market relationships, known as value-at-risk, is a key element in management's monitoring of basis risk for the municipal interest rate swap portfolio. The Company has developed a value-at-risk methodology to estimate potential losses over a specified holding period and based on certain probabilistic assessments. The Company's methodology estimates value-at-risk using a 300-day historical "look back" period. This means that changes in market values are simulated using market inputs from the past 300 days. For the years ended December 31, 1999 and 1998, the Company's value-at-risk, for its interest rate swap portfolio, calculated at a ninety-nine percent confidence level, averaged approximately $1.1 million and $1.0 million, respectively. The Company's value-at-risk ranged from a high of $1.3 million to a low of $0.9 million in 1999, and from a high of $1.1 million to a low of $0.7 million in 1998. Since no single measure can capture all dimensions of market risk, the Company supplements its value-at-risk methodology by performing daily analyses of parallel and non-parallel shifts in yield curves and stress test scenarios which measure the potential impact of normal market conditions, which might cause abnormal volatility swings or disruptions of market relationships.

Financial instruments that may be adversely affected by changes in credit spreads include the Company's outstanding structured credit derivative contracts. The Company, through its affiliate ACP, enters into structured credit derivative contracts. These contracts require ACP to make payments upon the occurrence of certain defined credit events relating to an underlying obligation (generally a fixed income security). If credit spreads of the underlying obligations change, the market value of the related structured credit derivative could change. As such, ACP could experience an unrealized mark-to-market gain or loss. Market liquidity could also impact valuations. Changes in credit spreads are generally caused by changes in the market's perception of the credit quality of the underlying obligations. The majority of ACP's contracts are partially hedged with various financial institutions or structured with first loss protection. Such structuring mitigates ACP's risk of loss and the price volatility of these financial instruments. Personnel in the Company's credit surveillance group monitor credit spread risk. Additionally, management models the potential impact of credit spread changes on the value of its contracts. At December 31, 1999 the Company's models estimate ACP would experience an estimated unrealized loss of $0.8 million, $2.1 million and $4.2 million, based on overall credit spread widening of 15, 30 and 45 basis points, respectively. ACP would experience an estimated unrealized gain of $0.9 million, $3.0 million and $5.0 million, based on overall credit spread narrowing of 15, 30 and 45 basis points, respectively.

LIQUIDITY RISK. Liquidity risk relates to the possible inability to satisfy contractual obligations when due. This risk is present in financial guarantee contracts, structured credit derivatives, investment agreements, interest rate swaps and futures contracts. Ambac Assurance manages its liquidity risk by maintaining a comprehensive daily analysis of projected cash flows. Additionally, Ambac Assurance maintains a minimum level of cash and short-term investments at all times. ACP manages the liquidity risk inherent in the structured credit derivative portfolio by holding cash and short-term investments, closely matching the dates that derivative payments are made and received, and by maintaining a revolving credit agreement. The investment agreement business manages liquidity risk by matching the effective duration of its invested assets, including hedges, with the effective duration of its investment agreement liabilities. Additionally, the Company's policy is to maintain a minimum level of cash and short-term assets equivalent to a specified percentage of its investment agreement liabilities outstanding. AFSLP maintains cash and short-term investments, closely matches the dates swap payments are made and received, and limits the amount of risk hedged with futures contracts. See additional discussion in "Liquidity and Capital Resources" section.

OPERATIONAL RISK. Operational risk relates to the potential for loss caused by a breakdown in information, communication and settlement systems. The Company mitigates operational risk by maintaining systems and procedures to monitor transactions and positions, documentation and confirmation of transactions and ensuring compliance with regulations.

LEGAL RISK. Legal risks attendant to the Company's businesses include uncertainty with respect to the enforceability of the obligations insured by Ambac Assurance, as well as uncertainty with respect to the enforceability of the obligations of the Company's counterparties, including contractual provisions intended to reduce exposure by providing for the offsetting or netting of mutual obligations. The Company seeks to remove or minimize such uncertainties through continuous consultation with internal and external legal advisers to analyze and understand the nature of legal risk, to improve documentation and to strengthen transaction structure.

OTHER MATTERS

YEAR 2000. To date the Company has had no disruptions with its internal computer systems as a result of what is commonly known as the Y2K problem. Although the Company had been running tests on its critical systems throughout 1999, a final live test occurred on January 1, 2000. The results of that test indicated that the Company's internal computer systems, and the normal business activities and operations that depend on them have not been adversely impacted by Y2K sensitive dates.

Although the Company does not expect issuers of Ambac-guaranteed obligations to experience significant disruptions due to Y2K, it may take a considerable amount of time before a full assessment can be made of how each issuer fared.

FOOTNOTES.

(1) Adjusted gross premiums ("AGP") written, which is not promulgated under Generally Accepted Accounting Principles ("GAAP"), is used by management, equity analysts and investors to measure the financial results of the Company. AGP written, which the Company reports as analytical data, is defined as gross up-front premiums written plus the present value of estimated future installment premiums written on insurance policies and structured credit derivatives issued in the period. The definition of AGP written used by the Company may differ from definitions of AGP written used by other public holding companies of financial guarantee insurers.

All reinsurance cessions to MBIA under the joint venture reinsurance arrangement reduce adjusted gross premiums written. Consequently, adjusted gross premiums written recorded by the Company includes only the net retention on business written under the joint venture arrangement.

(2) Core earnings and operating earnings are not substitutes for net income computed in accordance with GAAP, but are important measures used by management, equity analysts and investors to measure the financial results of the Company. The definition of core earnings and operating earnings used by the Company may differ from definitions of core earnings and operating earnings used by other public holding companies of financial guarantee insurers.

(3) Adjusted book value ("ABV"), which is not promulgated under GAAP, is used by management, equity analysts and investors as a measurement of the Company's intrinsic value with no benefit given for ongoing business activity. Management derives ABV by beginning with stockholders' equity (book value) and adding or subtracting the after-tax value of: the net unearned premium reserve, deferred acquisition costs, the present value of estimated net future installment premiums, and the unrealized gain or loss on investment agreement liabilities. The definition of ABV used by the Company may differ from definitions of ABV used by other public holding companies of financial guarantee insurers. The adjustments to book value described above will not be realized until future

periods and may differ materially from the amounts used in determining ABV.

REPORT ON MANAGEMENT'S RESPONSIBILITIES

The management of Ambac Financial Group, Inc. is responsible for the integrity and objectivity of the financial statements and all other financial information presented in this Annual Report and for assuring that such information fairly presents the consolidated financial position and operating results of Ambac Financial Group, Inc. The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles using management's best estimates and judgment. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Ambac Financial Group, Inc. maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that the financial records are reliable for use in preparing financial statements and maintaining accountability of assets. Qualified and professional financial personnel maintain and monitor these internal controls on a continuous basis. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the related benefits.

Ambac Financial Group, Inc.'s consolidated financial statements have been audited by KPMG LLP, independent auditors, whose audits were made in accordance with generally accepted auditing standards and included a review of internal accounting controls to the extent necessary to express an opinion on the fairness of the consolidated financial statements.

The Audit Committee of the Board of Directors, comprised solely of outside directors, meets regularly with financial management, the independent auditors and the internal auditors to review the work and procedures of each. The independent auditors and the internal auditors have free access to the Audit Committee, without the presence of management, to discuss the results of their work and their considerations of Ambac Financial Group, Inc. and the quality of its financial reporting. The Board of Directors, upon recommendation of the Audit Committee, appoints the independent auditors, subject to stockholder approval.

/s/ Phillip B. Lassiter
Phillip B. Lassiter
Chairman, President and Chief Executive Officer

/s/ Frank J. Bivona
Frank J. Bivona
Executive Vice President and Chief Financial Officer

January 21, 2000

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Ambac Financial Group, Inc.

We have audited the accompanying consolidated balance sheets of Ambac Financial Group, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of Ambac Financial Group, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ambac Financial Group, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

KPMG LLP
New York, New York

January 21, 2000

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts) December 31,	1999	1998
ASSETS:		
Investments:		
Fixed income securities, at fair value (amortized cost of $9,028,184 in 1999 and $8,307,046 in 1998)	$ 8,738,471	$ 8,622,282
Short-term investments, at cost (approximates fair value)	220,896	119,528
Other, at cost	3,168	6,567
Total investments	8,962,535	8,748,377
Cash	13,588	8,239
Securities purchased under agreements to resell	103,000	252,295
Receivable for investment agreements	45,918	73,142
Receivable for securities sold	15,369	16,233
Investment income due and accrued	128,668	125,929
Reinsurance recoverable	500	3,638
Prepaid reinsurance	217,977	199,920
Deferred acquisition costs	135,324	120,619
Deferred income taxes	57,377	-
Loans	685,488	673,930
Receivable from brokers and dealers	717,000	750,000
Other assets	262,352	239,989
Total assets	$ 11,345,096	$ 11,212,311
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities:		
Unearned premiums	$ 1,431,076	$ 1,294,214
Losses and loss adjustment expenses	121,475	115,794
Ceded reinsurance balances payable	15,028	6,576
Obligations under investment and payment agreements	4,180,513	4,774,953
Obligations under investment repurchase agreements	1,959,741	1,181,810
Deferred income taxes	-	145,782
Current income taxes	24,831	6,949
Debentures	423,995	423,929
Accrued interest payable	91,142	89,615
Accounts payable and other liabilities	268,696	262,423
Payable to brokers and dealers	717,000	750,000
Payable for securities purchased	93,149	64,176
Total liabilities	9,326,646	9,116,221
Stockholders' equity:		
Preferred stock, par value $0.01 per share; authorized shares-- 4,000,000; issued and outstanding shares-- none	-	-
Common stock, par value $0.01 per share; authorized shares ---200,000,000 at December 31, 1999 and December 31, 1998; issued shares-- 70,680,384 at December 31, 1999 and December 31, 1998	707	707
Additional paid-in capital	525,012	519,305
Accumulated other comprehensive (loss) income	(187,540)	159,313
Retained earnings	1,713,446	1,449,832
Common stock held in treasury at cost, 722,592 shares at December 31, 1999 and 738,381 at December 31, 1998	(33,175)	(33,067)
Total stockholders' equity	2,018,450	2,096,090
Total liabilities and stockholders' equity	$ 11,345,096	$ 11,212,311

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share amounts) Years Ended December 31,	1999	1998	1997
REVENUES:			
Financial Guarantee:			
Gross premiums written	$ 445,242	$ 361,011	$ 286,163
Ceded premiums written	(61,845)	(49,563)	(32,452)
Net premiums written	$ 383,397	$ 311,448	$ 253,711
Net premiums earned	$ 264,426	$ 212,684	$ 154,000
Net fees earned and other income	6,034	5,781	4,402
Net investment income	209,284	186,190	159,709
Net realized (losses) gains	(5,675)	3,735	21,084
Financial Services:			
Net revenue	51,669	49,510	35,249
Net realized losses	(3,124)	(17,096)	(637)
Other:			
Revenue	9,906	13,725	7,207
Net realized gains	797	2,507	748
Total revenues	533,317	457,036	381,762
EXPENSES:			
Financial Guarantee:			
Losses and loss adjustment expenses	11,000	6,000	2,854
Underwriting and operating expenses	48,804	46,720	40,672
Financial Services	25,824	35,540	27,993
Interest	36,525	32,761	21,346
Other	6,506	7,103	2,901
Total expenses	128,659	128,124	95,766
Income before income taxes	404,658	328,912	285,996
Provision for income taxes	96,741	74,918	62,966
Net income	$ 307,917	$ 253,994	$ 223,030
Net income per share	$ 4.40	$ 3.63	$ 3.19
Net income per diluted share	$ 4.31	$ 3.56	$ 3.13
Weighted average number of shares outstanding	69,913,147	69,939,710	69,988,497
Weighted average number of diluted shares outstanding	71,366,210	71,330,053	71,227,347

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands) Years Ended December 31,	1999		1998		1997	
RETAINED EARNINGS:						
Balance at January 1	$1,449,832		$1,262,740		$1,072,418	
Net income	307,917	$ 307,917	253,994	$253,994	223,030	$223,030
Dividends declared-- common stock	(29,366)		(26,571)		(24,165)	
Exercise of stock options	(14,937)		(40,331)		(8,543)	
Balance at December 31	$1,713,446		$1,449,832		$1,262,740	
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:						
Balance at January 1	$ 159,313		$ 135,223		$ 58,911	
Unrealized (losses) gains on securities, ($552,645), $36,476, and $121,347, pre-tax in 1999, 1998 and 1997, respectively (1)		(346,211)		23,889		76,155
Foreign currency (loss) gain		(642)		201		157
Other comprehensive (loss) income	(346,853)	(346,853)	24,090	24,090	76,312	76,312
Total comprehensive (loss) income		$ (38,936)		$278,084		$299,342
Balance at December 31	$ (187,540)		$ 159,313		$ 135,223	
PREFERRED STOCK:						
Balance at January 1 and December 31	$ --		$ --		$ --	
COMMON STOCK:						
Balance at January 1	$ 707		$ 707		$ 353	
Stock split effected as dividend	--		--		354	
Balance at December 31	$ 707		$ 707		$ 707	
ADDITIONAL PAID-IN CAPITAL:						
Balance at January 1	$ 519,305		$ 500,107		$ 498,401	
Issuance of stock	--		--		(3,506)	
Exercise of stock options	5,707		19,198		5,566	
Stock split effected as dividend	--		--		(354)	
Balance at December 31	$ 525,012		$ 519,305		$ 500,107	
COMMON STOCK HELD IN TREASURY AT COST:						
Balance at January 1	$ (33,067)		$ (26,295)		$ (15,067)	
Cost of shares acquired	(17,626)		(52,738)		(40,397)	
Shares issued under equity plans	17,518		45,966		29,169	
Balance at December 31	$ (33,175)		$ (33,067)		($26,295)	
TOTAL STOCKHOLDERS' EQUITY AT DECEMBER 31	$2,018,450		$2,096,090		$1,872,482	

(1) Disclosure of reclassification amount:	1999	1998	1997
Unrealized holding (losses) gains arising during period	$ (351,412)	$ 34,526	$ 88,744
Less: reclassification adjustment for net (losses) gains included in net income	(5,201)	10,637	12,589
Net unrealized (losses) gains on securities	$ (346,211)	$ 23,889	$ 76,155

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands) Years Ended December 31,	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 307,917	$ 253,994	$ 223,030
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,969	2,460	1,925
Amortization of bond premium and discount	(4,444)	(4,942)	(3,257)
Current income taxes	17,882	(2,067)	9,978
Deferred income taxes	3,274	(2,034)	12,015
Deferred acquisition costs	(14,705)	(14,623)	(11,784)
Unearned premiums, net	118,805	98,796	99,706
Losses and loss adjustment expenses	8,819	13,030	408
Ceded reinsurance balances payable	8,452	(2,682)	1,303
Investment income due and accrued	(2,739)	(47,239)	(9,415)
Accrued interest payable	1,527	43,598	16,059
Loss (gain) on sales of investments and affiliates	8,002	10,854	(21,195)
Other, net	(1,359)	(21,349)	(2,762)
Net cash provided by operating activities	454,400	327,796	316,011
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of bonds	2,403,583	2,020,463	1,718,174
Proceeds from matured bonds	1,371,715	1,034,511	1,080,338
Purchases of bonds	(4,427,369)	(4,746,366)	(4,135,404)
Change in short-term investments	(101,368)	16,750	(23,767)
Securities purchased under agreements to resell	149,295	(166,829)	115,703
Loans	(11,558)	(170,738)	(503,192)
Purchase of affiliate, net of cash acquired	--	--	(120,006)
Other, net	(14,591)	(39,617)	(10,615)
Net cash used in investing activities	(630,293)	(2,051,826)	(1,878,769)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	(29,366)	(26,571)	(24,165)
Proceeds from issuance of investment agreements	3,051,508	3,628,266	2,805,256
Payments for investment agreement draws	(2,852,350)	(2,236,348)	(1,708,775)
Proceeds from issuance of debentures	--	193,700	--
Payment agreements	11,558	170,738	503,192
Purchases of treasury stock	(17,626)	(52,738)	(40,397)
Proceeds from sale of treasury stock	17,518	45,966	29,169
Net cash provided by financing activities	181,242	1,723,013	1,564,280
NET CASH FLOW	5,349	(1,017)	1,522
Cash at January 1	8,239	9,256	7,734
Cash at December 31	$ 13,588	$ 8,239	$ 9,256
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Income taxes	$ 70,100	$ 66,853	$ 34,163
Interest expense on debt	$ 36,743	$ 33,056	$ 21,799
Interest expense on investment agreements	$ 298,309	$ 252,713	$ 169,875

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share amounts)

1 BACKGROUND

Ambac Financial Group, Inc. ("AFGI") is a holding company whose subsidiaries provide financial guarantees and financial services to clients in both the public and private sectors around the world. AFGI's principal operating subsidiary, Ambac Assurance Corporation ("Ambac Assurance"), a leading provider of financial guarantees for municipal and structured finance obligations, has earned triple-A ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Ratings Group, Fitch IBCA, Inc., and Japan Rating and Investment Information, Inc. AFGI's Financial Services segment provides investment agreements, interest rate swaps, and investment advisory and cash management services, principally to states, municipalities and their authorities, school districts, and hospitals and health organizations.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of AFGI and subsidiaries (the "Company") have been prepared on the basis of U.S. Generally Accepted Accounting Principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies of the Company are described below:

CONSOLIDATION: The consolidated financial statements include the accounts of AFGI and its subsidiaries. All significant intercompany balances have been eliminated.

NET INCOME PER SHARE AND NET INCOME PER DILUTED SHARE: Net income per share is based on the weighted-average number of common shares outstanding during the year, retroactively adjusted to reflect a two-for-one stock split in 1997. Net income per diluted share reflects the potential dilution that would occur if securities, such as employee stock options or restricted stock units, were exercised or converted to common shares, respectively.

INVESTMENTS: The Company's investment portfolio is accounted for on a trade-date basis and consists primarily of investments in fixed income securities that are considered available-for-sale and are carried at fair value. Fair value is based primarily on quotes obtained by the Company from independent market sources. Short-term investments are carried at cost, which approximates fair value. Unrealized gains and losses, net of deferred income taxes, are included as a component of "Accumulated Other Comprehensive (Loss) Income" in stockholders' equity and are computed using amortized cost as the basis. For purposes of computing amortized cost, premiums and discounts are accounted for using the interest method. For bonds purchased at a price below par value, discounts are accreted over the remaining term of the securities. For bonds purchased at a price above par value which have call features, premiums are amortized to the most likely call dates as determined by management. For premium bonds that do not have call features, such premiums are amortized over the remaining terms of the securities. Premiums and discounts on mortgage-backed and asset-backed securities are adjusted for the effects of actual and anticipated prepayments. Realized gains and losses on the sale of investments are determined on the basis of specific identification.

SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL: Securities purchased under agreements to resell are collateralized financing transactions, and are recorded at their contracted resale amounts, plus accrued interest. The Company takes possession of the collateral underlying those agreements and monitors its market value on a daily basis and, when necessary, requires prompt transfer of additional collateral to reflect current market value. At December 31, 1999 such collateral had a market value approximately equal to 102% of the contract amount, had an average credit rating of triple-A and a weighted average maturity of less than 30 days.

LOANS: Loans are reported at their outstanding unpaid principal balances, net of any deferred fees. Interest income is accrued on the unpaid principal balance. Deferred fees are amortized to interest income over the contractual life of the loan using the interest method or the straight-line method if not materially different.

OBLIGATIONS UNDER INVESTMENT AND PAYMENT AGREEMENTS: Obligations under investment and payment agreements and investment repurchase agreements are recorded as liabilities on the consolidated balance sheets at the face value of the agreement, adjusted for draws paid and interest credited to the account. Unsettled agreements are accrued on a trade-date basis on the consolidated balance sheets at the time of commitment. Interest expense is computed based upon daily outstanding settled liability balances at rates and periods specified in the agreements. Net interest income relating to investment agreements and investment repurchase agreements is included as a component of Financial Services revenue.

PREMIUM REVENUE RECOGNITION: Up-front premiums are earned pro-rata over the period of risk. Premiums are allocated to each bond maturity based on par amount and are earned on a straight-line basis over the term of each maturity. Installment premiums are earned over each installment period, generally one year or less. When a new or secondary market issue insured by Ambac Assurance has been refunded or called, the remaining unearned premium (net of refunding credits, if any) is generally earned at that time.

LOSSES AND LOSS ADJUSTMENT EXPENSES: The liability for losses and loss adjustment expenses consists of the active credit reserve ("ACR") and case basis loss and loss adjustment expense reserves. The development of the ACR is based upon estimates of the expected annual levels of debt service defaults resulting from credit failures on currently guaranteed issues that are not presently or imminently in default. When losses occur (actual monetary defaults or defaults which are imminent on guaranteed obligations), case basis loss reserves are established in an amount that is sufficient to cover the present value of the anticipated defaulted debt service payments over the expected period of default and estimated expenses associated with settling the claims, less estimated recoveries under salvage or subrogation rights. During 1999, 1998 and 1997, paid losses, net of salvage received were $2,182, ($7,030), and $2,474, respectively. All or parts of case basis loss reserves are allocated from any ACR available.

Ambac Assurance's management believes that the reserves for losses and loss adjustment expenses are adequate to cover the ultimate net cost of claims, but the reserves are necessarily based on estimates and there can be no assurance that the ultimate liability will not exceed such estimates.

DEFERRED ACQUISITION COSTS: Certain costs incurred, primarily related to the production of business, have been deferred. These costs include direct and indirect expenses related to underwriting, marketing and policy issuance, rating agency fees and premium taxes, net of reinsurance ceding commissions. The deferred acquisition costs are being amortized over the periods in which the related premiums are earned, and such amortization amounted to $20,843, $18,248 and $14,213 for 1999, 1998 and 1997, respectively. Deferred acquisition costs, net of such amortization, amounted to $14,705, $14,623 and $11,784 for 1999, 1998 and 1997, respectively.

DEPRECIATION AND AMORTIZATION: Depreciation of furniture and fixtures and electronic data processing equipment is provided over the estimated useful lives of the respective assets, ranging from three to five years, using the straight-line method. Amortization of leasehold improvements and intangibles, including certain computer software licenses, is provided over the estimated useful lives of the respective assets, ranging from three to 10 years, using the straight-line method.

DERIVATIVE CONTRACTS: Derivative Contracts Held for Purposes Other Than Trading: The Company uses derivative contracts (primarily interest rate swaps and futures contracts) for hedging purposes as part of its overall interest rate risk management.

The Company accounts for its futures contracts in accordance with the provisions of FAS Statement 80, "Accounting for Futures Contracts" ("FAS 80"). FAS 80 permits hedge accounting for futures contracts when the item to be hedged exposes the Company to price or interest rate risk, and the futures contract effectively reduces that exposure and is designated as a hedge. Futures contracts held for purposes other than trading are used primarily to hedge interest rate sensitive assets and liabilities. Futures contracts are designated at inception as a hedge to specific assets and liabilities. Gains and losses on futures contracts that qualify as accounting hedges of existing assets or liabilities are included as a component of "Accumulated Other Comprehensive (Loss) Income" in stockholders' equity, net of deferred tax, and amortized over the remaining lives of the assets and liabilities as an adjustment to interest income or expense. When the hedged asset is sold, or the hedged liability is settled, the unamortized gain or loss on the related hedge is recognized in income.

Interest rate swaps that are linked with existing liabilities are accounted for as a hedge of those liabilities, using the accrual method as an adjustment to interest expense. Interest rate swaps that are linked with existing assets classified as available for sale are accounted for as hedges of those assets, using the accrual method as an adjustment to interest income, with unrealized gains and losses included as a component of "Accumulated Other Comprehensive (Loss) Income" in stockholders' equity, net of deferred tax. Interest rate risk is managed through the linkage of the interest rate swaps, which synthetically changes the nature of the underlying asset or liability (for example, from a fixed to floating interest rate obligation).

Derivative Contracts Held for Trading Purposes: The Company, through its subsidiary Ambac Financial Services, L.P. ("AFSLP"), provides interest rate swaps to states, municipalities and their authorities, and other entities in connection with their financings. The Company, through its subsidiary Ambac Credit Products L.L.C. ("ACP"), enters into structured credit derivative transactions with various financial institutions. Interest rate swaps and structured credit derivatives are classified as held for trading purposes. These contracts are recorded on trade date at fair value. Changes in fair value are recorded as a component of Financial Services segment income for interest rate swaps and as a component of Financial Guarantee segment income for structured credit derivatives. The fair values of interest rate swaps and structured credit derivatives are determined by broker quotes or valuation models (when broker quotes are not available). Contracts are recorded on the balance sheet on a gross basis; assets and liabilities are netted by customer only when a legal right of set-off exists. Gross asset and gross liability balances for interest rate swaps and structured credit derivatives are recorded as other assets or other liabilities on the Consolidated Balance Sheets.

INCOME TAXES: AFGI files a consolidated federal income tax return with its subsidiaries. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS: The Company provides various postretirement and postemployment benefits, including pension, and health and life benefits covering substantially all employees who meet certain age and service requirements. The Company accounts for these benefits under the accrual method of accounting. Amounts related to the defined benefit pension plan and postretirement health benefits are charged based on actuarial determinations.

STOCK COMPENSATION PLANS: In 1997, the Company adopted the Ambac 1997 Equity Plan. Under this plan, awards are granted to eligible employees of the Company in the form of non-qualified stock options or other stock-based awards. The Company accounts for its incentive stock options and stock-based awards under FAS Statement 123, "Accounting for Stock-Based Compensation" ("FAS 123"). FAS 123 permits a company to choose either the fair value based method of accounting as defined in the Statement or the intrinsic value based method of accounting as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), for its stock-based compensation plans. Companies electing the accounting requirements under APB 25 must also make pro-forma disclosures of net income, earnings per share and earnings per diluted share, as if the fair value based method of accounting had been applied. The Company has elected to account for its plans under APB 25.

ACCOUNTING STANDARDS: In June 1998, the Financial Accounting Standards Board issued FAS Statement 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. The statement requires all derivatives to be recorded on the balance sheet at fair value and establishes special accounting for the following three different types of hedges: (1) hedges of changes in the fair value of assets, liabilities or firm commitments (fair value hedges); (2) hedges of the variable cash flows of forecasted transactions (cash flow hedges); and (3) hedges of foreign currency exposures of net investments in foreign operations. Though the accounting treatment and criteria for each of the three types of hedges is unique, they all result in recognizing offsetting changes in value or cash flow of both the hedge and the hedged item in earnings in the same period. Changes in the fair value of derivatives that do not meet the criteria of one of these three categories of hedges are included in earnings in the period of the change with no related offset. FAS 133 is effective for years beginning after June 15, 2000, but companies may adopt early. The Company will adopt FAS 133 effective January 1, 2001. The impact of adopting FAS 133 as of December 31, 1999 would have been insignificant to the Company's consolidated financial position and results of operations.

RECLASSIFICATIONS: Certain reclassifications have been made to prior years' amounts to conform to the current year's presentation.

3 INVESTMENTS

The amortized cost and estimated fair value of investments in fixed income securities and short-term investments at December 31, 1999 and 1998 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1999				
Municipal obligations	$3,094,469	$ 40,986	$ 172,516	$2,962,939
Corporate obligations	1,094,102	8,623	94,221	1,008,504
U.S. Government obligations	63,197	778	1,496	62,479
Mortgage- and asset-backed securities (includes U.S. Government Agency obligations)	4,776,416	1,014	72,881	4,704,549
Short-term	220,896	--	--	220,896
Total	$9,249,080	$ 51,401	$ 341,114	$8,959,367
1998				
Municipal obligations	$2,632,276	$ 172,960	$ 3,912	$2,801,324
Corporate obligations	1,335,749	103,030	3,352	1,435,427
U.S. Government obligations	114,385	8,511	--	122,896
Mortgage- and asset-backed securities (includes U.S. Government Agency obligations)	4,224,636	41,994	3,995	4,262,635
Short-term	119,528	--	--	119,528
Total	$8,426,574	$ 326,495	$ 11,259	$8,741,810

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share amounts)

The amortized cost and estimated fair value of fixed income securities and short-term investments at December 31, 1999, by contractual maturity, were as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 296,784	$ 296,646
Due after one year through five years	284,950	292,852
Due after five years through ten years	402,370	402,065
Due after ten years	3,488,560	3,263,255
	4,472,664	4,254,818
Mortgage- and asset-backed securities	4,776,416	4,704,549
	$9,249,080	$8,959,367

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities carried at $5,442 and $6,191 at December 31, 1999 and 1998, respectively, were deposited by the Company with governmental authorities or designated custodian banks as required by laws affecting insurance companies.

Net investment income from the Financial Guarantee segment was comprised of the following:

	1999	1998	1997
Fixed income securities	$202,805	$181,437	$155,810
Short-term investments	7,790	8,139	6,506
Total investment income	210,595	189,576	162,316
Investment expense	(1,311)	(3,386)	(2,607)
Net investment income	$209,284	$186,190	$159,709

The Financial Guarantee segment had gross realized gains of $8,050, $14,219 and $25,641 for 1999, 1998 and 1997, respectively, and gross realized losses of $13,725, $10,484 and $4,557 for 1999, 1998 and 1997, respectively.

Net investment income related to the investment agreement business comprises gross investment income from its investment portfolio less interest expense from investment agreement liabilities, and is a component of Financial Services net revenue. The following table summarizes net investment income for the investment agreement business:

	1999	1998	1997
Gross interest income	$323,175	$281,904	$200,337
Gross interest expense	299,523	263,586	186,678
Net investment income	$ 23,652	$ 18,318	$ 13,659

The Financial Services segment had gross realized gains of $44,634, $22,592 and $3,766 for 1999, 1998 and 1997, respectively, and gross realized losses of $47,758, $39,688 and $4,403 for 1999, 1998 and 1997, respectively. Gross realized gains and losses in 1999 reflect actions taken to re-balance the investment agreement investment portfolio. This re-balancing caused the duration of invested assets to be more naturally matched to the duration of related liabilities, which allowed the Company to significantly reduce its derivative hedges. Gross realized gains and losses in 1998 and 1997 include amounts related to a trading position, which represented a small portion of the Company's assets, containing high quality municipal bonds hedged with Treasury futures. These gains were $2,967 and $1,309 for 1998 and 1997, respectively, and losses were $18,638 and $3,578 for 1998 and 1997, respectively. Gross realized losses in 1998 also include the Company's $11,548 write-off of its investment in Ambac Connect, Inc.

As of December 31, 1999 and 1998, the Company held securities subject to agreements to resell for $103,000 and $252,295, respectively. The Company held these securities as collateral under agreements that had terms of less than 30 days.

As of December 31, 1999 and 1998, the Company had pledged (or sold under agreements to repurchase) securities purchased under agreements to resell and investment securities to certain municipalities, with a fair value of $3,634,710 and $3,636,519, respectively, in connection with certain investment agreements (including agreements structured as investment repurchase agreements).

The Company has entered into security borrowing agreements, the purpose of which was to limit the Company's cost of collateralizing certain investment agreements (including agreements structured as investment repurchase agreements) by reducing the use of securities purchased under agreements to resell. The security borrowing agreements allow the Company to borrow securities with a maximum market value of $1,000,000. The borrowings are secured by Company-owned investment securities. As of December 31, 1999 and 1998, the Company had $717,000 and $750,000, respectively, in outstanding securities borrowed. The borrowings and related pledged securities are classified as "Payable to brokers and dealers" and "Receivable from brokers and dealers," respectively, on the Consolidated Balance Sheets.

4 LOANS

In the normal course of business, the Company has extended loans to customers participating in certain structured municipal transactions. The loans are collateralized with cash that the customers have deposited with a payment custodian in amounts adequate to repay the loan balance and interest thereon. Equipment and other assets underlying the transactions serve as additional collateral for the loans. The Company may act as the payment custodian and hold the funds posted as collateral. As of December 31, 1999, 1998 and 1997 the interest rates on these loans ranged from 6.25% to 8.42%.

5 REINSURANCE
In the ordinary course of business, Ambac Assurance cedes exposures under various reinsurance contracts primarily designed to minimize losses from large risks and to protect capital and surplus. The effect of reinsurance on premiums written and earned was as follows:

Years Ended December 31,	1999		1998		1997	
	Written	Earned	Written	Earned	Written	Earned
Direct	$ 420,669	$ 289,053	$ 333,652	$ 238,452	$ 277,814	$ 176,009
Assumed	24,573	19,161	27,359	7,367	8,349	3,614
Ceded	(61,845)	(43,788)	(49,563)	(33,135)	(32,452)	(25,623)
Net premiums	$ 383,397	$ 264,426	$ 311,448	$ 212,684	$ 253,711	$ 154,000

The reinsurance of risk does not relieve the ceding insurer of its original liability to its policyholders. In the event that all or any of the reinsurers are unable to meet their obligations to Ambac Assurance under the existing reinsurance agreements, Ambac Assurance would be liable for such defaulted amounts. To minimize its exposure to significant losses from reinsurer insolvencies, Ambac Assurance evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. There were no reinsurance recoverables on paid losses as of December 31, 1999 and 1998. As of December 31, 1999, prepaid reinsurance of approximately $158,597 was associated with Ambac Assurance's three largest reinsurers. As of December 31, 1999, Ambac Assurance held letters of credit and collateral amounting to approximately $214,896 from its reinsurers to cover liabilities ceded under the aforementioned reinsurance contracts.

In 1995, Ambac Assurance and MBIA Insurance Corporation ("MBIA") formed an unincorporated joint venture, MBIA.AMBAC International. The joint venture was formed with the goal of bringing the combined capital and human resources of the two companies together to more efficiently serve the international market. Under the joint venture arrangement, financial guarantees are issued separately by each of the companies. Premiums assumed from MBIA under this arrangement were $24,503, $18,715 and $8,009 in 1999, 1998 and 1997, respectively, and premiums ceded to MBIA under this arrangement were $27,418, $15,505 and $8,874 in 1999, 1998 and 1997, respectively.

6 STOCKHOLDERS' EQUITY
The Company is authorized to issue 200,000,000 shares of Common Stock, par value $0.01 per share, of which 70,680,384 were issued as of December 31, 1999. The Company is also authorized to issue 4,000,000 shares of preferred stock, $0.01 par value per share, none of which was issued and outstanding as of December 31, 1999.

Dividends declared per share amounted to $0.42, $0.38 and $0.345 in 1999, 1998 and 1997, respectively.

The Board of Directors of the Company (the "Board") has authorized the establishment of a stock repurchase program that permits the repurchase of up to 6,000,000 shares of the Company's Common Stock. As of December 31, 1999, approximately 4,573,000 shares had been repurchased under this program for an aggregate amount of $160,300.

STOCKHOLDER RIGHTS PLAN: The Company adopted a Stockholder Rights Plan under which stockholders received (after giving effect to a stock split since adoption of the Plan) one Right for each two shares of Common Stock owned. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share, at a purchase price of $190 per share. The Rights generally detach and become exercisable when any person or group acquires 20% or more (or announces a tender offer for 20% or more) of the Company's Common Stock, at which time each Right (other than those held by the acquiring company) will entitle the holder to receive that number of shares of Common Stock of the Company with a value of two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction in which the Company is not the surviving corporation or 50% or more of the Company's assets, cash flow or earning power is sold or transferred, each Right will entitle the holder to receive that number of shares of stock of the acquiring company having a value equal to two times the exercise price of the Right. The Rights, which expire on January 31, 2006, are redeemable in whole, but not in part, by action of the Board at a price of $0.01 per Right at any time prior to their becoming exercisable.

7 COMMITMENTS AND CONTINGENCIES

The Company is responsible for leases on the rental of office space. The lease agreements, which expire periodically through September 2019, contain provisions for scheduled periodic rent increases and are accounted for as operating leases. An estimate of future net minimum lease payments in each of the next five years ending December 31, and the periods thereafter, is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share amounts)

	Amount
2000	$ 7,039
2001	6,206
2002	6,143
2003	6,117
2004	6,122
All later years	83,102
	$114,729

Rent expense for the aforementioned leases amounted to $5,347, $5,537 and $5,048 for the years ended December 31, 1999, 1998 and 1997, respectively. Total rentals to be received under future sublease agreements are estimated at $3,490.

8 INSURANCE REGULATORY RESTRICTIONS

Ambac Assurance is subject to insurance regulatory requirements of the States of Wisconsin and New York, and the other jurisdictions in which it is licensed to conduct business.

Ambac Assurance's ability to pay dividends is generally restricted by law and subject to approval by the Office of the Commissioner of Insurance of the State of Wisconsin (the "Wisconsin Commissioner"). Wisconsin insurance law restricts the payment of dividends in any 12-month period without regulatory approval to the lesser of (a) 10% of policyholders' surplus as of the preceding December 31 and (b) the greater of (i) statutory net income for the calendar year preceding the date of dividend, minus realized capital gains for that calendar year and (ii) the aggregate of statutory net income for three calendar years preceding the date of the dividend, minus realized capital gains for those calendar years and minus dividends paid or credited within the first two of the three preceding calendar years. Based upon these restrictions, at December 31, 1999, the maximum amount that will be available during 2000 for payment of dividends by Ambac Assurance is approximately $150,000. Ambac Assurance paid cash dividends of $52,000, $48,000 and $44,000 on its common stock in 1999, 1998 and 1997, respectively.

The New York Financial Guaranty Insurance Law establishes single risk limits applicable to all obligations issued by a single entity and backed by a single revenue source. Under the limit applicable to municipal bonds, the insured average annual debt service for a single risk, net of reinsurance and collateral, may not exceed 10% of qualified statutory capital, which is defined as the sum of insurer's policyholders' surplus and contingency reserves. In addition, insured principal of municipal bonds attributable to any single risk, net of reinsurance and collateral, is limited to 75% of Ambac Assurance's qualified statutory capital. Additional single risk limits, which generally are more restrictive than the municipal bond single risk limit, are also specified for several other categories of insured obligations.

Statutory capital and surplus was $1,503,303 and $1,162,639 at December 31, 1999 and 1998, respectively. Qualified statutory capital was $2,420,455 and $1,936,103 at December 31, 1999 and 1998, respectively. Statutory net income for Ambac Assurance was $262,756, $271,808 and $198,615 for 1999, 1998 and 1997, respectively. Statutory capital and surplus differs from stockholders' equity determined under GAAP principally due to statutory accounting rules that treat loss reserves, premiums earned, policy acquisition costs, and deferred income taxes differently.

9 INCOME TAXES

The Company's provision for income taxes is comprised of the following:

	1999	1998	1997
Current taxes	$89,543	$72,608	$51,036
Deferred taxes	7,198	2,310	11,930
	$96,741	$74,918	$62,966

The total effect of income taxes on income and stockholders' equity for the years ended December 31, 1999 and 1998 was as follows:

	1999	1998
Total income taxes charged to income	$ 96,741	$ 74,918

Income taxes credited to stockholders' equity:		
Unrealized (losses) gains on bonds	(206,433)	12,587
Exercise of stock options	(5,707)	(19,198)
Total credited to stockholders' equity	(212,140)	(6,611)
Total effect of income taxes	$(115,399)	$ 68,307

The tax provisions in the accompanying Consolidated Statements of Operations reflect effective tax rates differing from prevailing federal corporate income tax rates. The following is a reconciliation of these differences:

	1999	%	1998	%	1997	%
Tax computed at statutory rate	$ 141,630	35.0%	$ 115,119	35.0%	$ 100,099	35.0%
Reductions in expected tax resulting from:						
Tax-exempt interest	(43,241)	(10.7)	(38,926)	(11.8)	(35,682)	(12.5)
Other, net	(1,648)	(0.4)	(1,275)	(0.4)	(1,451)	(0.5)
Income tax expense	$ 96,741	23.9%	$ 74,918	22.8%	$ 62,966	22.0%

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 1999 and 1998 are presented below:

	1999	1998
Deferred tax liabilities:		
Contingency reserve	$ 153,613	$ 119,150
Unrealized gains on bonds	--	87,930
Deferred acquisition costs	47,287	42,583
Unearned premiums	43,319	36,728
Investments	5,284	2,442
Other	2,347	1,189
Total deferred tax liabilities	251,850	290,022
Deferred tax assets:		
Tax and loss bonds	120,971	88,471
Unrealized loss on bonds	118,503	--
Loss reserves	33,339	27,918
Compensation	16,444	12,009
Alternative minimum tax carryforward	13,625	7,001
Amortization and depreciation	1,256	5,406
Other	5,089	3,435
Sub-total deferred tax assets	309,227	144,240
Valuation allowance	--	--
Total deferred tax assets	309,227	144,240
Net deferred tax assets (liabilities)	$ 57,377	$(145,782)

The Company believes that no valuation allowance is necessary in connection with the deferred tax assets.

10 EMPLOYEE BENEFITS

PENSIONS: The Company has a defined benefit pension plan covering substantially all employees of the Company. The benefits are based on years of service and the employee's highest salary during five consecutive years of employment within the last ten years of employment. The Company's funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service-to-date, but also for those expected to be earned in the future.

The table below sets forth a reconciliation of the beginning and ending projected benefit obligation, beginning and ending balances of the fair value of plan assets, and the funded status of the plan as of December 31, 1999 and 1998.

	1999	1998
CHANGE IN PROJECTED BENEFIT OBLIGATION:		
Projected benefit obligation at beginning of year	$12,433	$ 9,374
Service cost	979	691
Interest cost	783	684
Amendments	--	116
Actuarial (gain) loss	(2,702)	1,843
Benefits paid	(292)	(275)
Projected benefit obligation at end of year	$11,201	$12,433
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	$10,934	$ 9,644
Actual return on plan assets	1,679	1,595
Company contributions	520	--
Benefits paid	(292)	(275)
Expenses paid	--	(30)
Fair value of plan assets at end of year	$12,841	$10,934
Funded status	$ 1,640	$(1,499)
Unrecognized net (gain) loss	(2,615)	1,118
Unrecognized prior service cost	(931)	(1,289)
Unrecognized net transition asset	(1)	(4)

Pension liability included in other liabilities	$(1,907)	$(1,674)

Net pension costs for 1999, 1998 and 1997 included the following components:

	1999	1998	1997
Service cost	$ 979	$ 807	$ 723
Interest cost on expected benefit obligation	783	684	601
Expected return on plan assets	(893)	(793)	(701)
Amortization of unrecognized transition asset	(3)	(3)	(3)
Amortization of prior service cost	(151)	(165)	(165)
Recognized net actuarial loss	39	15	33
Net periodic pension cost	$ 754	$ 545	$ 488

The discount rate used in the determination of the actuarial present value for the projected benefit obligation was 7.50% and 6.50% for 1999 and 1998, respectively. The expected long-term rate of return on assets was 9.25% for both 1999 and 1998. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 5.0% for both 1999 and 1998.

Substantially all employees of the Company are covered by a defined contribution plan (the "Savings Incentive Plan"), for which contributions and costs are determined as 6% of each eligible employee's eligible base salary, plus a matching company contribution of 50% on contributions up to 6% of base salary made by eligible employees to the Savings Incentive Plan. The total cost of the Savings Incentive Plan was $2,165, $2,063 and $1,806 in 1999, 1998 and 1997, respectively.

ANNUAL INCENTIVE PROGRAM: The Company has an annual incentive program that provides for awards to key officers and employees based upon predetermined criteria. The cost of the program for the years ended December 31, 1999, 1998 and 1997 amounted to $18,091, $16,095 and $12,038, respectively.

POSTRETIREMENT HEALTH CARE AND OTHER BENEFITS: The Company provides certain medical and life insurance benefits for retired employees and eligible dependents. All plans are contributory. None of the plans are currently funded.

Postretirement benefits expense was $497, $316 and $262 in 1999, 1998 and 1997, respectively. The unfunded accumulated postretirement benefit obligation was $2,897 and the related accrued postretirement liability was $2,315 as of December 31, 1999.

The assumed health care cost trend rates range from 8.0% in 1999, decreasing ratably to 5.5% in 2003, and remaining at that level thereafter. Increasing the assumed health care cost trend rate by one percentage point in each future year would increase the accumulated postretirement benefit obligation at December 31, 1999 by $415 and the 1999 benefit expense by $78. The weighted average discount rate used to measure the accumulated postretirement benefit obligation and 1999 expense was 7.5%.

11 GUARANTEES IN FORCE

The par amount of bonds guaranteed, net of reinsurance, was $240,307,000 and $198,274,000 at December 31, 1999 and 1998, respectively. As of December 31, 1999 and 1998, the guarantee portfolio was diversified by type of insured bond as shown in the following table:

	Net Par Amount Outstanding	
(Dollars in millions)	1999	1998
Municipal finance:		
Lease and tax-backed revenue	$ 40,874	$ 36,929
General obligation	39,777	37,502
Utility revenue	28,867	27,014
Health care revenue	18,628	20,071
Transportation revenue	10,247	7,831
Investor-owned utilities	9,393	8,013
Higher education	9,172	7,720
Housing revenue	7,033	6,445
Student loans	5,474	4,528
Other	3,550	873
Total municipal finance	173,015	156,926
Structured finance:		
Mortgage-backed and home equity	33,294	19,478
Asset-backed and conduits	16,398	12,147
Other	3,270	1,238
Total structured finance	52,962	32,863
International finance:		
Asset-backed and conduits	6,023	3,180
Structured credit derivatives	2,110	--
Utilities	1,188	1,073
Mortgage-backed and home equity	1,172	607
Sovereign/sub-sovereign	1,097	1,027
Other	2,740	2,598
Total international finance	14,330	8,485
	$240,307	$198,274

As of December 31, 1999 and 1998, the international insured portfolio is shown in the following table by location of risk:

	Net Par Amount Outstanding	
(Dollars in millions)	1999	1998
United Kingdom	$ 2,416	$ 2,289
Japan	1,485	675
France	738	692
Australia	722	779
Mexico	569	375
Internationally diversified	5,686	1,621
Other international	2,714	2,054
Total international	$ 14,330	$ 8,485

Internationally diversified includes structured credit derivatives and other guarantees with multiple locations of risk. International business includes all transactions conducted through the MBIA- AMBAC International joint venture. Joint venture transactions may include components of domestic exposure.

Direct financial guarantees in force (principal and interest) was $430,536,000 and $367,801,000 at December 31, 1999 and 1998, respectively. Net financial guarantees in force (after giving effect to reinsurance) was $374,484,000 and $317,668,000 as of December 31, 1999 and 1998, respectively.

In the United States, California was the state with the highest aggregate net par amount in force, accounting for 10.5% of the total at December 31, 1999, and no other state accounted for more than ten percent. The highest single insured risk represented less than 1% of aggregate net par amount insured.

12 FINANCIAL INSTRUMENTS HELD FOR PURPOSES OTHER THAN TRADING

DERIVATIVE FINANCIAL INSTRUMENTS: In the normal course of business, the Company becomes a party to various financial instruments to reduce its exposure to fluctuations in interest rates. These financial instruments include interest rate swaps, exchange traded futures contracts and interest rate option contracts. The notional amounts of these financial instruments were as follows:

As of December 31,	1999	1998
Derivative financial instruments with off-balance sheet risk:		
Interest rate futures contracts	$ --	$5,836,700
Interest rate swaps	46,492	590,468
Other:		
Purchased interest rate options	--	15,000

Notional amounts are often used to express the volume of these transactions and do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk.

As discussed in Note 2, interest rate futures and option contracts held for purposes other than trading are used primarily to hedge interest rate risk inherent in the portfolio of interest-sensitive assets and liabilities. Interest rate swaps held for purposes other than trading are used to manage interest rate risk by synthetically changing the nature of specific assets or liabilities.

Futures contracts are purchased to hedge interest rate risk inherent in fixed rate liabilities. Futures contracts are sold to hedge interest rate risk inherent in fixed rate investment securities. Interest rate option contracts are purchased to hedge interest rate risk inherent in fixed rate assets and liabilities. At December 31, 1999 and 1998, futures and option contracts with an outstanding notional of $0 and $360,700, respectively, were designated as hedges of fixed rate liabilities. Additionally, at December 31, 1999 and 1998, futures and option contracts with an outstanding notional of $0 and $5,491,000, respectively, were designated as hedges of fixed rate investment securities.

Interest rate swaps that require the Company to pay a fixed rate are used primarily to hedge fixed rate investment securities. Interest rate swaps that require the Company to receive a fixed rate are used primarily to hedge fixed rate liabilities. The table below summarizes, for each major type of swap, the weighted average fixed rate paid or received on the respective notional amounts outstanding. Notional amounts are used to calculate the contractual payments to be exchanged.

Maturing after December 31,	2000	2001	2002	2003	2004	Thereafter
Pay fixed swaps:						
Notional amount	$33,570	$ --	$ --	$ --	$ --	$ --
Weighted-average fixed rate	7.51%					
Receive fixed swaps:						
Notional amount	$12,271	$11,602	$10,913	$10,205	$9,477	$19,945
Weighted-average fixed rate	6.46%	6.46%	6.46%	6.46%	6.46%	7.09%
Range of implied floating interest rates	6.78% to 7.00%	7.12% to 7.12%	7.14% to 7.14%	7.16% to 7.16%	7.26% to 7.26%	

The floating rate side of the Company's interest rate swaps is based on several indices, ranging from three-month to one-year LIBOR. The floating rates shown above reflect the range of the implied forward LIBOR yield curve for those indices, as of December 31, 1999.

FAIR VALUES OF FINANCIAL INSTRUMENTS HELD FOR PURPOSES OTHER THAN TRADING: The following fair value amounts were determined by using independent market information when available, and appropriate valuation methodologies when market quotes were not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

INVESTMENTS: The fair values of fixed income investments are based primarily on quoted market prices received from a nationally recognized pricing service or dealer quotes.

SHORT-TERM INVESTMENTS AND CASH: The fair values of short-term investments and cash are assumed to equal amortized cost.

OTHER: The fair value of other investments, primarily preferred stock, is based on an evaluation of the underlying company and recent transactions in such preferred stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share amounts)

SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL: The fair value of securities purchased under agreements to resell is assumed to approximate carrying value.

LOANS: The fair value of loans is assumed to approximate carrying value.

RECEIVABLE/PAYABLE TO BROKERS AND DEALERS: The fair value of receivable/payable to brokers and dealers, representing securities borrowed from various counterparties secured by Company-owned securities, are assumed to approximate carrying value.

DEBENTURES: The fair value of the debentures is based on quoted market prices.

OBLIGATIONS UNDER INVESTMENT, REPURCHASE AND PAYMENT AGREEMENTS: The fair value of the liability for investment agreements and repurchase agreements (including accrued interest) is estimated based upon internal valuation models. The fair value of payment agreements is assumed to approximate carrying value.

DERIVATIVE CONTRACTS: Fair values of derivative contracts (futures, swaps and interest rate options) are based on quoted market and dealer prices, current settlement values, or pricing models.

LIABILITY FOR NET FINANCIAL GUARANTEES WRITTEN: The fair value of the liability for those financial guarantees written where premiums are collected up front is based on the estimated cost to reinsure those exposures at current market rates, which amount consists of the current unearned premium reserve, less an estimated ceding commission thereon.

Certain other financial guarantees have been written on an installment basis, where the future premiums to be received by the Company are determined based on the outstanding exposure at the time the premiums are due. The fair value of Ambac Assurance's liability under its installment premium policies is measured using the present value of estimated future installment premiums, less an estimated ceding commission. The estimate of the amounts and timing of the future installment premiums is based on contractual premium rates, debt service schedules and expected run-off scenarios. This measure is used as an estimate of the cost to reinsure Ambac Assurance's liability under these policies.

The carrying amount and estimated fair value of financial instruments held for purposes other than trading are presented below:

As of December 31,	1999		1998	
(Dollars in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS:				
Fixed income securities	$8,738	$ 8,738	$ 8,622	$ 8,622
Short-term investments	221	221	120	120
Other Investments	3	3	7	7
Cash	14	14	8	8
Securities purchased under agreements to resell	103	103	252	252
Loans	685	685	674	674
Receivable from brokers and dealers	717	717	750	750
FINANCIAL LIABILITIES:				
Debentures	424	403	424	476
Obligations under investment, repurchase and payment agreements (including accrued interest)	6,231	6,037	6,046	5,959
Payable to brokers and dealers	717	717	750	750
DERIVATIVE FINANCIAL INSTRUMENTS:				
Interest rate futures contracts	--	--	(4)	--
Interest rate swaps	(1)	(2)	(22)	(20)
Interest rate option contracts	--	--	--	--
LIABILITY FOR FINANCIAL GUARANTEES WRITTEN:				
Gross (up-front)	1,431	1,002	1,294	906
Net of reinsurance (up-front)	1,213	849	1,094	766
Gross installment premiums	--	454	--	248
Net installment premiums	--	369	--	216

13 FINANCIAL INSTRUMENTS CLASSIFIED AS HELD FOR TRADING PURPOSES

AFSLP is a provider of interest rate swaps to states, municipalities and their authorities and other entities in connection with their financings. If actual or projected tax-exempt interest rates change in relation to taxable interest rates, the Company will experience an unrealized mark-to-market gain or loss. The AFSLP swap portfolio is classified as held for trading purposes.

ACP enters into structured credit derivative transactions. These structured credit derivatives require ACP to make payments upon the occurrence of certain defined credit events relating to an underlying obligation (generally a fixed income security). If credit spreads of the underlying obligations change, the market value of the related structured credit derivative could change. As such, ACP could experience an unrealized mark-to-market gain or loss. Market liquidity could also impact valuations. Changes in credit spreads are generally caused by changes in the market's perception of the credit quality of the underlying obligations. The majority of ACP's contracts are partially hedged with various financial institutions or structured with first loss protection. Such structuring mitigates ACP's risk of loss and the price volatility of these financial instruments. The ACP credit derivative portfolio is classified as held for trading purposes.

The following table summarizes information about the Company's financial instruments classified as held for trading purposes as of December 31, 1999 and 1998:

	Net Estimated Fair Value		Average Net Fair Value		Notional
	Assets	Liabilities	Assets	Liabilities	Amount
1999:					
Derivative financial instruments:					
Interest rate swaps	$177,192	$129,773	$134,991	$ 96,526	$6,260,740
Structured credit derivatives	27,704	27,438	13,572	13,069	6,315,954
Futures contracts	--	--	--	--	751,700
Other financial instruments	--	--	--	--	--
1998:					
Derivative financial instruments:					
Interest rate swaps	$200,454	$163,043	$130,984	$103,414	$5,357,450
Structured credit derivatives	--	--	--	--	--
Futures contracts	--	--	--	--	706,700
Other financial instruments	--	--	183,682	181,698	--

Financial instruments classified as held for trading purposes are carried at estimated fair value. The aggregate amount of revenue recognized from derivative financial instruments classified as held for trading purposes was $20,301, $705 and $7,454 for 1999, 1998 and 1997, respectively. Other financial instruments held for trading purposes consists of fixed income securities held in 1997 and sold during 1998. The aggregate amount of revenue recognized from other financial instruments was $2,967 and $1,309 in 1998 and 1997, respectively. Average net fair values were calculated based on average monthly net fair values. Notional principal amounts are often used to express the volume of these transactions and do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk.

14 LONG-TERM DEBT AND LINES OF CREDIT

The carrying value of long-term debt was as follows:

As of December 31,	1999	1998
9 3/8% Debentures, due 2011	$149,480	$149,434
7 1/2% Debentures, due 2023	74,515	74,495
7.08% Debentures, due 2098	200,000	200,000
	$423,995	$423,929

Debentures due on August 1, 2011 were issued on August 8, 1991 in the principal amount of $150,000 and bear interest of 9 3/8%, payable on February 1 and August 1 of each year and are non-callable.

Debentures due on May 1, 2023 were issued on May 11, 1993 in the principal amount of $75,000 and bear interest of 7 1/2%, payable on May 1 and November 1 of each year and are non-callable.

Debentures due on March 31, 2098 were issued on April 1, 1998 in the principal amount of $200,000 and bear interest of 7.08%, payable on March 31, June 30, September 30 and December 31 of each year. The debentures may not be redeemed prior to March 31, 2003 and were sold at 100% of their principal amount. On or after March 31, 2003, the Company may redeem the debentures, in whole at any time or in part from time to time, at 100% of their principal amount, plus accrued interest to the date of redemption.

The Company and Ambac Assurance have a revolving credit facility with three major international banks for $150,000, which expires in August 2000 and provides a two-year term loan provision. The facility is available for general corporate purposes, including the payment of claims. As of December 31, 1999 and 1998, no amounts were outstanding under this credit facility.

Ambac Assurance maintains third party capital support in the form of a seven-year irrevocable limited recourse credit facility from a group of highly-rated banks. This credit facility provides liquidity to Ambac Assurance in the event claims from municipal obligations in its insured portfolio exceed specified levels. Repayments of amounts drawn under the credit facility are limited primarily to the amount of any recoveries of losses related to municipal policy obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share amounts)

During 1999, such third party capital support was increased from $555,000 to $750,000, and its expiration reset to December 2006. As of December 31, 1999 and 1998, no amounts were outstanding under this credit facility.

ACP has a revolving credit facility with one major international bank for $50,000, which expires in June 2000, and provides for three-year term loans. The facility is available to ACP for general corporate purposes, including the settlement of transactions related to credit derivative instruments. The credit facility became effective on July 1, 1999. As of December 31, 1999, no amounts were outstanding under this credit facility.

15 OBLIGATIONS UNDER INVESTMENT AGREEMENTS AND PAYMENT AGREEMENTS

Obligations under investment agreements, including those structured in the form of repurchase contracts, are recorded on a trade-date basis. Certain obligations may be called at various times prior to maturity at the option of the counterparty. As of December 31, 1999 and 1998, the interest rates on these agreements ranged from 4.00% to 8.14%. As of December 31, 1999 and 1998, the average yield on these agreements was 5.51% and 5.70%, respectively. Obligations under investment agreements and investment repurchase agreements as of December 31, 1999 and 1998 were as follows:

As of December 31,	1999	1998
Settled	$5,408,848	$5,209,690
Unsettled	45,918	73,142
	$5,454,766	$5,282,832

Net payments due under settled investment agreements in each of the next five years ending December 31, and the periods thereafter, based on expected draw dates, are as follows:

	Principal Amount
2000	$2,457,817
2001	1,384,598
2002	483,254
2003	69,164
2004	40,466
All later years	973,549
	$5,408,848

Obligations under payment agreements represent funds received by the Company from certain customers. These funds serve as collateral for loans extended by the Company in connection with certain structured transactions. In connection with these transactions, the Company is obligated to make periodic agreed upon payments. As of December 31, 1999 and 1998, the interest rates on these obligations ranged from 6.25% to 8.42%. Net (deposits)/payments due under payment agreements in each of the next five years ending December 31, and the periods thereafter, based on contractual payment dates, are as follows:

	Principal Amount
2000	$ (9,761)
2001	(175)
2002	7,525
2003	15,702
2004	23,566
All later years	648,631
	$ 685,488

16 COMMON STOCK INCENTIVES

The Ambac 1997 Equity Plan (the "Equity Plan") provides for the granting of stock options, stock appreciation rights, restricted stock units, performance units and other awards that are valued or determined by reference to the Common Stock. Stock options awarded to employees are exercisable and expire as specified at the time of grant. Additionally, such options generally may not have a per share exercise price less than the fair market value of a share of Common Stock on the date of grant or have a term in excess of ten years from the date of the grant. The Company also maintains the Ambac 1997 Non-Employee Directors Equity Plan (the "Directors Plan"), which provides awards of stock options and restricted stock units to non-employee members of the Company's Board of Directors. The number of options and their exercise price, and the number of restricted stock units, awarded to each non-employee director under the Directors Plan are determined by formula. As of December 31, 1999, approximately 5,373,000 shares were available for future grant under the Equity Plan and the Directors Plan. A summary of option activity is as follows:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,389,364	$31.34	3,917,693	$22.15	4,248,642	$19.37
Granted	879,815	$54.92	969,698	$47.66	859,800	$33.59
Exercised	(527,966)	$25.10	(1,332,729)	$15.78	(898,942)	$19.05
Forfeited	(80,736)	$47.78	(165,298)	$34.46	(291,807)	$24.99
Outstanding at end of year	3,660,477	$37.49	3,389,364	$31.34	3,917,693	$22.15
Exercisable	2,126,910		1,819,872		2,392,853	

Range of Exercise Price	Options Outstanding: Number Outstanding at December 31, 1999	Weighted Average Remaining Contract Life	Weighted Average Exercise Price	Options Exercisable: Number Exercisable at December 31, 1999	Weighted Average Exercise Price
$10 to 25	1,332,120	4.4	$22.07	1,332,120	$22.07
$26 to 45	1,309,838	4.5	$39.72	652,028	$37.67
$46 to 65	1,018,519	5.6	$54.78	142,762	$55.18
	3,660,477			2,126,910	

The Company applies APB 25 and related interpretations in accounting for its plans. Accordingly, since the fair value of the options at grant date equals the exercise price, no compensation cost has been recognized for its fixed stock option plan. Had compensation cost for the Company's stock-based compensation plan been determined consistent with FAS 123, the Company's net income, earnings per share and earnings per diluted share for the years ended December 31, 1999, 1998 and 1997, would have been reduced to the pro-forma amounts indicated below:

	1999	1998	1997
Net Income:			
As reported	$307,917	$253,994	$223,030
Pro-forma	$300,410	$248,089	$218,852
Earnings per share:			
As reported	$ 4.40	$ 3.63	$ 3.19
Pro-forma	$ 4.30	$ 3.55	$ 3.13
Earnings per diluted share:			
As reported	$ 4.31	$ 3.56	$ 3.13
Pro-forma	$ 4.21	$ 3.48	$ 3.07

The weighted-average fair value (determined as of the date of the grants) of options granted in 1999, 1998 and 1997 was $16.87 per share, $13.09 per share, and $9.85 per share, respectively. The fair value of each option grant issued was estimated as of the date of the grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 1999, 1998 and 1997, respectively: (i) dividend yield of 0.74%, 0.85% and 1.08%; (ii) expected volatility of 26.3%, 20.5% and 19.4%; (iii) risk-free interest rates of 4.8%, 5.5% and 6.4%; and (iv) expected lives of approximately 5 years, 5 years and 6 years. The pro-forma amounts disclosed above are not likely to be representative of the effects of reported pro-forma net income for future years because options vest over several years and additional awards are granted each year.

17 SEGMENT INFORMATION

The Company has two reportable segments, as follows: (1) Financial Guarantee, which provides financial guarantees for municipal and structured finance obligations; and (2) Financial Services, which provides investment agreements, interest rate swaps, and investment advisory and cash management services. During the fourth quarter of 1998, the Company discontinued its operations relating to electronic commerce applications for the municipal marketplace. Balances relating to the electronic commerce business are included in the Financial Services segment for the years 1998 and 1997. Total losses before income taxes for the electronic commerce business were $6,946 and $3,557 for the years ended December 31, 1998, and 1997, respectively. Also included for both revenues and income before income taxes for the year ended December 31, 1998 for the Financial Services segment is a $11,548 charge representing the write-off of the investment in Ambac Connect.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies, personnel skill sets and technology.

The accounting policies of the segments are the same as those described in Note 2, "Significant Accounting Policies." Pursuant to insurance and indemnity agreements, Ambac Assurance guarantees the swap and investment agreement obligations of those financial services subsidiaries. Intersegment revenues include the premiums earned under those agreements. Such premiums are accounted for as if they were premiums to third parties, that is, at current market prices.

Information provided below for "Corporate and Other" relates to Ambac Financial Group, Inc. corporate activities. Corporate and other revenue from unaffiliated customers consists primarily of interest income and realized gains or losses from investment securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share amounts)

The following table is a summary of the financial information by reportable segment for the years ended December 31, 1999, 1998 and 1997:

	Financial Guarantee	Financial Services	Corporate and Other	Intersegment Eliminations	Total Consolidated
1999:					
Revenues:					
Unaffiliated customers	$ 474,069	$ 48,545	$ 10,703	$ --	$ 533,317
Intersegment	3,033	(3,574)	52,661	(52,120)	--
Total revenues	$ 477,102	$ 44,971	$ 63,364	$ (52,120)	$ 533,317
Income before income taxes:					
Unaffiliated customers	$ 414,265	$ 22,721	$ (32,328)	$ --	$ 404,658
Intersegment	3,850	(3,595)	52,661	(52,916)	--
Total income before income taxes	$ 418,115	$ 19,126	$ 20,333	$ (52,916)	$ 404,658
Identifiable assets	$ 4,184,010	$ 7,104,825	$ 56,261	$ --	$11,345,096
1998:					
Revenues:					
Unaffiliated customers	$ 408,390	$ 32,414	$ 16,232	$ --	$ 457,036
Intersegment	2,761	(2,819)	48,610	(48,552)	--
Total revenues	$ 411,151	$ 29,595	$ 64,842	$ (48,552)	$ 457,036
Income before income taxes:					
Unaffiliated customers	$ 355,670	$ (3,126)	$ (23,632)	$ --	$ 328,912
Intersegment	2,761	(4,891)	48,610	(46,480)	--
Total income before income taxes	$ 358,431	$ (8,017)	$ 24,978	$ (46,480)	$ 328,912
Identifiable assets	$ 3,825,411	$ 7,128,350	$ 258,550	$ --	$11,212,311
1997:					
Revenues:					
Unaffiliated customers	$ 339,195	$ 34,612	$ 7,955	$ --	$ 381,762
Intersegment	1,857	(194)	44,068	(45,731)	--
Total revenues	$ 341,052	$ 34,418	$ 52,023	$ (45,731)	$ 381,762
Income before income taxes:					
Unaffiliated customers	$ 295,669	$ 6,619	$ (16,292)	$ --	$ 285,996
Intersegment	1,736	(1,031)	44,068	(44,773)	--
Total income before income taxes	$ 297,405	$ 5,588	$ 27,776	$ (44,773)	$ 285,996
Identifiable assets	$ 3,392,333	$ 4,805,517	$ 93,855	$ --	$ 8,291,705

The following table summarizes gross premiums written and net premiums earned included in the financial guarantee segment, by location of risk for the years ended December 31, 1999, 1998 and 1997.

	1999	1998	1997
Gross premiums written:			
United States	$373,523	$297,565	$242,727
United Kingdom	17,587	30,337	16,144
Japan	6,106	3,970	2,349
France	2,546	1,318	2,911
Australia	739	16,166	--
Mexico	11,115	413	132
Internationally diversified	11,971	4,436	1,831
Other international	21,655	6,806	20,069
Total:	$445,242	$361,011	$286,163

	1999	1998	1997
Net premiums earned:			
United States	$234,679	$198,904	$145,988
United Kingdom	3,054	1,754	903
Japan	5,513	1,941	1,175
France	1,132	1,745	2,048
Australia	1,373	686	114
Mexico	4,365	413	132
Internationally diversified	8,154	3,654	1,409
Other international	6,156	3,587	2,231
Total:	$264,426	$212,684	$154,000

Internationally diversified includes guarantees with multiple locations of risk. International business includes all transactions conducted through the MBIA.AMBAC International Joint Venture. Joint venture transactions may include components of domestic exposure.

18 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	First	Second	Third	Fourth	Full Year
1999:					
Gross premiums written	$90,154	$98,708	$106,841	$149,539	$445,242
Net premiums written	85,068	82,250	94,945	121,134	383,397
Net premiums earned	60,297	63,944	68,325	71,860	264,426
Net investment income	49,484	51,296	52,946	55,558	209,284
Financial services net revenue	12,712	13,138	12,097	13,722	51,669
Losses and loss adjustment expenses	2,500	2,500	3,000	3,000	11,000
Financial guarantee underwriting and operating expenses	11,917	11,872	11,976	13,039	48,804
Financial services expenses	6,917	6,779	6,174	5,894	25,824
Income before income taxes	95,951	91,985	105,383	111,339	404,658
Net income	73,194	70,969	79,802	83,952	307,917
Net income per share	1.05	1.02	1.14	1.20	4.40
Net income per diluted share	$ 1.03	$ 1.00	$ 1.12	$ 1.18	$ 4.31
1998:					
Gross premiums written	$77,487	$88,042	$ 88,731	$106,751	$361,011
Net premiums written	51,400	77,994	83,967	98,087	311,448
Net premiums earned	53,184	53,318	50,143	56,039	212,684
Net investment income	45,040	45,872	47,436	47,842	186,190
Financial services net revenue	12,754	12,732	13,541	10,483	49,510
Losses and loss adjustment expenses	1,577	1,423	1,500	1,500	6,000
Financial guarantee underwriting and operating expenses	12,018	11,190	11,844	11,668	46,720
Financial services expenses	7,443	8,603	8,237	11,257	35,540
Income before income taxes	86,197	78,513	85,199	79,003	328,912
Net income	65,658	60,796	65,382	62,158	253,994
Net income per share	0.94	0.87	0.94	0.89	3.63
Net income per diluted share	$ 0.92	$ 0.85	$ 0.92	$ 0.87	$ 3.56

STOCKHOLDER INFORMATION

CORPORATE HEADQUARTERS:
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fax 212-509-9190

OTHER LOCATIONS:
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Minato-ku
Tokyo 105 6016, Japan
8135 403 4625

ANNUAL MEETING OF STOCKHOLDERS
The Annual Meeting of Stockholders of Ambac Financial Group, Inc. will be held on Wednesday, May 10, 2000, at 11:30 a.m. in New York City. Detailed information about the meeting is contained in the Notice of Annual Meeting and Proxy Statement to be sent to each stockholder of record as of March 20, 2000. The Company estimates that is has approximately 34,000 stockholders.

FORM 10-K
A copy of the Company's 1999 Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Securities and Exchange Commission, may be obtained without charge by writing to:
Ambac Financial Group, Inc.,
Attn: Investor Relations
One State Street Plaza
New York, New York 10004

TRANSFER AGENT, REGISTRAR AND DIVIDEND PAYING AGENT
Citibank, N.A.
111 Wall Street, 5th Floor
New York, New York 10043
212-657-5997

INDEPENDENT AUDITORS
KPMG LLP
New York, New York

STOCK LISTING
Ambac Financial Group, Inc. common stock is listed on the New York Stock Exchange under the ticker symbol ABK.

INVESTOR RELATIONS
Frank J. Bivona
Executive Vice President and Chief Financial Officer

Brian S. Moore
Managing Director
212-208-3333
1-800-221-1854
bmoore@ambac.com

COMMON STOCK DATA

The table below shows the high and low price per share for each quarter of 1999 and 1998.

	1999 Market Price				1998 Market Price			
Three Months Ended	High	Low	Close	Dividends Per Share	High	Low	Close	Dividends Per Share
March 31	$ 62 1/8	$ 52 3/4	$ 54	$0.1000	$ 58 9/16	$ 44 3/8	$ 58 7/16	$0.0900
June 30	61 11/16	50	57 1/8	0.1000	61	53 1/2	58 1/2	0.0900
September 30	59 3/8	45 13/16	47 3/8	0.1100	65 15/16	45 9/16	48	0.1000
December 31	63	44 11/16	52 3/16	0.1100	62 3/8	40 7/8	60 3/16	0.1000

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EXHIBIT 21.01

List of Subsidiaries of Ambac Financial Group, Inc.

The following is a list of significant and other subsidiaries of Ambac Financial Group, Inc. The state of incorporation of each subsidiary is included in parentheses after its name.

Ambac Assurance Corporation (Wisconsin)

Ambac Capital Corporation (Delaware)

Ambac Investments, Inc. (Delaware)

Ambac Financial Services Holdings, Inc. (Delaware)
Ambac Financial Services, L.P. (Delaware)
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(Exhibit 24.01)

AMBAC FINANCIAL GROUP, INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director and officer of Ambac Financial Group, Inc., a Delaware corporation, hereby constitutes and appoints each of Frank J. Bivona and Anne G. Gill, as his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission and the New York Stock Exchange, and any and all amendments thereto, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K or amendments thereto, and does hereby grant unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents as of this 23rd day of February, 2000.

/s/ Phillip B. Lassiter

Phillip B. Lassiter

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</DOCUMENT>

(Exhibit 24.02)

AMBAC FINANCIAL GROUP, INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Ambac Financial Group, Inc., a Delaware corporation, hereby constitutes and appoints each of Frank J. Bivona and Anne G. Gill, as his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission and the New York Stock Exchange, and any and all amendments thereto, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K or amendments thereto, and does hereby grant unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents as of this 23rd day of February, 2000.

/s/ Michael A. Callen

Michael A. Callen

</TEXT>
</DOCUMENT>

(Exhibit 24.03)

AMBAC FINANCIAL GROUP, INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Ambac Financial Group, Inc., a Delaware corporation, hereby constitutes and appoints each of Frank J. Bivona and Anne G. Gill, as his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission and the New York Stock Exchange, and any and all amendments thereto, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K or amendments thereto, and does hereby grant unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents as of this 23rd day of February, 2000.

/s/ Renso L. Caporali

Renso L. Caporali

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(Exhibit 24.04)

AMBAC FINANCIAL GROUP, INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Ambac Financial Group, Inc., a Delaware corporation, hereby constitutes and appoints each of Frank J. Bivona and Anne G. Gill, as his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission and the New York Stock Exchange, and any and all amendments thereto, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K or amendments thereto, and does hereby grant unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents as of this 23rd day of February, 2000.

/s/ Richard Dulude

Richard Dulude

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</DOCUMENT>

(Exhibit 24.05)

AMBAC FINANCIAL GROUP, INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Ambac Financial Group, Inc., a Delaware corporation, hereby constitutes and appoints each of Frank J. Bivona and Anne G. Gill, as his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission and the New York Stock Exchange, and any and all amendments thereto, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K or amendments thereto, and does hereby grant unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents as of this 23rd day of February, 2000.

/s/ W. Grant Gregory

W. Grant Gregory

</TEXT>
</DOCUMENT>

(Exhibit 24.06)

AMBAC FINANCIAL GROUP, INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of Ambac Financial Group, Inc., a Delaware corporation, hereby constitutes and appoints each of Frank J. Bivona and Anne G. Gill, as his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission and the New York Stock Exchange, and any and all amendments thereto, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K or amendments thereto, and does hereby grant unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed these presents as of this 23rd day of February, 2000.

/s/ C. Roderick O'Neil

C. Roderick O'Neil

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EXHIBIT 99.01

AMBAC ASSURANCE CORPORATION AND SUBSIDIARIES
(a wholly-owned subsidiary of Ambac Financial Group, Inc.)

Consolidated Financial Statements

December 31, 1999 and 1998

Independent Auditors' Report

The Board of Directors
Ambac Assurance Corporation:

We have audited the accompanying consolidated balance sheets of Ambac Assurance Corporation and subsidiaries (a wholly-owned subsidiary of Ambac Financial Group, Inc.) as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of Ambac Assurance Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ambac Assurance Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles.

/s/ KPMG LLP
New York, New York
January 21, 2000

AMBAC ASSURANCE CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 1999 and 1998
(Dollars in Thousands Except Share Data)

	1999	1998
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of $3,657,146 in 1999 and $3,097,289 in 1998)	$3,515,969	$3,310,047
Short-term investments, at cost (approximates fair value)	207,121	93,912
Total investments	3,723,090	3,403,959
Cash	6,531	4,895
Securities purchased under agreements to resell	--	5,449
Receivable for securities sold	18,011	12,132
Investment income due and accrued	61,147	54,088
Deferred acquisition costs	135,324	120,619
Reinsurance recoverable	500	3,638
Prepaid reinsurance	217,977	199,920
Other assets	219,231	212,475
Total assets	$4,381,811	$4,017,175
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities:		
Unearned premiums	$1,441,679	$1,303,203
Losses and loss adjustment expenses	121,475	115,794
Ceded reinsurance balances payable	15,028	6,576
Deferred income taxes	27,860	144,565
Current income taxes	33,782	19,984
Accounts payable and other liabilities	233,127	226,950
Payable for securities purchased	93,149	33,758
Total liabilities	1,966,100	1,850,830
Stockholder's equity:		
Preferred stock, par value $1,000 per share; authorized shares -- 285,000; issued and outstanding shares -- none	--	--
Common stock, par value $2.50 per share; authorized shares -- 40,000,000; issued and outstanding shares -- 32,800,000 at December 31, 1999 and December 31, 1998	82,000	82,000
Additional paid-in capital	751,522	541,021
Accumulated other comprehensive (loss) income	(92,049)	138,651
Retained earnings	1,674,238	1,404,673
Total stockholder's equity	2,415,711	2,166,345
Total liabilities and stockholder's equity	$4,381,811	$4,017,175

See accompanying Notes to Consolidated Financial Statements.

AMBAC ASSURANCE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollars in Thousands)

	Years Ended December 31,		
	1999	1998	1997
Revenues:			
Gross premiums written	$449,786	$366,791	$289,383
Ceded premiums written	(61,845)	(49,563)	(32,452)
Net premiums written	$387,941	$317,228	$256,931
Net premiums earned	$267,356	$215,023	$155,668
Net fees earned and other income	21,907	25,399	16,661
Net investment income	209,686	186,259	160,088
Net realized (losses) gains	(5,675)	(12,346)	18,798
Total revenues	493,274	414,335	351,215
Expenses:			
Losses and loss adjustment expenses	11,000	6,000	2,854
Underwriting and operating expenses	54,930	51,000	46,769
Interest expense	3,055	3,039	2,293
Total expenses	68,985	60,039	51,916
Income before income taxes	424,289	354,296	299,299
Income tax expense:			
Current taxes	95,552	71,395	55,492
Deferred taxes	7,172	9,550	11,702
Total income taxes	102,724	80,945	67,194
Net income	$321,565	$273,351	$232,105

See accompanying Notes to Consolidated Financial Statements.

AMBAC ASSURANCE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholder's Equity
(Dollars in Thousands)

	Years Ended December 31,					
	1999		1998		1997	
Retained Earnings:						
Balance at January 1	$1,404,673		$1,179,322		$ 991,815	
Net income	321,565	$ 321,565	273,351	$273,351	232,105	$232,105
Dividends declared - common stock	(52,000)		(48,000)		(44,000)	
Other	--		--		(598)	
Balance at December 31	$1,674,238		$1,404,673		$1,179,322	
Accumulated Other Comprehensive (Loss) Income:						
Balance at January 1	$ 138,651		$ 118,119		$ 65,822	
Unrealized (losses) gains on securities, ($353,935), $31,278, and $80,215, pre-tax, in 1999, 1998 and 1997, respectively) (1)		(230,058)		20,331		52,140
Foreign currency (loss) gain		(642)		201		157
Other comprehensive (loss) income	(230,700)	(230,700)	20,532	20,532	52,297	52,297
Total comprehensive income		$ 90,865		$293,883		$284,402
Balance at December 31	($ 92,049)		$ 138,651		$ 118,119	
Common Stock:						
Balance at January 1 and December 31	$ 82,000		$ 82,000		$ 82,000	
Additional Paid-in Capital:						
Balance at January 1	$ 541,021		$ 521,153		$ 515,684	
Capital contribution	209,012		9,000		1,475	
Exercise of stock options	1,489		10,868		3,994	
Balance at December 31	$ 751,522		$ 541,021		$ 521,153	
Total Stockholder's Equity at December 31	$2,415,711		$2,166,345		$1,900,594	

(1) Disclosure of reclassification amount:	1999	1998	1997
Unrealized holding (losses) gains arising during period	($ 233,747)	$22,758	$63,182
Less: reclassification adjustment for net (losses) gains included in net income	(3,689)	2,427	11,042
Net unrealized (losses) gains on securities	($ 230,058)	$20,331	$52,140

See accompanying Notes to Consolidated Financial Statements.

Ambac Assurance Corporation And Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Years Ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 321,565	$ 273,351	$ 232,105
Adjustments to reconcile net income to net cash Provided by operating activities:			
Depreciation and amortization	2,337	1,877	1,689
Amortization of bond premium and discount	(4,552)	(1,733)	(1,084)
Current income taxes	13,798	270	18,240
Deferred income taxes	7,172	11,064	11,702
Deferred acquisition costs	(14,705)	(14,623)	(11,784)
Unearned premiums, net	120,419	102,238	101,257
Losses and loss adjustment expenses	8,819	13,030	408
Ceded reinsurance balances payable	8,452	(2,682)	1,303
Loss (gain) on sales of investments	5,675	12,346	(18,798)
Other, net	7,205	(25,241)	12,315
Net cash provided by operating activities	476,185	369,897	347,353
Cash flows from investing activities:			
Proceeds from sales of bonds	1,235,605	1,127,196	1,346,231
Proceeds from matured bonds	177,870	126,822	115,476
Purchases of bonds	(1,715,372)	(1,616,863)	(1,623,486)
Change in short-term investments	(113,209)	22,993	(25,585)
Securities purchased under agreements to resell	5,449	(2,965)	1,885
Purchase of affiliate, net of cash acquired	--	--	(120,006)
Other, net	(5,192)	(1,472)	(236)
Net cash used in investing activities	(414,849)	(344,289)	(305,721)
Cash flows from financing activities:			
Dividends paid	(52,000)	(48,000)	(44,000)
Capital contribution	--	9,000	--
Short-term financing from affiliates	(7,700)	10,283	5,347
Net cash used in financing activities	(59,700)	(28,717)	(38,653)
Net cash flow	1,636	(3,109)	2,979
Cash at January 1	4,895	8,004	5,025
Cash at December 31	$ 6,531	$ 4,895	$ 8,004
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 77,456	$ 64,618	$ 42,100
Interest expense on intercompany line of credit	$ 661	$ 783	$ 15

Supplemental disclosure of non-cash financing activities:
The Company received capital contributions from its parent company in April 1999 and November 1999, in the form of fixed income securities amounting to $101,479 and $107,533, respectively.

See accompanying Notes to Consolidated Financial Statements.

1 BACKGROUND

Ambac Assurance Corporation ("Ambac Assurance") is a leading guarantor of municipal and structured finance obligations. Ambac Assurance has earned triple-A ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Rating Group, Fitch IBCA, Inc., and Japan Rating and Investment Information, Inc. Financial guarantees underwritten by Ambac Assurance guarantee payment when due of the principal of and interest on the obligation guaranteed. In the case of a monetary default on the guaranteed bond, payments may not be accelerated by the policyholder without Ambac Assurance's consent. As of December 31, 1999, Ambac Assurance's net guarantees in force (principal and interest) were $374,484,000. Ambac Assurance is a wholly owned subsidiary of Ambac Financial Group, Inc. ("AFGI"), a holding company whose subsidiaries provide financial guarantees and financial services to clients in both the public and private sectors around the world.

In December 1997, Ambac Assurance acquired Construction Loan Insurance Corporation ("CLIC"). CLIC's wholly-owned subsidiary, Connie Lee Insurance Company ("Connie Lee"), a triple-A rated financial guarantee insurance company guaranteed bonds primarily for college and hospital infrastructure projects. Ambac Assurance and Connie Lee have arrangements in place to ensure that Connie Lee maintains a level of capital sufficient to support Connie Lee's outstanding obligations and for Connie Lee insured bonds to retain their triple-A rating.

Ambac Assurance serves clients in international markets through its wholly-owned subsidiary Ambac Assurance UK Limited and through its participation in an unincorporated joint venture with MBIA Insurance Corporation ("MBIA"), MBIA.AMBAC International (the "JV Arrangement"). The joint venture was formed with the goal of bringing the combined capital and human resources of the two companies together to more efficiently serve the international market. Under the joint venture arrangement, financial guarantees are issued separately by each of the companies.

Ambac Assurance provides another form of financial guarantee, known as credit derivatives, through its wholly owned subsidiary, Ambac Credit Products L.L.C. ("ACP"). These structured credit derivatives require that ACP make a payment upon the occurrence of certain defined credit events relating to an underlying obligation. Should a credit event occur, ACP would generally pay an amount equivalent to the difference between the par value and market value of the underlying obligation. The majority of ACP's structured credit derivatives have been structured with certain first loss protection.

Ambac Assurance, as the sole limited partner, owns a limited partnership interest representing 90% of the total partnership interests of Ambac Financial Services, L.P. ("AFSLP"), a limited partnership which provides interest rate swaps primarily to states, municipalities and their authorities. The sole general partner of AFSLP, Ambac Financial Services Holdings, Inc., a wholly owned subsidiary of AFGI, owns a general partnership interest representing 10% of the total partnership interest in AFSLP.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared on the basis of U.S. Generally Accepted Accounting Principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting policies of Ambac Assurance and its subsidiaries (sometimes collectively referred to as the "Company") are as described below:

CONSOLIDATION:

The accompanying consolidated financial statements include the accounts of Ambac Assurance and its subsidiaries. All significant intercompany balances have been eliminated.

INVESTMENTS:

The Company's investment portfolio is accounted for on a trade-date basis and consists primarily of investments in fixed income securities that are considered available-for-sale and are carried at fair value. Fair value is based primarily on quotes obtained by the Company from independent market sources. Short-term investments are carried at cost, which approximates fair value. Unrealized gains and losses, net of deferred income taxes, are included as a component of "Accumulated Other Comprehensive (Loss) Income" in stockholder's equity and are computed using amortized cost as the basis. For purposes of computing amortized cost, premiums and discounts are accounted for using the interest method. For bonds purchased at a price below par value, discounts are accreted over the remaining term of the securities. For bonds purchased at a price above par value which have call features, premiums are amortized to the most likely call dates as determined by management. For premium bonds that do not have call features, such premiums are amortized over the remaining terms of the securities. Premiums and discounts on mortgage-backed and asset-backed securities are adjusted for the effects of actual and anticipated prepayments. Realized gains and losses on sales of investments are determined on the basis of specific identification.

SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL:

Securities purchased under agreements to resell are collateralized financing transactions, and are recorded at their contracted resale amounts, plus accrued interest. The Company takes possession of the collateral underlying those agreements and monitors its market value on a daily basis and, when necessary, requires prompt transfer of additional collateral to reflect current market value.

PREMIUM REVENUE RECOGNITION:

Up-front premiums are earned pro-rata over the period of risk. Premiums are allocated to each bond maturity based on par amount and are earned on a straight-line basis over the term of each maturity. Installment premiums are earned over each installment period, generally one year or less. When a new or secondary market issue insured by Ambac Assurance has been refunded or called, the remaining unearned premium (net of refunding credits, if any) is generally earned at that time.

(Dollar Amounts in Thousands)

LOSSES AND LOSS ADJUSTMENT EXPENSES:

The liability for losses and loss adjustment expenses consists of the active credit reserve ("ACR") and case basis loss and loss adjustment expense reserves. The development of the ACR is based upon estimates of the expected annual levels of debt service defaults resulting from credit failures on currently insured issues that are not presently or imminently in monetary default. When losses occur (actual monetary defaults or defaults which are imminent on insured obligations), case basis loss reserves are established in an amount that is sufficient to cover the present value of the anticipated defaulted debt service payments over the expected period of default and estimated expenses associated with settling the claims, less estimated recoveries under salvage or subrogation rights. The case basis loss reserves are discounted at 7% for both 1999 and 1998. All or part of case basis loss reserves are allocated from any ACR available. The following table summarizes the Company's loss reserves split between case basis loss reserves and ACR at December 31, 1999 and 1998:

	1999	1998
Net loss and loss adjustment expense reserves:		
Case basis /(*)/	$ 26,204	$ 33,916
ACR	94,771	78,240
Total	$120,975	$112,156

(*) After netting reinsurance recoverable amounting to $500 and $3,638 in 1999 and 1998, respectively.

Paid losses, net of salvage received, were $2,181, ($7,030) and $2,474 in 1999, 1998 and 1997, respectively.

Ambac Assurance's management believes that the reserves for losses and loss adjustment expenses are adequate to cover the ultimate net cost of claims, but the reserves are necessarily based on estimates, and there can be no guarantee that the ultimate liability will not exceed such estimates.

DEFERRED ACQUISITION COSTS:

Certain costs incurred that vary with, and are primarily related to, the production of business have been deferred. These costs include direct and indirect expenses related to underwriting, marketing and policy issuance, rating agency fees and premium taxes, net of reinsurance ceding commissions. The deferred acquisition costs are being amortized over the periods in which the related premiums are earned, and such amortization amounted to $20,843, $18,248 and $14,213 for 1999, 1998 and 1997, respectively. Deferred acquisition costs, net of such amortization, amounted to $14,705, $14,623 and $11,784 for 1999, 1998 and 1997, respectively.

DEPRECIATION AND AMORTIZATION:

Depreciation of furniture and fixtures and electronic data processing equipment is provided over the estimated useful lives of the respective assets, ranging from three to five years, using the straight-line method. Amortization of leasehold improvements and intangibles, including certain computer software licenses, is provided over the estimated useful lives of the respective assets, ranging from three to 10 years, using the straight-line method.

DERIVATIVE CONTRACTS CLASSIFIED AS HELD FOR TRADING PURPOSES:

The Company, through its affiliate AFSLP, provides interest rate swaps to states, municipalities and their authorities, and other entities in connection with their financings. The Company, through its subsidiary ACP, enters into structured credit derivative transactions with various financial institutions. Interest rate swaps and structured credit derivatives are classified as held for trading purposes. These contracts are recorded on trade date at fair value. Changes in fair value are recorded as a component of net fees earned and other income on the Consolidated Statements of Operations. The fair value of interest rate swaps and structured credit derivatives are determined by broker quotes or valuation models (when broker quotes are not available). Contracts are recorded on the Consolidated Balance Sheets on a gross basis; assets and liabilities are netted by customer only when a legal right of set-off exists. Gross asset and gross liability balances for interest rate swaps and structured credit derivatives are recorded as other assets or other liabilities on the Consolidated Balance Sheets.

INCOME TAXES:

Pursuant to a tax sharing agreement, the Company is included in AFGI's consolidated Federal income tax return. The tax sharing agreement provides for the determination of tax expense or benefit based on the contribution of the Company to AFGI's consolidated Federal income tax liability, computed substantially as if the Company filed a separate Federal income tax return. The tax liability due is settled quarterly, with a final settlement taking place after the filing of the consolidated Federal income tax return. The Company files its own state income tax returns.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS:

AFGI, through its subsidiaries, provides various postretirement and postemployment benefits, including pension, and health and life benefits covering substantially all employees who meet certain age and service requirements. The Company accounts for these benefits under the accrual method of accounting. Amounts related to the defined benefit pension plan and postretirement health benefits are charged based on actuarial determinations.

STOCK COMPENSATION PLANS:

The Company participates in AFGI's equity plan. Under this plan, awards are granted to eligible employees of the Company in the form of incentive stock options or other stock-based awards. Other than the tax benefits derived from this plan, pursuant to the tax sharing agreement, no other recognition is given by the Company.

ACCOUNTING STANDARDS:

In June 1998, the Financial Accounting Standards Board issued FAS Statement 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). FAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. The statement requires all derivatives to be recorded on the balance sheet at fair value and establishes special accounting for the following three different types of hedges: (1) hedges of changes in the fair value of assets, liabilities or firm commitments (fair value hedges); (2) hedges of the variable cash flows of forecasted transactions (cash flow hedges); and (3) hedges of foreign currency exposures of net investments in foreign operations. Though the accounting treatment and criteria for each of the three types of hedges is unique, they all result in recognizing offsetting changes in value or cash flow of both the hedge and the hedged item in earnings in the same period. Changes in the fair value of derivatives that do not meet the criteria of one of these three categories of hedges are included in earnings in the period of the change with no related offset. FAS 133 is effective for years beginning after June 15, 2000, but companies may adopt early. The Company will adopt FAS 133 effective January 1, 2001. The impact of adopting FAS 133 as of December 31, 1999 would have been insignificant to the Company's consolidated financial position and results of operations.

RECLASSIFICATIONS:

Certain reclassifications have been made to prior years' amounts to conform to the current year's presentation.

(Dollar Amounts in Thousands)

3 INVESTMENTS

The amortized cost, gross unrealized gains and losses, and estimated fair value of investments in fixed income securities and short-term investments at December 31, 1999 and 1998 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1999				
Municipal obligations	$3,046,162	$ 40,986	$ 163,618	$2,923,530
Corporate obligations	432,663	8,241	20,403	420,501
U.S. Government obligations	61,620	778	1,481	60,917
Mortgage- and asset-backed securities (includes U.S. Government Agency Obligations)	116,701	546	6,226	111,021
Short-term	207,121	--	--	207,121
	$3,864,267	$ 50,551	$ 191,728	$3,723,090

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1998				
Municipal obligations	$2,592,649	$ 168,481	$ 3,912	$2,757,218
Corporate obligations	275,416	36,292	289	311,419
U.S. Government obligations	130,383	9,203	--	139,586
Mortgage- and asset-backed securities (includes U.S. Government Agency Obligations)	98,841	3,000	17	101,824
Short-term	93,912	--	--	93,912
	$3,191,201	$ 216,976	$ 4,218	$3,403,959

The amortized cost and estimated fair value of fixed income securities and short-term investments at December 31, 1999, by contractual maturity, were as follows:

	Amortized Cost	Estimated Fair Value
1999		
Due in one year or less	$ 266,311	$ 266,309
Due after one year through five years	254,231	262,292
Due after five years through ten years	369,020	370,442
Due after ten years	2,858,004	2,713,026
	3,747,566	3,612,069
Mortgage- and asset-backed securities (includes U.S. Government Agency Obligations)	116,701	111,021
	$3,864,267	$3,723,090

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollar Amounts in Thousands)

Securities carried at $5,442 and $6,191 at December 31, 1999 and 1998 respectively, were deposited by the Company with governmental authorities or designated custodian banks as required by laws affecting insurance companies.

Net investment income of the Company comprised the following:

	1999	1998	1997
Fixed income securities.................................	$202,804	$181,437	$155,810
Short-term investments..................................	8,193	8,208	6,885
Total investment income..............................	210,997	189,645	162,695
Investment expense......................................	(1,311)	(3,386)	(2,607)
Net investment income................................	$209,686	$186,259	$160,088

The Company had gross realized gains of $8,050, $17,186 and $26,950 for 1999, 1998 and 1997, respectively, and gross realized losses of $13,725, $29,532 and $8,152 for 1999, 1998 and 1997, respectively. Gross realized gains and losses in 1998 and 1997 include amounts related to a trading position, which represented a small portion of the Company's assets, containing high quality municipal bonds hedged with Treasury futures. These gains were $2,967 and $1,309 for 1998 and 1997, respectively, and losses of $19,047 and $3,593 for 1998 and 1997, respectively.

As of December 31, 1999 and 1998, the Company held securities subject to agreements to resell for $0 and $5,449, respectively. Such securities were held as collateral by the Company. The agreements had terms of less than 30 days.

4 REINSURANCE

In the ordinary course of business, the Company cedes exposures under various reinsurance contracts primarily designed to minimize losses from large risks and to protect capital and surplus. The effect of reinsurance on premiums written and earned was as follows:

	Year Ended December 31,					
	1999		1998		1997	
	Written	Earned	Written	Earned	Written	Earned
Direct................	$425,213	$291,983	$339,432	$240,791	$281,034	$177,677
Assumed...............	24,573	19,161	27,359	7,367	8,349	3,614
Ceded.................	(61,845)	(43,788)	(49,563)	(33,135)	(32,452)	(25,623)
Net premiums..........	$387,941	$267,356	$317,228	$215,023	$256,931	$155,668

The reinsurance of risk does not relieve the ceding insurer of its original liability to its policyholders. In the event that all or any of the reinsurers are unable to meet their obligations to the Company under the existing reinsurance agreements, the Company would be liable for such defaulted amounts. To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. There were no reinsurance recoverables on paid losses as of December 31, 1999 and 1998. As of December 31, 1999, prepaid reinsurance of approximately $158,597 was associated with the Company's three largest reinsurers. As of December 31, 1999, the Company held letters of credit and collateral amounting to approximately $214,896 from its reinsurers to cover liabilities ceded under the aforementioned reinsurance contracts.

(Dollar Amounts in Thousands)

Premiums assumed from MBIA under the JV Arrangement were $24,503, $18,715 and $8,009 in 1999, 1998 and 1997, respectively. Premiums ceded to MBIA were $27,418, $15,505 and $8,874 in 1999, 1998 and 1997, respectively.

5 COMMITMENTS AND CONTINGENCIES

The Company is responsible for leases on the rental of office space, principally in New York City. The lease agreements, which expire periodically through September 2019, contain provisions for scheduled periodic rent increases and are accounted for as operating leases. An estimate of future net minimum lease payments in each of the next five years ending December 31, and the periods thereafter, is as follows:

	Amount
2000	$ 6,355
2001	5,520
2002	5,437
2003	5,443
2004	5,448
All later years	82,933
	$111,136

Rent expense for the aforementioned leases amounted to $5,298, $5,097 and $4,210 for the years ended December 31, 1999, 1998 and 1997, respectively. Total rentals to be received under future sublease agreements are estimated at $978.

6 INSURANCE REGULATORY RESTRICTIONS

Ambac Assurance is subject to the insurance regulatory requirements of the States of Wisconsin and New York, and the other jurisdictions in which it is licensed to conduct business.

Ambac Assurance's ability to pay dividends is generally restricted by law and subject to approval by the Office of the Commissioner of Insurance of the State of Wisconsin (the "Wisconsin Commissioner"). Wisconsin insurance law restricts the payment of dividends in any 12-month period without regulatory approval to the lesser of (a) 10% of policyholders' surplus as of the preceding December 31 and (b) the greater of (i) statutory net income for the calendar year preceding the date of dividend, minus realized capital gains for that calendar year and (ii) the aggregate of statutory net income for three calendar years preceding the date of the dividend, minus realized capital gains for those calendar years and minus dividends paid or credited within the first two of the three preceding calendar years. Based upon these restrictions, at December 31, 1999, the maximum amount that will be available during 2000 for payment of dividends by Ambac Assurance is approximately $150,000.

Ambac Assurance paid cash dividends of $52,000, $48,000 and $44,000 on its common stock in 1999, 1998 and 1997, respectively.

(Dollar Amounts in Thousands)

The New York Financial Guarantee Insurance Law establishes single risk limits applicable to all obligations issued by a single entity and backed by a single revenue source. Under the limit applicable to municipal bonds, the insured average annual debt service for a single risk, net of reinsurance and collateral, may not exceed 10% of qualified statutory capital, which is defined as the sum of insurer's policyholders' surplus and contingency reserves. In addition, insured principal of municipal bonds attributable to any single risk, net of reinsurance and collateral, is limited to 75% of Ambac Assurance's qualified statutory capital. Additional single risk limits, which generally are more restrictive than the municipal bond single risk limit, are also specified for several other categories of insured obligations.

Statutory capital and surplus differs from stockholder's equity determined under GAAP principally due to statutory accounting rules that treat loss reserves, premiums earned, policy acquisition costs, deferred income taxes and investment carrying values differently.

The following is a reconciliation of consolidated stockholder's equity presented on a GAAP basis for the Company and its consolidated subsidiaries to statutory capital and surplus for Ambac Assurance Corporation:

	For the Years Ended December 31,	
	1999	1998
Ambac Assurance Corporation GAAP stockholder's equity	$2,415,711	$2,166,345
Mandatory contingency reserve	(917,152)	(773,464)
GAAP loss reserves	94,771	78,240
Unearned premium reserve	(267,233)	(234,441)
Deferred acquisition costs	(135,105)	(121,665)
Income taxes	27,860	144,565
Tax and loss bonds	120,971	88,471
Unrealized gains (losses) on investments	138,396	(216,663)
Statutory goodwill, net of amortization	32,850	36,956
Other	(7,766)	(5,705)
Statutory capital and surplus	$1,503,303	$1,162,639

Statutory net income was $262,756, $271,808 and $198,615 for 1999, 1998 and 1997, respectively.

7 INCOME TAXES

The total effect of income taxes on income and stockholder's equity for the years ended December 31, 1999 and 1998 was as follows:

	1999	1998
Total income taxes charged to income	$ 102,724	$ 80,945
Income taxes charged to stockholder's equity:		
Unrealized (losses) gains on bonds	(123,877)	10,947
Exercise of stock options	(1,489)	(10,868)
Total (credited) charged to stockholder's equity	(125,366)	79
Total effect of income taxes	($22,642)	$ 81,024

(Dollar Amounts in Thousands)

The tax provisions in the accompanying consolidated statements of operations reflect effective tax rates differing from prevailing Federal corporate income tax rates. The following is a reconciliation of these differences:

	1999	%	1998	%	1997	%
Computed expected tax at statutory rate...........	$148,501	35.0%	$124,004	35.0%	$104,755	35.0%
Reductions in expected tax resulting from:						
Tax-exempt interest.......	(43,136)	(10.2)	(38,821)	(10.9)	(35,458)	(11.8)
Other, net................	(2,641)	(0.6)	(4,238)	(1.2)	(2,103)	(0.7)
Income tax expense........	$102,724	24.2%	$ 80,945	22.9%	$ 67,194	22.5%

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 1999 and 1998 are presented below:

	1999	1998
Deferred tax liabilities:		
Contingency reserve..	$153,613	$119,150
Unrealized gains on bonds....................................	--	74,465
Deferred acquisition costs...................................	47,287	42,583
Unearned premiums..	43,319	36,572
Other..	5,714	1,248
Total deferred tax liabilities............................	249,933	274,018
Deferred tax assets:		
Tax and loss bonds...	120,971	88,471
Unrealized losses on bonds...................................	49,412	--
Loss reserves..	33,339	27,918
Alternative minimum tax credit carryforward..................	9,896	1,838
Amortization and depreciation................................	1,139	2,778
Compensation...	3,818	4,066
Other..	3,498	4,382
Sub-total deferred tax assets.............................	222,073	129,453
Valuation allowance..	--	--
Total deferred tax assets.................................	222,073	129,453
Net deferred tax liabilities..............................	$ 27,860	$144,565

The Company believes that no valuation allowance is necessary in connection with the deferred tax assets.

(Dollar Amounts in Thousands)

8 EMPLOYEE BENEFITS

Pensions:

AFGI has a defined benefit pension plan covering substantially all employees of the Company. The benefits are based on years of service and the employee's highest salary during five consecutive years of employment within the last ten years of employment. AFGI's funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service-to-date but also for those expected to be earned in the future.

The table below sets forth a reconciliation of AFGI's beginning and ending projected benefit obligation, beginning and ending balances of the fair value of plan assets, and the funded status of AFGI's plan as of December 31, 1999 and 1998:

	1999	1998
Change in Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	$ 12,433	$ 9,374
Service cost	979	691
Interest cost	783	684
Amendments	0	116
Actuarial (gain) loss	(2,702)	1,843
Benefits paid	(292)	(275)
Projected benefit obligation at end of year	$ 11,201	$ 12,433
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 10,934	$ 9,644
Actual return on plan assets	1,679	1,595
AFGI contributions	520	0
Benefits paid	(292)	(275)
Expenses paid	0	(30)
Fair value of plan assets at end of year	$ 12,841	$ 10,934
Funded status	$ 1,640	($ 1,499)
Unrecognized net (gain) loss	(2,615)	1,118
Unrecognized prior service cost	(931)	(1,289)
Unrecognized net transition asset	(1)	(4)
Pension liability included in other liabilities	($ 1,907)	($ 1,674)

AFGI's net pension costs for the years ended December 31, 1999, 1998 and 1997 included the following components:

	1999	1998	1997
Service cost	$ 979	$ 807	$ 723
Interest cost on expected benefit obligation	783	684	601
Expected return on plan assets	(893)	(793)	(701)
Amortization of unrecognized transition asset	(3)	(3)	(3)
Amortization of prior service cost	(151)	(165)	(165)
Recognized net actuarial loss	39	15	33
Net periodic pension cost	$ 754	$ 545	$ 488

Pension expense is allocated to each of AFGI's subsidiaries based on percentage of payroll. Pension expense recorded by the Company amounted to $718, $526 and $431 in 1999, 1998 and 1997, respectively.

The discount rate used in the determination of the actuarial present value for the projected benefit obligation was 7.50% and 6.50% for 1999 and 1998, respectively. The expected long-term rate of return on assets was 9.25% for both 1999 and 1998. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 5.0% for both 1999 and 1998.

Substantially all employees of AFGI and its subsidiaries are covered by a defined contribution plan (the "Savings Incentive Plan"), for which contributions and costs are determined as 6% of each eligible employee's eligible base salary, plus a matching company contribution of 50% on contributions up to 6% of base salary made by eligible employees to the Savings Incentive Plan. The total cost of the Savings Incentive Plan to Ambac Assurance was $1,695, $1,299 and $1,417 in 1999, 1998 and 1997, respectively.

Annual Incentive Program:

AFGI has an annual incentive program that provides for awards to key officers and employees based upon predetermined criteria. The Company's cost of the program for the years ended December 31, 1999, 1998 and 1997 amounted to $16,106, $13,877 and $10,392, respectively.

Postretirement Health Care and Other Benefits:

Ambac Assurance provides certain medical and life insurance benefits for retired employees and eligible dependents. All plans are contributory. None of the plans are currently funded.

The Company's postretirement benefits expense was $456, $275 and $242 in 1999, 1998 and 1997, respectively. AFGI's unfunded accumulated postretirement benefit obligation was $2,897, and the accrued postretirement liability was $2,315 as of December 31, 1999.

The assumed health care cost trend rates range from 8.0% in 1999, decreasing ratably to 5.5% in 2003, and remaining at that level thereafter. Increasing the assumed health care cost trend rate by one percentage point in each future year would increase AFGI's accumulated postretirement benefit obligation at December 31, 1999 by $415 and AFGI's 1999 benefit expense by $78. The weighted average discount rate used to measure the accumulated postretirement benefit obligation and 1999 expense was 7.50%.

9 GUARANTEES IN FORCE

The par amount of bonds guaranteed, for non-affiliates, was $273,080,000 and $227,198,000 at December 31, 1999 and 1998, respectively. The par amount of bonds guaranteed, for non-affiliates, net of reinsurance, was $240,307,000 and $198,274,000 at December 31, 1999 and 1998, respectively. As of December 31, 1999 and 1998, the guarantee portfolio was diversified by type of insured bond as shown in the following table:

	Net Par Amount Outstanding	
(Dollars in Millions)	1999	1998
Municipal finance:		
Lease and tax-backed revenue	$ 40,874	$ 36,929
General obligation	39,777	37,502
Utility revenue	28,867	27,014
Health care revenue	18,628	20,071
Transportation revenue	10,247	7,831
Investor-owned utilities	9,393	8,013
Higher education	9,172	7,720
Housing revenue	7,033	6,445
Student loans	5,474	4,528
Other	3,550	873
Total municipal finance	173,015	156,926
Structured finance:		
Mortgage-backed and home equity	33,294	19,478
Asset-backed and conduits	16,398	12,147
Other	3,270	1,238
Total structured finance	52,962	32,863
International finance:		
Asset-backed and conduits	6,023	3,180
Structured credit derivatives	2,110	0
Utilities	1,188	1,073
Mortgage-backed and home equity	1,172	607
Sovereign/sub-sovereign	1,097	1,027
Other	2,740	2,598
Total international finance	14,330	8,485
	$240,307	$198,274

As of December 31, 1999 and 1998, the international guarantee portfolio is shown in the following table by location of risk:

	Net Par Amount Outstanding	
(Dollars in Millions)	1999	1998
United Kingdom	$ 2,416	$2,289
Japan	1,485	675
France	738	692
Australia	722	779
Mexico	569	375
Internationally diversified	5,686	1,621
Other international	2,714	2,054
	$14,330	$8,485

Internationally diversified includes structured credit derivatives and other guarantees with multiple locations of risk. International business includes all transactions conducted through the JV Arrangement. Joint venture transactions may include components of domestic exposure.

Gross financial guarantees in force (principal and interest) were $430,536,000 and $367,801,000 at December 31, 1999 and 1998, respectively. Net financial guarantees in force (after giving effect to reinsurance) were $374,484,000 and $317,668,000 as of December 31, 1999 and 1998, respectively.

In the United States, California was the state with the highest aggregate net par amount in force, accounting for 10.5% of the total at December 31, 1999, and no other state accounted for more than ten percent. The highest single insured risk represented less than 1% of aggregate net par amount insured.

10 FINANCIAL INSTRUMENTS HELD FOR PURPOSES OTHER THAN TRADING

Fair value amounts were determined by using independent market information when available, and appropriate valuation methodologies when market quotes were not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Investments: The fair values of fixed income investments are based primarily on quoted market prices received from a nationally recognized pricing service or dealer quotes.

Short-term investments and cash: The fair values of short-term investments and cash are assumed to equal amortized cost.

Securities purchased under agreements to resell: The fair value of securities purchased under agreements to resell is assumed to approximate carrying value.

Liability for net financial guarantees written: The fair value of the liability for those financial guarantees written where premiums are collected upfront, is based on the estimated cost to reinsure those exposures at current market rates, which amount consists of the current unearned premium reserve, less an estimated ceding commission thereon.

Certain other financial guarantee insurance policies have been written on an installment basis, where the future premiums to be received by the Company are determined based on the outstanding exposure at the time the premiums are due. The fair value of Ambac Assurance's liability under its installment premium policies is measured using the present value of estimated future installment premiums, less an assumed ceding commission. The estimate of the amounts and timing of the future installment premiums is based on contractual premium rates, debt service schedules and expected run-off scenarios. This measure is used as an estimate of the cost to reinsure Ambac Assurance's liability under these policies.

The carrying amount and estimated fair value of financial instruments are presented below:

	As of December 31,			
	1999		1998	
(Dollars in Millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Fixed income securities...............	$3,516	$3,516	$3,310	$3,310
Short-term investments................	207	207	94	94
Cash..................................	7	7	5	5
Securities purchased under agreements to resell............................	--	--	5	5
Liability for financial guarantees written:				
Gross (up-front)....................	1,442	1,009	1,303	912
Net (up-front).....................	1,224	857	1,103	772
Gross installment premiums..........	--	454	--	248
Net installment premiums............	--	369	--	216

11 FINANCIAL INSTRUMENTS CLASSIFIED AS HELD FOR TRADING PURPOSES

The Company, through its affiliate AFSLP, is a provider of interest rate swaps to states, municipalities and their authorities and other entities in connection with their financings. AFSLP is subject to basis risk (the relationship between tax-exempt and taxable interest rates). If actual or projected tax-exempt interest rates change in relation to taxable rates, the Company will experience an unrealized mark-to-market gain or loss. The AFSLP swap portfolio is classified as held for trading purposes.

ACP enters into structured credit derivative transactions. These structured credit derivatives require ACP to make payments upon the occurrence of certain defined credit events relating to an underlying obligation (generally a fixed income security). If credit spreads of the underlying obligations change, the market value of the related structured credit derivative could change. As such, ACP could experience an unrealized mark-to-market gain or loss. Market liquidity could also impact valuations. Changes in credit spreads are generally caused by changes in the market's perception of the credit quality of the underlying obligations. The majority of ACP's contracts are partially hedged with various financial institutions or structured with first loss protection provided by the counterparty. Such structuring mitigates ACP's risk of loss and the price volatility of these financial instruments. The ACP credit derivative portfolio is classified as held for trading purposes.

(Dollar Amounts in Thousands)

The following table summarizes information about the Company's financial instruments held for trading purposes as of December 31, 1999 and 1998:

	Net Estimated Fair Value		Average Net Fair Value		
	Assets	Liabilities	Assets	Liabilities	Notional Amount
1999:					
Derivative financial instruments:					
Interest rate swaps............	$177,369	$129,695	$136,008	$ 96,509	$6,321,400
Structured credit derivatives	27,704	27,438	13,572	13,069	6,315,954
Futures contracts..............	--	--	--	--	751,700
Other financial instruments.....	--	--	--	--	--
1998:					
Derivative financial instruments:					
Interest rate swaps............	$203,021	$163,140	$134,394	$103,739	$5,857,170
Structured credit derivatives	--	--	--	--	--
Futures contracts..............	--	--	--	--	706,700
Other financial instruments.....	--	--	183,682	181,698	--

Financial instruments held for trading purposes are carried at estimated fair value. The aggregate amount of net trading income recognized from derivative financial instruments held for trading purposes was $20,301, $825 and $8,560 for 1999, 1998 and 1997, respectively. Other financial instruments held for trading purposes consist of fixed income securities held in 1997 and sold during 1998. The aggregate amount of net trading income recognized from other financial instruments was $2,967 and $1,309 in 1998 and 1997, respectively. Average net fair values were calculated based on average monthly net fair values. Notional principal amounts are often used to express the volume of these transactions and do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk.

12 LINES OF CREDIT

AFGI and Ambac Assurance have a revolving credit facility with three major international banks for $150,000, which expires in August 2000 and provides a two-year term loan provision. The facility is available for general corporate purposes, including the payment of claims. As of December 31, 1999 and 1998, no amounts were outstanding under this credit facility.

Ambac Assurance maintains third-party capital support in the form of a seven-year irrevocable limited recourse credit facility from a group of highly-rated banks. This credit facility provides liquidity to Ambac Assurance in the event claims from municipal obligations in its insured portfolio exceed specified levels. Repayments of amounts drawn under the credit facility are limited primarily to the amount of any recoveries of losses related to municipal policy obligations. During 1999, such third-party capital support was increased from $555,000 to $750,000 and its expiration reset to December 2006. As of December 31, 1999 and 1998, no amounts were outstanding under this credit facility.

ACP has a revolving credit facility with one major international bank for $50,000, which expires in June 2000, and provides for three-year term loans. The facility is available to ACP for general corporate purposes, including the settlement of transactions related to credit derivative instruments. The credit facility became effective on July 1, 1999. As of December 31, 1999, no amounts were outstanding under this credit facility.

13 RELATED PARTY TRANSACTIONS

During 1999 and 1998, Ambac Assurance guaranteed the timely payment of principal and interest on obligations under investment agreements and investment repurchase agreements issued by its affiliates. As of December 31, 1999 and 1998, the aggregate amount of investment agreements and investment repurchase agreements insured was $5,503,818 and $5,331,820, respectively, including accrued interest. These guarantees are collateralized by investment securities, accrued interest receivable, securities purchased under agreements to resell and cash and cash equivalents, which as of December 31, 1999 and 1998, had a fair value of $5,358,300 and $5,387,493, respectively, in the aggregate. During 1999 and 1998, Ambac Assurance recorded gross premiums written of $4,463 and $5,598, and net premiums earned of $2,850 and $2,156, respectively, related to these agreements.

During 1998, several interest rate swap transactions were executed between AFSLP and its affiliates (other than Ambac Assurance), while during 1999 there were none. As of December 31, 1999 and 1998, these contracts had an outstanding notional amount of approximately $60,660 and $499,720, respectively. As of December 31, 1999 and 1998, AFSLP recorded a positive fair value of $888 and $4,571, respectively, related to these transactions.

AFSLP has a $25 million line of credit with AFGI. The line is available through August 1, 2000. The purpose of this line is to fund short-term liquidity needs of AFSLP's operations. Interest on borrowings is payable at rates which vary according to the terms. Outstanding borrowings under the line were $7,930 and $15,630 as of December 31, 1999 and 1998, respectively.

14 YEAR 2000

To date the Company has had no disruptions with its internal computer systems as a result of what is commonly known as the Y2K problem. Although the Company had been running tests on its critical systems throughout 1999, a final live test occurred on January 1, 2000. The results of that test indicated that the Company's internal computer systems, and the normal business activities and operations that depend on them have not been adversely impacted by Y2K sensitive dates.

Although the Company does not expect issuers of Ambac-guaranteed obligations to experience significant disruptions due to Y2K, it may take a considerable amount of time before a full assessment can be made of how each issuer fared.

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