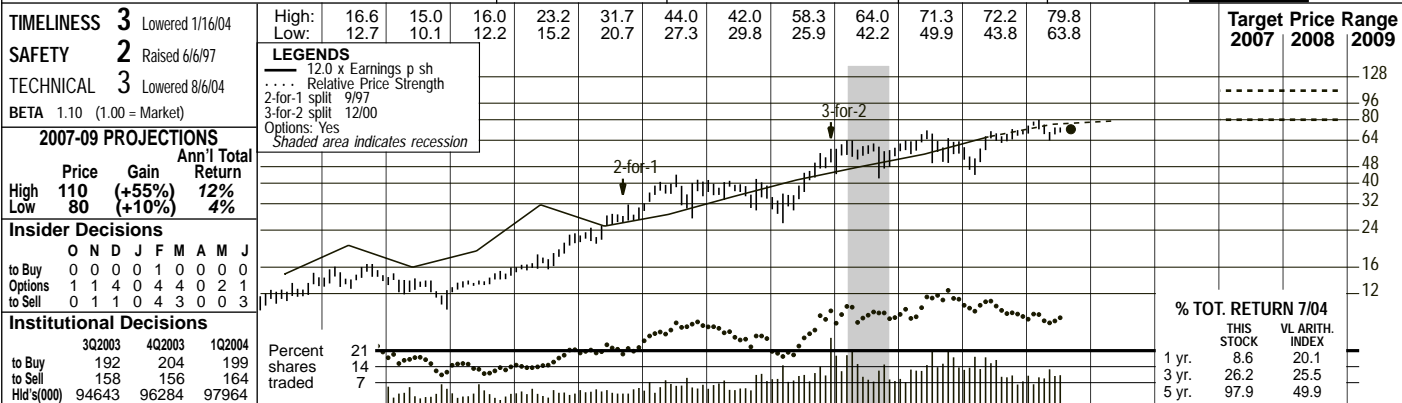


AMBAC FIN'L GROUP NYSE-ABK

RECENT PRICE **72.00** P/E RATIO **11.3** (Trailing: 12.3 Median: 12.0) RELATIVE P/E RATIO **0.65** DIV'D YLD **0.7%** VALUE LINE



TIMELINESS 3 Lowered 1/16/04
SAFETY 2 Raised 6/6/97
TECHNICAL 3 Lowered 8/6/04
BETA 1.10 (1.00 = Market)

2007-09 PROJECTIONS

Price	110	Gain	(+55%)	Ann'l Total Return	12%
High	80	Low	(+10%)	Gain	4%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	1	0	0	0	0
Options	1	1	4	0	4	4	0	2	1
to Sell	0	1	1	0	4	3	0	0	3

Institutional Decisions

	3Q2003	4Q2003	1Q2004
to Buy	192	204	199
to Sell	158	156	164
Hld's(000)	94643	96284	97964

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB, INC.	07-09
Premium Inc per sh ^B	1.12	1.06	1.30	1.47	2.01	2.52	2.95	3.57	4.45	5.79	6.30	6.55	Premium Inc per sh ^B	7.85
Investment Inc per sh	1.11	1.25	1.38	1.52	1.76	1.99	2.28	2.53	2.81	3.00	3.10	3.30	Investment Inc per sh	4.05
Earnings per sh ^{AB}	1.34	1.59	2.63	2.09	2.37	2.87	3.46	4.00	4.59	5.53	6.35	6.60	Earnings per sh ^{AB}	8.00
Div'ds Decl'd per sh ^C	.17	.19	.21	.23	.25	.28	.31	.34	.38	.42	.47	.51	Div'ds Decl'd per sh ^C	.72
Book Value per sh	9.83	13.34	15.34	17.85	19.77	19.24	24.60	28.14	34.20	39.71	43.80	47.70	Book Value per sh	62.05
Common Shs Outst'g ^D	105.09	105.22	105.27	104.92	106.02	104.94	105.55	106.02	105.99	107.14	109.00	110.00	Common Shs Outst'g ^D	112.00
Price to Book Value	132%	103%	117%	144%	185%	190%	162%	198%	176%	157%	156%	180%	Price to Book Value	190%
Avg Ann'l P/E Ratio	9.7	8.7	6.8	12.3	15.4	12.8	11.5	14.0	13.1	11.2	10.9	10.7	Avg Ann'l P/E Ratio	12.0
Relative P/E Ratio	.64	.58	.43	.71	.80	.73	.75	.72	.72	.65	.65	.65	Relative P/E Ratio	.80
Avg Ann'l Div'd Yield	1.3%	1.4%	1.1%	.9%	.7%	.8%	.8%	.6%	.6%	.7%	.7%	.7%	Avg Ann'l Div'd Yield	.7%
Premium Inc (\$mill) ^B	117.5	111.8	136.6	154.0	212.7	264.4	311.3	378.7	471.5	620.3	715	750	Premium Inc (\$mill) ^B	950
Investment Inc (\$mill)	117.1	131.0	144.9	159.7	186.2	209.3	241.0	267.8	297.3	321.1	335	365	Investment Inc (\$mill)	455
Other Income (\$mill)	0.9	11.0	20.0	46.9	48.6	59.2	77.4	83.4	68.4	79.6	150	125	Other Income (\$mill)	165
Total Income (\$mill)	225.0	253.8	301.6	360.6	447.5	533.0	629.7	730.0	837.2	1021.0	1065	1110	Total Income (\$mill)	1360
Loss Reserves (\$mill)	--	--	--	--	--	--	--	--	15.0	20.0	40.0	40.0	Loss Reserves (\$mill)	65.0
Income Tax Rate	21.6%	21.7%	26.4%	22.0%	22.8%	23.9%	24.1%	23.9%	28.7%	27.7%	26.0%	26.0%	Income Tax Rate	26.0%
Net Profit (\$mill)	141.1	167.6	276.3	223.0	254.0	307.9	366.2	432.9	500.2	614.5	690	725	Net Profit (\$mill)	895
Insur in Force (\$bill)	171.7	199.1	227.2	275.9	317.7	374.5	418.4	476.2	557.4	625.6	660	690	Insur in Force (\$bill)	775
Total Assets (\$mill)	4293	5309	5876	8250	11212	11345	10120	12268	15356	16747	18000	18250	Total Assets (\$mill)	19500
Shr. Equity (\$mill)	1033.5	1404.0	1615.0	1872.5	2096.1	2018.5	2596.1	2983.7	3625.2	4254.6	4775	5250	Shr. Equity (\$mill)	6950
Return on Shr. Equity	13.7%	11.9%	17.1%	11.9%	12.1%	15.3%	14.1%	14.5%	13.8%	14.4%	14.5%	14.0%	Return on Shr. Equity	13.0%
Retained to Com Eq	12.0%	10.5%	15.8%	10.6%	10.8%	13.8%	12.9%	13.3%	12.7%	13.4%	13.5%	12.5%	Retained to Com Eq	11.5%
All Div'ds to Net Prof	12%	12%	8%	11%	10%	10%	9%	8%	8%	7%	7%	7%	All Div'ds to Net Prof	9%

Ambac is the oldest municipal bond insurance company, having written its first policy in 1971. Starting in 1985, Citibank acquired an increasing interest in Ambac until it became a wholly owned subsidiary in 1989. Citibank spun off Ambac in July 1991 by selling a 50.3% interest in it through an IPO, underwritten by Salomon Bros. and Morgan Stanley, of 17.6 million shares at \$20 each. The remaining interest was sold in a second offering, in February 1992, of 17.4 million shares at \$31.75 each.

CAPITAL STRUCTURE as of 6/30/04
 Total Debt \$791.8 mill. Due in 5 Yrs None
 LT Debt \$791.8 mill. Total Interest \$40.0 mill. (15% of Cap'l)

Leases, Uncapitalized Annual rentals \$62.5 mill.
Pension Assets-12/03 \$12.5 mill. **Oblig.** \$18 mill.

Pfd Stock None

Common Stock 108,456,419 shs. as of 7/30/04

MARKET CAP: \$7.8 billion (Large Cap)

FINANCIAL POSITION 2002 2003 6/30/04 (\$MILL)

Cash Assets	25.8	24.4	33.2
Bonds	12141.2	13521.5	13714.6
Other	3188.6	3201.4	3103.7
Total Assets	15355.6	16747.3	16851.5
Unearned Premiums	2128.8	2545.5	2727.3
Reserves	172.1	189.4	238.1
Other	9429.5	9757.9	9421.9
Total Liab.	11730.4	12492.8	12387.3

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Premium Inc	16.0%	23.5%	11.0%
Invest Income	9.0%	12.5%	6.5%
Earnings	13.5%	15.0%	9.0%
Dividends	12.5%	10.5%	11.0%
Book Value	15.0%	14.0%	10.5%

NET PREMIUMS EARNED (\$ mill.)^B

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	85.1	93.4	98.0	102.2	378.7
2002	103.7	113.6	122.4	131.9	471.6
2003	134.8	152.0	159.6	173.9	620.3
2004	161.7	189.6	180.7	183	715
2005	175	186	189	200	750

EARNINGS PER SHARE^{AB}

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.92	.98	1.03	1.07	4.00
2002	1.10	1.12	1.21	1.16	4.59
2003	1.27	1.48	1.45	1.33	5.53
2004	1.55	1.63	1.55	1.62	6.35
2005	1.60	1.65	1.65	1.70	6.60

QUARTERLY DIVIDENDS PAID^C

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	.073	.073	.08	.08	.31
2001	.08	.08	.09	.09	.34
2002	.09	.09	.10	.10	.38
2003	.10	.10	.11	.11	.42
2004	.11	.11	.125		

BUSINESS: Ambac Financial Group is a holding company. Its principal subsidiary (Ambac Assurance Corp.) provides financial guarantee insurance for municipal and structured finance (asset backed) obligations. The Financial Services Div. provides investment contracts, interest rate swaps, investment advisory and cash management services, and procurement systems to states and

Ambac Financial's business characteristics are compelling. The company receives funds up front to potentially make payment of principal and interest on bonds and other credit products. The company's traditional business, public/municipal finance, has a track record of low loss and minimal risk. As such, the company has been able to make very good risk-adjusted returns as it invested the premiums it received. Costs are low, capital requirements minimal, and competition limited. In recent years ABK has expanded into riskier credits, which offer correspondingly higher returns and also faster growth. While the newer business is very similar to the old, the risks are greater we think, and detract somewhat from Ambac's traditional franchise. That said, the very long-term growth dynamics are compelling. **Demand for Ambac's services remains strong.** We note that market share in public finance has generally been growing. At the same time, while structured finance is still expanding, the company is becoming more selective in this area, largely due to price competition. And while the size of guaranteed credits is increasing in struc-

municipalities, school districts, hospitals, and health orgs. Wellington owns 8.0% of the common stock; J.P. Morgan & Co., 9.6%; Citigroup, 5.5%; FMR, 6.1%; officers & directors, 3.6% (3/04 proxy). Has 407 employees, 16,500 stockholders. Pres. & CEO: P. B. Lassiter, Inc.: DE. Address: One State St. Plaza, N.Y., N.Y. 10004. Tel.: 212-668-0340. Internet: www.ambac.com.

tured finance, but showing up unevenly on the top line, it appears Ambac has plenty of business to choose from. As such, we are hiking our earnings estimate for this year to \$6.35, from \$6.00. For 2005, we now look for \$6.60, up from \$6.15. **Derivatives and credit pose the largest risks, in our view.** Ambac has been careful of late in expanding too much into riskier credits, keeping public finance its largest guarantee portfolio, by far. Even so, structured finance, its second-largest exposure, is a relatively new line, and the risk here, by our view, may be greater than the consensus figures. **The good earnings prospects here appear to be factored into the stock price.** The boom in debt issuance in recent years was stimulated by generation-low interest rates. If rates move higher, debt growth is likely to slow and Ambac will find it difficult to raise profits as rapidly as it has over the past few years. Also, since 1997 the price-to-earnings multiple has been in the double-digits. A return to the lower multiples of pre-1997 does not seem out of the question if growth slows. *John Koller*
 August 27, 2004

(A) Dil. egs. (prim. through 1996). Inc. net rld. gains/losses through 1998, (in '96, gain of \$1.29/sh from sale of HClA stock in 2Q; in '97, 12¢/sh. Exclude net rld. gains/losses 1999-2002. ('02, (\$0.73/sh)). Incl. fresh start benefits: '91, 7¢; '92, 2¢. Next earnings report due mid-Oct. (B) Starting in 3Q '02 includes options expense and refundings. (C) Dividends historically paid the first week of March, June, Sept., Dec. (D) In millions, adjusted for splits.

Company's Financial Strength A
Stock's Price Stability 70
Price Growth Persistence 100
Earnings Predictability 95