



Ambac

Quarterly Operating Supplement

4Q14

About Ambac

Ambac Financial Group, Inc. (“Ambac”), headquartered in New York City, is a holding company whose subsidiaries, including its principal operating subsidiaries, Ambac Assurance Corporation (“Ambac Assurance”), Everspan Financial Guarantee Corp., and Ambac Assurance UK Limited (“Ambac UK”), provide financial guarantees and other financial services to clients in both the public and private sectors globally. Ambac Assurance is a guarantor of public finance and structured finance obligations. Ambac is also exploring opportunities to grow and diversify, which may include the development or acquisition of financial services businesses such as advisory, asset servicing, asset management and / or insurance. Ambac’s common stock trades on the NASDAQ Global Select Market (NASDAQ: AMBC).

Company Information

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To obtain a copy of Ambac Financial Group, Inc.’s latest annual or quarterly report filed with the Securities and Exchange Commission or the most recent Annual Report to Stockholders, please visit our website at www.ambac.com.

Ambac Financial Group, Inc.
Quarterly Operating Supplement
Fourth Quarter 2014

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Note 1: Internal credit ratings contained in this Supplement are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance, and for Ambac UK related transactions, based on the view of Ambac UK. In cases where Ambac Assurance or Ambac UK has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac Assurance and Ambac UK credit ratings are subject to revision at any time and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has insured the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees.

Note 2: Information contained in this report is unaudited.

Consolidated Statements of Operations

(\$ in Thousands, Except Share Data)	Period from October 1 through December 31, 2014	Period from October 1 through December 31, 2013
Revenues:		
Net premiums earned:		
Normal net premiums earned.....	\$46,301	\$60,736
Accelerated net premiums earned	(12,332)	23,794
Total net premiums earned	33,969	84,530
Net investment income:		
Securities available-for-sale and short-term.....	64,268	61,879
Other investments.....	2,203	6,245
Total net investment income	66,471	68,124
Other-than-temporary impairment losses:		
Total other-than-temporary impairment losses.....	(6,895)	(6,861)
Portion of other-than-temporary impairment recognized in other comprehensive income.....	5,258	136
Net other-than-temporary impairment losses recognized in earnings.....	(1,637)	(6,725)
Net realized investment gains (losses).....	29,376	(3,695)
Change in fair value of credit derivatives:		
Realized gains and other settlements.....	955	2,124
Unrealized gains.....	9,372	108,331
Net change in fair value of credit derivatives.....	10,327	110,455
Derivative products.....	(63,576)	18,686
Net realized loss on extinguishment of debt.....	(74,724)	-
Other income.....	4,292	3,936
Income (loss) on variable interest entities.....	2,362	(108,330)
Total revenues before expenses and reorgnaization items	6,860	166,981
Expenses:		
Losses and loss expenses (benefit).....	(552,182)	(4,731)
Insurance intangible amortization	41,952	37,233
Underwriting and operating expenses	26,142	27,505
Interest expense.....	31,354	31,989
Total (benefit) expenses before reorganization items.....	(452,734)	91,996
Pre-tax income from continuing operations before reorganization items.....	459,594	74,985
Reorganization items.....	-	65
Pre-tax income from continuing operations.....	459,594	74,920
Provision for income taxes.....	6,143	6,407
Net income.....	453,451	68,513
Less: net gain attributable to noncontrolling interest.....	(133)	(50)
Net income attributable to common shareholders.....	\$453,584	\$68,563
Net income per share attributable to common shareholders	\$10.05	\$1.52
Net income per diluted share attributable to common shareholders	\$9.73	\$1.49
Weighted average number of shares outstanding.....	45,121,414	45,007,557
Weighted average number of diluted shares outstanding.....	46,612,898	46,038,249

Consolidated Statements of Operations

(\$ in Thousands, Except Share Data)	Successor Ambac		Predecessor Ambac
	Period from January 1 through Dec. 31, 2014	Period from May 1 through Dec. 31, 2013	Preiod from January 1 through April 30, 2013
Revenues:			
Net premiums earned:			
Normal net premiums earned.....	\$216,396	\$156,977	\$93,567
Accelerated net premiums earned	29,964	56,541	36,433
Total net premiums earned.....	246,360	213,518	130,000
Net investment income:			
Securities available-for-sale and short-term.....	292,838	142,866	116,371
Other investments.....	8,108	3,580	369
Total net investment income.....	300,946	146,446	116,740
Other-than-temporary impairment losses:			
Total other-than-temporary impairment losses.....	(26,632)	(47,418)	(467)
Portion of other-than-temporary impairment recognized in other comprehensive income.....	838	654	-
Net other-than-temporary impairment losses recognized in earnings.....	(25,794)	(46,764)	(467)
Net realized investment gains.....	58,777	4,467	53,305
Change in fair value of credit derivatives:			
Realized gains and other settlements.....	3,043	9,778	3,444
Unrealized gains (losses).....	20,863	183,091	(63,828)
Net change in fair value of credit derivatives.....	23,906	192,869	(60,384)
Derivative products.....	(181,087)	114,771	(33,735)
Net realized loss on extinguishment of debt.....	(74,724)	-	-
Other income.....	12,498	4,364	8,363
(Loss) income on variable interest entities.....	(32,212)	(48,623)	426,566
Total revenues before expenses and reorganization items.....	328,670	581,048	640,388
Expenses:			
Losses and loss expenses (benefit).....	(545,574)	(185,138)	(38,056)
Insurance intangible amortization	151,830	99,658	-
Underwriting and operating expenses	101,474	68,769	44,566
Interest expense.....	127,476	84,950	31,025
Total (benefit) expenses before reorganization items.....	(164,794)	68,239	37,535
Pre-tax income from continuing operations before reorganization items.....	493,464	512,809	602,853
Reorganization items.....	211	493	(2,745,180)
Pre-tax income from continuing operations.....	493,253	512,316	3,348,033
Provision for income taxes.....	9,557	7,514	755
Net income.....	483,696	504,802	3,347,278
Less: net gain attributable to noncontrolling interest.....	(375)	(417)	(1,771)
Net income attributable to common shareholders.....	\$484,071	\$505,219	\$3,349,049
Net income per share.....	\$10.73	\$11.23	\$11.07
Net income per diluted share.....	\$10.31	\$10.91	\$11.07
Weighted average number of shares outstanding.....	45,093,304	45,003,925	302,469,544
Weighted average number of diluted shares outstanding.....	46,933,253	46,302,734	302,579,245

Consolidated Balance Sheets

(\$ in Thousands, Except Share Data)	December 31, 2014	December 31, 2013
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of \$4,514,878 in 2014 and \$5,927,254 in 2013)	\$4,725,686	\$5,885,316
Fixed income securities pledged as collateral, at fair value (amortized cost of \$64,378 in 2014 and \$126,196 in 2013)	64,267	126,223
Short-term investments, at fair value (amortized cost of \$360,069 in 2014 and \$271,118 in 2013)	360,065	271,119
Other investments	357,016	241,069
Total investments.	5,507,034	6,523,727
Cash and cash equivalents	73,903	77,370
Receivable for securities.	23,660	14,450
Investment income due and accrued	25,015	37,663
Premium Receivables	1,000,607	1,453,021
Reinsurance recoverable on paid and unpaid losses	99,838	121,249
Deferred ceded premiums	123,276	145,529
Subrogation recoverable	953,274	498,478
Loans	5,714	6,179
Derivative assets	109,017	77,711
Insurance intangible assets.	1,410,920	1,597,965
Goodwill.	514,511	514,511
Other assets.	186,985	35,927
Variable interest entity assets:		
Fixed income securities, at fair value	2,743,050	2,475,182
Restricted cash	7,708	17,498
Investment income due and accrued	1,284	1,365
Loans, at fair value	12,371,177	13,398,895
Intangible assets	-	76,140
Other assets	2,891	19,617
Total assets	\$25,159,864	\$27,092,477
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unearned premiums	\$1,673,785	\$2,255,680
Loss and loss expense reserve	4,752,007	5,968,712
Ceded premiums payable.	60,436	70,962
Obligations under investment agreements	160,079	359,070
Deferred taxes.	2,079	2,199
Current taxes.	5,701	738
Long-term debt, at fair value	971,116	963,178
Accrued interest payable.	304,139	294,817
Derivative liabilities.	406,944	253,898
Other liabilities.	63,396	67,377
Payable for securities purchased.	762	4,654
Variable interest entity liabilities:		
Accrued interest payable.	3,268	722
Long-term debt, at fair value	12,882,076	14,091,753
Derivative liabilities.	2,200,163	1,772,306
Other liabilities.	178	7,989
Total liabilities.	23,486,129	26,114,055
Stockholders' equity:		
Preferred stock.	-	-
Common stock.	450	450
Additional paid-in capital.	189,138	185,672
Accumulated other comprehensive income.	220,283	11,661
Accumulated earnings	989,290	505,219
Common stock held in treasury at cost.	(56)	(19)
Total Ambac Financial Group, Inc. stockholders' equity.	1,399,105	702,983
Noncontrolling interest.	274,630	275,439
Total stockholders' equity.	1,673,735	978,422
Total liabilities and stockholders' equity.	\$25,159,864	\$27,092,477
Number of shares outstanding (net of treasury shares).	45,003,473	45,002,524
Ambac Financial Group, Inc. book value per share	\$31.09	\$15.62

Key Quarterly Financial Data
(Dollars in millions, except share data)

	Successor ⁽¹⁾						Predecessor ⁽¹⁾		
	4Q 2014	3Q 2014	2Q 2014	1Q 2014	4Q 2013	3Q 2013	May/June 2013	April 2013	1Q 2013
Summary GAAP Financial Data:									
Statement of Total Comprehensive Income:									
Net premiums earned	\$34	\$65	\$65	\$83	\$85	\$71	\$58	\$30	\$100
Net investment income ⁽²⁾	66	84	80	71	68	52	26	32	85
Change in fair value of credit derivatives	10	7	(1)	7	110	31	51	(73)	13
Income (loss) on variable interest entities (VIEs) ⁽²⁾	2	9	(38)	(6)	(108)	55	5	388	38
Losses and loss expenses (benefit) ⁽³⁾	(552)	(29)	175	(140)	(5)	(154)	(26)	13	(51)
Insurance intangible amortization ⁽²⁾	42	42	36	32	37	37	25	-	-
Underwriting and operating expenses ⁽²⁾	26	26	24	26	28	25	16	11	34
Interest expense ⁽²⁾	31	32	32	32	32	31	21	8	23
Reorganization items ⁽²⁾	-	-	-	-	-	-	-	(2,747)	2
Net income (loss) attributable to Ambac common shareholders ⁽²⁾	454	82	(208)	156	69	231	206	3,067	282
Net income (loss) per diluted share ⁽²⁾	\$9.73	\$1.77	(\$4.61)	\$3.31	\$1.49	\$4.98	\$4.42	n.m.	n.m.
Balance Sheets:									
Total non-VIE investments	\$5,507	\$7,062	\$6,766	\$6,749	\$6,524	\$6,686	\$6,601	\$6,457	\$6,513
Premium receivable	1,001	1,267	1,356	1,418	1,453	1,436	1,465	1,532	1,543
Insurance intangible asset ⁽²⁾	1,411	1,475	1,549	1,570	1,598	1,621	1,622	1,659	-
Goodwill ⁽²⁾	515	515	515	515	515	515	515	515	-
Subrogation recoverable	953	489	484	512	499	485	501	534	545
Total VIE assets	15,126	15,170	16,444	15,932	15,989	17,386	16,263	17,460	16,752
Total assets ⁽²⁾	25,160	26,591	27,723	27,114	27,092	28,621	27,463	28,842	26,154
Unearned premium reserve	1,674	1,953	2,070	2,168	2,256	2,304	2,373	2,482	2,623
Loss and loss expense reserve	4,752	6,003	6,072	5,826	5,969	5,885	6,043	6,106	6,590
Obligations under investment agreements ⁽⁴⁾	160	161	170	360	359	359	359	365	357
Long-term debt ^{(2) (4)}	971	1,219	981	972	963	955	946	940	154
Liabilities subject to compromise ⁽⁴⁾	-	-	-	-	-	-	-	-	1,705
Ambac stockholders' equity (deficit) ⁽²⁾	1,399	976	948	953	703	611	287	185	(3,531)
Summary Statutory Data of Ambac Assurance:									
Invested assets	\$4,422	\$5,883	\$6,055	\$5,856	\$5,747	\$5,659	\$5,466	\$5,278	
Loss and loss expense reserve	2,460	3,864	3,784	3,465	3,541	3,045	3,008	2,901	
Estimated impairment losses on subsidiary guarantee:	5	22	27	61	57	83	96	149	
Policyholders' Surplus	100	898	946	1,008	840	502	394	159	
Qualified statutory capital	269	1,031	1,053	1,094	906	1,142	973	693	
Total claims-paying resources, including Ambac UK	\$5,875	\$7,403	\$7,465	\$7,269	\$7,199	\$7,062	\$6,890	\$6,628	

1) Following the Company's emergence from bankruptcy on May 1, 2013, the consolidated financial statements reflect the application of fresh start reporting ("Fresh Start"), incorporating, among other things, the discharge of debt obligations, issuance of new common stock and fair value adjustments. The effects of the reorganization and Fresh Start adjustments are recorded in Predecessor Ambac's Consolidated Statement of Total Comprehensive Income for the period ended April 30, 2013. The financial results of the Company for the periods from May 1, 2013 are referred to as "Successor" and the financial results for the periods through April 30, 2013 are referred to as "Predecessor".

2) As a result of the implementation of Fresh Start, results and balances are not comparable between Successor Ambac and Predecessor Ambac.

3) Under the amended Segregated Account Rehabilitation Plan, holders of permitted policy claims will receive an initial interim cash payment for a portion of such policy claim ("Interim Payment"), together with the right to receive a deferred payment equal to the balance of the unpaid policy claim, as may be adjusted from time to time pursuant to the terms of the amended Segregated Account Rehabilitation Plan ("Deferred Amount"). Payments of Deferred Amounts will be made at such times as the Rehabilitator deems appropriate in his sole discretion. Deferred Amounts will generally accrue and compound interest at an annual effective rate of 5.1%. Includes interest expense on Deferred Amounts of \$51.9, \$51.7 and \$308.1 for the fourth, third and second quarters of 2014, respectively.

4) Long-term debt represents surplus notes issued to third parties by Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation. Long-term debt for all years excludes the portion of long-term debt associated with variable interest entities. In the third quarter of 2014, Ambac sold \$350 of junior surplus notes issued to it by the Segregated Account of Ambac Assurance Corporation to a newly formed Trust in exchange for cash of \$224.3. Long-term debt associated with Predecessor Ambac is included under liabilities subject to compromise.

Key Annual Financial Data
(Dollars in millions, except share data)

	Successor ⁽¹⁾		Predecessor ⁽¹⁾			
	2014	Eight Months Ended Dec. 31, 2013	Four Months Ended Apr. 30, 2013	2012	2011	2010
Summary GAAP Financial Data:						
Statement of Total Comprehensive Income:						
Net premiums earned	\$246	\$214	\$130	\$415	\$406	\$546
Net investment income ⁽²⁾	301	146	117	383	355	359
Change in fair value of credit derivatives	24	193	(60)	(9)	48	60
Income (loss) on variable interest entities (VIEs)	(32)	(49)	427	28	(214)	(617)
Losses and loss expenses (benefit) ⁽³⁾	(546)	(185)	(38)	684	1,859	719
Insurance intangible amortization ⁽²⁾	152	100	-	-	-	-
Underwriting and operating expenses ⁽²⁾	101	69	45	139	141	254
Interest expense ⁽²⁾	127	85	31	112	128	181
Reorganization items ⁽²⁾	-	-	(2,745)	7	50	32
Net income (loss) attributable to Ambac common shareholders ⁽²⁾	484	505	3,349	(257)	(1,960)	(753)
Net income (loss) per diluted share	\$10.31	\$10.91	n.m.	n.m.	n.m.	n.m.
Balance Sheets:						
Total non-VIE investments	\$5,507	\$6,524	\$6,457	\$6,330	\$6,877	\$6,853
Premium receivable	1,001	1,453	1,532	1,621	2,028	2,423
Insurance intangible asset ⁽²⁾	1,411	1,598	1,659	-	-	-
Goodwill ⁽²⁾	515	515	515	-	-	-
Subrogation recoverable	953	499	534	497	660	714
Total VIE assets	15,126	15,989	17,460	17,842	16,543	17,931
Total assets ⁽²⁾	25,160	27,092	28,842	27,074	27,108	29,039
Unearned premium reserve	1,674	2,256	2,482	2,778	3,457	4,008
Loss and loss expense reserve	4,752	5,969	6,106	6,619	7,044	5,289
Obligations under investment agreements ⁽⁴⁾	160	359	365	362	547	806
Long-term debt ^{(2) (4)}	971	963	940	150	224	208
Liabilities subject to compromise ⁽⁴⁾	-	-	-	1,705	1,707	1,695
Ambac stockholders' equity (deficit) ⁽²⁾	1,399	703	185	(3,908)	(3,813)	(2,009)
Summary Statutory Data of Ambac Assurance:						
Invested assets	\$4,422	\$5,747		\$5,168	\$5,854	\$5,943
Loss and loss expense reserve	2,460	3,541		2,946	3,226	2,478
Estimated impairment losses on subsidiary guarantees	5	57		144	-	-
Policyholders' Surplus	100	840		100	495	1,027
Qualified statutory capital	269	906		633	688	1,540
Total claims-paying resources, including Ambac UK	\$5,875	\$7,199		\$6,513	\$7,450	\$7,877

- Following the Company's emergence from bankruptcy on May 1, 2013, the consolidated financial statements reflect the application of fresh start reporting ("Fresh Start"), incorporating, among other things, the discharge of debt obligations, issuance of new common stock and fair value adjustments. The effects of the reorganization and Fresh Start adjustments are recorded in Predecessor Ambac's Consolidated Statement of Total Comprehensive Income for the period ended April 30, 2013. The financial results of the Company for the periods from May 1, 2013 are referred to as "Successor" and the financial results for the periods through April 30, 2013 are referred to as "Predecessor".
- As a result of the implementation of Fresh Start, results and balances are not comparable between Successor Ambac and Predecessor Ambac.
- Under the amended Segregated Account Rehabilitation Plan, holders of permitted policy claims will receive an initial interim cash payment for a portion of such policy claim ("Interim Payment"), together with the right to receive a deferred payment equal to the balance of the unpaid policy claim, as may be adjusted from time to time pursuant to the terms of the amended Segregated Account Rehabilitation Plan ("Deferred Amount"). Payments of Deferred Amounts will be made at such times as the Rehabilitator deems appropriate in his sole discretion. Deferred Amounts will generally accrue and compound interest at an annual effective rate of 5.1%. Includes interest expense on Deferred Amounts of \$411.7 for the year ending December 31, 2014.
- Long-term debt represents surplus notes issued to third parties by Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation. In the third quarter of 2014, Ambac sold \$350 of junior surplus notes issued to it by the Segregated Account of Ambac Assurance Corporation to a newly formed Trust in exchange for cash of \$224.3. Long-term debt for all years excludes the portion of long-term debt associated with variable interest entities. Long-term debt associated with Ambac is included under liabilities subject to compromise.

Non-GAAP Financial Measures ⁽¹⁾
(Dollars in Millions)

Operating Earnings (Losses):

	Successor							Predecessor	
	Fourth Quarter 2014	Third Quarter 2014	Second Quarter 2014	First Quarter 2014	Fourth Quarter 2013	Third Quarter 2013	May/June 2013	April 2013	First Quarter 2013
Net income (loss) attributable to common shareholders.....	\$453.6	\$82.5	(\$207.9)	\$155.9	\$68.6	\$231.0	\$205.7	\$3,066.7	\$282.3
Adjustments:									
Non-credit impairment fair value (gain) loss on credit derivatives	(9.9)	(5.4)	2.3	(4.2)	(107.2)	(8.5)	(50.1)	77.5	(5.9)
Effect of consolidating financial guarantee VIEs.....	(11.0)	2.8	52.9	0.3	287.7	(48.7)	(15.3)	(386.7)	(27.0)
Insurance intangible amortization.....	42.0	41.9	36.3	31.7	37.2	37.5	24.9	-	-
FX (gain) loss from re-measured premium receivables and loss and loss expense reserves	18.0	25.5	(6.8)	(1.7)	(9.4)	(19.0)	7.4	(6.6)	17.9
Fair value (gain) loss on derivatives from Ambac CVA.....	(16.1)	(4.6)	9.9	(5.4)	15.1	1.1	30.5	(3.4)	30.1
Fresh Start accounting adjustments.....	-	-	-	-	-	-	-	(2,749.7)	-
Operating earnings (losses).....	<u>\$476.6</u>	<u>\$142.7</u>	<u>(\$113.3)</u>	<u>\$176.6</u>	<u>\$292.0</u>	<u>\$193.4</u>	<u>\$203.1</u>	<u>(\$2.2)</u>	<u>\$297.4</u>

Adjusted Book Value:

	Successor							Predecessor
	December 31, 2014	September 30, 2014	June 30, 2014 (Revised) ⁽²⁾	March 31, 2014 (Revised) ⁽²⁾	December 31, 2013 (Revised) ⁽²⁾	September 30, 2013 (Revised) ⁽²⁾	June 30, 2013 (Revised) ⁽²⁾	March 31, 2013 (Revised) ⁽²⁾
Total Ambac Financial Group, Inc. stockholders' equity (deficit).....	\$1,399.1	\$975.7	\$948.1	\$953.2	\$703.0	\$611.4	\$287.2	(\$3,530.5)
Adjustments:								
Non-credit impairment fair value losses on credit derivatives	55.7	65.5	70.9	68.6	72.8	180.0	188.5	161.2
Effect of consolidating financial guarantee VIEs.....	(319.1)	(313.7)	(324.6)	(373.4)	(372.7)	(653.7)	(594.4)	(165.0)
Insurance intangible asset and goodwill.....	(1,925.4)	(1,989.5)	(2,063.9)	(2,084.6)	(2,112.5)	(2,135.5)	(2,136.1)	-
Ambac CVA on derivative product liabilities (excluding credit derivatives)	(64.5)	(48.5)	(43.9)	(53.8)	(48.4)	(63.5)	(64.6)	(91.8)
Net unearned premiums and fees in excess of expected losses.....	1,402.3	1,460.7	1,534.2	1,581.1	1,666.0	1,750.8	1,903.0	1,974.6
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income	(210.7)	(214.8)	(232.0)	(46.8)	41.9	37.1	91.0	(745.4)
Adjusted book value.....	<u>\$337.4</u>	<u>(\$64.6)</u>	<u>(\$111.2)</u>	<u>\$44.3</u>	<u>(\$49.9)</u>	<u>(\$273.4)</u>	<u>(\$325.4)</u>	<u>(\$2,396.9)</u>

1) In addition to reporting Ambac's financial results in accordance with GAAP, Ambac reports two non-GAAP financial measures: Operating Earnings and Adjusted Book Value. A non-GAAP financial measure is a numerical measure of financial performance or financial position that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. We are presenting these non-GAAP financial measures because they provide greater transparency and enhanced visibility into the underlying drivers of our business and the impact of certain items that Ambac believes will reverse from GAAP book value over time through the GAAP statements of comprehensive income. Operating Earnings and Adjusted Book Value are not substitutes for Ambac's GAAP reporting, should not be viewed in isolation and may differ from similar reporting provided by other companies, which may define non-GAAP measures differently.

2) Adjusted Book Value reflects revisions to correct the previously reported amounts. This revision relates to a correction in the net unearned premiums and fees in excess of expected losses adjustment. The revision eliminates the impact of forgone future installment premiums related to one Ambac UK exposure that was already recorded in Ambac's stockholders' equity.

Ambac Assurance

Claims-Paying Resources ⁽¹⁾ and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	December 31, 2014	December 31, 2013
Contingency reserve	\$169,313	\$65,691
Policyholders' surplus ⁽²⁾	100,000	840,262
Qualified statutory capital	269,313	905,953
Unearned premiums	902,693	1,093,607
Losses and loss adjustment expenses	2,459,952	3,541,487
Surplus notes classified as a liability ⁽²⁾	932,402	-
Estimated impairment losses on subsidiary guarantees	4,900	56,600
Segregated account liabilities ⁽³⁾	(149,482)	-
Policyholders' reserves	4,419,778	5,597,647
Present value of future installment premiums ⁽⁴⁾	391,472	468,576
Ambac Assurance claims-paying resources	4,811,250	6,066,223
Ambac UK claims-paying resources ⁽⁵⁾	1,063,272	1,132,736
Total claims-paying resources	\$5,874,522	\$7,198,959
Net financial guarantees in force:		
Ambac Assurance	\$197,609,387	\$243,621,498
Ambac UK	31,280,722	38,588,617
Total net financial guarantees in force	\$228,890,109	\$282,210,115
Total claims-paying ratio ⁽⁶⁾	39 : 1	39 : 1

- 1) Total claims-paying resources quantifies total resources available to pay claims, including guarantees on subsidiary obligations.
- 2) Surplus notes with a par value of \$378,039 and \$1,641,860 are included in the capital and surplus for December 31, 2014 and December 31, 2013, respectively. In 2014, surplus was impacted by the partial principal redemption of senior surplus notes of \$331,419. Additionally, the remaining senior surplus notes of \$932,402 were re-classified from policyholders' surplus to a liability since they are pari-passu to policyholder obligations.
- 3) Pursuant to a prescribed practice by the State of Wisconsin Office of the Commissioner of Insurance, Ambac Assurance is not obligated to make payments to the Segregated Account if Ambac Assurance's surplus is less than \$100,000 (the "Minimum Surplus Amount"). Accordingly, \$149,482 of liabilities in the Segregated Account did not reduce Ambac Assurance's surplus at December 31, 2014. Refer to Ambac's filings with the Securities and Exchange Commission for further discussion of the Segregated Account of Ambac Assurance.
- 4) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts (excluding Ambac UK) and credit derivatives. Present value calculations are discounted at 5.1%.
- 5) Ambac UK's claims paying resources will become available to Ambac Assurance only to the extent Ambac UK receives approval from its regulator to dividend monies to Ambac Assurance. Components of Ambac UK's claims paying resources are discounted at Ambac UK's projected investment rate of return. Ambac UK's claims-paying resources primarily consist of the present value of future installment premiums of approximately \$522,639 at December 31, 2014.
- 6) Claims-paying Ratio is net financial guarantees in force divided by total claims-paying resources.

Ambac Assurance
Rollforward of Statutory Policyholders' Surplus

(\$ Thousands)

	For the year ended December 31, 2014	For the year ended December 31, 2013
Policyholders' Surplus, beginning of period ⁽¹⁾	\$ 840,262	\$ 100,000
Net income (loss) ^{(2) (3) (4)}	724,828	(235,557)
Issuance of junior surplus note - segregated account ⁽²⁾	-	350,000
Extinguishment of junior surplus note - segregated account ⁽³⁾	-	(8,043)
Principal redemption of surplus notes - general account ⁽⁵⁾	(317,521)	-
Principal redemption of surplus notes - segregated account ⁽⁵⁾	(13,898)	-
Surplus notes re-classified as a liability ⁽⁵⁾	(932,402)	-
Change in contingency reserves ⁽⁶⁾	(103,550)	463,499
Change in investments ⁽⁷⁾	(100,504)	165,785
Other changes in surplus.	2,785	4,578
Policyholders' Surplus, end of period	<u>\$ 100,000</u>	<u>\$ 840,262</u>

- 1) Pursuant to a prescribed practice by the Wisconsin Insurance Commissioner, the results of the Segregated Account are not included in Ambac Assurance's statutory financial statements if it causes Ambac Assurance's surplus to drop below the Minimum Surplus Amount. Accordingly, \$149,482 of the Segregated Account's liabilities did not reduce Ambac Assurance's surplus at December 31, 2014.
- 2) Net loss for the year ended December 31, 2013 includes an expense related to the issuance of a junior surplus note to Ambac Financial Group, Inc. The issuance of the surplus note also increased surplus directly by \$350,000, resulting in an overall surplus impact of \$0.
- 3) Net loss for the year ended December 31, 2013 included a benefit related to junior surplus notes originally issued in connection with a settlement agreement to terminate Ambac's headquarters office lease with One State Street, LLC ("OSS") in May 2011. The outstanding principal amount was reduced by \$8,043 based on the value of distribution that OSS received on account of its allowed claim on Ambac's bankruptcy case. The reduction in the outstanding principal amount decreased surplus directly by \$8,043 with an offsetting gain in net income, resulting in an overall surplus impact of \$0.
- 4) Net income for the year ended December 31, 2014 includes an expense of \$411,733 for the accrual of interest on Deferred Amounts and \$82,168 for the payment of interest on redeemed surplus notes.
- 5) Surplus for the year ended December 31, 2014 was impacted by the partial principal redemption of surplus notes of \$331,419 and the reclassification of remaining senior surplus notes of \$932,402 to a liability since they are pari-passu to policyholder obligations.
- 6) Ambac Assurance received regulatory approval from the Wisconsin Insurance Commissioner to release \$570,546 of contingency reserves effective for the year ended December 31, 2013. Amounts included herein also include contributions of \$107,047 during 2013.
- 7) Includes non-income statement changes in investments such as changes in non-admitted investments, changes in valuation of investments carried at fair value and changes in investment in subsidiaries, excluding dividends. Change in investments for the year ended December 31, 2014 includes a reduction in surplus of \$119,244 relating to unwind of Re-REMIC / Orient Bay structure.

Ambac Assurance Segregated Account, in Rehabilitation

Claims Paying Position ⁽¹⁾

(\$ Thousands)	December 31, 2014	December 31, 2013
Liabilities allocated from Ambac Assurance ⁽²⁾	\$ 4,795,894	\$ 6,010,714
Surplus notes classified as a liability ⁽³⁾	39,102	-
Total Segregated Account policy related obligations	4,834,996	6,010,714
Secured Note provided by Ambac Assurance including accrued interest	-	107,803
Liabilities ceded to Ambac Assurance ⁽⁴⁾	4,833,667	5,902,198
Surplus notes ceded to Ambac Assurance ⁽⁴⁾	228,557	431,039
Other Segregated Account Net Assets	12,052	12,313
Total Segregated Account resources available	5,074,276	6,453,353
Segregated Account policyholders' surplus	\$ 239,280	\$ 442,639
 Components of Segregated Account Policyholders' Surplus		
Unassigned Surplus	\$ (138,759)	\$ 11,600
Surplus Notes ⁽³⁾	-	53,000
Junior Surplus Notes	378,039	378,039
Segregated Account policyholders' surplus	\$ 239,280	\$ 442,639

- 1) Total resources available to pay claims at Ambac Assurance are the same resources available to pay claims at the Segregated Account subject to limitations discussed in footnote (4) below.
- 2) Pursuant to the Plan of Operation for the Segregated Account, Ambac Assurance has allocated certain policies to the Segregated Account, including (i) residential mortgage-backed securities, (ii) student loans, (iii) collateralized debt obligations and (iv) other policies insuring obligations with substantial projected impairments or relating to transactions which have contractual triggers based upon Ambac Assurance's financial condition or the commencement of rehabilitation, which triggers are potentially damaging. Please refer to Ambac's filings with the Securities and Exchange Commission for further information.
- 3) Surplus for the year ended December 31, 2014 was impacted by the partial principal redemption of surplus notes of \$13,898 and the reclassification of remaining senior surplus notes of \$39,102 to a liability since they are pari-passu to policyholder obligations.
- 4) Liabilities and surplus notes ceded to Ambac Assurance via an excess of loss reinsurance agreement are limited by Ambac Assurance maintaining the Minimum Surplus Amount of \$100,000.

Ratio of Net Claims Recorded ⁽¹⁾

(\$ Thousands)	Successor Ambac		Predecessor Ambac			
	December 31, 2014	Eight Months ended December 31, 2013	Four Months ended April 30, 2013	December 31,		
				2012	2011	2010
Net claims (recovered) paid - Insurance ⁽²⁾⁽³⁾	\$ 922,481	\$ (92,480)	\$ (31,147)	\$ 932,930	\$ 147,762	\$ 290,519
Change in net unpaid claims - Insurance ⁽³⁾⁽⁴⁾	(959,304)	241,916	274,222	619,431	1,357,181	1,411,445
Net credit derivatives payments	-	-	-	-	-	(263)
Net credit derivatives commutation payments ⁽⁵⁾	-	-	-	-	-	4,589,107
Total net claims recorded	\$ (36,823)	\$ 149,436	\$ 243,075	\$ 1,552,361	\$ 1,504,943	\$ 6,290,808
Net insurance premiums earned and credit derivative fees	\$ 249,403	\$ 223,296	\$ 133,444	\$ 428,317	\$ 422,971	\$ 577,195
Ratio of net claims recorded ⁽⁶⁾	(14.8%)	66.9%	182.2%	362.4%	355.8%	1089.9%

Estimated Future Gross RMBS Claims Recorded ⁽⁷⁾

(\$ Thousands)	Projected as of	
	December 31, 2014	December 31, 2013
2014 (Full Year for December 31, 2013)	\$ -	\$ 368,894
2015	192,974	236,549
2016	221,346	268,054
2017	179,031	184,279
2018	112,516	124,094
2019	60,886	85,759
2014 (Full Year for December 31, 2013)	\$ -	\$ 368,894
2015-2019	766,753	898,735
2020-2024	84,628	170,438
2025-2029	13,735	30,292
2030-2034	11,075	10,516
After 2034	712,326	722,816
Total	\$ 1,588,517	\$ 2,201,691

- Net claims recorded include (i) claims paid (recovered); (ii) changes to claims presented and not yet presented for policies which were allocated to the Segregated Account; and (iii) commutation settlements. Net claims recorded does not include interest accrued or paid on Deferred Amounts as discussed below.
- Net claims (recovered) paid are net of subrogation received of \$500,485, \$292,067, \$160,355, \$222,205, \$104,805, and \$107,914 for the year ending December 31, 2014, the eight months ended December 31, 2013, the four months ended April 30, 2013 and years ended December 31, 2012, 2011, and 2010, respectively. Includes the issuance of surplus notes at par value in the amount of \$3,000 and \$50,000 for the years ended December 31, 2011 and 2010, respectively.
- On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain Ambac Assurance liabilities, and in connection with such segregation Ambac Assurance has allocated certain policies to the Segregated Account. On June 4, 2012, the Rehabilitation Court approved the Rehabilitator's motion to make partial interim policy claim payments to Segregated Account policyholders. As a result, the Segregated Account paid 25% of each permitted policy claim that has arisen since the commencement of the Segregated Account Rehabilitation Proceedings. In August 2013, the Segregated Account began to make cash payments in excess of 25% of permitted claims on certain policies. The Segregated Account Rehabilitation Plan, as amended, became effective on June 12, 2014. The amendments to the Segregated Account Rehabilitation Plan primarily modified the mechanism for handling claims. Instead of the combination of cash payments and interest-bearing surplus notes originally contemplated by the Segregated Account Rehabilitation Plan, holders of permitted policy claims will, under the amended Segregated Account Rehabilitation Plan, receive an initial interim cash payment for a portion of such policy claim ("Interim Payment"), together with the right to receive a deferred payment equal to the balance of the unpaid policy claim, as may be adjusted from time to time pursuant to the terms of the amended Segregated Account Rehabilitation Plan ("Deferred Amount"). Payments of Deferred Amounts will be made at such times as the Rehabilitator deems appropriate in his sole discretion. Following the effective date of the Segregated Account Rehabilitation Plan, as amended, the percentage of the initial cash interim policy claim payments increased from 25% to 45% with effect from July 21, 2014. A portion of Deferred Amounts outstanding as of July 20, 2014 (the "Reconciliation Date") (together with interest thereon), if still outstanding, was paid on December 22, 2014 (the "Deferred Payment Date") in accordance with the Segregated Account Rehabilitation Plan, as amended, such that those policyholders that received 25% (and not 45%) cash Interim Payments in respect of their permitted policy claims were generally entitled to receive equalizing payments in cash of 26.67% of their Deferred Amounts (including accrued interest thereon) outstanding as of the Reconciliation Date. The equalizing payments of Deferred Amounts, excluding the payments on accrued interest, were \$1,054,965 which reduced unpaid claims and increased net claims paid. Refer to Ambac's filings with the Securities and Exchange Commission for further discussion of the Segregated Account Rehabilitation Plan, as amended.
- As per the Segregated Account Rehabilitation Plan, as amended, Deferred Amounts will generally accrue and compound interest at an annual effective rate of 5.1%. As discussed above, on December 22, 2014, equalizing payments on Deferred Amounts were made. In addition to the equalizing payments on Deferred Amounts, \$82,506 of interest accrued on Deferred Amounts was paid. These amounts are not included net claims recorded. At December 31, 2014, interest accrued and unpaid on Deferred Amounts was \$329,227.
- 2010 credit derivative commutation payments include the issuance of surplus notes by Ambac Assurance at par in the amount of \$2,000,000.
- Ratio of net claims recorded is total net claims recorded divided by net premiums earned and fees on credit derivative contracts.
- Represents management's estimate of undiscounted future RMBS claims recorded, gross of reinsurance and representation and warranty subrogation recoveries. Future claims recorded in these tables exclude RMBS claims presented and unpaid of \$2,933,920 and \$3,891,306 as of December 31, 2014 and December 31, 2013, respectively. Ambac's undiscounted estimate of representation and warranty subrogation recoverables are \$2,541,219 and \$2,215,849 at December 31, 2014 and December 31, 2013, respectively. Actual claims recorded may differ from estimates.

Summary of Net Insurance Loss Reserves (GAAP) and Credit Derivative Impairments

(\$ Thousands)	Successor Ambac		Predecessor Ambac		
	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Total insurance reserves ⁽¹⁾	\$3,698,378	\$5,347,877	\$5,974,731	\$6,230,780	\$4,424,450
Estimated credit impairment losses on credit derivatives ⁽²⁾	17,804	21,531	46,469	36,940	22,055
Total impairment losses	3,716,182	5,369,408	6,021,200	6,267,720	4,446,505
Mark-to-market reserve on credit derivatives ⁽²⁾	55,655	72,791	167,116	153,713	199,629
Grand total net insurance loss reserves and credit derivatives	\$3,771,837	\$5,442,199	\$6,188,316	\$6,421,433	\$4,646,134

Summary of Insured Exposures With Impairment Losses

(\$ Thousands)	Segregated Account Net Par Outstanding ⁽³⁾	Total Net Par Outstanding	Total Impairment Losses ⁽⁴⁾⁽⁵⁾
Public Finance:			
Lease & tax backed	\$0	\$1,910,545	\$192,844
Housing	-	674,855	33,206
Transportation revenue	34,861	452,662	50,037
General obligation	-	662,523	72,055
Other	-	680,658	5,326
Total Public Finance	34,861	4,381,243	353,468
Structured Finance:			
Mortgage-backed & home equity - first lien & other	6,164,221	6,164,221	2,362,339
Mortgage-backed & home equity - second lien	3,423,453	3,423,453	(360,277)
Student loans	1,521,532	1,521,532	780,037
Other	137,000	1,037,000	534,311
Total Structured Finance	11,246,206	12,146,206	3,316,410
International Finance:			
	76,817	1,015,631	46,304
Total	\$11,357,884	\$17,543,080	\$3,716,182

1) Under the amended Segregated Account Rehabilitation Plan, holders of permitted policy claims will receive an initial interim cash payment for a portion of such policy claim ("Interim Payment"), together with the right to receive a deferred payment equal to the balance of the unpaid policy claim, as may be adjusted from time to time pursuant to the terms of the amended Segregated Account Rehabilitation Plan ("Deferred Amount"). Payments of Deferred Amounts will be made at such times as the Rehabilitator deems appropriate in his sole discretion. Deferred Amounts will generally accrue and compound interest at an annual effective rate of 5.1%. As of December 31, 2014, \$3,274,216, of claims remain unpaid, including \$329,227 of interest accrued on Deferred Amounts. Total insurance reserves are inclusive of these unpaid claims.

2) Total net mark-to-market losses are \$73,459, \$94,322, \$213,585, \$190,653, and \$221,684 as of December 31, 2014, December 31, 2013, 2012, 2011, and 2010, respectively, and are reported on the consolidated balance sheet under derivative assets and liabilities.

3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain Ambac Assurance liabilities, and in connection with such segregation Ambac Assurance has allocated certain insurance policies to the Segregated Account. Please see discussion in Ambac's filings with the Securities and Exchange Commission for further information.

4) Total estimated impairment losses includes insurance loss reserves, net of estimated representation and warranty subrogation recoverables of \$2,523,540 and estimated credit impairment losses on credit derivatives. Additionally, it excludes impairment losses eliminated as a result of the Consolidations Accounting Standard of \$370,865. Please see discussion in Ambac's filings with the Securities and Exchange Commission for further information.

5) Total estimated impairment losses includes loss and loss expenses relating to insurance policies issued by Ambac UK of \$548,923.

Net Insurance Premiums Earned and Fees on Credit Derivatives (GAAP)

2014 (\$ Thousands)	Successor Ambac				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance	\$27,287	\$26,345	\$25,552	\$25,622	\$104,806
Structured Finance ⁽¹⁾	10,389	10,944	10,356	8,047	39,736
International Finance	19,757	19,734	19,731	12,632	71,854
Total Normal Insurance Premiums Earned	57,433	57,023	55,639	46,301	216,396
Accelerated Premiums Earned	25,114	7,990	9,192	(12,332)	29,964
Total Premiums Earned	\$82,547	\$65,013	\$64,831	\$33,969	\$246,360
Fees on credit derivative contracts	\$775	\$717	\$596	\$955	\$3,043

2013 (\$ Thousands)	Predecessor Ambac			Successor Ambac			
	First Quarter	April	Four Months Ended April 30	Two Months Ended June 30	Third Quarter	Fourth Quarter	Eight Months Ended December 31
Public Finance	\$36,051	\$11,829	\$47,880	\$23,559	\$33,028	\$29,994	\$86,581
Structured Finance ⁽¹⁾	15,662	4,635	20,297	8,884	(544)	11,686	20,026
International Finance	19,183	6,207	25,390	12,547	18,767	19,056	50,370
Total Normal Insurance Premiums Earned	70,896	22,671	93,567	44,990	51,251	60,736	156,977
Accelerated Premiums Earned	29,360	7,073	36,433	13,049	19,698	23,794	56,541
Total Premiums Earned	\$100,256	\$29,744	\$130,000	\$58,039	\$70,949	\$84,530	\$213,518
Fees on credit derivative contracts	\$2,509	\$935	\$3,444	\$6,074	\$1,580	\$2,124	\$9,778

Net Unearned Premium Amortization and Estimated Future Installment Premiums

(\$ Millions)	Net Unearned Premium Amortization (GAAP) ⁽²⁾	Fees on Credit Derivative Contracts ⁽³⁾	Estimated Net Future Installments ⁽³⁾	Consolidated VIE
2015	\$144.6	\$1.6	\$88.4	\$20.1
2016	125.8	1.2	78.2	19.5
2017	113.9	0.8	71.5	18.9
2018	105.1	0.7	75.2	18.3
2019	97.9	0.7	59.8	17.1
2015-2019	\$587.3	\$5.0	\$373.1	\$93.9
2020-2024	401.1	2.4	246.4	70.2
2025-2029	282.3	0.1	194.2	44.4
2030-2034	175.6	-	142.6	27.1
After 2034	104.2	-	94.3	4.5
Total	\$1,550.5	\$7.5	\$1,050.6	\$240.1

1) Reductions/(increases) to net insurance premiums earned for changes in premium receivables deemed uncollectible were \$965, (\$191), (\$203) and \$1,586 for the first, second, third and fourth quarters of 2014, respectively, and \$197, \$425, \$0, \$13,300 and \$623 for the first quarter of 2013, April 2013, two months ended June 30, 2013, third quarter of 2013 and fourth quarter of 2013, respectively.

2) Represents unearned premium amounts for both upfront and installment paying policies, net of deferred ceded premiums, which is reported separately as an asset on Ambac's Consolidated Balance Sheet. Depicts amortization of existing guaranteed portfolio, assuming no advance refunding as of December 31, 2014. Actual future installments may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. The unearned premium amortization disclosed in the above table consider the use of contractual lives for many bond types that do not have homogeneous pools of underlying collateral, which results in a higher unearned premium than if expected lives were considered. If those bond types are retired early, premium earnings may be negative in the period of call or refinancing.

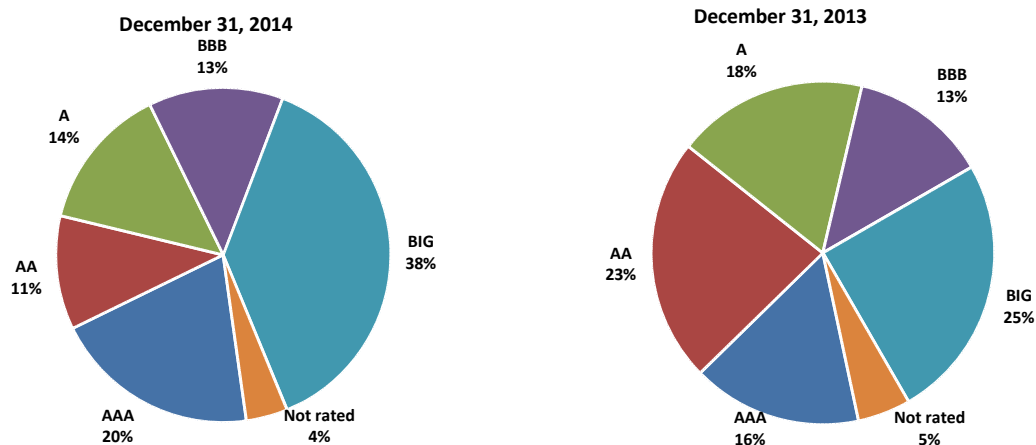
3) Represents management's undiscounted estimate of fees on credit derivative contracts and future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments exclude amounts eliminated as a result of consolidating variable interest entities ("Consolidated VIE") as required under the Consolidations Accounting Standard.

Investment Portfolio

As of December 31, 2014

INCOME ANALYSIS BY TYPE OF SECURITY	U.S. GAAP Carrying Value	U.S. GAAP Book Value	Pre-tax Yield To Maturity ⁽¹⁾
Investment category (\$ thousands)			
Financial Guarantee investments:			
Long-term investments			
U.S. government and agency obligations	\$ 106,145	\$ 106,527	0.76%
Municipal obligations ⁽²⁾	525,792	523,019	3.65%
Corporate obligations	1,334,877	1,331,919	2.45%
Ambac insured residential mortgage-backed and student loan securities ⁽³⁾	1,866,381	1,674,731	9.44%
Mortgage and asset-backed securities	404,124	393,498	5.50%
Total long-term investments	4,237,319	4,029,694	5.76%
Short-term investments	311,473	311,473	0.03%
Other	49,273	49,273	
Total Financial Guarantee investments excl. Ambac UK	4,598,065	4,390,440	5.29%
Ambac UK Investments ⁽⁴⁾	521,358	518,326	1.96%
Total Financial Guarantee investments	5,119,423	4,908,766	4.94%
Financial Services investments: ⁽⁵⁾			
Long-term investments			
Mortgage and asset-backed securities	109,194	109,174	
Total long-term investments	109,194	109,174	
Short-term investments	168	168	
Total Financial Services investments	109,362	109,342	
Corporate investments:			
Long-term investments			
Mortgage and asset-backed securities	234,310	234,294	
Total long-term investments	234,310	234,294	
Short-term investments	22,936	22,936	
Other ⁽⁶⁾	21,003	21,003	
Total Corporate investments	278,249	278,233	
Total Investments	\$ 5,507,034	\$ 5,296,341	

RATING DISTRIBUTION OF THE FIXED INCOME INVESTMENT PORTFOLIO ⁽³⁾⁽⁷⁾



Duration of Financial Guarantee investment portfolio ⁽³⁾ 3.8

- 1) "Yield to maturity" refers to the rate of interest to be earned over the expected remaining life of the investments in the portfolio, and is calculated based on book value, estimated future cash flows and call schedules. Actual maturities may differ from stated maturities because borrowers may have the right to call or prepay obligations. For floating rate positions "yield to maturity" is based on the current interest rate and not forward rates.
- 2) Includes taxable and tax-exempt municipal obligations with a fair value of \$402,567 and \$123,225 respectively.
- 3) Ambac Assurance insured residential mortgage-backed and student loan securities represent 36% and 20% of the consolidated fair value of the fixed income investment portfolio at December 31, 2014 and December 31, 2013, respectively. These securities are excluded from the company's measure of duration.
- 4) Includes fixed income investments as well as pooled investment funds. The pre-tax yield to maturity is from the fixed income portfolio only.
- 5) Financial Services investments relate primarily to the investment agreement business.
- 6) Represents equity interest in an unconsolidated subsidiary in connection with the sale of Segregated Account Junior Surplus Note in August 2014.
- 7) Ratings are based on the lower of Moody's or S&P ratings. If ratings are unavailable from Moody's or S&P, Fitch ratings are used. If guaranteed, rating represents the higher of the underlying or wrapped rating. Rating distribution is calculated based on fair value.

Expense Analysis (GAAP)

2014

Successor Ambac

(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Financial Guarantee operating expenses:					
Compensation	\$ 12,436	\$ 12,197	\$ 12,217	\$ 14,239	\$ 51,089
Non-compensation	10,360	9,072	10,926	10,191	40,549
Total Financial Guarantee operating expenses	22,796	21,269	23,143	24,430	91,638
Financial Services operating expenses	642	606	508	257	2,013
Corporate and other operating expenses	2,433	1,128	1,345	1,552	6,458
Total gross operating expenses	\$ 25,871	\$ 23,003	\$ 24,996	\$ 26,239	\$ 100,109
Ceding commissions	(85)	1,030	517	(97)	1,365
Total operating expenses	\$ 25,786	\$ 24,033	\$ 25,513	\$ 26,142	\$ 101,474
Reorganization costs	\$ 23	\$ 186	\$ 2	\$ -	\$ 211
Total gross operating expenses, including reorganization costs	\$ 25,894	\$ 23,189	\$ 24,998	\$ 26,239	\$ 100,320

2013

Predecessor Ambac

Successor Ambac

(\$ Thousands)	First Quarter	April	Four Months Ended April 30	Two Months Ended June 30	Third Quarter	Fourth Quarter	Eight Months Ended December 31
Financial Guarantee operating expenses:							
Compensation	\$ 14,408	\$ 4,549	\$ 18,957	\$ 8,965	\$ 12,991	\$ 13,382	\$ 35,338
Non-compensation	12,560	4,431	16,991	5,849	10,208	11,062	27,119
Total Financial Guarantee operating expenses	26,968	8,980	35,948	14,814	23,199	24,444	62,457
Financial Services operating expenses	769	526	1,295	429	796	577	1,802
Corporate and other operating expenses	608	(69)	539	383	337	2,298	3,018
Total gross operating expenses	\$ 28,345	\$ 9,437	\$ 37,782	\$ 15,626	\$ 24,332	\$ 27,319	\$ 67,277
Ceding commissions	194	110	304	591	715	186	1,492
Change in deferred acquisition costs	5,335	1,145	6,480	-	-	-	-
Total operating expenses	\$ 33,874	\$ 10,692	\$ 44,566	\$ 16,217	\$ 25,047	\$ 27,505	\$ 68,769
Reorganization costs	\$ 2,059	\$ (2,747,239)	\$ (2,745,180)	\$ 424	\$ 4	\$ 65	\$ 493
Total gross operating expenses, including reorganization costs	\$ 30,404	\$ (2,737,802)	\$ (2,707,398)	\$ 16,050	\$ 24,336	\$ 27,384	\$ 67,770

Historical Net Financial Guarantee Exposures Outstanding ^{(1) (2)}

(\$ Millions Net Par Value)	December 31,				Segregated Account December 31, 2014
	2014	2013	2012	2011	
Public Finance ⁽³⁾:					
Lease and tax backed	\$33,411	\$41,858	\$50,415	\$59,864	\$ -
General obligation	22,699	29,115	34,623	42,959	11
Utility	11,687	14,933	18,651	22,529	450
Transportation	7,738	9,653	13,892	18,945	286
Housing	7,108	7,439	8,176	8,823	-
Higher education	6,389	7,810	10,382	13,618	-
Health care	3,106	3,903	5,266	7,824	90
Other	1,310	1,351	1,613	2,255	-
Total Public Finance	93,448	116,062	143,018	176,817	837
Structured Finance:					
Mortgage-backed & home equity	13,686	16,026	19,117	23,164	13,686
Investor-owned utilities	5,411	5,881	7,071	9,049	51
Student loan	3,390	4,357	5,411	7,824	3,390
Asset-backed	1,335	2,361	2,905	4,732	-
CDOs	637	897	5,941	8,060	213
Other	1,875	1,890	1,914	2,316	310
Total Structured Finance	26,334	31,412	42,359	55,145	17,650
International Finance ⁽⁴⁾:					
Investor-owned and public utilities	8,455	9,595	10,314	10,510	-
Sovereign/sub-sovereign	6,758	7,394	7,289	7,282	-
Asset-backed	4,442	6,884	8,702	9,560	-
Transportation	3,425	5,021	6,002	5,914	127
Mortgage-backed & home equity	410	484	1,268	1,397	-
CDOs	233	822	3,191	4,375	194
Other	1,229	1,418	1,490	1,504	-
Total International Finance	24,952	31,618	38,256	40,542	321
Grand Total	\$144,734	\$179,092	\$223,633	\$272,504	\$18,808
Percent of Total Net Par Outstanding					
Public Finance	64.6%	64.8%	64.0%	64.9%	4.5%
Structured Finance	18.2%	17.5%	18.9%	20.2%	93.8%
International Finance	17.2%	17.7%	17.1%	14.9%	1.7%
Total Net Par Outstanding	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes structured credit derivative net par outstanding of \$1,530, \$2,776, \$11,282, and \$14,167, at December 31, 2014, 2013, 2012, and 2011, respectively.

(2) Includes exposure allocated to the Segregated Account.

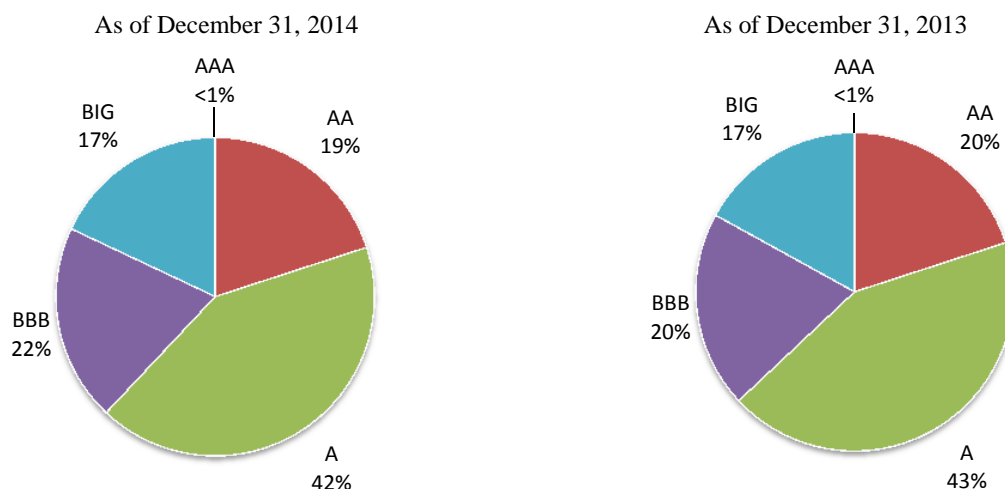
(3) Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy.

(4) International transactions include components of domestic exposure.

Geographic Distribution of Net Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	December 31,				
	2014	%	2013	2012	2011
Domestic:					
California	\$20,744	14.3%	\$25,657	\$32,105	\$36,133
New York	9,245	6.4%	11,577	14,389	18,267
Florida	6,805	4.7%	8,545	11,110	13,906
Texas	6,095	4.2%	7,431	10,016	12,983
New Jersey	5,464	3.8%	6,559	7,906	9,650
Illinois	4,326	3.0%	5,730	6,878	8,524
Massachusetts	4,154	2.9%	4,689	5,373	5,799
Colorado	3,574	2.5%	3,741	4,376	5,010
Pennsylvania	3,082	2.1%	3,906	4,304	5,301
Puerto Rico	2,437	1.7%	2,485	2,531	3,108
Mortgage and asset-backed	15,021	10.4%	18,387	22,022	27,896
Other states	38,835	26.8%	48,767	64,367	85,385
Total Domestic	119,782	82.8%	147,474	185,377	231,962
International:					
United Kingdom	17,998	12.4%	21,282	22,585	22,317
Australia	2,168	1.5%	3,331	4,820	5,176
Italy	1,415	1.0%	2,412	3,068	3,346
Austria	841	0.6%	967	943	956
New Zealand	459	0.3%	526	529	523
Internationally diversified	1,225	0.8%	1,918	3,968	5,318
Other international	846	0.6%	1,182	2,343	2,906
Total International	24,952	17.2%	31,618	38,256	40,542
Grand Total	\$144,734	100.0%	\$179,092	\$223,633	\$272,504

Rating Distribution of Net Financial Guarantee Exposures Outstanding ⁽¹⁾



(1) Based upon internal Ambac ratings. See Note 1 on the Table of Contents page.

25 Largest Domestic Public Finance Exposures ⁽¹⁾

(\$ Millions)	Ambac Rating ⁽²⁾	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$ 2,090	1.4%
New Jersey Transportation Trust Fund Authority - Transportation System	A -	1,868	1.3%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	1,224	0.8%
Massachusetts Commonwealth - GO	AA	1,182	0.8%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	1,112	0.8%
Puerto Rico Sales Tax Financing Corporation	BIG	805	0.6%
Washington State - GO	AA	764	0.5%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BIG	712	0.5%
New York Convention Center Development Corporation, Hotel Fee Revenue	A -	650	0.4%
Chicago, IL - GO	BBB +	642	0.4%
Dallas Area Rapid Transit, TX, Sales Tax Revenue	AA	629	0.4%
Mets Queens Baseball Stadium Project, NY, Lease Revenue	BIG	585	0.4%
New York City, NY - GO	AA	576	0.4%
New Jersey Turnpike Authority Revenue	A	544	0.4%
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue	BIG	532	0.4%
Alameda Corridor Transportation Authority, Transportation Revenue	BBB	522	0.4%
Missouri Joint Municipal Electric Utility Commission, Project Revenue	A -	500	0.3%
Hickam Community Housing LLC	BIG	483	0.3%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A	480	0.3%
Metropolitan Washington Airports Authority, DC, Airport System Revenue	AA -	475	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	464	0.3%
Bragg Communities, LLC	A	450	0.3%
Louisiana Citizens Property Insurance Corporation, Assessment Revenue	A -	447	0.3%
New Jersey Economic Development Authority - School Facilities Construction	A -	442	0.3%
City of San Jose California Airport Revenue Bonds	A	436	0.3%
Total:		<u>\$ 18,614</u>	<u>12.9%</u>

1) Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy.

2) See Note 1 on the Table of Contents page.

25 Largest Structured Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Ballantyne Re Plc ⁽²⁾	BIG	\$900	0.6%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 ⁽³⁾	BIG	853	0.6%
The National Collegiate Student Loan Trust 2007-4 ⁽³⁾	BIG	714	0.5%
Timberlake Financial, LLC	BBB -	608	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 ⁽³⁾	BIG	602	0.4%
Progress Energy Carolinas, INC	A -	558	0.4%
Local Insight Media Finance LLC	BIG	489	0.3%
Niagara Mohawk Power Corporation	A	414	0.3%
Option One Mortgage Loan Trust 2007-FXD1 ⁽³⁾	BIG	397	0.3%
CenterPoint Energy Inc.	BBB +	376	0.3%
Countrywide Asset-Backed Certificates Trust 2005-16 ⁽³⁾	BIG	372	0.3%
Countrywide Revolving Home Equity Loan Trust 2005-F ⁽³⁾	BIG	366	0.3%
The National Collegiate Student Loan Trust 2007-3 ⁽³⁾	BIG	363	0.3%
Consolidated Edison Company of New York	A	347	0.2%
Impac CMB Trust Series 2005-7 ⁽³⁾	BIG	337	0.2%
Countrywide Asset Backed Certificates Trust 2005-17 ⁽³⁾	BIG	305	0.2%
Privately Placed RMBS Transaction ⁽³⁾	BIG	289	0.2%
Countrywide Asset Backed Certificates Trust 2006-11 ⁽³⁾	BIG	283	0.2%
The National Collegiate Student Loan Trust 2005-3 ⁽³⁾	BIG	282	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 ⁽³⁾	BIG	280	0.2%
Duke Energy Ohio, Inc.	BBB +	255	0.2%
Terwin Mortgage Trust Asset-Backed Certificates, Series 2006-6 ⁽³⁾	BIG	250	0.2%
GMACM Home Equity Loan Trust 2005-HE3 ⁽³⁾	BIG	249	0.2%
Massachusetts Educational Financing Authority Revenue Bonds ⁽³⁾	BIG	234	0.2%
Countrywide Revolving Home Equity Loan Trust 2006-C ⁽³⁾	BIG	232	0.2%
Total:		<u>\$10,355</u>	<u>7.2%</u>

1) See Note 1 on the Table of Contents page.

2) Guaranteed by Ambac UK.

3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated all or a portion of this transaction to the Segregated Account.

25 Largest International Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitization ⁽²⁾	A +	\$1,868	1.3%
National Grid Electricity Transmission ⁽²⁾	A -	1,221	0.8%
Aspire Defence Finance plc ⁽²⁾	BBB +	1,132	0.8%
Capital Hospitals plc ⁽²⁾	BBB	1,035	0.7%
Telereal Securitization plc ⁽²⁾	AA	1,026	0.7%
Channel Link Enterprises ⁽²⁾	BBB -	929	0.6%
Posillipo Finance II S.r.l ⁽²⁾	BBB	899	0.6%
Anglian Water ⁽²⁾	A -	852	0.6%
Ostregion Investmentgesellschaft NR 1 SA ⁽²⁾	BIG	841	0.6%
National Grid Gas ⁽²⁾	A -	787	0.5%
RMPA Services plc ⁽²⁾	BBB +	768	0.5%
Scotia Gas Networks (Southern Gas) ⁽²⁾	BBB	698	0.5%
Catalyst Healthcare (Manchester) Financing plc ⁽²⁾	BBB +	662	0.5%
Powercor Australia	BBB +	593	0.4%
South East Water (Finance) Limited ⁽²⁾	BBB	570	0.4%
Babcock & Brown Air Funding I Limited	BIG	481	0.3%
CDO of HY Corporate ⁽²⁾⁽³⁾	BBB +	468	0.3%
Northern Powergrid (Yorkshire) plc ⁽²⁾	BBB +	429	0.3%
Airspeed Limited	BIG	398	0.3%
Spirit Issuer plc ⁽²⁾	BBB -	373	0.3%
Annes Gate Property PLC ⁽²⁾	BBB +	373	0.3%
Road Management Services (Finance) plc. ⁽²⁾	BBB +	373	0.3%
Dampier to Bunbury Natural Gas Pipeline	BBB	366	0.3%
CitiPower	A -	359	0.2%
Scotia Gas Networks (Scotland Gas) ⁽²⁾	BBB	351	0.2%
Total:		\$17,852	12.3%

1) See Note 1 on the Table of Contents page.

2) All or a portion of transaction guaranteed by Ambac UK.

3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities, and in connection with such segregation Ambac Assurance has allocated all or a portion of this transaction to the Segregated Account.

Net Exposure Amortization ⁽¹⁾

As of December 31, 2014

(\$ Millions)	Total, including Segregated Account		Segregated Account	
	Estimated Net Debt Service Amortization	Ending Net Financial Guarantees in Force	Estimated Net Debt Service Amortization	Ending Net Financial Guarantees in Force
2015.....	\$15,486	\$213,404	\$2,560	\$20,596
2016.....	14,597	198,807	2,716	17,880
2017.....	13,602	185,205	1,897	15,983
2018.....	13,432	171,773	1,507	14,476
2019.....	11,834	159,939	1,266	13,210
2015-2019.....	\$68,951	\$159,939	\$9,946	\$13,210
2020-2024.....	51,273	108,666	4,019	9,191
2025-2029.....	37,695	70,971	1,847	7,344
2030-2034.....	31,239	39,732	3,300	4,044
After 2034.....	39,732	-	4,044	-
Total.....	\$228,890		\$23,156	

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of December 31, 2014. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.