

Ambac

2012 Quarterly Operating Supplement

Q4

Company Profile

Ambac Financial Group, Inc. (“Ambac”), headquartered in New York City, is a holding company whose affiliates provided financial guarantees and financial services to clients in both the public and private sectors around the world. As previously announced, on November 8, 2010, Ambac filed for a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (“Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (“Bankruptcy Court”). The Bankruptcy Court entered an order confirming Ambac’s plan of reorganization on March 14, 2012. However, Ambac is not currently able to estimate when it will be able to consummate such reorganization. Until the plan of reorganization is consummated and Ambac emerges from bankruptcy, Ambac will continue to operate in the ordinary course of business as “debtor-in-possession” in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. Ambac Financial Group, Inc.’s common stock trades in the over-the-counter market under ticker symbol ABKFQ. Upon consummation of the plan of reorganization, Ambac’s existing common stock will be cancelled and extinguished and the holders thereof will not be entitled to receive, and will not retain, any property or interest on account of such common stock.

Ambac's principal operating subsidiary, Ambac Assurance Corporation, is a guarantor of public finance and structured finance obligations.

Company Information

Corporate headquarters are located at:

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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 2012

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Note 1: Internal Ambac Assurance 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. In cases where Ambac Assurance 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 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.

Key Financial Data
(Dollars in millions except share data)

	2012	2011	2010	2009	2008
Summary GAAP Financial Data:					
Statement of Operations:					
Net premiums earned	\$415	\$406	\$546	\$797	\$1,023
Net investment income	383	355	359	554	739
Change in fair value of credit derivatives	(9)	48	60	3,813	(4,031)
Gain (loss) on variable interest entities (VIEs)	28	(214)	(617)	7	-
Loss and loss expenses	684	1,859	719	2,815	2,228
Underwriting and operating expenses	139	141	254	206	274
Interest expense	112	128	181	154	349
Reorganization items	7	50	32	-	-
Net loss attributable to Ambac common shareholders	(257)	(1,960)	(753)	(15)	(5,609)
Net loss per diluted share attributable to Ambac common shareholders	(\$0.85)	(\$6.48)	(\$2.56)	(\$0.05)	(\$22.31)
Balance Sheets:					
Total non-VIE investments	\$6,330	\$6,877	\$6,853	\$8,703	\$10,293
Premium receivable	1,621	2,028	2,423	3,718	29
Subrogation recoverable	497	660	714	903	10
Total VIE assets	17,842	16,543	17,931	3,277	n/a
Total assets	27,007	27,114	29,047	18,886	17,260
Unearned premium reserve	2,778	3,457	4,008	5,687	2,382
Loss and loss expense reserve	6,619	7,044	5,289	4,772	2,276
Obligations under investment and payment agreements	362	547	806	1,291	3,358
Long-term debt ⁽¹⁾	150	224	208	1,632	1,624
Liabilities subject to compromise ⁽¹⁾	1,705	1,707	1,695	-	-
Ambac stockholders' deficit	(3,908)	(3,813)	(2,009)	(2,288)	(3,782)
Summary Statutory Data of Ambac Assurance:					
Invested assets	\$5,168	\$5,854	\$5,943	\$8,009	\$10,397
Loss and loss expense reserve	2,946	3,226	2,478	1,141	1,169
Estimated impairment losses on subsidiary guarantees	144	-	-	3,842	3,352
Policyholders' Surplus	100	495	1,027	802	1,554
Qualified statutory capital	633	688	1,540	1,154	3,484
Total claims-paying resources	\$6,513	\$7,450	\$7,877	\$10,790	\$13,501
Net par outstanding	\$223,633	\$272,504	\$318,854	\$390,406	\$434,310
Net debt service outstanding	\$350,163	\$433,484	\$509,429	\$619,566	\$695,954

1) Long-term debt for 2010 and beyond represents surplus notes issued 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. Long-term debt associated with Ambac for 2010 and beyond is included under liabilities subject to compromise.

Ambac Assurance

Claims-Paying Resources ⁽¹⁾ and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	December 31, 2012	December 31, 2011
Contingency reserve	\$533,479	\$192,738
Policyholders' Surplus ⁽²⁾⁽³⁾	100,000	495,293
Qualified statutory capital	633,479	688,031
Unearned premiums	1,358,741	1,700,424
Losses and loss adjustment expenses	2,946,481	3,226,327
Estimated impairment losses on subsidiary guarantees	144,000	-
Segregated Account liabilities ⁽³⁾	(163,687)	-
Policyholders' reserves	4,919,014	5,614,782
Present Value of Future Installment Premiums ⁽⁴⁾	546,281	770,880
Ambac Assurance UK Ltd. Claims-Paying Resources ⁽⁵⁾	1,047,494	1,064,683
Total Claims-Paying Resources	\$6,512,789	\$7,450,345
Net financial guarantees in force ⁽⁶⁾	\$350,162,883	\$433,483,509
Claims-Paying Ratio ⁽⁷⁾	54 : 1	58 : 1
Gross financial guarantees in force	\$385,803,398	\$474,304,676
Gross par outstanding	\$245,029,528	\$296,463,186

- 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 \$1,300 million and \$2,089 million are included in the capital and surplus for December 31, 2012 and December 31, 2011, respectively.
- 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. Accordingly, \$163,687 of losses in the Segregated Account did not reduce Ambac Assurance's surplus at December 31, 2012. 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 \$622,058.
- 6) Includes Ambac UK net financial guarantees in force of \$38,616,515 and \$42,716,953 as of December 31, 2012 and December 31, 2011, respectively. Financial guarantees in force includes principal and interest on insurance policies and credit derivative contracts.
- 7) Claims-paying Ratio is net financial guarantees in force divided by total claims-paying resources.

Ambac Assurance

Rollforward of Statutory Policyholders' Surplus⁽¹⁾

(\$ Thousands)

	For the year ended December 31, 2012	For the year ended December 31, 2011
Policyholders' Surplus, beginning of period	\$ 495,293	\$ 1,026,920
Net income (loss) ⁽²⁾⁽³⁾⁽⁴⁾	616,121	(835,795)
Issuance of surplus notes - segregated account ⁽³⁾	-	3,000
Issuance of junior surplus notes - segregated account ⁽⁴⁾	-	36,082
Exercise of surplus notes - general account ⁽⁵⁾	(789,179)	-
Change in contingency reserves ⁽⁶⁾	(338,985)	306,010
Change in investments ⁽⁷⁾	104,477	(42,572)
Other changes in surplus	12,273	1,648
Policyholders' Surplus, end of period ⁽⁸⁾	<u>\$ 100,000</u>	<u>\$ 495,293</u>

- 1) Information for Ambac Assurance and the Segregated Account of Ambac Assurance are combined for the purposes of this schedule.
- 2) Net income (loss) for the years ended December 31, 2012 and 2011 excludes losses of the Segregated Account of Ambac Assurance of \$163,687 and \$0, respectively.
- 3) Financial results are impacted by commutations, refinancings, bond purchases (of securities guaranteed by Ambac Assurance) and other claims reduction or defeasance outcomes (collectively "commutations"). In 2012 and 2011, Ambac Assurance and the Segregated Account executed such transactions for a total notional amount of \$2,500,657 and \$4,490,435 for total cash payments of \$383,632 and \$555,055, respectively. In 2011, the Segregated Account issued \$3,000 par value of surplus notes in connection with these commutations. Commutations generated a reduction in statutory surplus of \$46,381 and \$21,521 in 2012 and 2011, respectively.
- 4) In May 2011, the Segregated Account issued junior surplus notes with a par value of \$36,082 in connection with a settlement agreement to terminate Ambac's office lease with One State Street LLC.
- 5) Net income for the year ended December 31, 2012 includes a gain on the exercise of surplus note call options of \$600,733. Additionally, the exercise of surplus note call options reduced surplus directly by \$789,179, the par of the related surplus notes, resulting in an overall surplus reduction of \$188,446, which is equal to the total cash payment.
- 6) Effective December 31, 2011, Ambac Assurance received regulatory approval from the Wisconsin Insurance Commissioner to release \$430,332 of contingency reserves during the year ended December 31, 2011.
- 7) Includes non-income statement changes in investments such as change in non-admitted investments, unrealized losses on below investment grade investments and changes in investment in subsidiaries.
- 8) 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 \$100,000.

Ambac Assurance Segregated Account

Claims Paying Position ⁽¹⁾

(\$ Thousands)	December 31, 2012	December 31, 2011
Liabilities allocated from Ambac Assurance ⁽²⁾	\$ 6,245,484	\$ 6,208,079
Segregated Account resources:		
Secured Note provided by Ambac Assurance including accrued interest	477,426	1,691,252
Liabilities ceded to Ambac Assurance ⁽³⁾	5,692,972	4,607,570
Other Segregated Account Net Assets	13,274	15,156
Total resources available	<u>6,183,672</u>	<u>6,313,978</u>
Current (Shortfall)/Surplus to pay Segregated Account permitted claims	<u>\$ (61,812)</u>	<u>\$ 105,899</u>

- 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 (3) below. Permitted claims of the Segregated Account will initially receive partial payment of 25%.
- 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.
- 3) Liabilities ceded to Ambac Assurance via an excess of loss reinsurance agreement are limited by Ambac Assurance maintaining a minimum surplus amount of \$100,000.

Ratio of Net Claims Recorded ⁽¹⁾

(\$ Thousands)	2012	2011	2010	2009	2008
Net claims presented and paid - Insurance ⁽²⁾	\$ 932,930	\$147,762	\$290,519	\$1,458,498	\$571,012
Net unpaid claims - Insurance ⁽³⁾	619,431	1,357,181	1,411,445	-	-
Net credit derivatives payments	-	-	(263)	47,749	7,153
Net credit derivatives commutation payments ⁽⁴⁾	-	-	4,589,107	1,380,628	1,850,000
Total net claims recorded	\$1,552,361	\$1,504,943	\$6,290,808	\$2,886,875	\$2,428,165
Net insurance premiums and credit derivative fees	\$428,317	\$422,971	\$577,195	\$846,001	\$1,085,482
Ratio of net claims recorded ⁽⁵⁾	362.4%	355.8%	1089.9%	341.2%	223.7%

Estimated Future Gross RMBS Claims Presented ⁽⁶⁾

(\$ Thousands)	
2013	\$ 676,676
2014	721,341
2015	408,984
2016	197,316
2017	104,555
2018	68,920
2013	\$ 676,676
2014-2018	1,501,116
2019-2023	167,631
2024-2028	32,291
2029-2033	5,281
After 2033	757,743
Total	\$ 3,140,738

- 1) Net claims recorded include (i) claims paid and (ii) changes to claims presented and unrepresented for policies which were allocated to the Segregated Account.
- 2) Net claims presented and paid are net of subrogation received of \$222,205, \$104,805, \$107,914, \$111,737, and \$11,719 for the years ended December 31, 2012, 2011, 2010, 2009, and 2008, respectively. Includes the issuance of surplus notes at par value in the amount of \$0, \$3,000, and \$50,000 for the years ended December 31, 2012, 2011 and 2010, respectively.
- 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 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 began paying 25% of each permitted policy claim that has arisen since the commencement of the Segregated Account Rehabilitation Proceedings and will pay 25% of each policy claim submitted and permitted in the future. Unpaid claims are included in our net insurance reserves.
- 4) 2010 credit derivative commutation payments include the issuance of surplus notes by Ambac Assurance at par in the amount of \$2,000,000.
- 5) Ratio of net claims recorded is total net claims presented for payment divided by net premiums earned and other credit enhancement fees.
- 6) Represents management's estimate of future claims presented, gross of reinsurance recoveries and gross of representation and warranty subrogation recoveries. Future losses exclude claims presented and unpaid through December 31, 2012. At December 31, 2012, Ambac's estimate of representation and warranty subrogation recoveries are \$27,600, \$2,118,679 and \$414,884 in 2013, 2014 and 2015, on certain RMBS transactions. Actual claims presented may differ from estimates.

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

(\$ Thousands)	12/31/12	12/31/11	12/31/10	12/31/09
Total insurance reserves ⁽¹⁾	\$5,974,731	\$6,230,780	\$4,424,450	\$3,777,321
Estimated credit impairment losses on credit derivatives ⁽²⁾	46,469	36,940	22,055	4,208,198
Total impairment losses	6,021,200	6,267,720	4,446,505	7,985,519
Mark-to-market reserve (asset) on credit derivatives ⁽²⁾	167,116	153,713	199,629	(1,168,707)
Grand total net insurance loss reserves and credit derivatives	<u>\$6,188,316</u>	<u>\$6,421,433</u>	<u>\$4,646,134</u>	<u>\$6,816,812</u>

Summary of Below Investment Grade Exposures ⁽³⁾

(\$ Thousands)	Segregated Account Net Par Outstanding	Total Net Par Outstanding	Total Impairment Losses
Public Finance:			
Lease & tax backed	\$0	\$1,142,623	\$31,416
Housing	-	775,119	1,063
Transportation revenue	86,286	533,038	116,075
General obligation	-	392,024	57,263
Health care	-	11,060	-
Other	-	1,034,310	15,440
Total Public Finance	<u>86,286</u>	<u>3,888,174</u>	<u>221,257</u>
Structured Finance:			
Mortgage-backed & home equity - first lien & other. . . .	9,994,842	9,994,842	3,194,533
Mortgage-backed & home equity - second lien	7,532,613	7,532,613	484,827
Student loans	5,315,598	5,331,435	942,550
Other	137,000	2,210,895	958,308
Total Structured Finance	<u>22,980,053</u>	<u>25,069,785</u>	<u>5,580,218</u>
International Finance:	299,102	4,956,166	219,725
Total	<u>\$23,365,441</u>	<u>\$33,914,125</u>	<u>\$6,021,200</u>

1) As a result of the partial claim moratorium on the Segregated Account of Ambac Assurance by the Rehabilitator, \$3,388,057 of claims remain unpaid. Total insurance reserves are inclusive of these unpaid claims.

2) Total net mark-to-market losses are \$213,585, \$190,653, \$221,684, and \$3,039,491 as of December 31, 2012, 2011, 2010, and 2009, respectively, and are reported on the consolidated balance sheet under derivative liabilities and derivative assets.

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.

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

2012 (\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Public Finance	\$39,016	\$39,283	\$37,865	\$36,817	\$152,981
Structured Finance ⁽¹⁾	18,293	6,632	19,967	5,056	49,948
International Finance	21,851	21,261	20,861	20,074	84,047
Total Normal Insurance Premiums Earned	79,160	67,176	78,693	61,947	286,976
Accelerated Premiums Earned	15,790	35,866	34,381	41,591	127,628
Total Premiums Earned	\$94,950	\$103,042	\$113,074	\$103,538	\$414,604
Fees on credit derivative contracts	\$3,254	\$3,073	\$2,944	\$4,442	\$13,713

2011 (\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Public Finance	\$42,400	\$42,541	\$40,359	\$39,784	\$165,084
Structured Finance	29,691	25,034	22,123	20,458	97,306
International Finance	19,778	20,365	20,738	22,450	83,331
Total Normal Insurance Premiums Earned	91,869	87,940	83,220	82,692	345,721
Accelerated Premiums Earned	(70)	11,331	18,835	30,153	60,249
Total Premiums Earned	\$91,799	\$99,271	\$102,055	\$112,845	\$405,970
Fees on credit derivative contracts	\$5,323	\$4,224	\$3,829	\$3,625	\$17,001

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⁾
2013	\$220.3	\$9.5	\$114.5
2014	194.0	7.7	101.2
2015	179.8	4.5	93.3
2016	169.7	2.5	85.2
2017	160.0	1.9	79.6
2013-2017	\$923.8	\$26.1	\$473.8
2018-2022	670.8	7.0	313.7
2023-2027	478.6	0.1	218.1
2028-2032	306.5	-	164.0
After 2032	220.8	-	141.2
Total	\$2,600.5	\$33.2	\$1,310.8

- 1) Reduction (increase) to net insurance premiums earned for changes in premium receivables relating to a non-investment grade obligation deemed uncollectible were \$2,674, \$12,525, (\$1,366) and \$12,023 for the first, second, third and fourth quarter of 2012, 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, 2012. 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 as a result of rate step-ups or other early retirement provision incentives for the issuer, premium earnings may be negative in the period of call or refinancing.
- 3) Represents management's estimate of 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 the Consolidations Accounting Standard (\$305.9 million). Please see discussion in Ambac's filings with the Securities and Exchange Commission.

Fixed Income Investment Portfolio

As of December 31, 2012

INCOME ANALYSIS BY TYPE OF SECURITY	Fair Value	Amortized Cost	Pre-tax Yield to Maturity ⁽¹⁾	YTD GAAP Investment Income
Investment category (\$ thousands)				
Financial Guarantee investments:				
Long-term investments				
U.S. government obligations	\$ 370,951	\$ 370,566	0.67%	\$ 3,177
U.S. agency obligations	78,418	75,415	4.22%	3,227
Municipal obligations ⁽²⁾	1,814,730	1,632,637	5.11%	89,781
Foreign obligations	70,112	67,347	3.75%	2,709
Corporate obligations	1,047,416	961,537	4.09%	42,961
Mortgage and asset-backed securities	1,904,827	1,530,153	13.20%	227,788
Total long-term investments	5,286,454	4,637,655	7.18%	369,643
Short-term investments	629,690	629,251	0.10%	1,318
Other ⁽³⁾	100	100		548
Total Financial Guarantee investments	5,916,244	5,267,006	6.33%	371,509
Investment expenses				(5,602)
Financial Guarantee net investment income				\$ 365,907
Financial Services investments: ⁽⁴⁾				
Long-term investments				
U.S. government obligations	22,111	21,988		290
U.S. agency obligations	4,117	3,880		252
Corporate obligations	64,758	67,504		813
Mortgage and asset-backed securities	290,734	286,314		15,387
Total long-term investments	381,720	379,686		16,742
Short-term investments	1,652	1,652		31
Total Financial Services investments	383,372	381,338		16,773
Corporate investments:				
Short-term investments	30,316	30,316		222
Total Corporate investments	30,316	30,316		222
Total Investments	\$ 6,329,932	\$ 5,678,660		\$ 382,902

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO⁽⁵⁾

Rating	Percent of Investment Portfolio		
	Fin. Guar. ⁽⁶⁾	Fin. Services	Combined
AAA	27%	81%	31%
AA	27	19	26
A	13	-	12
BBB	11	-	10
Below investment grade	17	-	16
Not rated	5	-	5
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Duration of Financial Guarantee investment portfolio			2.6

- "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 amortized cost, 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.
- Includes taxable and tax-exempt municipal obligations with a fair value of \$556,047 and \$1,258,683 respectively.
- Includes income earned on loans, which are classified separately on the balance sheet.
- Financial Services investments relate primarily to the investment agreement business.
- Ratings are based on the lower of Standard & Poor's or Moody's rating. If guaranteed, rating represents the higher of the underlying or wrapped rating. Rating distribution is calculated based on amortized cost.
- Includes Ambac Assurance insured RMBS bonds purchased as part of our loss remediation strategy. These bonds represent 12% of the Financial Guarantee portfolio.

Expense Analysis (GAAP)

2012					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Financial Guarantee operating expenses:					
Compensation	\$ 13,824	\$ 13,441	\$ 13,239	\$ 12,604	\$ 53,108
Non-compensation	11,554	13,271	10,230	17,228	52,283
Total Financial Guarantee operating expenses	25,378	26,712	23,469	29,832	105,391
Financial Services operating expenses	792	923	859	1,114	3,688
Corporate and other operating expenses	1,930	(593)	1,745	(3,233)	(151)
Total gross operating expenses	\$ 28,100	\$ 27,042	\$ 26,073	\$ 27,713	\$ 108,928
Ceding commissions and change in deferred acquisition costs	8,434	6,525	7,274	7,868	30,101
Total operating expenses, net of deferred expenses.	\$ 36,534	\$ 33,567	\$ 33,347	\$ 35,581	\$ 139,029
Reorganization costs	\$ 2,461	\$ 767	\$ 1,252	\$ 2,735	\$ 7,215
Total gross operating expenses, including reorganization costs	\$ 30,561	\$ 27,809	\$ 27,325	\$ 30,448	\$ 116,143

2011					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Financial Guarantee operating expenses:					
Compensation	\$ 16,612	\$ (805)	\$ 14,276	\$ 13,845	\$ 43,929
Non-compensation	16,644	941	15,621	15,369	48,575
Total Financial Guarantee operating expenses	33,256	136	29,897	29,214	92,503
Financial Services operating expenses	2,614	2,707	2,719	2,401	10,441
Corporate and other operating expenses	477	990	1,801	1,755	5,023
Total gross operating expenses	\$ 36,347	\$ 3,833	\$ 34,417	\$ 33,370	\$ 107,967
Ceding commissions and change in deferred acquisition costs	9,120	11,700	10,443	2,075	33,338
Total operating expenses, net of deferred expenses.	\$ 45,466	\$ 15,533	\$ 44,860	\$ 35,445	\$ 141,304
Reorganization costs	\$ 24,805	\$ 6,470	\$ 8,519	\$ 10,067	\$ 49,861
Total gross operating expenses, including reorganization costs	\$ 61,151	\$ 10,303	\$ 42,936	\$ 43,437	\$ 157,827

Historical Net Financial Guarantee Exposures Outstanding ⁽¹⁾

(\$ Millions Net Par Value)	December 31,				Segregated Account December 31, 2012
	2012	2011	2010	2009	
Public Finance:					
Lease and tax backed	\$50,415	\$59,864	\$65,843	\$73,081	\$ -
General obligation	34,623	42,959	48,241	54,047	11
Utility	18,651	22,529	26,360	30,835	421
Transportation	13,892	18,945	20,722	22,501	334
Higher education	10,382	13,618	15,279	16,577	-
Housing	8,176	8,823	9,878	10,247	-
Health care	5,266	7,824	9,603	11,987	86
Other	1,613	2,255	3,423	3,892	-
Total Public Finance	143,018	176,817	199,349	223,167	852
Structured Finance:					
Mortgage-backed & home equity	19,117	23,164	27,488	32,407	19,117
Investor-owned utilities	7,071	9,049	10,685	13,212	59
Other CDOs	5,941	8,060	11,463	18,313	363
Student loan	5,411	7,824	11,408	14,518	5,322
Asset-backed and conduits	2,905	4,732	10,005	16,455	-
CDO of ABS >25% MBS	-	-	-	16,718	-
Other	1,914	2,316	2,750	3,092	315
Total Structured Finance	42,359	55,145	73,799	114,715	25,176
International Finance ⁽²⁾:					
Investor-owned and public utilities	10,314	10,510	10,861	10,388	-
Asset-backed and conduits	8,702	9,560	10,738	13,691	5
Sovereign/sub-sovereign	7,289	7,282	7,119	6,859	-
Transportation	6,002	5,914	6,744	7,584	252
Other CDOs	3,191	4,375	6,775	9,083	647
Mortgage-backed & home equity	1,268	1,397	1,898	3,386	231
Other	1,490	1,504	1,571	1,533	-
Total International Finance	38,256	40,542	45,706	52,524	1,135
Grand Total	\$223,633	\$272,504	\$318,854	\$390,406	\$27,163
Percent of Total Net Par Outstanding					
Public Finance	64.0%	64.9%	62.5%	57.2%	3.1%
Structured Finance	18.9%	20.2%	23.2%	29.4%	92.7%
International Finance	17.1%	14.9%	14.3%	13.4%	4.2%
Total Net Par Outstanding	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Included in the above exposures are structured credit derivatives. Total structured credit derivative net par outstanding amounted to \$11,282, \$14,167, \$18,766, and \$43,276 at December 31, 2012, 2011, 2010, and 2009, respectively.

(2) International transactions include components of domestic exposure.

Geographic Distribution of Net Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	December 31,		December 31,			
	2012	%	2011	2010	2009	2008
Domestic:						
California	\$32,105	14.4%	\$36,133	\$39,210	\$43,388	\$45,343
New York	14,389	6.4%	18,267	20,944	22,865	25,972
Florida	11,110	5.0%	13,906	15,910	17,816	18,724
Texas	10,016	4.5%	12,983	14,776	16,941	17,674
New Jersey	7,906	3.5%	9,650	10,415	11,654	12,204
Illinois	6,878	3.1%	8,524	9,351	10,472	10,544
Massachusetts	5,373	2.4%	5,799	6,576	8,255	8,184
Colorado	4,376	2.0%	5,010	5,786	6,392	6,818
Pennsylvania	4,304	1.9%	5,301	6,036	7,405	10,879
Washington	3,480	1.6%	4,772	5,710	6,124	6,249
Mortgage and asset-backed	22,022	9.8%	27,896	37,493	48,862	62,438
Other states	63,418	28.4%	83,721	100,941	137,708	153,601
Total Domestic	185,377	82.9%	231,962	273,148	337,882	378,630
International:						
United Kingdom	22,585	10.1%	22,317	22,215	22,840	20,151
Australia	4,820	2.2%	5,176	6,292	6,034	4,952
Italy	3,068	1.4%	3,346	3,674	3,821	2,843
Austria	943	0.4%	956	999	1,149	905
Germany	598	0.3%	619	692	765	812
Internationally diversified	3,968	1.8%	5,318	7,793	9,914	14,937
Other international	2,274	1.0%	2,810	4,041	8,001	11,080
Total International	38,256	17.1%	40,542	45,706	52,524	55,680
Grand Total	\$223,633	100.0%	\$272,504	\$318,854	\$390,406	\$434,310

Rating Distribution of Net Financial Guarantee Exposures Outstanding ⁽¹⁾

As of December 31, 2012

Rating	Percentage of Guaranteed Portfolio		
	Public Finance	Structured and International	Total
AAA	<1	2	1
AA	29	10	22
A	56	23	44
BBB	12	28	18
BIG	3	37	15
	100	100	100

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

25 Largest Domestic Public Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	AADS ⁽²⁾	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$196.6	2,800	1.3%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	\$167.3	2,053	0.9%
Bay Area Toll Authority, CA Toll Bridge Revenue ⁽³⁾	AA -	\$83.3	1,581	0.7%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	\$137.0	1,414	0.6%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	\$96.7	1,248	0.6%
Massachusetts Commonwealth - GO	AA	\$88.5	1,216	0.5%
Washington State - GO	AA	\$95.8	1,154	0.5%
Los Angeles Unified School District, CA - GO	AA -	\$78.3	944	0.4%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	\$76.8	846	0.4%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A	\$53.8	833	0.4%
New Jersey Turnpike Authority Revenue	A	\$46.7	806	0.4%
Puerto Rico Sales Tax Financing Corporation	A +	\$176.1	805	0.4%
New Jersey Economic Development Authority - School Facilities Construction	A +	\$51.3	802	0.4%
Puerto Rico Highways & Transportation Authority, Transportation Revenue ⁽³⁾	BBB +	\$47.3	752	0.3%
New York City, NY - GO	AA	\$41.6	731	0.3%
Chicago, IL - GO	A +	\$36.2	730	0.3%
University of California Board of Regents, General Revenue	AA -	\$41.8	682	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	\$47.1	660	0.3%
New York City, NY Water and Sewer System Revenue	AA	\$44.7	652	0.3%
New York Convention Center Development Corporation, Hotel Fee Revenue	A -	\$43.7	651	0.3%
Dallas Area Rapid Transit, TX, Sales Tax Revenue	AA	\$47.5	638	0.3%
Missouri Joint Municipal Electric Utility Commission, Project Revenue	A -	\$40.6	636	0.3%
Mets Queens Baseball Stadium Project, NY, Lease Revenue	BIG	\$36.2	598	0.3%
New York State Personal Income Tax Revenue	AA -	\$40.5	591	0.3%
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue	BBB +	\$39.0	587	0.3%
Total:			<u>\$24,410</u>	<u>10.9%</u>

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

2) Average Annual Debt Service, net of reinsurance.

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 Structured Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
CDO of ABS < 25% MBS	A	\$1,278	0.6%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 ⁽²⁾	BIG	1,166	0.5%
Ballantyne Re Plc ⁽³⁾	BIG	900	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 ⁽²⁾	BIG	802	0.4%
The National Collegiate Student Loan Trust 2007-4 ⁽²⁾	BIG	790	0.4%
Spirit Master Funding	BBB	760	0.3%
Timberlake Financial, LLC	BIG	620	0.3%
Michigan Higher Education Student Loan Authority ⁽²⁾	BIG	591	0.3%
Progress Energy Carolinas, INC	A -	558	0.2%
Ares XI CLO, Ltd.	AA +	508	0.2%
Local Insight Media Finance LLC	BIG	489	0.2%
Massachusetts Educational Financing Authority Revenue Bonds ⁽²⁾	BIG	488	0.2%
Countrywide Asset-Backed Certificates Trust 2005-16 ⁽²⁾	BIG	486	0.2%
Option One Mortgage Loan Trust 2007-FXD1 ⁽²⁾	BIG	472	0.2%
Countrywide Revolving Home Equity Loan Trust 2005-F ⁽²⁾	BIG	465	0.2%
Niagara Mohawk Power Corporation	A	444	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 ⁽²⁾	BIG	444	0.2%
The National Collegiate Student Loan Trust 2007-3 ⁽²⁾	BIG	437	0.2%
Privately Placed RMBS Transaction ⁽²⁾	BIG	416	0.2%
Fairway Loan Funding Company	AA +	415	0.2%
Impac CMB Trust Series 2005-7 ⁽²⁾	BIG	413	0.2%
Countrywide Asset Backed Certificates Trust 2005-17 ⁽²⁾	BIG	398	0.2%
Kinney Hill Credit Opportunities Funds	A	385	0.2%
The National Collegiate Student Loan Trust 2005-3 ⁽²⁾	BIG	382	0.2%
Countrywide Asset Backed Certificates Trust 2006-11 ⁽²⁾	BIG	380	0.2%
Total:		<u>\$14,487</u>	<u>6.5%</u>

25 Largest International Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitization ⁽³⁾	A +	\$2,055	0.9%
Romulus Finance s.r.l. ⁽³⁾	BIG	1,504	0.7%
Channel Link Enterprises ⁽³⁾	BBB -	1,262	0.6%
Telereal Securitization plc ⁽³⁾	AA	1,248	0.6%
Punch Taverns Finance plc-UK Pub Securitization ⁽³⁾	BIG	1,235	0.6%
National Grid Electricity Transmission ⁽³⁾	A -	1,215	0.5%
Aspire Defence Finance plc ⁽³⁾	BBB +	1,189	0.5%
Regione Campania ⁽³⁾	BBB	1,028	0.5%
Capital Hospitals plc ⁽³⁾	BBB -	1,015	0.5%
Ostregion Investmentgesellschaft NR 1 SA ⁽³⁾	BIG	943	0.4%
Anglian Water ⁽³⁾	A -	844	0.4%
RMPA Services plc ⁽³⁾	BBB +	832	0.4%
National Grid Gas ⁽³⁾	A -	784	0.4%
Powercor Australia	A -	755	0.3%
Scotia Gas Networks ⁽³⁾	BBB	728	0.3%
CitiPower	A -	722	0.3%
Private CMBS Transaction ⁽³⁾	A +	714	0.3%
Dampier to Bunbury Natural Gas Pipeline	BBB	710	0.3%
Spirit Issuer plc ⁽³⁾	BIG	697	0.3%
Catalyst Healthcare (Manchester) Financing plc ⁽³⁾	BBB +	686	0.3%
CDO of HY Corporate	AA	606	0.3%
South East Water (Finance) Limited ⁽³⁾	BBB	595	0.3%
Babcock & Brown Air Funding I Limited	BBB +	581	0.3%
European Single-Borrower CMBS Transaction	AA	510	0.2%
United Energy Distribution	BBB	508	0.2%
Total:		<u>\$22,966</u>	<u>10.3%</u>

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

2) 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.

3) All or a portion of transaction guaranteed by Ambac Assurance UK, Ltd.

Net Exposure Amortization ⁽¹⁾

As of December 31, 2012

(\$ 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
2013.....	\$ 22,583	\$ 327,580	\$ 3,643	\$ 32,168
2014.....	19,944	307,636	3,052	29,116
2015.....	21,527	286,109	2,823	26,293
2016.....	18,865	267,244	2,589	23,704
2017.....	18,051	249,193	1,843	21,861
2013-2017.....	\$ 100,970	\$ 249,193	\$ 13,950	\$ 21,861
2018-2022.....	83,058	166,135	5,846	16,015
2023-2027.....	57,334	108,801	3,104	12,911
2028-2032.....	45,639	63,162	3,574	9,337
After 2032.....	63,162	-	9,337	-
Total.....	\$ 350,163		\$ 35,811	

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of December 31, 2012. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.