

Ambac

2013 Quarterly Operating Supplement

Q4

Company Profile

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 involving the development or acquisition of new financial services businesses. Ambac’s common stock trades on the NASDAQ Global Select Market (NASDAQ: AMBC).

Company Information

Corporate headquarters are located at:

Ambac Financial Group, Inc.
One State Street Plaza
New York, New York 10004
www.ambac.com

Investor Relations Contact:
Abbe Goldstein (212) 208-3222
agoldstein@ambac.com

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 2013

Table of Contents

Key Financial Data.....	1
Claims-Paying Resources and Statutory Financial Ratios	2
Roll-forward of Statutory Policyholders’ Surplus	3
Ambac Assurance Segregated Account, in Rehabilitation - Claims Paying Position.....	4
Ratio of Net Claims Recorded	5
Estimated Future Gross RMBS Claims Presented	5
Summary of Net Insurance Loss Reserves (GAAP) and Credit Derivative Impairments	6
Summary of Below Investment Grade Exposures and Total Impairment Losses.....	6
Net Insurance Premiums Earned and Fees on Credit Derivatives (GAAP).....	7
Net Unearned Premium Amortization and Estimated Future Installment Premiums	7
Fixed Income Investment Portfolio.....	8
Rating Distribution of Investment Portfolio.....	8
Expense Analysis (GAAP)	9
Historical Net Financial Guarantee Exposures Outstanding.....	10
Geographic Distribution of Net Financial Guarantee Exposures Outstanding	11
Rating Distribution of Net Financial Guarantee Exposures Outstanding	11
25 Largest Domestic Public Finance Exposures.....	12
25 Largest Structured Finance Exposures.....	13
25 Largest International Finance Exposures.....	13
Net Exposure Amortization.....	14

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 Assurance UK Limited (“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.

Key Financial Data
(Dollars in millions)

	Successor ⁽¹⁾		Predecessor ⁽¹⁾			
	4Q 2013	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	\$85	\$214	\$130	\$415	\$406	\$546
Net investment income ⁽²⁾	68	146	117	383	355	359
Change in fair value of credit derivatives	110	193	(60)	(9)	48	60
Gain (loss) on variable interest entities (VIEs)	(108)	(49)	427	28	(214)	(617)
Loss and loss expenses	(5)	(185)	(38)	684	1,859	719
Insurance intangible amortization ⁽²⁾	37	100	-	-	-	-
Underwriting and operating expenses ⁽²⁾	28	69	45	139	141	254
Interest expense ⁽²⁾	32	85	31	112	128	181
Reorganization items ⁽²⁾	-	-	(2,745)	7	50	32
Net income (loss) attributable to Ambac common shareholders ⁽²⁾	69	505	3,349	(257)	(1,960)	(753)
Balance Sheets:						
Total non-VIE investments	\$6,524	\$6,524	\$6,457	\$6,330	\$6,877	\$6,853
Premium receivable	1,453	1,453	1,532	1,621	2,028	2,423
Insurance intangible asset ⁽²⁾	1,598	1,598	1,659	-	-	-
Goodwill ⁽²⁾	515	515	515	-	-	-
Subrogation recoverable	499	499	534	497	660	714
Total VIE assets	15,989	15,989	17,460	17,842	16,543	17,931
Total assets ⁽²⁾	27,107	27,107	28,853	27,085	27,114	29,047
Unearned premium reserve	2,256	2,256	2,482	2,778	3,457	4,008
Loss and loss expense reserve	5,969	5,969	6,106	6,619	7,044	5,289
Obligations under investment agreements ⁽³⁾	359	359	365	362	547	806
Long-term debt ⁽²⁾⁽³⁾	963	963	940	150	224	208
Liabilities subject to compromise ⁽³⁾	-	-	-	1,705	1,707	1,695
Ambac stockholders' equity (deficit) ⁽²⁾	703	703	185	(3,908)	(3,813)	(2,009)
Summary Statutory Data of Ambac Assurance:						
Invested assets	\$5,747	\$5,747	\$5,168	\$5,854	\$5,943	
Loss and loss expense reserve	3,541	3,541	2,946	3,226	2,478	
Estimated impairment losses on subsidiary guarantees	57	57	144	-	-	
Policyholders' Surplus	840	840	100	495	1,027	
Qualified statutory capital	906	906	633	688	1,540	
Total claims-paying resources	\$7,199	\$7,199	\$6,513	\$7,450	\$7,877	

- 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, through December 31, 2013 are referred to as "Successor" and the financial results for the periods through April 30, 2013 are referred to as "Predecessor". The 2013 Successor Period and the 2013 Predecessor Period are distinct reporting periods. The effects of emergence and Fresh Start had a material impact on the comparability of our results of operations between these periods.
- 2) As a result of the implementation of Fresh Start, results and balances are not comparable between Successor Ambac and Predecessor Ambac.
- 3) Long-term debt 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 is included under liabilities subject to compromise.

Ambac Assurance

Claims-Paying Resources ⁽¹⁾ and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	December 31, 2013	December 31, 2012
Contingency Reserve	\$65,691	\$533,479
Policyholders' Surplus ⁽²⁾⁽³⁾	840,262	100,000
Qualified Statutory Capital	905,953	633,479
Unearned Premiums	1,093,607	1,358,741
Losses and Loss Adjustment Expenses	3,541,487	2,946,481
Estimated Impairment Losses on Subsidiary Guarantees	56,600	144,000
Segregated Account Liabilities ⁽³⁾	-	(163,687)
Policyholders' Reserves	5,597,647	4,919,014
Present Value of Future Installment Premiums ⁽⁴⁾	468,576	546,281
Ambac Assurance Claims-paying Resources	6,066,223	5,465,295
Ambac UK Claims-paying Resources ⁽⁵⁾	1,132,736	1,047,494
Total Claims-paying Resources	\$7,198,959	\$6,512,789
Net financial guarantees in force ⁽⁶⁾	\$282,210,115	\$350,162,883
Total Claims-paying Ratio ⁽⁷⁾	39 : 1	54 : 1
Gross Financial Guarantees in Force	\$312,710,206	\$385,803,398
Gross Par Outstanding	\$197,690,595	\$245,029,528

- 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 \$1,641,860 and \$1,299,902 are included in the capital and surplus for December 31, 2013 and December 31, 2012, respectively. On May 1, 2013 the Segregated Account issued \$350,000 of Junior Surplus Notes to Ambac.
- 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 would be less than \$100,000, (the "Minimum Surplus Amount"). At December 31, 2012, \$163,687 of losses in the Segregated Account did not reduce Ambac Assurance's surplus.
- 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 \$620,503.
- 6) Includes Ambac UK net financial guarantees in force of \$36,132,872 and \$38,616,515 as of December 31, 2013 and December 31, 2012, 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

(\$ Thousands)

	For the year ended December 31, 2013	For the year ended December 31, 2012
Policyholders' Surplus, beginning of period	\$ 100,000	\$ 495,293
Net income ^{(1) (2) (3)}	(235,557)	616,121
Issuance of junior surplus note - segregated account ⁽¹⁾	350,000	-
Extinguishment of junior surplus note - segregated account ⁽²⁾	(8,043)	-
Extinguishment of surplus notes - general account ⁽³⁾	-	(789,179)
Change in contingency reserves ⁽⁴⁾	463,499	(338,985)
Change in investments ⁽⁵⁾	165,785	104,477
Other changes in surplus	4,578	12,273
Policyholders' Surplus, end of period ⁽⁶⁾	<u>\$ 840,262</u>	<u>\$ 100,000</u>

- 1) Net income 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.
- 2) Net income for the year ended December 31, 2013 includes 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.
- 3) Net income for the period 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.
- 4) 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.
- 5) 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.
- 6) 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, \$163,687 of the Segregated Account's liabilities did not reduce Ambac Assurance's surplus at December 31, 2012.

Ambac Assurance Segregated Account, in Rehabilitation
Claims Paying Position ⁽¹⁾

(\$ Thousands)	December 31, 2013	December 31, 2012
Liabilities allocated from Ambac Assurance ⁽²⁾	\$ 6,010,714	\$ 6,245,484
Segregated Account resources:		
Secured Note provided by Ambac Assurance including accrued interest	107,803	477,426
Liabilities ceded to Ambac Assurance ⁽³⁾	6,333,237	5,692,972
Other Segregated Account Net Assets	12,313	13,274
Total resources available	<u>6,453,353</u>	<u>6,183,672</u>
Current Surplus/(Shortfall) to pay Segregated Account permitted claims	<u>\$ 442,639</u>	<u>\$ (61,812)</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%. In August 2013, the Segregated Account began making cash payments in excess of 25% of permitted claims on certain policies. Refer to Ambac's filings with the Securities and Exchange Commission for further discussion of the Rehabilitation Court's approval for supplemental payments above 25% for certain Segregated Account policies.
- 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) 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)	Successor Ambac	Predecessor Ambac			
	Eight Months ended December 31, 2013	Four Months ended April 30, 2013	December 31,		
			2012	2011	2010
Net claims paid - Insurance ⁽²⁾	\$ (92,480)	\$ (31,147)	\$ 932,930	\$147,762	\$290,519
Net unpaid claims - Insurance ⁽³⁾	241,916	274,222	619,431	1,357,181	1,411,445
Net credit derivatives payments	-	-	-	-	(263)
Net credit derivatives commutation payments ⁽⁴⁾	-	-	-	-	4,589,107
Total net claims recorded	\$ 149,436	\$243,075	\$1,552,361	\$1,504,943	\$6,290,808
Net insurance premiums earned and credit derivative fees	\$223,296	\$133,444	\$428,317	\$422,971	\$577,195
Ratio of net claims recorded ⁽⁵⁾	66.9%	182.2%	362.4%	355.8%	1089.9%

Estimated Future Gross RMBS Claims Presented ⁽⁶⁾

(\$ Thousands)	Successor Ambac	Predecessor Ambac
	December 31, 2013	December 31, 2012
2013	n.a.	\$ 676,676
2014	\$ 368,894	721,341
2015	236,549	408,984
2016	268,054	197,316
2017	184,279	104,555
2018	124,094	68,920
2013	n.a.	\$ 676,676
2014-2018	\$ 1,181,870	1,501,116
2019-2023	240,882	167,631
2024-2028	43,011	32,291
2029-2033	5,764	5,281
After 2033	730,164	757,743
Total	\$ 2,201,691	\$ 3,140,738

- 1) Net claims recorded include (i) claims paid (recovered); (ii) changes to claims presented and unrepresented for policies which were allocated to the Segregated Account; and (iii) commutation settlements.
- 2) Net claims paid are net of subrogation received of \$292,067, \$160,355, \$222,205, \$104,805, and \$107,914 for 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.
- 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 paid 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. In August 2013, the Segregated Account began to make cash payments in excess of 25% of permitted claims on certain policies. Refer to Ambac's filings with the Securities and Exchange Commission for discussion of the Rehabilitation Court's approval for supplemental payments above 25% for certain Segregated Account policies. 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 recorded divided by net premiums earned and other credit enhancement fees.
- 6) Represents management's estimate of future claims recorded, excluding reinsurance recoveries and representation and warranty subrogation recoveries. Future losses in this table exclude claims presented and unpaid through December 31, 2013 (\$3,904,195) and Ambac's estimate of representation and warranty subrogation recoveries at December 31, 2013 (\$2,206,598). Actual claims presented may differ from estimates.

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

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

Summary of Below Investment Grade Exposures and Total Impairment Losses

(\$ Thousands)	Segregated Account Net Par Outstanding ⁽³⁾	Total Net Par Outstanding	Total Impairment Losses ⁽⁴⁾
Public Finance:			
Lease & tax backed	\$0	\$2,280,883	\$84,284
Housing	-	731,627	2,565
Transportation revenue	86,286	518,955	104,465
General obligation	-	362,601	138,494
Other	-	927,896	13,812
Total Public Finance	86,286	4,821,962	343,620
Structured Finance:			
Mortgage-backed & home equity - first lien & other	8,437,940	8,437,940	2,966,965
Mortgage-backed & home equity - second lien	6,440,241	6,440,241	441,928
Student loans	4,223,395	4,223,395	866,976
Other	137,000	2,194,901	525,318
Total Structured Finance	19,238,576	21,296,477	4,801,187
International Finance:	281,600	3,701,556	224,601
Total	\$19,606,462	\$29,819,995	\$5,369,408

1) As a result of the partial claim moratorium on the Segregated Account of Ambac Assurance by the Rehabilitator, \$3,904,195 of claims, net of reinsurance remain unpaid. Total insurance reserves are inclusive of these unpaid claims.

2) Total net mark-to-market losses are \$94,322, \$213,585, \$190,653, and \$221,684 as of December 31, 2013, 2012, 2011, and 2010, respectively, and are reported on the consolidated balance sheet under derivative 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 impairment losses are not limited to below investment grade credits. Estimated impairment losses includes both insurance loss reserves and estimated credit impairment losses on credit derivatives and excludes amounts eliminated as a result of the Consolidations Accounting Standard. Please see discussion in Ambac's filings with the Securities and Exchange Commission for further information. Total impairment losses exclude impairment losses on consolidated VIEs of \$341,139.

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

	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
2013 (\$ Thousands)							
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)	11,685	20,025
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	60,735	156,976
Accelerated Premiums Earned	29,360	7,073	36,433	13,049	19,698	23,795	56,542
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

Predecessor Ambac

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2012 (\$ Thousands)					
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

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
2014	\$186.9	\$2.9	\$104.2	\$29.0
2015	166.7	2.2	92.8	26.0
2016	153.7	1.1	84.5	25.1
2017	142.8	0.8	78.4	24.2
2018	133.6	0.8	81.6	22.8
2014-2018	\$783.7	\$7.8	\$441.5	\$127.1
2019-2023	555.7	3.1	285.9	85.1
2024-2028	388.0	0.2	217.7	51.2
2029-2033	230.7	-	166.0	28.5
After 2033	152.1	-	119.9	9.5
Total	\$2,110.2	\$11.1	\$1,231.0	\$301.4

1) Reductions (increases) to net insurance premiums earned for changes in premium receivables relating to non-investment grade obligations deemed uncollectible were \$197, \$425, \$0, \$13,300 and \$623 for the first quarter, April, two months ended June 30, 2013, third quarter of 2013 and fourth quarter of 2013, respectively, and \$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, 2013. 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.

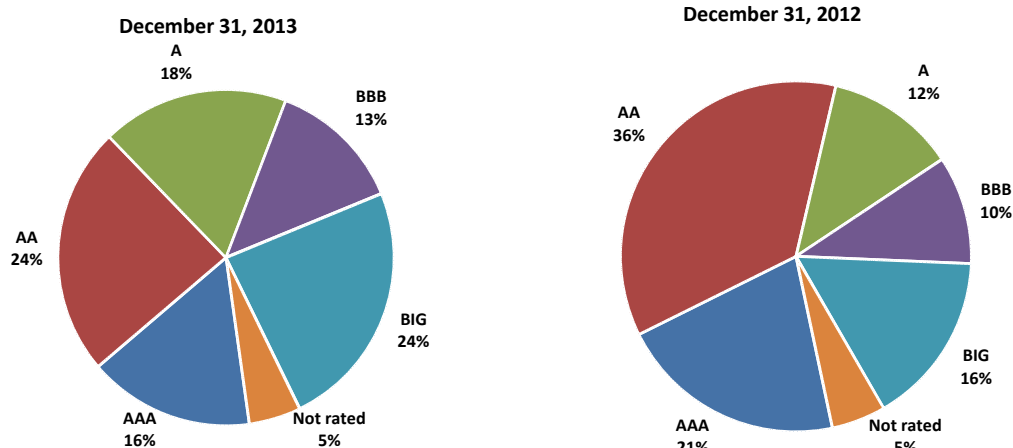
3) Represents management's estimate of fees on credit derivative contracts and future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject 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.

Fixed Income Investment Portfolio

As of December 31, 2013

INCOME ANALYSIS BY TYPE OF SECURITY	Fair Value	U.S. GAAP Book Value ⁽¹⁾	Pre-tax Yield To Maturity ⁽²⁾
Investment category (\$ thousands)			
Financial Guarantee investments			
Long-term investments			
U.S. government and agency obligations	\$ 219,623	\$ 220,124	0.21%
Municipal obligations ⁽³⁾	1,377,723	1,405,293	3.70%
Corporate obligations	1,442,367	1,457,970	2.24%
Mortgage and asset-backed securities	2,373,813	2,360,066	5.88%
Total long-term investments	5,413,526	5,443,453	4.11%
Short-term investments	211,390	211,390	0.03%
Other	17,832	17,832	
Total Financial Guarantee investments excl. Ambac UK	5,642,748	5,672,675	3.96%
Ambac UK Investments ⁽⁴⁾	473,931	485,853	1.59%
Total Financial Guarantee investments	6,116,679	6,158,528	3.77%
Financial Services investments: ⁽⁵⁾			
Long-term investments			
U.S. government and agency obligations	37,207	37,224	
Mortgage and asset-backed securities	332,921	332,961	
Total long-term investments	370,128	370,185	
Short-term investments	13	13	
Total Financial Services investments	370,141	370,198	
Corporate investments:			
Long-term investments			
Mortgage and asset-backed securities	28,145	28,149	
Total long-term investments	28,145	28,149	
Short-term investments	8,762	8,762	
Total Corporate investments	36,907	36,911	
Total Investments	\$ 6,523,727	\$ 6,565,637	

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO ⁽⁶⁾⁽⁷⁾



Duration of Financial Guarantee investment portfolio ⁽⁸⁾ 4.1

- As required under Fresh Start, book values were reset to fair value on the Fresh Start date.
- "Yield to maturity" refers to the rate of interest to be earned over the expected remaining life of the fixed income investments in the portfolio, and is calculated based on book value, estimated future cash flows and call schedules. As the result of Fresh Start, book yields on the fixed income portfolio represent market yields as of April 30, 2013. 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 \$465,687 and \$912,036, respectively.
- Includes fixed income investments as well as pooled investment funds and ETFs. The pre-tax yield to maturity relates to the fixed income portfolio only.
- 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 book value.
- Includes Ambac Assurance insured bonds purchased as part of our loss remediation strategy. These bonds represent 19% and 11% of the consolidated investment portfolio at December 31, 2013 and 2012, respectively.
- Fixed income investment securities that are guaranteed by Ambac and were purchased as part of Ambac's loss remediation strategy are held for the purpose of reducing future financial guarantee claim payments. Accordingly, such securities are excluded from the company's measure of duration

Expense Analysis (GAAP)

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, net of deferred 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	

Predecessor Ambac

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
(\$ Thousands)					
Financial Guarantee operating expenses:					
Compensation	\$ 13,824	\$ 13,441	\$ 12,156	\$ 13,687	\$ 53,108
Non-compensation	11,554	13,271	11,313	16,145	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	3,134	(33)	497	1,036	4,634
Change in deferred acquisition costs	5,300	6,558	6,777	6,832	25,467
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

Historical Net Financial Guarantee Exposures Outstanding ⁽¹⁾

(\$ Millions Net Par Value)	December 31,				Segregated Account December 31, 2013
	2013 ⁽²⁾	2012 ⁽²⁾	2011 ⁽²⁾	2010 ⁽²⁾	
Public Finance:					
Lease and tax backed	\$41,858	\$50,415	\$59,864	\$65,843	\$ -
General obligation	29,115	34,623	42,959	48,241	11
Utility	14,933	18,651	22,529	26,360	436
Transportation	9,653	13,892	18,945	20,722	336
Higher education	7,810	10,382	13,618	15,279	-
Housing	7,439	8,176	8,823	9,878	-
Health care	3,903	5,266	7,824	9,603	94
Other	1,351	1,613	2,255	3,423	-
Total Public Finance	116,062	143,018	176,817	199,349	877
Structured Finance:					
Mortgage-backed & home equity	16,026	19,117	23,164	27,488	16,026
Investor-owned utilities	5,881	7,071	9,049	10,685	55
Student loan	4,357	5,411	7,824	11,408	4,357
Asset-backed	2,361	2,905	4,732	10,005	-
CDOs	897	5,941	8,060	11,463	275
Other	1,890	1,914	2,316	2,750	315
Total Structured Finance	31,412	42,359	55,145	73,799	21,028
International Finance ⁽³⁾:					
Investor-owned and public utilities	9,595	10,314	10,510	10,861	-
Sovereign/sub-sovereign	7,394	7,289	7,282	7,119	-
Asset-backed	6,884	8,702	9,560	10,738	-
Transportation	5,021	6,002	5,914	6,744	141
CDOs	822	3,191	4,375	6,775	198
Mortgage-backed & home equity	484	1,268	1,397	1,898	-
Other	1,418	1,490	1,504	1,571	-
Total International Finance	31,618	38,256	40,542	45,706	339
Grand Total	\$179,092	\$223,633	\$272,504	\$318,854	\$22,244

Percent of Total Net Par Outstanding

Public Finance	64.8%	64.0%	64.9%	62.5%	4.0%
Structured Finance	17.5%	18.9%	20.2%	23.2%	94.5%
International Finance	17.7%	17.1%	14.9%	14.3%	1.5%
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 \$2,776, \$11,282, \$14,167, and \$18,766, at December 31, 2013, 2012, 2011, and 2010, respectively.

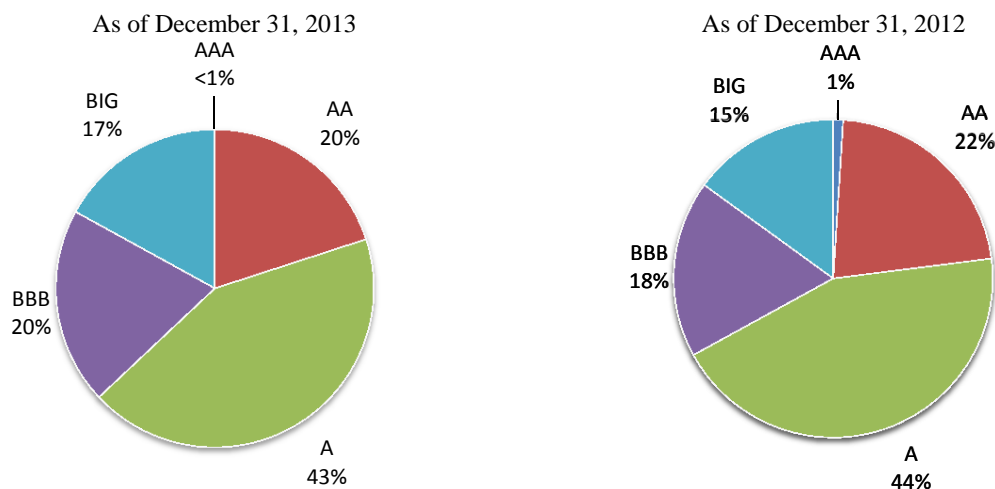
(2) Includes exposure allocated to the Segregated Account.

(3) International transactions include components of domestic exposure.

Geographic Distribution of Net Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	December 31,				
	2013	%	2012	2011	2010
Domestic:					
California	\$25,657	14.3%	\$32,105	\$36,133	\$39,210
New York	11,577	6.5%	14,389	18,267	20,944
Florida	8,545	4.8%	11,110	13,906	15,910
Texas	7,431	4.1%	10,016	12,983	14,776
New Jersey	6,559	3.7%	7,906	9,650	10,415
Illinois	5,730	3.2%	6,878	8,524	9,351
Massachusetts	4,689	2.6%	5,373	5,799	6,576
Pennsylvania	3,906	2.2%	4,304	5,301	6,036
Colorado	3,741	2.1%	4,376	5,010	5,786
Washington	2,998	1.7%	3,480	4,772	5,710
Mortgage and asset-backed	18,387	10.3%	22,022	27,896	37,493
Other states	48,254	26.9%	63,418	83,721	100,941
Total Domestic	147,474	82.3%	185,377	231,962	273,148
International:					
United Kingdom	21,282	11.9%	22,585	22,317	22,215
Australia	3,331	1.9%	4,820	5,176	6,292
Italy	2,412	1.3%	3,068	3,346	3,674
Austria	967	0.5%	943	956	999
New Zealand	526	0.3%	529	523	524
Internationally diversified	1,918	1.1%	3,968	5,318	7,793
Other international	1,182	0.7%	2,343	2,906	4,209
Total International	31,618	17.7%	38,256	40,542	45,706
Grand Total	\$179,092	100.0%	\$223,633	\$272,504	\$318,854

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

(\$ Millions)	Ambac Rating ⁽¹⁾	AADS ⁽²⁾	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$ 189.8	\$ 2,652	1.5%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	\$ 164.5	1,915	1.1%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	\$ 126.1	1,246	0.7%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	\$ 97.4	1,230	0.7%
Massachusetts Commonwealth - GO	AA	\$ 87.6	1,182	0.7%
Washington State - GO	AA	\$ 83.6	923	0.5%
Los Angeles Unified School District, CA - GO	AA -	\$ 77.4	895	0.5%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	\$ 78.5	846	0.5%
Puerto Rico Sales Tax Financing Corporation	BBB -	\$ 180.4	805	0.4%
Puerto Rico Highways & Transportation Authority, Transportation Revenue ⁽³⁾	BIG	\$ 47.2	733	0.4%
Chicago, IL - GO	A +	\$ 35.6	715	0.4%
New Jersey Turnpike Authority Revenue	A	\$ 42.2	691	0.4%
New York City, NY - GO	AA	\$ 38.3	677	0.4%
New York Convention Center Development Corporation, Hotel Fee Revenue	A -	\$ 44.1	651	0.4%
New Jersey Economic Development Authority - School Facilities Construction	A +	\$ 41.4	638	0.4%
Dallas Area Rapid Transit, TX, Sales Tax Revenue	AA	\$ 48.0	633	0.4%
Missouri Joint Municipal Electric Utility Commission, Project Revenue	A -	\$ 40.5	625	0.3%
Mets Queens Baseball Stadium Project, NY, Lease Revenue	BIG	\$ 36.3	592	0.3%
New York City, NY Water and Sewer System Revenue	AA	\$ 38.5	566	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	\$ 43.1	564	0.3%
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue	BIG	\$ 38.6	561	0.3%
Alameda Corridor Transportation Authority, Transportation Revenue	BBB	\$ 70.6	539	0.3%
Miami-Dade County, FL School Board, Master Lease ⁽³⁾	A -	\$ 43.6	535	0.3%
Minneapolis-St. Paul Metropolitan Airports Commission Airport Revenue Bonds	AA -	\$ 39.6	526	0.3%
Illinois Sports Facility Authority	A -	\$ 56.5	515	0.3%
Total:			<u>\$ 21,455</u>	<u>12.0%</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. In connection with such segregation Ambac Assurance has allocated insurance policies on the obligor's interest rate swap liabilities to the Segregated Account.

25 Largest Structured Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 ⁽²⁾	BIG	\$986	0.6%
Ballantyne Re Plc ⁽³⁾	BIG	900	0.5%
The National Collegiate Student Loan Trust 2007-4 ⁽²⁾	BIG	755	0.4%
Spirit Master Funding	BBB	740	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 ⁽²⁾	BIG	687	0.4%
Timberlake Financial, LLC	BIG	611	0.3%
Michigan Higher Education Student Loan Authority ⁽²⁾	BIG	581	0.3%
Progress Energy Carolinas, INC	A -	558	0.3%
Local Insight Media Finance LLC	BIG	489	0.3%
Option One Mortgage Loan Trust 2007-FXD1 ⁽²⁾	BIG	441	0.2%
Countrywide Asset-Backed Certificates Trust 2005-16 ⁽²⁾	BIG	427	0.2%
Countrywide Revolving Home Equity Loan Trust 2005-F ⁽²⁾	BIG	417	0.2%
Niagara Mohawk Power Corporation	A	414	0.2%
The National Collegiate Student Loan Trust 2007-3 ⁽²⁾	BIG	403	0.2%
CenterPoint Energy Inc.	BBB +	376	0.2%
Impac CMB Trust Series 2005-7 ⁽²⁾	BIG	375	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 ⁽²⁾	BIG	351	0.2%
Countrywide Asset Backed Certificates Trust 2005-17 ⁽²⁾	BIG	349	0.2%
Consolidated Edison Company of New York	A	347	0.2%
Privately Placed RMBS Transaction ⁽²⁾	BIG	342	0.2%
CDO of HY Corporate	AA +	331	0.2%
Countrywide Asset Backed Certificates Trust 2006-11 ⁽²⁾	BIG	322	0.2%
GMACM Home Equity Loan Trust 2005-HE3 ⁽²⁾	BIG	284	0.2%
Massachusetts Educational Financing Authority Revenue Bonds ⁽²⁾	BIG	283	0.2%
The National Collegiate Student Loan Trust 2005-3 ⁽²⁾	BIG	282	0.2%
Total:		<u>\$12,051</u>	<u>6.7%</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 +	\$2,022	1.1%
Channel Link Enterprises ⁽³⁾	BBB -	1,313	0.7%
National Grid Electricity Transmission ⁽³⁾	A -	1,272	0.7%
Punch Taverns Finance plc-UK Pub Securitization ⁽³⁾	BIG	1,220	0.7%
Aspire Defence Finance plc ⁽³⁾	BBB +	1,212	0.7%
Telereal Securitization plc ⁽³⁾	AA	1,126	0.6%
Capital Hospitals plc ⁽³⁾	BBB -	1,063	0.6%
Posillipo Finance II S.r.l ⁽³⁾	BBB	1,046	0.6%
Ostregion Investmentgesellschaft NR 1 SA ⁽³⁾	BIG	967	0.5%
Anglian Water ⁽³⁾	A -	888	0.5%
Romulus Finance s.r.l. ⁽³⁾	BBB -	872	0.5%
RMPA Services plc ⁽³⁾	BBB +	833	0.5%
National Grid Gas ⁽³⁾	A -	820	0.5%
Scotia Gas Networks ⁽³⁾	BBB	742	0.4%
Catalyst Healthcare (Manchester) Financing plc ⁽³⁾	BBB +	698	0.4%
Powercor Australia	BBB +	648	0.4%
South East Water (Finance) Limited ⁽³⁾	BBB	606	0.3%
Babcock & Brown Air Funding I Limited	BIG	526	0.3%
CDO of HY Corporate ⁽²⁾⁽³⁾	BBB +	497	0.3%
United Energy Distribution	BBB	459	0.3%
Northern Powergrid (Yorkshire) plc ⁽³⁾	BBB +	456	0.3%
CDO of HY Corporate	AA	453	0.3%
Airspeed Limited	BIG	439	0.2%
Spirit Issuer plc ⁽³⁾	BBB -	436	0.2%
Amey Lagan Roads Financial plc ⁽³⁾	BBB -	430	0.2%
Total:		<u>\$21,044</u>	<u>11.8%</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, 2013

(\$ 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
2014	\$17,491	\$264,719	\$2,892	\$25,341
2015.....	18,669	246,050	2,799	22,542
2016.....	16,411	229,639	2,546	19,996
2017.....	15,491	214,148	1,792	18,204
2018.....	15,472	198,676	1,453	16,751
2014-2018.....	\$83,534	\$198,676	\$11,482	\$16,751
2019-2023.....	63,504	135,172	4,606	12,145
2024-2028.....	47,253	87,919	2,585	9,560
2029-2033.....	38,034	49,885	3,655	5,905
After 2033.....	49,885	-	5,905	-
Total.....	\$282,210		\$28,233	

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of December 31, 2013. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.