



# ***Ambac***

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Quarterly Operating Supplement

*3Q14*

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

## **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](http://www.ambac.com).

# Ambac Financial Group, Inc.

## Quarterly Operating Supplement

### Third 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 July 1 through September 30, 2014	Period from July 1 through September 30, 2013
<b>Revenues:</b>		
Net premiums earned:		
Normal net premiums earned.....	\$55,639	\$51,251
Accelerated net premiums earned .....	9,192	19,698
Total net premiums earned .....	64,831	70,949
Net investment income:		
Securities available-for-sale and short-term.....	82,881	51,776
Other investments.....	700	350
Total net investment income .....	83,581	52,126
Other-than-temporary impairment losses:		
Total other-than-temporary impairment losses.....	(6,997)	(38,553)
Portion of loss recognized in other comprehensive income.....	1,986	516
Net other-than-temporary impairment losses recognized in earnings.....	(5,011)	(38,037)
Net realized investment gains (losses).....	10,045	(10,310)
Change in fair value of credit derivatives:		
Realized gains (losses) and other settlements.....	596	1,580
Unrealized gains (losses).....	6,820	29,614
Net change in fair value of credit derivatives.....	7,416	31,194
Derivative products.....	(15,685)	12,372
Other income (loss).....	1,046	(1,751)
Income (loss) on variable interest entities.....	9,116	55,109
Total revenues before expenses and reorganization items .....	155,339	171,652
<b>Expenses:</b>		
Losses and loss expenses (benefit) .....	(28,698)	(154,290)
Insurance intangible amortization .....	41,908	37,473
Underwriting and operating expenses .....	25,513	25,047
Interest expense.....	31,841	31,817
Total expenses (benefit) before reorganization items.....	70,564	(59,953)
Pre-tax income (loss) from continuing operations before reorganization items.....	84,775	231,605
Reorganization items.....	2	4
Pre-tax income (loss) from continuing operations.....	84,773	231,601
Provision (benefit) for income taxes.....	2,344	594
Net income (loss).....	82,429	231,007
Less: net (gain) loss attributable to noncontrolling interest.....	(21)	32
Net income (loss) attributable to common shareholders.....	\$82,450	\$230,975
Net income (loss) per share attributable to common shareholders .....	\$1.83	\$5.13
Net income (loss) per diluted share attributable to common shareholders .....	\$1.77	\$4.98
Weighted average number of shares outstanding.....	45,115,882	45,002,463
Weighted average number of diluted shares outstanding.....	46,624,689	46,354,875

## Consolidated Statements of Operations

(\$ in Thousands, Except Share Data)	Successor Ambac		Predecessor Ambac
	Period from January 1 through Sept. 30, 2014	Period from May 1 through Sept. 30, 2013	Preiod from January 1 through April 30, 2013
<b>Revenues:</b>			
Net premiums earned:			
Normal net premiums earned.....	\$170,095	\$96,241	\$93,567
Accelerated net premiums earned.....	42,296	32,747	36,433
Total net premiums earned.....	212,391	128,988	130,000
Net investment income:			
Securities available-for-sale and short-term.....	228,570	80,987	116,371
Other investments.....	5,905	(2,665)	369
Total net investment income.....	234,475	78,322	116,740
Other-than-temporary impairment losses:			
Total other-than-temporary impairment losses.....	(26,440)	(40,557)	(467)
Portion of loss recognized in other comprehensive income.....	2,283	518	-
Net other-than-temporary impairment losses recognized in earnings.....	(24,157)	(40,039)	(467)
Net realized investmentn gains (losses).....	29,401	8,162	53,305
Change in fair value of credit derivatives:			
Realized gains (losses) and other settlements.....	2,088	7,654	3,444
Unrealized gains (losses).....	11,491	74,760	(63,828)
Net change in fair value of credit derivatives.....	13,579	82,414	(60,384)
Derivative products.....	(117,511)	96,085	(33,735)
Other income (loss).....	8,206	428	8,363
Income (loss) on variable interest entities.....	(34,574)	59,707	426,566
Total revenues before expenses and reorganization items.....	321,810	414,067	640,388
<b>Expenses:</b>			
Losses and loss expenses (benefit).....	6,608	(180,407)	(38,056)
Insurance intangible amortization.....	109,878	62,425	-
Underwriting and operating expenses.....	75,332	41,264	44,566
Interest expense.....	96,122	52,961	31,025
Total expenses (benefit) before reorganization items.....	287,940	(23,757)	37,535
Pre-tax income (loss) from continuing operations before reorganization items.....	33,870	437,824	602,853
Reorganization items.....	211	428	(2,745,180)
Pre-tax income (loss) from continuing operations.....	33,659	437,396	3,348,033
Provision for income taxes.....	3,414	1,107	755
Net income (loss).....	30,245	436,289	3,347,278
Less: net (gain) loss attributable to noncontrolling interest.....	(242)	(367)	(1,771)
Net income (loss) attributable to common shareholders.....	\$30,487	\$436,656	\$3,349,049
Net income (loss) per share.....	\$0.68	\$9.70	\$11.07
Net income (loss) per diluted share.....	\$0.65	\$9.40	\$11.07
Weighted average number of shares outstanding.....	45,083,831	45,001,741	302,469,544
Weighted average number of diluted shares outstanding.....	47,027,084	46,445,615	302,579,245

## Consolidated Balance Sheets

(\$ in Thousands, Except Share Data)	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Investments:		
Fixed income securities, at fair value (amortized cost of \$5,941,188 in 2014 and \$5,927,254 in 2013) . . . . .	\$6,156,228	\$5,885,316
Fixed income securities pledged as collateral, at fair value (amortized cost of \$64,323 in 2014 and \$126,196 in 2013) . . . . .	64,031	126,223
Short-term investments, at fair value (amortized cost of \$550,988 in 2014 and \$271,118 in 2013) . . . . .	550,900	271,119
Other investments . . . . .		
(includes \$270,791 at fair value in 2014 and \$240,969 at fair value in 2013) . . . . .	290,870	241,069
Total investments . . . . .	7,062,029	6,523,727
Cash and cash equivalents . . . . .	43,332	77,370
Receivable for securities . . . . .	33,836	14,450
Investment income due and accrued . . . . .	32,818	37,663
Premium Receivables . . . . .	1,266,632	1,453,021
Reinsurance recoverable on paid and unpaid losses . . . . .	105,511	121,249
Deferred ceded premiums . . . . .	127,596	145,529
Subrogation recoverable . . . . .	489,237	498,478
Loans . . . . .	6,057	6,179
Derivative assets . . . . .	91,320	77,711
Insurance intangible assets . . . . .	1,475,012	1,597,965
Goodwill . . . . .	514,511	514,511
Other assets . . . . .	173,219	35,927
Variable interest entity assets:		
Fixed income securities, at fair value . . . . .	2,651,683	2,475,182
Restricted cash . . . . .	7,337	17,498
Investment income due and accrued . . . . .	4,192	1,365
Loans, at fair value . . . . .	12,503,484	13,398,895
Intangible assets . . . . .	-	76,140
Other assets . . . . .	2,979	19,617
Total assets . . . . .	\$26,590,785	\$27,092,477
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Unearned premiums . . . . .	\$1,953,392	\$2,255,680
Losses and loss expense reserve . . . . .	6,003,474	5,968,712
Ceded premiums payable . . . . .	61,104	70,962
Obligations under investment agreements . . . . .	160,515	359,070
Deferred taxes . . . . .	2,176	2,199
Current taxes . . . . .	785	738
Long-term debt, at fair value . . . . .	1,219,310	963,178
Accrued interest payable . . . . .	376,773	294,817
Derivative liabilities . . . . .	348,427	253,898
Other liabilities . . . . .	66,101	67,377
Payable for securities purchased . . . . .	27,263	4,654
Variable interest entity liabilities:		
Accrued interest payable . . . . .	6,141	722
Long-term debt, at fair value . . . . .	13,159,174	14,091,753
Derivative liabilities . . . . .	1,955,291	1,772,306
Other liabilities . . . . .	169	7,989
Total liabilities . . . . .	25,340,095	26,114,055
Stockholders' equity:		
Preferred stock . . . . .	-	-
Common stock . . . . .	450	450
Additional paid-in capital . . . . .	188,648	185,672
Accumulated other comprehensive income . . . . .	250,865	11,661
Accumulated earnings . . . . .	535,706	505,219
Common stock held in treasury at cost . . . . .	(19)	(19)
Total Ambac Financial Group, Inc. stockholders' equity . . . . .	975,650	702,983
Noncontrolling interest . . . . .	275,040	275,439
Total stockholders' equity . . . . .	1,250,690	978,422
Total liabilities and stockholders' equity . . . . .	\$26,590,785	\$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 . . . . .	\$21.68	\$15.62

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

	Successor <sup>(1)</sup>					May/June 2013	Predecessor <sup>(1)</sup>	
	3Q 2014	2Q 2014	1Q 2014	4Q 2013	3Q 2013		April 2013	1Q 2013
<b>Summary GAAP Financial Data:</b>								
<b>Statement of Total Comprehensive Income:</b>								
Net premiums earned	\$65	\$65	\$83	\$85	\$71	\$58	\$30	\$100
Net investment income <sup>(2)</sup>	84	80	71	68	52	26	32	85
Change in fair value of credit derivatives	7	(1)	7	110	31	51	(73)	13
Income (loss) on variable interest entities (VIEs) <sup>(2)</sup>	9	(38)	(6)	(108)	55	5	388	38
Loss and loss expenses (benefit) <sup>(3)</sup>	(29)	175	(140)	(5)	(154)	(26)	13	(51)
Insurance intangible amortization <sup>(2)</sup>	42	36	32	37	37	25	-	-
Underwriting and operating expenses <sup>(2)</sup>	26	24	26	28	25	16	11	34
Interest expense <sup>(2)</sup>	32	32	32	32	31	21	8	23
Reorganization items <sup>(2)</sup>	-	-	-	-	-	-	(2,747)	2
Net income (loss) attributable to Ambac common shareholders <sup>(2)</sup>	82	(208)	156	69	231	206	3,067	282
Net income (loss) per diluted share <sup>(2)</sup>	\$1.77	(\$4.61)	\$3.31	\$1.49	\$4.98	\$4.42	n.a.	n.a.
<b>Balance Sheets:</b>								
Total non-VIE investments	\$7,062	\$6,766	\$6,749	\$6,524	\$6,686	\$6,601	\$6,457	\$6,513
Premium receivable	1,267	1,356	1,418	1,453	1,436	1,465	1,532	1,543
Insurance intangible asset <sup>(2)</sup>	1,475	1,549	1,570	1,598	1,621	1,622	1,659	-
Goodwill <sup>(2)</sup>	515	515	515	515	515	515	515	-
Subrogation recoverable	489	484	512	499	485	501	534	545
Total VIE assets	15,170	16,444	15,932	15,989	17,386	16,263	17,460	16,752
Total assets <sup>(2)</sup>	26,591	27,723	27,114	27,092	28,621	27,463	28,842	26,154
Unearned premium reserve	1,953	2,070	2,168	2,256	2,304	2,373	2,482	2,623
Loss and loss expense reserve	6,003	6,072	5,826	5,969	5,885	6,043	6,106	6,590
Obligations under investment agreements <sup>(4)</sup>	161	170	360	359	359	359	365	357
Long-term debt <sup>(2)(4)</sup>	1,219	981	972	963	955	946	940	154
Liabilities subject to compromise <sup>(4)</sup>	-	-	-	-	-	-	-	1,705
Ambac stockholders' equity (deficit) <sup>(2)</sup>	976	948	953	703	611	287	185	(3,531)
<b>Summary Statutory Data of Ambac Assurance:</b>								
Invested assets	\$5,883	\$6,055	\$5,856	\$5,747	\$5,659	\$5,466		\$5,278
Loss and loss expense reserve	3,864	3,784	3,465	3,541	3,045	3,008		2,901
Estimated impairment losses on subsidiary guarantees	22	27	61	57	83	96		149
Policyholders' Surplus	898	946	1,008	840	502	394		159
Qualified statutory capital	1,031	1,053	1,094	906	1,142	973		693
Total claims-paying resources, including Ambac UK	\$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". The 2013 Successor Period and the 2013 Predecessor Period are distinct reporting periods.
- 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 \$51.7 and \$308.1 for the third and second quarter 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 Ambac is included under liabilities subject to compromise.

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

	Successor <sup>(1)</sup>		Predecessor <sup>(1)</sup>			
	YTD 2014	Eight Months Ended Dec. 31, 2013	Four Months Ended Apr. 30, 2013	2012	2011	2010
<b>Summary GAAP Financial Data:</b>						
<b>Statement of Total Comprehensive Income:</b>						
Net premiums earned	\$212	\$214	\$130	\$415	\$406	\$546
Net investment income <sup>(2)</sup>	234	146	117	383	355	359
Change in fair value of credit derivatives	14	193	(60)	(9)	48	60
Income (loss) on variable interest entities (VIEs)	(35)	(49)	427	28	(214)	(617)
Loss and loss expenses (benefit) <sup>(3)</sup>	7	(185)	(38)	684	1,859	719
Insurance intangible amortization <sup>(2)</sup>	110	100	-	-	-	-
Underwriting and operating expenses <sup>(2)</sup>	75	69	45	139	141	254
Interest expense <sup>(2)</sup>	96	85	31	112	128	181
Reorganization items <sup>(2)</sup>	-	-	(2,745)	7	50	32
Net income (loss) attributable to Ambac common shareholders <sup>(2)</sup>	30	505	3,349	(257)	(1,960)	(753)
Net income (loss) per diluted share	\$0.65	\$10.91	n.a.	n.a.	n.a.	n.a.
<b>Balance Sheets:</b>						
Total non-VIE investments	\$7,062	\$6,524	\$6,457	\$6,330	\$6,877	\$6,853
Premium receivable	1,267	1,453	1,532	1,621	2,028	2,423
Insurance intangible asset <sup>(2)</sup>	1,475	1,598	1,659	-	-	-
Goodwill <sup>(2)</sup>	515	515	515	-	-	-
Subrogation recoverable	489	499	534	497	660	714
Total VIE assets	15,170	15,989	17,460	17,842	16,543	17,931
Total assets <sup>(2)</sup>	26,591	27,092	28,842	27,074	27,108	29,039
Unearned premium reserve	1,953	2,256	2,482	2,778	3,457	4,008
Loss and loss expense reserve	6,003	5,969	6,106	6,619	7,044	5,289
Obligations under investment agreements <sup>(4)</sup>	161	359	365	362	547	806
Long-term debt <sup>(2) (4)</sup>	1,219	963	940	150	224	208
Liabilities subject to compromise <sup>(4)</sup>	-	-	-	1,705	1,707	1,695
Ambac stockholders' equity (deficit) <sup>(2)</sup>	976	703	185	(3,908)	(3,813)	(2,009)
<b>Summary Statutory Data of Ambac Assurance:</b>						
Invested assets	\$5,883	\$5,747	\$5,168	\$5,854	\$5,943	
Loss and loss expense reserve	3,864	3,541	2,946	3,226	2,478	
Estimated impairment losses on subsidiary guarantees	22	57	144	-	-	
Policyholders' Surplus	898	840	100	495	1,027	
Qualified statutory capital	1,031	906	633	688	1,540	
Total claims-paying resources, including Ambac UK	\$7,403	\$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 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.
- 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 \$359.8 for the nine months ending September 30, 2014.
- 4) 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 <sup>(1)</sup>**  
**(Dollars in Millions)**

**Operating Earnings (Losses):**

	Successor						Predecessor	
	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.....	\$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 .....	(5.4)	2.3	(4.2)	(107.2)	(8.5)	(50.1)	77.5	(5.9)
Effect of consolidating financial guarantee VIEs.....	2.8	52.9	0.3	287.7	(48.7)	(15.3)	(386.7)	(27.0)
Insurance intangible amortization.....	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 .....	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.....	(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>\$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
	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Total Ambac Financial Group, Inc. stockholders' equity (deficit).....	\$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 .....	65.5	70.9	68.6	72.8	180.0	188.5	161.2
Effect of consolidating financial guarantee VIEs.....	(313.7)	(324.6)	(373.4)	(372.7)	(653.7)	(594.4)	(165.0)
Insurance intangible asset and goodwill.....	(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) .....	(48.5)	(43.9)	(53.8)	(48.4)	(63.5)	(64.6)	(91.8)
Net unearned premiums and fees in excess of expected losses.....	1,460.7	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 .....	(214.8)	(232.0)	(46.8)	41.9	37.1	91.0	(745.4)
Adjusted book value.....	<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 profitability 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 <sup>(1)</sup> and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	September 30, 2014	December 31, 2013
Contingency Reserve . . . . .	\$133,394	\$65,691
Policyholders' Surplus <sup>(2)</sup> . . . . .	897,692	840,262
Qualified Statutory Capital . . . . .	1,031,086	905,953
Unearned Premiums . . . . .	972,608	1,093,607
Losses and Loss Adjustment Expenses . . . . .	3,864,106	3,541,487
Estimated Impairment Losses on Subsidiary Guarantees . . . . .	22,100	56,600
Policyholders' Reserves . . . . .	5,889,900	5,597,647
Present Value of Future Installment Premiums <sup>(3)</sup> . . . . .	404,106	468,576
Ambac Assurance Claims-paying Resources . . . . .	6,294,006	6,066,223
Ambac UK Claims-paying Resources <sup>(4)</sup> . . . . .	1,109,030	1,132,736
Total Claims-paying Resources . . . . .	\$7,403,036	\$7,198,959
Net Financial Guarantees In Force:		
Ambac Assurance . . . . .	\$213,767,682	\$243,621,498
Ambac UK . . . . .	34,066,211	38,588,617
Total Net Financial Guarantees In Force . . . . .	\$247,833,893	\$282,210,115
Total Claims-paying Ratio <sup>(5)</sup> . . . . .	33 : 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 \$1,641,860 are included in the capital and surplus for September 30, 2014 and December 31, 2013.

3) 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%.

4) 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 \$538,163.

5) 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 nine months ended September 30, 2014	For the year ended December 31, 2013
Policyholders' Surplus, beginning of period <sup>(1)</sup> . . . . .	\$ 840,262	\$ 100,000
Net income (loss) <sup>(2) (3) (4)</sup> . . . . .	224,571	(235,557)
Issuance of junior surplus note - segregated account <sup>(2)</sup> . . . . .	-	350,000
Extinguishment of junior surplus note - segregated account <sup>(3)</sup> . . . . .	-	(8,043)
Change in contingency reserves <sup>(5)</sup> . . . . .	(67,645)	463,499
Change in investments <sup>(6) (7)</sup> . . . . .	(101,132)	165,785
Other changes in surplus. . . . .	1,636	4,578
Policyholders' Surplus, end of period . . . . .	<u>\$ 897,692</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 \$100,000 (the "Minimum Surplus Amount").
- 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 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 nine months ended September 30, 2014 includes an expense of \$359,820 for the accrual of interest on Deferred Amounts.
- 5) 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.
- 6) 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.
- 7) Change in investments for the nine months ended September 30, 2014 includes a reduction in surplus of \$118,378 relating to unwind of Re-REMIC / Orient Bay structure.

## Ambac Assurance Segregated Account, in Rehabilitation

### Claims Paying Position <sup>(1)</sup>

(\$ Thousands)	September 30, 2014	December 31, 2013
Liabilities allocated from Ambac Assurance <sup>(2)</sup> . . . . .	\$ 6,104,166	\$ 6,010,714
Segregated Account resources:		
Secured Note provided by Ambac Assurance including accrued interest . . . . .	-	107,803
Liabilities ceded to Ambac Assurance <sup>(3)</sup> . . . . .	6,102,366	5,902,198
Surplus notes ceded to Ambac Assurance <sup>(3)</sup> . . . . .	431,039	431,039
Other Segregated Account Net Assets . . . . .	12,416	12,313
Total resources available . . . . .	<u>6,545,821</u>	<u>6,453,353</u>
Current Surplus to pay Segregated Account permitted claims . . . . .	<u>\$ 441,655</u>	<u>\$ 442,639</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.
- 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 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 <sup>(1)</sup>

(\$ Thousands)	Successor Ambac		Predecessor Ambac			
	Nine Months ended September 30,	Eight Months ended December 31,	Four Months ended April 30,	December 31,		
	2014	2013	2013	2012	2011	2010
Net claims (recovered) paid - Insurance <sup>(2)(3)</sup>	\$ (107,848)	\$ (92,480)	\$ (31,147)	\$ 932,930	\$ 147,762	\$ 290,519
Net unpaid claims - Insurance <sup>(3)(4)</sup>	110,785	241,916	274,222	619,431	1,357,181	1,411,445
Net credit derivatives payments	-	-	-	-	-	(263)
Net credit derivatives commutation payments <sup>(5)</sup>	-	-	-	-	-	4,589,107
Total net claims recorded	\$ 2,937	\$ 149,436	\$ 243,075	\$ 1,552,361	\$ 1,504,943	\$ 6,290,808
Net insurance premiums earned and credit derivative fees	\$ 214,479	\$ 223,296	\$ 133,444	\$ 428,317	\$ 422,971	\$ 577,195
Ratio of net claims recorded <sup>(6)</sup>	1.4%	66.9%	182.2%	362.4%	355.8%	1089.9%

## Estimated Future Gross RMBS Claims Recorded <sup>(7)</sup>

(\$ Thousands)	Successor Ambac	
	Projected as of September 30, 2014	Projected as of December 31, 2013
2014 (Three months for September 30, 2014, Full Year for December 31, 2013), . . .	\$ 74,021	\$ 368,894
2015 . . . . .	227,793	236,549
2016 . . . . .	236,241	268,054
2017 . . . . .	208,123	184,279
2018 . . . . .	125,089	124,094
2019 . . . . .	67,350	85,759
2014 (Three months for September 30, 2014, Full Year for December 31, 2013), . . .	\$ 74,021	\$ 368,894
2015-2019 . . . . .	864,596	898,735
2020-2024 . . . . .	129,297	170,438
2025-2029 . . . . .	26,193	30,292
2030-2034 . . . . .	13,704	10,516
After 2034 . . . . .	693,544	722,816
Total . . . . .	\$ 1,801,355	\$ 2,201,691

- 1) 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 on Deferred Amounts as discussed below.
- 2) Net claims (recovered) paid are net of subrogation received of \$314,975, \$292,067, \$160,355, \$222,205, \$104,805, and \$107,914 for the nine months ending September 30, 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.
- 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. 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. Refer to Ambac's filings with the Securities and Exchange Commission for further discussion of the Segregated Account Rehabilitation Plan, as amended.
- 4) 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%. However, in the case of insured bonds whose outstanding principal balance is not reduced by the unpaid portion of permitted policy claims (such bonds, "Undercollateralized Bonds"), the 5.1% effective annual interest rate on the Deferred Amount will be reduced by the bond interest rate applicable to such Undercollateralized Bonds. At September 30, 2014, interest accrued and unpaid on Deferred Amounts was \$359,820. These amounts are not included net claims recorded.
- 5) 2010 credit derivative commutation payments include the issuance of surplus notes by Ambac Assurance at par in the amount of \$2,000,000.
- 6) Ratio of net claims recorded is total net claims recorded divided by net premiums earned and fees on credit derivative contracts.
- 7) 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 \$3,996,544 and \$3,891,306 as of September 30, 2014 and December 31, 2013, respectively. Ambac's undiscounted estimate of representation and warranty subrogation recoveries are \$2,231,240 and \$2,215,848 at September 30, 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		
	September 30, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Total insurance reserves <sup>(1)</sup>	\$5,408,596	\$5,347,877	\$5,974,731	\$6,230,780	\$4,424,450
Estimated credit impairment losses on credit derivatives <sup>(2)</sup>	17,304	21,531	46,469	36,940	22,055
Total impairment losses	5,425,900	5,369,408	6,021,200	6,267,720	4,446,505
Mark-to-market reserve on credit derivatives <sup>(2)</sup>	65,526	72,791	167,116	153,713	199,629
Grand total net insurance loss reserves and credit derivatives	\$5,491,426	\$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 <sup>(3)</sup>	Total Net Par Outstanding	Total Impairment Losses <sup>(4)(5)</sup>
<b>Public Finance:</b>			
Lease & tax backed	\$0	\$2,066,996	\$196,230
Housing	-	665,344	15,076
Transportation revenue	81,216	499,016	115,442
General obligation	-	632,466	67,567
Other	-	635,397	(1,883)
Total Public Finance	81,216	4,499,219	392,432
<b>Structured Finance:</b>			
Mortgage-backed & home equity - first lien & other	6,341,044	6,341,044	3,372,912
Mortgage-backed & home equity - second lien	3,961,873	3,961,873	206,092
Student loans	1,690,285	1,690,285	803,796
Other	137,000	1,037,000	510,980
Total Structured Finance	12,130,202	13,030,202	4,893,780
<b>International Finance:</b>	82,203	2,011,903	139,688
<b>Total</b>	<b>\$12,293,621</b>	<b>\$19,541,324</b>	<b>\$5,425,900</b>

- 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%. However, in the case of insured bonds whose outstanding principal balance is not reduced by the unpaid portion of permitted policy claims (such bonds, "Undercollateralized Bonds"), the 5.1% effective annual interest rate on the Deferred Amount will be reduced by the bond interest rate applicable to such Undercollateralized Bonds. As of September 30, 2014, \$4,374,986 of claims remain unpaid, including \$359,820 of interest accrued on Deferred Amounts. Total insurance reserves are inclusive of these unpaid claims.
- Total net mark-to-market losses are \$82,830, \$94,322, \$213,585, \$190,653, and \$221,684 as of September 30, 2014, December 31, 2013, 2012, 2011, and 2010, respectively, and are reported on the consolidated balance sheet under derivative assets and liabilities.
- 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.
- Estimated impairment losses includes both insurance loss reserves and estimated credit impairment losses on credit derivatives and excludes impairment losses eliminated as a result of the Consolidations Accounting Standard of \$353,261. Please see discussion in Ambac's filings with the Securities and Exchange Commission for further information.
- Estimated impairment losses includes loss and loss expenses relating to insurance policies issued by Ambac UK of \$589,465 and \$8,823, respectively.

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

2014 (\$ Thousands)	Successor Ambac				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Public Finance . . . . .	\$27,287	\$26,345	\$25,552		\$79,184
Structured Finance <sup>(1)</sup> . . . . .	10,389	10,944	10,356		31,689
International Finance . . . . .	19,757	19,734	19,731		59,222
Total Normal Insurance Premiums Earned . . . . .	57,433	57,023	55,639	-	170,095
Accelerated Premiums Earned . . . . .	25,114	7,990	9,192		42,296
Total Premiums Earned . . . . .	\$82,547	\$65,013	\$64,831	-	\$212,391
Fees on credit derivative contracts . . . . .	\$775	\$717	\$596		\$2,088

2013 (\$ Thousands)	Predecessor Ambac			Successor Ambac			
	First Quarter	Four Months Ended 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 <sup>(1)</sup> . . . . .	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

## Net Unearned Premium Amortization and Estimated Future Installment Premiums

(\$ Millions)	Net Unearned Premium Amortization (GAAP) <sup>(2)</sup>	Fees on Credit Derivative Contracts <sup>(3)</sup>	Estimated Net Future Installments <sup>(3)</sup>	Consolidated VIE
2014 (4th Qtr) . . . . .	\$44.5	\$0.6	\$27.8	\$6.1
2015 . . . . .	161.8	1.8	88.5	20.7
2016 . . . . .	145.4	1.0	80.7	20.2
2017 . . . . .	133.8	0.8	73.6	19.6
2018 . . . . .	124.6	0.8	77.5	19.0
2019 . . . . .	116.5	0.8	61.1	17.6
2014 (4th Qtr) . . . . .	\$44.5	\$0.6	\$27.8	\$6.1
2015-2019 . . . . .	682.1	5.2	381.4	97.1
2020-2024 . . . . .	482.9	2.3	253.1	72.3
2025-2029 . . . . .	330.1	0.1	198.5	44.9
2030-2034 . . . . .	181.7	-	144.5	26.2
After 2034 . . . . .	104.5	-	92.9	4.3
Total . . . . .	\$1,825.8	\$8.2	\$1,098.2	\$250.9

1) Reductions/(increases) to net insurance premiums earned for changes in premium receivables deemed uncollectible were \$965, (\$191) and (\$203) for the first, second and third 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 September 30, 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.

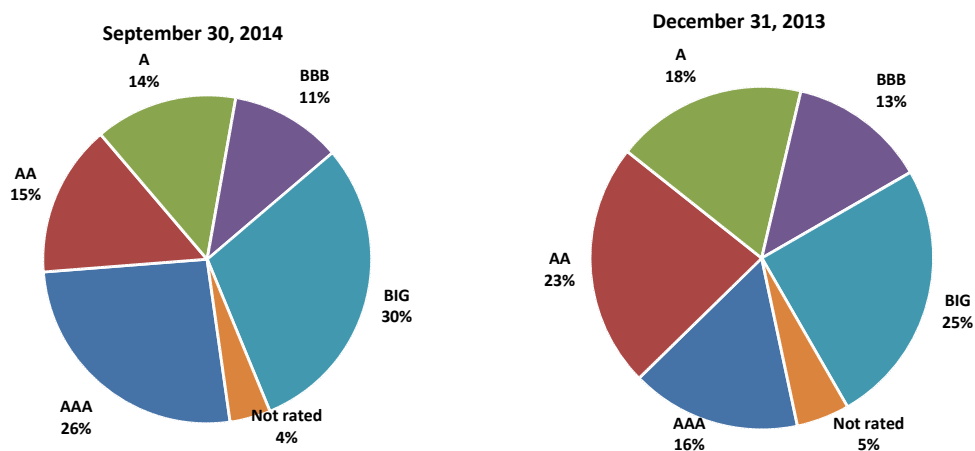
3) Represents management's undiscounted estimate of fees on credit derivative contracts and future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation 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 September 30, 2014

INCOME ANALYSIS BY TYPE OF SECURITY	U.S. GAAP Carrying Value	U.S. GAAP Book Value	Pre-tax Yield To Maturity <sup>(1)</sup>
Investment category (\$ thousands)			
Financial Guarantee investments:			
Long-term investments			
U.S. government and agency obligations .....	\$ 106,232	\$ 106,876	0.76%
Municipal obligations <sup>(2)</sup> .....	939,442	930,171	3.71%
Corporate obligations .....	1,753,766	1,749,728	2.40%
Ambac-insured - loss mitigation strategy <sup>(3)</sup> .....	1,868,535	1,681,844	10.57%
Mortgage and asset-backed securities .....	1,032,624	1,014,889	2.81%
Total long-term investments .....	5,700,599	5,483,508	5.17%
Short-term investments .....	417,767	417,767	0.02%
Other .....	100	100	
Total Financial Guarantee investments excl. Ambac UK ...	6,118,466	5,901,375	4.81%
Ambac UK Investments <sup>(4)</sup> .....	488,687	491,211	1.50%
Total Financial Guarantee investments .....	6,607,153	6,392,586	4.55%
Financial Services investments: <sup>(5)</sup>			
Long-term investments			
U.S. government and agency obligations .....	44,255	44,211	
Mortgage and asset-backed securities .....	109,219	109,119	
Total long-term investments .....	153,474	153,330	
Short-term investments .....	6,286	6,285	
Total Financial Services investments .....	159,760	159,615	
Corporate investments:			
Long-term investments			
Mortgage and asset-backed securities .....	167,627	167,589	
Total long-term investments .....	167,627	167,589	
Short-term investments .....	107,510	107,510	
Other <sup>(6)</sup> .....	19,979	19,979	
Total Corporate investments .....	295,116	295,078	
Total Investments .....	\$ 7,062,029	\$ 6,847,279	

## RATING DISTRIBUTION OF THE FIXED INCOME INVESTMENT PORTFOLIO <sup>(3)(7)</sup>



Duration of Financial Guarantee investment portfolio <sup>(3)</sup> ..... 3.2

- 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 \$443,621 and \$495,821 respectively.
- 3) Ambac Assurance insured bonds purchased as part of our loss mitigation strategy include residential mortgage backed and student loan securities. These bonds represent 28% and 20% of the consolidated fair value of the fixed income investment portfolio at June 30, 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 and ETFs. 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) Equity interest in an unconsolidated subsidiary is carried at amortized cost.
- 7) 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 fair value.



## Expense Analysis (GAAP)

2014

Successor Ambac

(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
<b>Financial Guarantee operating expenses:</b>					
Compensation . . . . .	\$ 12,436	\$ 12,197	\$ 12,217		\$ 36,850
Non-compensation . . . . .	10,360	9,072	10,926		30,358
<b>Total Financial Guarantee operating expenses . . . . .</b>	<b>22,796</b>	<b>21,269</b>	<b>23,143</b>	<b>-</b>	<b>67,208</b>
<b>Financial Services operating expenses . . . . .</b>	<b>642</b>	<b>606</b>	<b>508</b>		<b>1,756</b>
<b>Corporate and other operating expenses . . . . .</b>	<b>2,433</b>	<b>1,128</b>	<b>1,345</b>		<b>4,906</b>
<b>Total gross operating expenses . . . . .</b>	<b>\$ 25,871</b>	<b>\$ 23,003</b>	<b>\$ 24,996</b>	<b>\$ -</b>	<b>\$ 73,870</b>
Ceding commissions . . . . .	(85)	1,030	517		1,462
Total operating expenses . . . . .	\$ 25,786	\$ 24,033	\$ 25,513	\$ -	\$ 75,332
<b>Reorganization costs . . . . .</b>	<b>\$ 23</b>	<b>\$ 186</b>	<b>\$ 2</b>		<b>\$ 211</b>
<b>Total gross operating expenses, including reorganization costs . . . . .</b>	<b>\$ 25,894</b>	<b>\$ 23,189</b>	<b>\$ 24,998</b>	<b>\$ -</b>	<b>\$ 74,081</b>

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
<b>Financial Guarantee operating expenses:</b>							
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
<b>Total Financial Guarantee operating expenses . . . . .</b>	<b>26,968</b>	<b>8,980</b>	<b>35,948</b>	<b>14,814</b>	<b>23,199</b>	<b>24,444</b>	<b>62,457</b>
<b>Financial Services operating expenses . . . . .</b>	<b>769</b>	<b>526</b>	<b>1,295</b>	<b>429</b>	<b>796</b>	<b>577</b>	<b>1,802</b>
<b>Corporate and other operating expenses . . . . .</b>	<b>608</b>	<b>(69)</b>	<b>539</b>	<b>383</b>	<b>337</b>	<b>2,298</b>	<b>3,018</b>
<b>Total gross operating expenses . . . . .</b>	<b>\$ 28,345</b>	<b>\$ 9,437</b>	<b>\$ 37,782</b>	<b>\$ 15,626</b>	<b>\$ 24,332</b>	<b>\$ 27,319</b>	<b>\$ 67,277</b>
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
<b>Reorganization costs . . . . .</b>	<b>\$ 2,059</b>	<b>\$ (2,747,239)</b>	<b>\$ (2,745,180)</b>	<b>\$ 424</b>	<b>\$ 4</b>	<b>\$ 65</b>	<b>\$ 493</b>
<b>Total gross operating expenses, including reorganization costs . . . . .</b>	<b>\$ 30,404</b>	<b>\$ (2,737,802)</b>	<b>\$ (2,707,398)</b>	<b>\$ 16,050</b>	<b>\$ 24,336</b>	<b>\$ 27,384</b>	<b>\$ 67,770</b>

## Historical Net Financial Guarantee Exposures Outstanding <sup>(1)</sup>

(\$ Millions Net Par Value)	September 30, <sup>(2)</sup>	December 31, <sup>(2)</sup>			Segregated Account September 30, 2014
	2014	2013	2012	2011	
<b>Public Finance <sup>(3)</sup>:</b>					
Lease and tax backed . . . . .	\$36,734	\$41,858	\$50,415	\$59,864	\$ -
General obligation . . . . .	24,599	29,115	34,623	42,959	11
Utility . . . . .	12,942	14,933	18,651	22,529	448
Transportation . . . . .	8,756	9,653	13,892	18,945	332
Housing . . . . .	7,170	7,439	8,176	8,823	-
Higher education . . . . .	6,693	7,810	10,382	13,618	-
Health care . . . . .	3,453	3,903	5,266	7,824	90
Other . . . . .	1,316	1,351	1,613	2,255	-
Total Public Finance . . . . .	101,663	116,062	143,018	176,817	881
<b>Structured Finance:</b>					
Mortgage-backed & home equity . . . . .	14,295	16,026	19,117	23,164	14,295
Investor-owned utilities . . . . .	5,699	5,881	7,071	9,049	55
Student loan . . . . .	3,541	4,357	5,411	7,824	3,541
Asset-backed . . . . .	1,388	2,361	2,905	4,732	-
CDOs . . . . .	724	897	5,941	8,060	237
Other . . . . .	1,876	1,890	1,914	2,316	311
Total Structured Finance . . . . .	27,523	31,412	42,359	55,145	18,439
<b>International Finance <sup>(4)</sup>:</b>					
Investor-owned and public utilities . . . . .	9,380	9,595	10,314	10,510	-
Sovereign/sub-sovereign . . . . .	7,046	7,394	7,289	7,282	-
Asset-backed . . . . .	6,177	6,884	8,702	9,560	-
Transportation . . . . .	3,605	5,021	6,002	5,914	135
Mortgage-backed & home equity . . . . .	442	484	1,268	1,397	-
CDOs . . . . .	278	822	3,191	4,375	196
Other . . . . .	1,278	1,418	1,490	1,504	-
Total International Finance . . . . .	28,206	31,618	38,256	40,542	331
Grand Total . . . . .	\$157,392	\$179,092	\$223,633	\$272,504	\$19,651
<b>Percent of Total Net Par Outstanding</b>					
Public Finance . . . . .	64.6%	64.8%	64.0%	64.9%	4.5%
Structured Finance . . . . .	17.5%	17.5%	18.9%	20.2%	93.8%
International Finance . . . . .	17.9%	17.7%	17.1%	14.9%	1.7%
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 \$1,959 \$2,776, \$11,282, and \$14,167, at September 30, 2014 and December 31, 2013, 2012, and 2011, respectively.

(2) Includes exposure allocated to the Segregated Account.

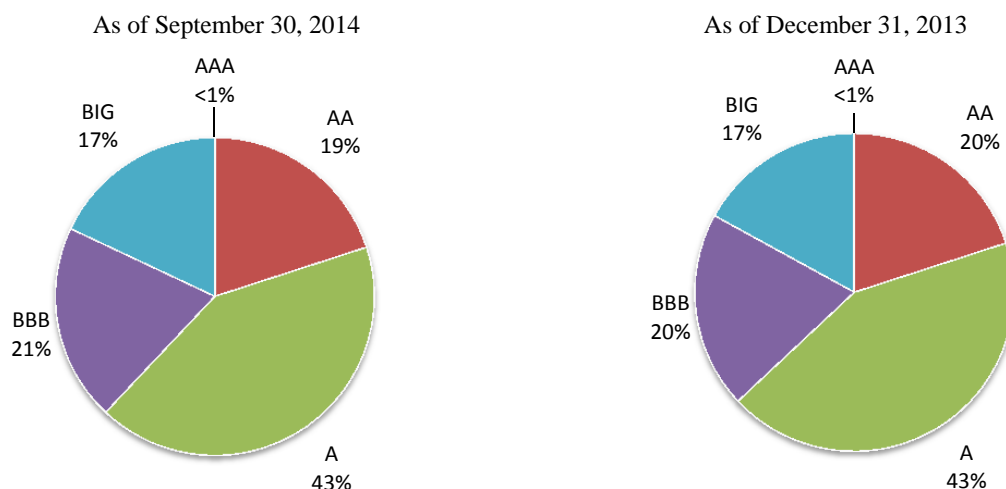
(3) Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy.

(4) International transactions include components of domestic exposure.

## Geographic Distribution of Net Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	September 30,		December 31,		
	2014	%	2013	2012	2011
<b>Domestic:</b>					
California . . . . .	\$22,405	14.2%	\$25,657	\$32,105	\$36,133
New York . . . . .	10,466	6.6%	11,577	14,389	18,267
Florida . . . . .	7,805	5.0%	8,545	11,110	13,906
Texas . . . . .	6,383	4.1%	7,431	10,016	12,983
New Jersey . . . . .	5,683	3.6%	6,559	7,906	9,650
Illinois . . . . .	4,624	2.9%	5,730	6,878	8,524
Massachusetts . . . . .	4,257	2.7%	4,689	5,373	5,799
Colorado . . . . .	3,648	2.3%	3,741	4,376	5,010
Pennsylvania . . . . .	3,595	2.3%	3,906	4,304	5,301
Washington . . . . .	2,531	1.6%	2,998	3,480	4,772
Mortgage and asset-backed . . . . .	15,683	10.0%	18,387	22,022	27,896
Other states . . . . .	42,106	26.8%	48,254	63,418	83,721
Total Domestic . . . . .	129,186	82.1%	147,474	185,377	231,962
<b>International:</b>					
United Kingdom . . . . .	19,934	12.7%	21,282	22,585	22,317
Australia . . . . .	3,266	2.1%	3,331	4,820	5,176
Italy . . . . .	1,488	0.9%	2,412	3,068	3,346
Austria . . . . .	886	0.6%	967	943	956
New Zealand . . . . .	459	0.3%	526	529	523
Internationally diversified . . . . .	1,296	0.8%	1,918	3,968	5,318
Other international . . . . .	877	0.6%	1,182	2,343	2,906
Total International . . . . .	28,206	17.9%	31,618	38,256	40,542
Grand Total . . . . .	\$157,392	100.0%	\$179,092	\$223,633	\$272,504

## Rating Distribution of Net Financial Guarantee Exposures Outstanding <sup>(1)</sup>



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

## 25 Largest Domestic Public Finance Exposures <sup>(1)</sup>

(\$ Millions)	Ambac Rating <sup>(2)</sup>	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$ 2,492	1.6%
New Jersey Transportation Trust Fund Authority - Transportation System	A -	1,915	1.2%
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	0.7%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	846	0.5%
Puerto Rico Sales Tax Financing Corporation	BIG	805	0.5%
Washington State - GO	AA	773	0.5%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BIG	712	0.5%
Chicago, IL - GO	BBB +	666	0.4%
New York Convention Center Development Corporation, Hotel Fee Revenue	A -	651	0.4%
Dallas Area Rapid Transit, TX, Sales Tax Revenue	AA	633	0.4%
Missouri Joint Municipal Electric Utility Commission, Project Revenue	A -	614	0.4%
Mets Queens Baseball Stadium Project, NY, Lease Revenue	BIG	585	0.4%
New York City, NY - GO	AA	577	0.4%
MTA, NY, Transportation Revenue (Farebox)	A	564	0.4%
New Jersey Turnpike Authority Revenue	A	544	0.3%
Alameda Corridor Transportation Authority, Transportation Revenue	BBB	539	0.3%
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue	BIG	532	0.3%
Miami-Dade County, FL School Board, Master Lease <sup>(3)</sup>	A -	522	0.3%
Minneapolis-St. Paul Metropolitan Airports Commission Airport Revenue Bonds	AA -	518	0.3%
Metropolitan Washington Airports Authority, DC, Airport System Revenue	AA -	493	0.3%
Hickam Community Housing LLC	BIG	484	0.3%
Clark County, NV - GO	AA +	481	0.3%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A	480	0.3%
Total:		<u>\$ 19,944</u>	<u>12.7%</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.
- 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 an insurance policy on the obligor's interest rate swap liabilities to the Segregated Account.

## 25 Largest Structured Finance Exposures

(\$ Millions)	Ambac Rating <sup>(1)</sup>	Net Par Outstanding	% of Total Net Par Outstanding
Ballantyne Re Plc <sup>(2)</sup>	BIG	\$900	0.6%
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 <sup>(3)</sup>	BIG	881	0.6%
The National Collegiate Student Loan Trust 2007-4 <sup>(3)</sup>	BIG	724	0.5%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 <sup>(3)</sup>	BIG	620	0.4%
Timberlake Financial, LLC	BBB -	608	0.4%
Progress Energy Carolinas, INC	A -	558	0.4%
Local Insight Media Finance LLC	BIG	489	0.3%
Option One Mortgage Loan Trust 2007-FXD1 <sup>(3)</sup>	BIG	419	0.3%
Niagara Mohawk Power Corporation	A	414	0.3%
Countrywide Asset-Backed Certificates Trust 2005-16 <sup>(3)</sup>	BIG	387	0.2%
Countrywide Revolving Home Equity Loan Trust 2005-F <sup>(3)</sup>	BIG	381	0.2%
CenterPoint Energy Inc.	BBB +	376	0.2%
The National Collegiate Student Loan Trust 2007-3 <sup>(3)</sup>	BIG	373	0.2%
Consolidated Edison Company of New York	A	347	0.2%
Impac CMB Trust Series 2005-7 <sup>(3)</sup>	BIG	346	0.2%
Countrywide Asset Backed Certificates Trust 2005-17 <sup>(3)</sup>	BIG	316	0.2%
Privately Placed RMBS Transaction <sup>(3)</sup>	BIG	301	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 <sup>(3)</sup>	BIG	298	0.2%
Countrywide Asset Backed Certificates Trust 2006-11 <sup>(3)</sup>	BIG	293	0.2%
The National Collegiate Student Loan Trust 2005-3 <sup>(3)</sup>	BIG	282	0.2%
GMACM Home Equity Loan Trust 2005-HE3 <sup>(3)</sup>	BIG	257	0.2%
Duke Energy Ohio, Inc.	BBB +	255	0.2%
Terwin Mortgage Trust Asset-Backed Certificates, Series 2006-6 <sup>(3)</sup>	BIG	253	0.2%
Countrywide Revolving Home Equity Loan Trust 2006-C <sup>(3)</sup>	BIG	240	0.2%
CDO of HY Corporate	AA +	239	0.2%
Total:		<u>\$10,557</u>	<u>6.7%</u>

## 25 Largest International Finance Exposures

(\$ Millions)	Ambac Rating <sup>(1)</sup>	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitization <sup>(2)</sup>	A +	\$1,943	1.2%
National Grid Electricity Transmission <sup>(2)</sup>	A -	1,270	0.8%
Aspire Defence Finance plc <sup>(2)</sup>	BBB +	1,177	0.7%
Punch Taverns Finance plc-UK Pub Securitization <sup>(2)</sup>	BIG	1,160	0.7%
Capital Hospitals plc <sup>(2)</sup>	BBB	1,076	0.7%
Telereal Securitization plc <sup>(2)</sup>	AA	1,076	0.7%
Channel Link Enterprises <sup>(2)</sup>	BBB -	966	0.6%
Posillipo Finance II S.r.l <sup>(2)</sup>	BBB	950	0.6%
Ostregion Investmentgesellschaft NR 1 SA <sup>(2)</sup>	BIG	886	0.6%
Anglian Water <sup>(2)</sup>	A -	886	0.6%
National Grid Gas <sup>(2)</sup>	A -	818	0.5%
RMPA Services plc <sup>(2)</sup>	BBB +	798	0.5%
Scotia Gas Networks <sup>(2)</sup>	BBB	726	0.5%
Catalyst Healthcare (Manchester) Financing plc <sup>(2)</sup>	BBB +	688	0.4%
Powercor Australia	BBB +	635	0.4%
South East Water (Finance) Limited <sup>(2)</sup>	BBB	593	0.4%
Babcock & Brown Air Funding I Limited	BIG	492	0.3%
CDO of HY Corporate <sup>(2)(3)</sup>	BBB +	486	0.3%
United Energy Limited	BBB	453	0.3%
Northern Powergrid (Yorkshire) plc <sup>(2)</sup>	BBB +	446	0.3%
Airspeed Limited	BIG	408	0.3%
Spirit Issuer plc <sup>(2)</sup>	BBB -	394	0.3%
Dampier to Bunbury Natural Gas Pipeline	BBB	392	0.2%
Annes Gate Property PLC <sup>(2)</sup>	BBB +	388	0.2%
Road Management Services (Finance) plc. <sup>(2)</sup>	BBB +	388	0.2%
Total:		<u>\$19,495</u>	<u>12.4%</u>

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 <sup>(1)</sup>

As of September 30, 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
2014 (4th Qtr) .....	\$4,460	\$243,374	\$680	\$23,679
2015.....	16,740	226,634	2,819	20,860
2016.....	15,256	211,378	2,651	18,209
2017.....	14,368	197,010	1,895	16,314
2018.....	14,260	182,750	1,503	14,811
2019.....	12,899	169,851	1,264	13,547
2014 (4th Qtr) .....	\$4,460	\$243,374	\$680	\$23,679
2015-2019.....	73,523	169,851	10,132	13,547
2020-2024.....	54,363	115,488	3,845	9,702
2025-2029.....	41,138	74,350	2,030	7,672
2030-2034.....	34,024	40,326	3,406	4,266
After 2034.....	40,326	-	4,266	-
Total.....	\$247,834		\$24,359	

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of September 30, 2014. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.