



***Ambac***

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## **THIRD QUARTER 2014 HIGHLIGHTS**

NOVEMBER 11, 2014

# VALUE CREATION INITIATIVES – 3Q14 HIGHLIGHTS

## Asset Management

- ▶ Consolidated portfolio \$7.1 billion, +4% since 6/30/14
  - Financial Guarantee (excluding AUK)
    - GAAP book yield 4.8%
    - STAT book yield 5.7%
- ▶ Monetization of junior surplus notes
  - \$224 million net proceeds
- ▶ Purchased \$52 million distressed insured RMBS
- ▶ \$685 million deferred amounts owned, or 17% of total deferred amounts

## Liability Management

- ▶ Net par insured \$157 billion, -6% since 6/30/14
- ▶ Adversely classified credits reduced by \$2.3 billion, or 7%, since 6/30/14
- ▶ Reached settlements with Detroit for GO exposures
- ▶ Exited distressed international exposure as a result of negotiated settlement

## Representations & Warranties (R&W)

- ▶ Seeking recoveries in 5 lawsuits; pursuing other recoveries/settlements
- ▶ \$2.2 billion estimated R&W subrogation recoveries
- ▶ \$365 million in value recognized since 2009, including negotiated payments

## Special Servicing

- ▶ RMBS collateral underlying \$4.5 billion of insured net par serviced by special servicers
  - 31% of RMBS book
- ▶ Progressing toward 4Q14 RMBS special servicing transfers
- ▶ Special servicing for certain student loan exposures
  - Proactively assessing possible enhancements

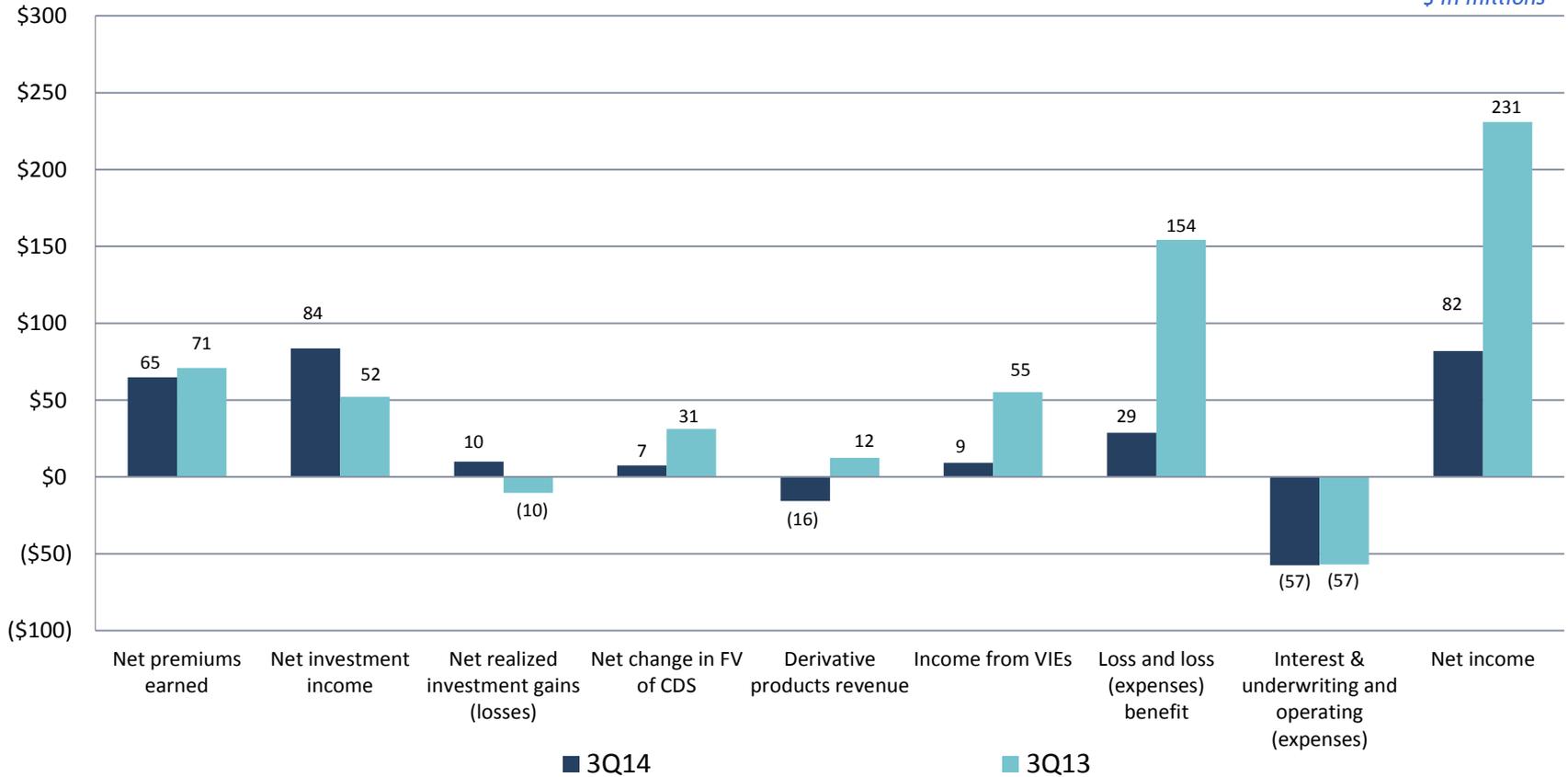
# GROWTH AND DIVERSIFICATION INITIATIVES

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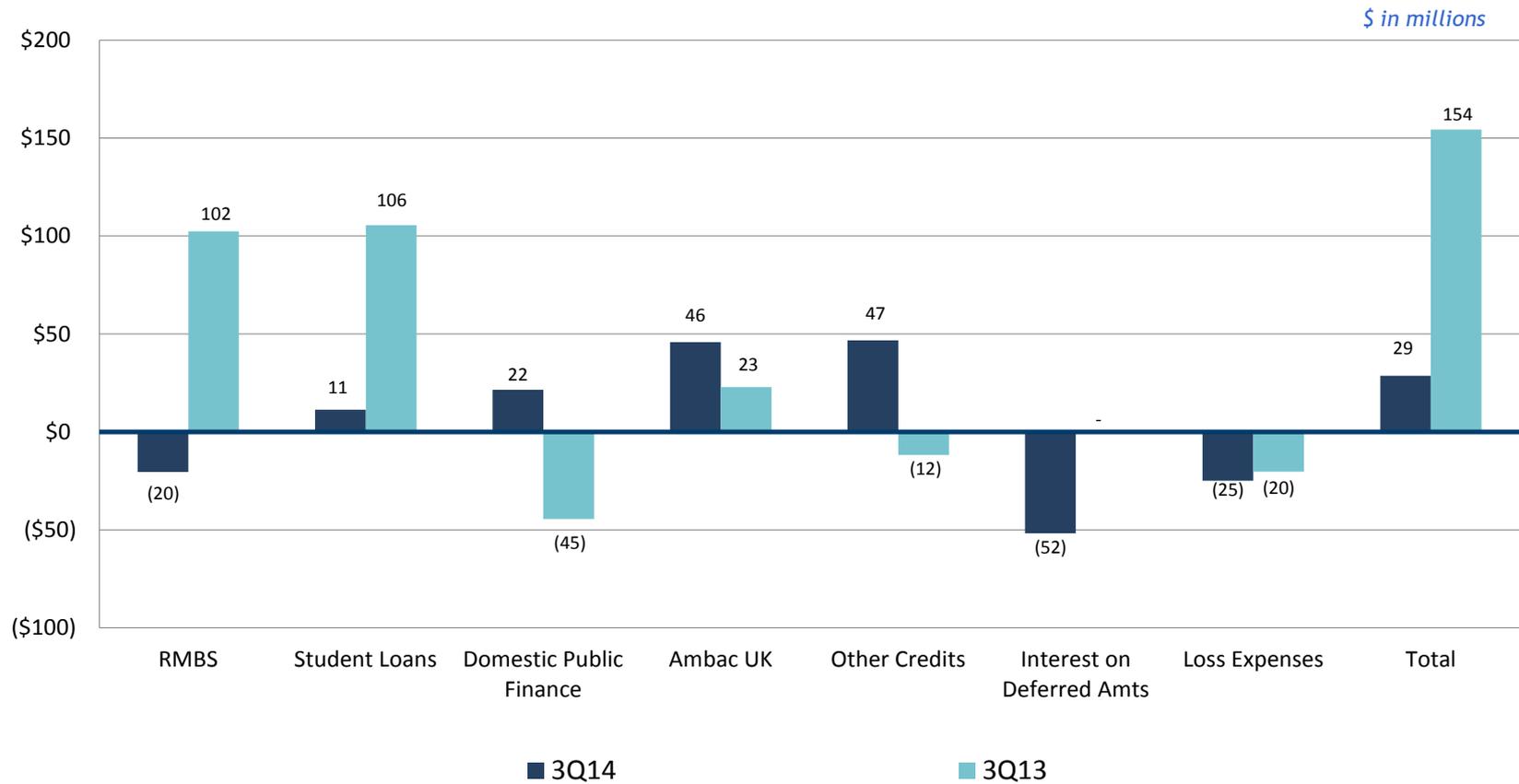


# KEY FINANCIAL RESULTS

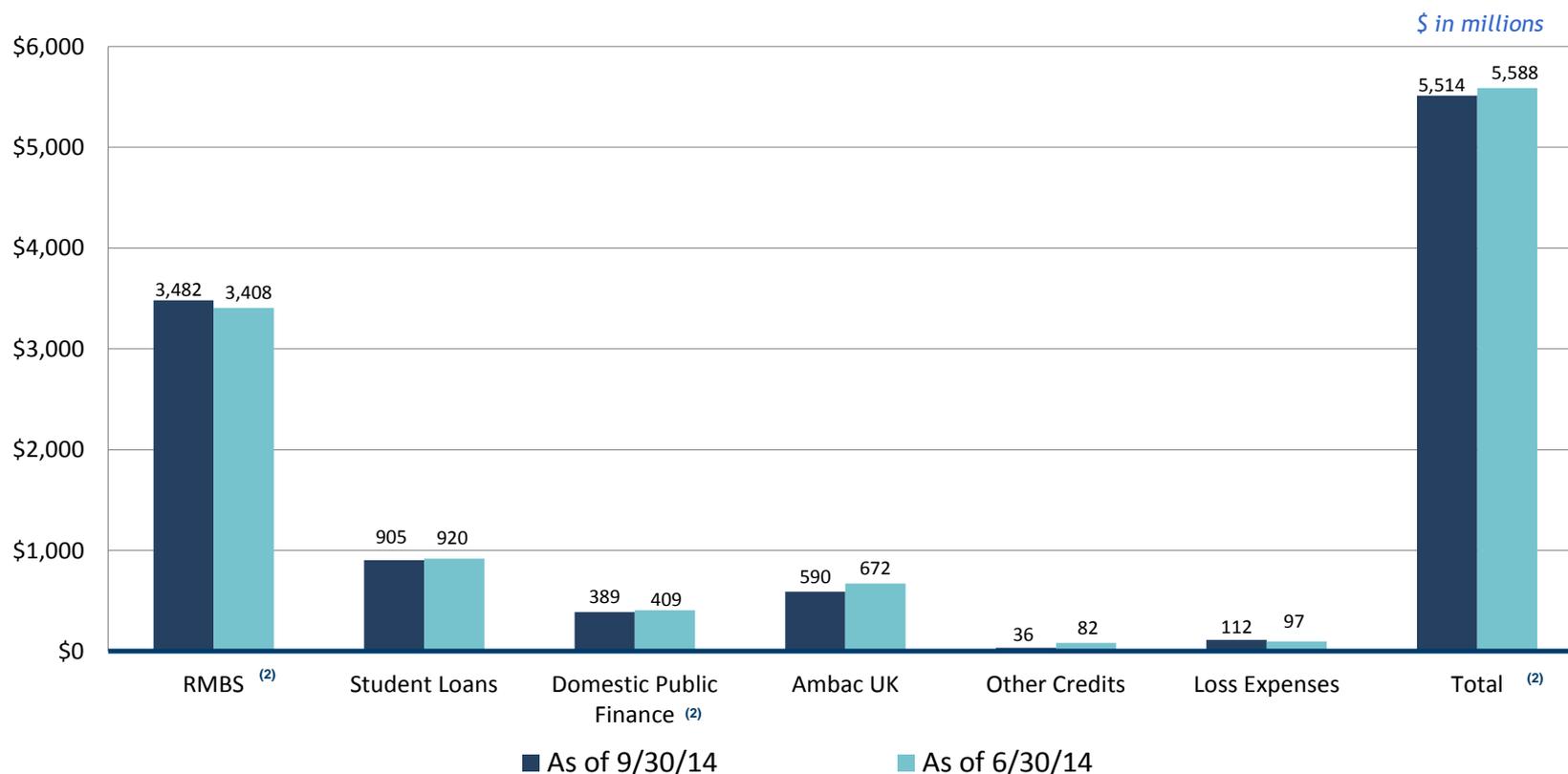
\$ in millions



# INCURRED (LOSSES) BENEFIT BY CATEGORY



## GROSS LOSS RESERVES BY CATEGORY<sup>(1)</sup>



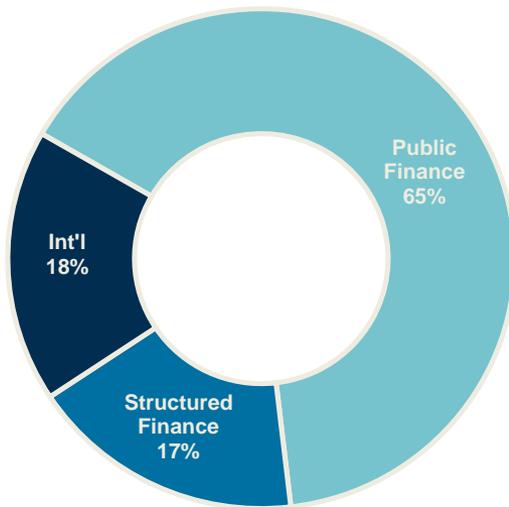
(1) Gross loss reserves are net of subrogation recoveries and include \$4.4 billion and \$4.3 billion of unpaid segregated account policy claims and interest as of September 30, 2014 and June 30, 2014, respectively.

(2) September 30, 2014 and June 30, 2014 unpaid segregated account policy claims include pre-tax accrued interest related to payments associated with amendments to the Plan of Rehabilitation of the Segregated Account as follows: \$359 million and \$307 million in RMBS; \$1 million and \$1 million in Domestic Public Finance; and \$360 million and \$308 million in Total, respectively.

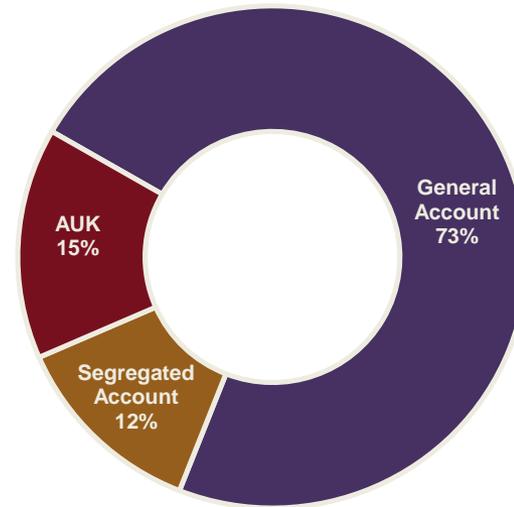
## INSURED PORTFOLIO NET PAR (1)

- ▶ \$157.4 billion net par as of September 30, 2014
- ▶ - 6% since June 30, 2014

Sector % Breakdown



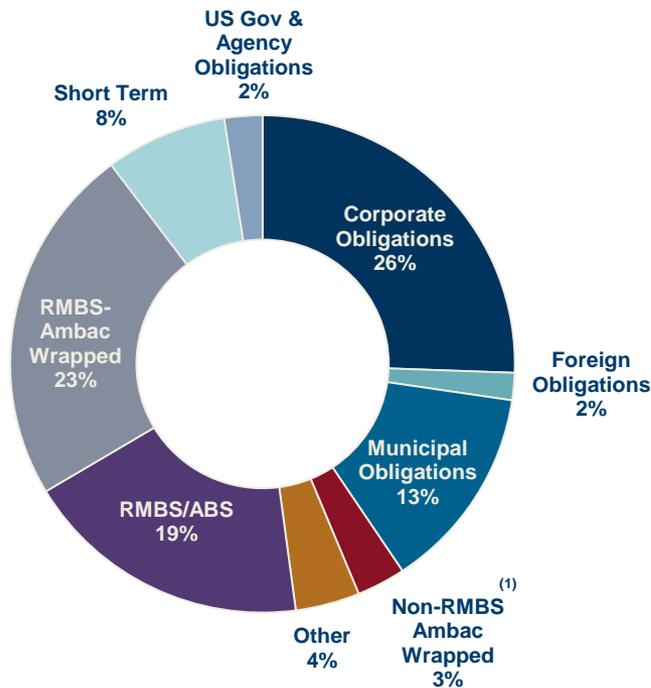
Portfolio % Breakdown



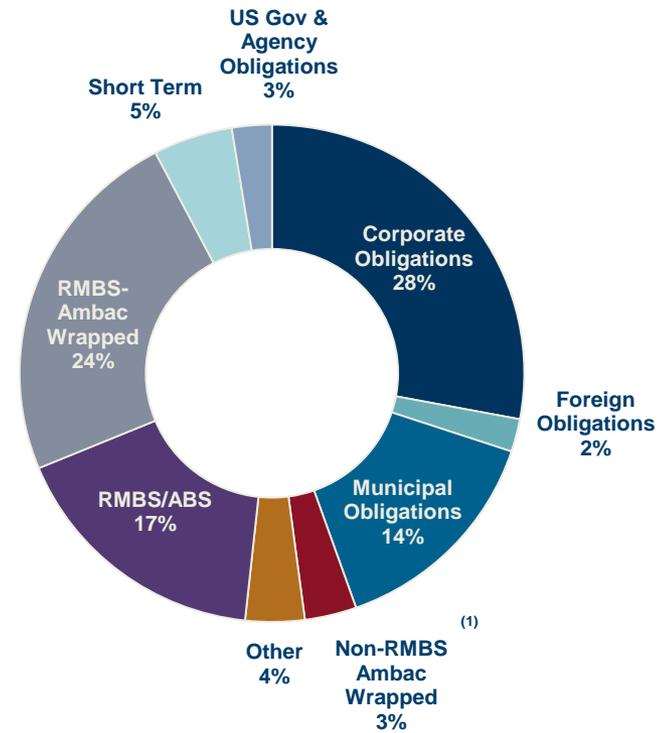
(1) Net Par includes capital appreciation bonds (“CABS”) which are reported at the par amount at the time of issuance of the insurance policy.

# CONSOLIDATED INVESTMENT PORTFOLIO FAIR VALUE

**As of September 30, 2014**  
**\$7.1 billion**



**As of June 30, 2014**  
**\$6.8 billion**



(1) Non-RMBS Ambac wrapped as part of asset-liability management strategy.

## STATUS OF REPRESENTATION & WARRANTY (R&W) LITIGATIONS (1)

Litigation Case	Current Status (as of November 11, 2014)
<p><b>EMC Mortgage LLC (formerly known as EMC Mortgage Corporation), J.P. Morgan Securities, Inc. (formerly known as Bear, Stearns &amp; Co. Inc.), and JP Morgan Chase Bank, N.A.</b></p>	<ul style="list-style-type: none"> <li>▶ Fact discovery has ended</li> <li>▶ Initial expert reports are expected to be exchanged in December 2014</li> </ul>
<p><b>EMC Mortgage LLC (formerly known as EMC Mortgage Corporation), J.P. Morgan Securities, Inc. (formerly known as Bear, Stearns &amp; Co. Inc.), and JP Morgan Chase Bank, N.A. – Case involves certain transactions that are not the subject of AAC’s previously filed lawsuit against the same defendants.</b></p>	<ul style="list-style-type: none"> <li>▶ Defendants filed a motion to dismiss the complaint on September 28, 2012</li> <li>▶ On June 13, 2013, the court dismissed Ambac Assurance’s contractual claims but not its claims for fraudulent inducement or successor liability</li> <li>▶ Ambac Assurance appealed and on October 16, 2014 the appellate court affirmed the dismissal of the contractual claims. We have filed for leave to reargue, or in the alternative to appeal, the decision</li> <li>▶ With respect to the claims that remain in the case, discovery is ongoing</li> </ul>
<p><b>First Franklin Financial Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner &amp; Smith Inc., Merrill Lynch Mortgage Lending, Inc., and Merrill Lynch Mortgage Investors, Inc.</b></p>	<ul style="list-style-type: none"> <li>▶ Defendants filed a motion to dismiss on July 13, 2012, which AAC opposed on September 21, 2012</li> <li>▶ Oral argument on the defendants’ motion to dismiss was held on May 6, 2013</li> <li>▶ On July 18, 2013 the court dismissed Ambac Assurance’s claims for indemnification and limited Ambac Assurance’s claim for breach of loan-level warranties to the repurchase protocol, but did not dismiss Ambac Assurance’s other contractual claims or fraudulent inducement claim</li> <li>▶ Discovery is ongoing</li> </ul>
<p><b>Countrywide Securities Corp., Countrywide Financial Corp. (a.k.a. Bank of America Home Loans) and Bank of America Corp</b></p>	<ul style="list-style-type: none"> <li>▶ On May 28, 2013, Ambac Assurance filed a second amended complaint adding an alter ego claim against Bank of America</li> <li>▶ The defendants served their answers on July 31, 2013</li> <li>▶ Fact discovery ended; expert discovery is ongoing</li> </ul>
<p><b>Nomura Credit &amp; Capital, Inc. and Nomura Holding America Inc.</b></p>	<ul style="list-style-type: none"> <li>▶ On July 12, 2013, Defendants filed a motion to dismiss the complaint; the court heard oral arguments on November 13, 2013</li> <li>▶ Amended Complaint filed on September 22, 2014 adding fraudulent inducement claim</li> <li>▶ Defendants filed motion to strike amended complaint on October 31, 2014, which Ambac intends to oppose.</li> </ul>

(1) Information disclosed herein is accurate as of the date indicated. Ambac may update the information included in this slide from time to time without notice, but is under no duty or obligation to do so.

# FORWARD LOOKING STATEMENT

In this presentation, we have included statements that may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “estimate,” “project,” “plan,” “believe,” “anticipate,” “intend,” “planned,” “potential” and similar expressions, or future or conditional verbs such as “will,” “should,” “would,” “could,” and “may,” or the negative of those expressions or verbs, identify forward-looking statements. We caution readers that these statements are not guarantees of future performance. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, which may by their nature be inherently uncertain and some of which may be outside our control. These statements may relate to plans and objectives with respect to the future, among other things, which may change. We are alerting you to the possibility that our actual results may differ, possibly materially, from the expected objectives or anticipated results that may be suggested, expressed or implied by these forward-looking statements. Important factors that could cause our results to differ, possibly materially, from those indicated in the forward-looking statements include, among others, those discussed under “Risk Factors” in Part I, Item 1A of the 2013 Annual Report on Form 10-K and in Part II, Item 1A of the Quarterly Report on Form 10-Q for the three month period ended September 30, 2014.

Any or all of management’s forward-looking statements here or in other publications may turn out to be incorrect and are based on management’s current belief or opinions. Ambac’s actual results may vary materially, and there are no guarantees about the performance of Ambac’s securities. Among events, risks, uncertainties or factors that could cause actual results to differ materially are: (1) volatility in the price of Ambac’s common stock; (2) uncertainty concerning our ability to achieve value for holders of Ambac securities, whether from Ambac Assurance Corporation (“Ambac Assurance”) or from new business opportunities; (3) the possible dilution of the ownership interests of our stockholders; (4) the impact on our stock price of future offerings of debt or senior equity securities; (5) our inability to achieve the financial results projected during our Chapter 11 proceeding; (6) potential of rehabilitation proceedings against Ambac Assurance; (7) decisions made by the rehabilitator of the Segregated Account of Ambac Assurance Corporation (the “Segregated Account”) for the benefit of policyholders that may result in material adverse consequences for Ambac’s security holders; (8) our inability to realize the expected recoveries included in our financial statements; (9) intercompany disputes or disputes with the rehabilitator of the Segregated Account; (10) material changes to the Segregated Account rehabilitation plan or to current rules and procedures governing the payment of permitted policy claims, with resulting adverse impacts; (11) decisions of the rehabilitator of the Segregated Account concerning payments of deferred claim amounts or payments on surplus notes, the timing or magnitude of which is disadvantageous to Ambac; (12) increased fiscal stress experienced by issuers of public finance obligations or an increased incidence of Chapter 9 filings by municipal issuers; (13) adverse events arising from the rehabilitation proceedings for the Segregated Account, including the failure of the injunctions issued by the Wisconsin rehabilitation court to protect the Segregated Account and Ambac Assurance from certain adverse actions; (14) adverse tax consequences or other costs resulting from the Segregated Account rehabilitation plan or from rules and procedures governing the payment of permitted policy claims; (15) credit risk throughout our business, including but not limited to credit risk related to residential mortgage-backed securities, student loan and other asset securitizations, collateralized loan obligations, public finance obligations and exposures to reinsurers; (16) risks attendant to the change in composition of securities in our investment portfolio; (17) inadequacy of reserves established for losses and loss expenses; (18) the risk that our risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss as a result of unforeseen risks; (19) changes in prevailing interest rates; (20) factors that may influence the amount of installment premiums paid to Ambac, including the Segregated Account rehabilitation proceedings; (21) default by one or more of Ambac Assurance’s portfolio investments, insured issuers or counterparties; (22) market risks impacting assets in our investment portfolio or the value of our assets posted as collateral in respect of investment agreements and interest rate swap transactions; (23) risks relating to determinations of amounts of impairments taken on investments; (24) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (25) the risk of litigation and regulatory inquiries or investigations, and the risk of adverse outcomes in connection therewith, which could have a material adverse effect on our business, operations, financial position, profitability or cash flows; (26) system security risks; (27) the effects of U.S. fiscal policies; (28) market spreads and pricing on derivative products insured or issued by Ambac or its subsidiaries; (29) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting; (30) changes in accounting principles or practices that may impact Ambac’s financial results, including those resulting from any further changes to the Segregated Account rehabilitation plan or decisions of the rehabilitator; (31) legislative and regulatory developments; (32) operational risks, including with respect to internal processes, risk models, systems and employees, and failures in services or products provided by third parties; (33) Ambac’s financial position and the Segregated Account rehabilitation proceedings that may prompt departures of key employees and may impact our ability to attract qualified executives and employees; and (34) other risks and uncertainties that have not been identified at this time.