



Ambac

Quarterly Operating Supplement

2Q14

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

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

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

Table of Contents

Consolidated Statements of Operations	1-2
Consolidated Balance Sheets	3
Key Quarterly Financial Data	4
Key Annual Financial Data.....	5
Non-GAAP Financial Measures	6
Claims-Paying Resources and Statutory Financial Ratios	7
Roll-forward of Statutory Policyholders' Surplus	8
Ambac Assurance Segregated Account, in Rehabilitation - Claims Paying Position.....	9
Ratio of Net Claims Recorded	10
Estimated Future Gross RMBS Claims Recorded	10
Summary of Net Insurance Loss Reserves (GAAP) and Credit Derivative Impairments	11
Summary of Insured Exposures with Impairment Losses.....	11
Net Insurance Premiums Earned and Fees on Credit Derivatives (GAAP).....	12
Net Unearned Premium Amortization and Estimated Future Installment Premiums	12
Fixed Income Investment Portfolio.....	13
Rating Distribution of the Fixed Income Investment Portfolio.....	13
Expense Analysis (GAAP)	14
Historical Net Financial Guarantee Exposures Outstanding.....	15
Geographic Distribution of Net Financial Guarantee Exposures Outstanding	16
Rating Distribution of Net Financial Guarantee Exposures Outstanding	16
25 Largest Domestic Public Finance Exposures.....	17
25 Largest Structured Finance Exposures.....	18
25 Largest International Finance Exposures.....	18
Net Exposure Amortization.....	19

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)	Successor Ambac		Predecessor Ambac
	Period from April 1 through June 30, 2014	Period from May 1 through June 30, 2013	Preiod from April 1 through April 30, 2013
Revenues:			
Net premiums earned:			
Normal net premiums earned.....	\$57,023	\$44,990	\$22,671
Accelerated net premiums earned	7,990	13,049	7,073
Total net premiums earned.....	65,013	58,039	29,744
Net investment income:			
Securities available-for-sale and short-term.....	76,882	29,211	31,314
Other investments.....	3,211	(3,015)	912
Total net investment income.....	80,093	26,196	32,226
Other-than-temporary impairment losses:			
Total other-than-temporary impairment losses.....	(9,051)	(2,004)	(467)
Portion of loss recognized in other comprehensive income.....	297	2	-
Net other-than-temporary impairment losses recognized in earnings.....	(8,754)	(2,002)	(467)
Net realized gains (losses).....	3,067	18,472	7,245
Change in fair value of credit derivatives:			
Realized gains (losses) and other settlements.....	717	6,074	935
Unrealized gains (losses).....	(1,936)	45,146	(74,106)
Net change in fair value of credit derivatives.....	(1,219)	51,220	(73,171)
Derivative products.....	(47,985)	83,713	(33,166)
Other income.....	5,266	2,179	(1,135)
Income (loss) on variable interest entities.....	(38,148)	4,598	388,240
Total revenues.....	57,333	242,415	349,516
Expenses:			
Losses and loss expenses (benefit).....	175,317	(26,117)	13,079
Insurance intangible amortization	36,256	24,952	-
Underwriting and operating expenses	24,033	16,217	10,692
Interest expense.....	31,953	21,144	7,860
Total expenses before reorganization items.....	267,559	36,196	31,631
Pre-tax income (loss) from continuing operations before reorganization items.....	(210,226)	206,219	317,885
Reorganization items.....	186	424	(2,747,239)
Pre-tax income (loss) from continuing operations.....	(210,412)	205,795	3,065,124
Provision (benefit) for income taxes.....	(2,179)	513	98
Net income (loss).....	(208,233)	205,282	3,065,026
Less: net (income) loss attributable to noncontrolling interest.....	(328)	(399)	(1,724)
Net income (loss) attributable to common shareholders.....	(\$207,905)	\$205,681	\$3,066,750
Net income (loss) per share.....	(\$4.61)	\$4.57	\$10.14
Net income (loss) per diluted share.....	(\$4.61)	\$4.42	\$10.14
Weighted average number of shares outstanding.....	45,091,983	45,000,653	302,469,626
Weighted average number of diluted shares outstanding.....	45,091,983	46,575,717	302,579,219

Consolidated Statements of Operations

(\$ in Thousands, Except Share Data)	Successor Ambac		Predecessor Ambac
	Period from January 1 through June 30, 2014	Period from May 1 through June 30, 2013	Preiod from January 1 through April 30, 2013
Revenues:			
Net premiums earned:			
Normal net premiums earned.....	\$114,456	\$44,990	\$93,567
Accelerated net premiums earned	33,104	13,049	36,433
Total net premiums earned	147,560	58,039	130,000
Net investment income:			
Securities available-for-sale and short-term.....	145,689	29,211	116,371
Other investments.....	5,205	(3,015)	369
Total net investment income	150,894	26,196	116,740
Other-than-temporary impairment losses:			
Total other-than-temporary impairment losses.....	(19,443)	(2,004)	(467)
Portion of loss recognized in other comprehensive income.....	297	2	-
Net other-than-temporary impairment losses recognized in earnings	(19,146)	(2,002)	(467)
Net realized gains (losses).....	19,356	18,472	53,305
Change in fair value of credit derivatives:			
Realized gains (losses) and other settlements.....	1,492	6,074	3,444
Unrealized gains (losses).....	4,671	45,146	(63,828)
Net change in fair value of credit derivatives.....	6,163	51,220	(60,384)
Derivative products.....	(101,826)	83,713	(33,735)
Other income.....	7,160	2,179	8,363
Income (loss) on variable interest entities.....	(43,690)	4,598	426,566
Total revenues.....	166,471	242,415	640,388
Expenses:			
Losses and loss expenses (benefit)	35,306	(26,117)	(38,056)
Insurance intangible amortization	67,970	24,952	-
Underwriting and operating expenses	49,819	16,217	44,566
Interest expense.....	64,281	21,144	31,025
Total expenses before reorganization items.....	217,376	36,196	37,535
Pre-tax income (loss) from continuing operations before reorganization items.....	(50,905)	206,219	602,853
Reorganization items.....	209	424	(2,745,180)
Pre-tax income (loss) from continuing operations.....	(51,114)	205,795	3,348,033
Provision for income taxes.....	1,070	513	755
Net income (loss).....	(52,184)	205,282	3,347,278
Less: net (income) loss attributable to noncontrolling interest.....	(221)	(399)	(1,771)
Net income (loss) attributable to common shareholders.....	(\$51,963)	\$205,681	\$3,349,049
Net income (loss) per share.....	(\$1.15)	\$4.57	\$11.07
Net income (loss) per diluted share.....	(\$1.15)	\$4.42	\$11.07
Weighted average number of shares outstanding.....	45,067,539	45,000,653	302,469,544
Weighted average number of diluted shares outstanding.....	45,067,539	46,575,717	302,579,245

Consolidated Balance Sheets

(\$ in Thousands, Except Share Data)	June 30, 2014	December 31, 2013
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of \$5,868,458 in 2014 and \$5,927,254 in 2013)	\$6,100,431	\$5,885,316
Fixed income securities pledged as collateral, at fair value (amortized cost of \$65,027 in 2014 and \$126,196 in 2013)	65,029	126,223
Short-term investments, at fair value (amortized cost of \$344,187 in 2014 and \$271,118 in 2013)	344,187	271,119
Other investments, at fair value	256,455	241,069
Total investments	6,766,102	6,523,727
Cash	74,461	77,370
Receivable for securities	31,107	14,450
Investment income due and accrued	34,518	37,663
Premium Receivables	1,356,362	1,453,021
Reinsurance recoverable on paid and unpaid losses	109,255	121,249
Deferred ceded premiums	134,278	145,529
Subrogation recoverable	484,152	498,478
Loans	6,349	6,179
Derivative assets	89,680	77,711
Current taxes	1,488	-
Insurance intangible assets	1,549,384	1,597,965
Goodwill	514,511	514,511
Other assets	127,898	35,927
Variable interest entity assets:		
Fixed income securities, at fair value	2,688,388	2,475,182
Restricted cash	7,712	17,498
Investment income due and accrued	1,409	1,365
Loans, at fair value	13,743,231	13,398,895
Intangible assets	-	76,140
Other assets	3,068	19,617
Total assets	\$27,723,353	\$27,092,477
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unearned premiums	\$2,070,312	\$2,255,680
Losses and loss expense reserve	6,072,323	5,968,712
Ceded premiums payable	64,740	70,962
Obligations under investment agreements	169,582	359,070
Deferred taxes	2,314	2,199
Current taxes	-	738
Long-term debt, at fair value	981,424	963,178
Accrued interest payable	339,975	294,817
Derivative liabilities	342,273	253,898
Other liabilities	60,086	67,377
Payable for securities purchased	15,358	4,654
Variable interest entity liabilities:		
Accrued interest payable	3,353	722
Long-term debt, at fair value	14,450,434	14,091,753
Derivative liabilities	1,927,460	1,772,306
Other liabilities	188	7,989
Total liabilities	26,499,822	26,114,055
Stockholders' equity:		
Preferred stock	-	-
Common stock	450	450
Additional paid-in capital	188,060	185,672
Accumulated other comprehensive income	306,328	11,661
Accumulated earnings	453,256	505,219
Common stock held in treasury at cost	(19)	(19)
Total Ambac Financial Group, Inc. stockholders' equity	948,075	702,983
Noncontrolling interest	275,456	275,439
Total stockholders' equity	1,223,531	978,422
Total liabilities and stockholders' equity	\$27,723,353	\$27,092,477
Number of shares outstanding (net of treasury shares)	45,002,575	45,002,524
Ambac Financial Group, Inc. book value per share	\$21.07	\$15.62

Key Quarterly Financial Data

(Dollars in millions, except share data)

	Successor ⁽¹⁾					Predecessor ⁽¹⁾	
	2Q 2014	1Q 2014	4Q 2013	3Q 2013	May/June 2013	April 2013	1Q 2013
Summary GAAP Financial Data:							
<u>Statement of Total Comprehensive Income:</u>							
Net premiums earned	\$65	\$83	\$85	\$71	\$58	\$30	\$100
Net investment income ⁽²⁾	80	71	68	52	26	32	85
Change in fair value of credit derivatives	(1)	7	110	31	51	(73)	13
Income (loss) on variable interest entities (VIEs) ⁽²⁾	(38)	(6)	(108)	55	5	388	38
Loss and loss expenses (benefit) ⁽³⁾	175	(140)	(5)	(154)	(26)	13	(51)
Insurance intangible amortization ⁽²⁾	36	32	37	37	25	-	-
Underwriting and operating expenses ⁽²⁾	24	26	28	25	16	11	34
Interest expense ⁽²⁾	32	32	32	31	21	8	23
Reorganization items ⁽²⁾	-	-	-	-	-	(2,747)	2
Net income (loss) attributable to Ambac common shareholders ⁽²⁾	(208)	156	69	231	206	3,067	282
Net income (loss) per diluted share ⁽²⁾	(\$4.61)	\$3.31	\$1.49	\$4.98	\$4.42	n.a.	n.a.
<u>Balance Sheets:</u>							
Total non-VIE investments	\$6,766	\$6,749	\$6,524	\$6,686	\$6,601	\$6,457	\$6,513
Premium receivable	1,356	1,418	1,453	1,436	1,465	1,532	1,543
Insurance intangible asset ⁽²⁾	1,549	1,570	1,598	1,621	1,622	1,659	-
Goodwill ⁽²⁾	515	515	515	515	515	515	-
Subrogation recoverable	484	512	499	485	501	534	545
Total VIE assets	16,444	15,932	15,989	17,386	16,263	17,460	16,752
Total assets ⁽²⁾	27,723	27,114	27,092	28,621	27,463	28,842	26,154
Unearned premium reserve	2,070	2,168	2,256	2,304	2,373	2,482	2,623
Loss and loss expense reserve	6,072	5,826	5,969	5,885	6,043	6,106	6,590
Obligations under investment agreements ⁽⁴⁾	170	360	359	359	359	365	357
Long-term debt ^{(2) (4)}	981	972	963	955	946	940	154
Liabilities subject to compromise ⁽⁴⁾	-	-	-	-	-	-	1,705
Ambac stockholders' equity (deficit) ⁽²⁾	948	953	703	611	287	185	(3,531)

Summary Statutory Data of Ambac Assurance:

Invested assets	\$6,055	\$5,856	\$5,747	\$5,659	\$5,466	\$5,278
Loss and loss expense reserve	3,784	3,465	3,541	3,045	3,008	2,901
Estimated impairment losses on subsidiary guarantee:	27	61	57	83	96	149
Policyholders' Surplus	946	1,008	840	502	394	159
Qualified statutory capital	1,053	1,094	906	1,142	973	693
Total claims-paying resources, including Ambac UK	\$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 accrued on Deferred Amounts of \$308,090 for the second quarter of 2014.

4) 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.

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

	Successor ⁽¹⁾		Predecessor ⁽¹⁾			
	YTD 2014	Eight Months Ended Dec. 31, 2013	Four Months Ended Apr. 30, 2013	2012	2011	2010
Summary GAAP Financial Data:						
Statement of Total Comprehensive Income:						
Net premiums earned	\$148	\$214	\$130	\$415	\$406	\$546
Net investment income ⁽²⁾	151	146	117	383	355	359
Change in fair value of credit derivatives	6	193	(60)	(9)	48	60
Income (loss) on variable interest entities (VIEs)	(44)	(49)	427	28	(214)	(617)
Loss and loss expenses (benefit) ⁽³⁾	35	(185)	(38)	684	1,859	719
Insurance intangible amortization ⁽²⁾	68	100	-	-	-	-
Underwriting and operating expenses ⁽²⁾	50	69	45	139	141	254
Interest expense ⁽²⁾	64	85	31	112	128	181
Reorganization items ⁽²⁾	-	-	(2,745)	7	50	32
Net income (loss) attributable to Ambac common shareholders ⁽²⁾	(52)	505	3,349	(257)	(1,960)	(753)
Net income (loss) per diluted share	(\$1.15)	\$10.91	n.a.	n.a.	n.a.	n.a.
Balance Sheets:						
Total non-VIE investments	\$6,766	\$6,524	\$6,457	\$6,330	\$6,877	\$6,853
Premium receivable	1,356	1,453	1,532	1,621	2,028	2,423
Insurance intangible asset ⁽²⁾	1,549	1,598	1,659	-	-	-
Goodwill ⁽²⁾	515	515	515	-	-	-
Subrogation recoverable	484	499	534	497	660	714
Total VIE assets	16,444	15,989	17,460	17,842	16,543	17,931
Total assets ⁽²⁾	27,723	27,092	28,842	27,074	27,108	29,039
Unearned premium reserve	2,070	2,256	2,482	2,778	3,457	4,008
Loss and loss expense reserve	6,072	5,969	6,106	6,619	7,044	5,289
Obligations under investment agreements ⁽⁴⁾	170	359	365	362	547	806
Long-term debt ⁽²⁾⁽⁴⁾	981	963	940	150	224	208
Liabilities subject to compromise ⁽⁴⁾	-	-	-	1,705	1,707	1,695
Ambac stockholders' equity (deficit) ⁽²⁾	948	703	185	(3,908)	(3,813)	(2,009)

Summary Statutory Data of Ambac Assurance:

Invested assets	\$6,055	\$5,747	\$5,168	\$5,854	\$5,943
Loss and loss expense reserve	3,784	3,541	2,946	3,226	2,478
Estimated impairment losses on subsidiary guarantees	27	57	144	-	-
Policyholders' Surplus	946	840	100	495	1,027
Qualified statutory capital	1,053	906	633	688	1,540
Total claims-paying resources, including Ambac UK	\$7,465	\$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 accrued on Deferred Amounts of \$308,090 for the six months ending June 30, 2014.
- 4) 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.

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

Operating Earnings (Losses):

	Successor					Predecessor	
	Second Quarter 2014	First Quarter 2014	Fourth Quarter 2013	Third Quarter 2013	May/June 2013	April 2013	First Quarter 2013
Net (loss) income attributable to common shareholders.....	(\$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 ..	2.3	(4.2)	(107.2)	(8.5)	(50.1)	77.5	(5.9)
Effect of consolidating financial guarantee VIEs.....	52.9	0.3	287.7	(48.7)	(15.3)	(386.7)	(27.0)
Insurance intangible amortization.....	36.3	31.7	37.2	37.5	24.9	-	-
FX (gain) loss from re-measured premium receivables and loss and loss expense reserves	(6.8)	(1.7)	(9.4)	(19.0)	7.4	(6.6)	17.9
Fair value (gain) loss on derivatives from Ambac CVA.....	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>(\$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
	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).....	\$948.1	\$953.2	\$703.0	\$611.4	\$287.2	(\$3,530.5)
Adjustments:						
Non-credit impairment fair value losses on credit derivatives	70.9	68.6	72.8	180.0	188.5	161.2
Effect of consolidating financial guarantee VIEs.....	(324.6)	(373.4)	(372.7)	(653.7)	(594.4)	(165.0)
Insurance intangible asset and goodwill.....	(2,063.9)	(2,084.6)	(2,112.5)	(2,135.5)	(2,136.1)	-
Ambac CVA on derivative product liabilities (excluding credit derivatives)	(43.9)	(53.8)	(48.4)	(63.5)	(64.6)	(91.8)
Net unearned premiums and fees in excess of expected losses.....	1,293.9	1,349.6	1,435.2	1,525.8	1,690.3	1,788.0
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income	(232.0)	(46.8)	41.9	37.1	91.0	(745.4)
Adjusted book value.....	<u>(\$351.5)</u>	<u>(\$187.2)</u>	<u>(\$280.7)</u>	<u>(\$498.4)</u>	<u>(\$538.1)</u>	<u>(\$2,583.5)</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.

Ambac Assurance

Claims-Paying Resources ⁽¹⁾ and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	June 30, 2014	December 31, 2013
Contingency Reserve	\$107,626	\$65,691
Policyholders' Surplus ⁽²⁾	945,661	840,262
Qualified Statutory Capital	1,053,287	905,953
Unearned Premiums	1,018,998	1,093,607
Losses and Loss Adjustment Expenses	3,783,708	3,541,487
Estimated Impairment Losses on Subsidiary Guarantees	26,900	56,600
Policyholders' Reserves	5,882,893	5,597,647
Present Value of Future Installment Premiums ⁽³⁾	425,932	468,576
Ambac Assurance Claims-paying Resources	6,308,825	6,066,223
Ambac UK Claims-paying Resources ⁽⁴⁾	1,156,396	1,132,736
Total Claims-paying Resources	\$7,465,221	\$7,198,959
Net Financial Guarantees In Force:		
Ambac Assurance	\$227,036,239	\$243,621,498
Ambac UK	36,531,082	38,588,617
Total Net Financial Guarantees In Force	\$263,567,321	\$282,210,115
Total Claims-paying Ratio ⁽⁵⁾	35 : 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 June 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 \$587,867.
- 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 six months ended June 30, 2014	For the year ended December 31, 2013
Policyholders' Surplus, beginning of period ⁽¹⁾	\$ 840,262	\$ 100,000
Net income (loss) ^{(2) (3) (4)}	87,399	(235,557)
Issuance of junior surplus note - segregated account ⁽²⁾	-	350,000
Extinguishment of junior surplus note - segregated account ⁽³⁾	-	(8,043)
Change in contingency reserves ⁽⁵⁾	(41,933)	463,499
Change in investments ⁽⁶⁾	59,539	165,785
Other changes in surplus	394	4,578
Policyholders' Surplus, end of period	<u>\$ 945,661</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 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.
- 3) 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.
- 4) Net income for the six months ended June 30, 2014 includes an expense of \$308,090 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.

Ambac Assurance Segregated Account, in Rehabilitation

Claims Paying Position ⁽¹⁾

(\$ Thousands)	June 30, 2014	December 31, 2013
Liabilities allocated from Ambac Assurance ⁽²⁾	\$ 6,135,969	\$ 6,010,714
Segregated Account resources:		
Secured Note provided by Ambac Assurance including accrued interest	-	107,803
Liabilities ceded to Ambac Assurance ⁽³⁾	6,134,169	5,902,198
Surplus notes ceded to Ambac Assurance ⁽³⁾	431,039	431,039
Other Segregated Account Net Assets	12,798	12,313
Total resources available	<u>6,578,006</u>	<u>6,453,353</u>
Current Surplus to pay Segregated Account permitted claims	<u>\$ 442,037</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.

Ratio of Net Claims Recorded ⁽¹⁾

(\$ Thousands)	Successor Ambac		Predecessor Ambac			
	Six Months ended June 30,	Eight Months ended December 31,	Four Months ended April 30,	December 31,		
	2014	2013	2013	2012	2011	2010
Net claims (recovered) paid - Insurance ⁽²⁾	\$ (102,250)	\$ (92,480)	\$ (31,147)	\$ 932,930	\$ 147,762	\$ 290,519
Net unpaid claims - Insurance ^{(3) (4)}	94,748	241,916	274,222	619,431	1,357,181	1,411,445
Net credit derivatives payments	-	-	-	-	-	(263)
Net credit derivatives commutation payments ⁽⁵⁾	-	-	-	-	-	4,589,107
Total net claims recorded	\$ (7,502)	\$ 149,436	\$ 243,075	\$ 1,552,361	\$ 1,504,943	\$ 6,290,808
Net insurance premiums earned and credit derivative fees	\$ 149,052	\$ 223,296	\$ 133,444	\$ 428,317	\$ 422,971	\$ 577,195
Ratio of net claims recorded ⁽⁶⁾	(5.0%)	66.9%	182.2%	362.4%	355.8%	1089.9%

Estimated Future Gross RMBS Claims Recorded ⁽⁷⁾

(\$ Thousands)	Successor Ambac	
	June 30, 2014	December 31, 2013
2014 (Six months for June 30, 2014, Full Year for December 31, 2013)	\$ 145,809	\$ 368,894
2015	242,393	236,549
2016	221,072	268,054
2017	191,018	184,279
2018	120,706	124,094
2019	75,342	85,759
2014 (Six months for June 30, 2014, Full Year for December 31, 2013)	\$ 145,809	\$ 368,894
2015-2019	850,531	898,735
2020-2024	153,384	170,438
2025-2029	29,650	30,292
2030-2034	13,819	10,516
After 2034	701,639	722,816
Total	\$ 1,894,832	\$ 2,201,691

- 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. 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 \$239,268, \$292,067, \$160,355, \$222,205, \$104,805, and \$107,914 for the six months ending June 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 June 30, 2014, interest accrued and unpaid on Deferred Amounts was \$308,090. 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, excluding reinsurance and representation and warranty subrogation recoveries. Future claims recorded in these tables exclude RMBS claims presented and unpaid of \$3,981,265 and \$3,891,306 as of June 30, 2014 and December 31, 2013, respectively, Ambac's undiscounted estimate of representation and warranty subrogation recoveries are \$2,300,485 and \$2,215,848 at June 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		
	June 30, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Total insurance reserves ⁽¹⁾	\$5,478,156	\$5,347,877	\$5,974,731	\$6,230,780	\$4,424,450
Estimated credit impairment losses on credit derivatives ⁽²⁾	18,749	21,531	46,469	36,940	22,055
Total impairment losses	5,496,905	5,369,408	6,021,200	6,267,720	4,446,505
Mark-to-market reserve on credit derivatives ⁽²⁾	70,902	72,791	167,116	153,713	199,629
Grand total net insurance loss reserves and credit derivatives	\$5,567,807	\$5,442,199	\$6,188,316	\$6,421,433	\$4,646,134

Summary of Insured Exposures With Impairment Losses

(\$ Thousands)	Segregated Account Net Par Outstanding ⁽³⁾	Total Net Par Outstanding	Total Impairment Losses ⁽⁴⁾⁽⁵⁾
Public Finance:			
Lease & tax backed	\$0	\$2,126,098	\$207,706
Housing	-	665,519	10,647
Transportation revenue	81,216	568,661	125,513
General obligation	-	648,758	71,411
Other	-	695,187	(3,568)
Total Public Finance	81,216	4,704,223	411,709
Structured Finance:			
Mortgage-backed & home equity - first lien & other	6,698,965	6,698,965	3,298,692
Mortgage-backed & home equity - second lien	4,108,123	4,108,123	197,652
Student loans	1,879,930	1,879,930	812,355
Other	137,000	1,037,000	553,283
Total Structured Finance	12,824,018	13,724,018	4,861,982
International Finance:			
	88,604	2,113,111	223,214
Total	\$12,993,838	\$20,541,352	\$5,496,905

- 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 June 30, 2014, \$4,307,033 of claims remain unpaid, including \$308,090 of interest accrued on Deferred Amounts. Total insurance reserves are inclusive of these unpaid claims.
- Total net mark-to-market losses are \$89,651, \$94,322, \$213,585, \$190,653, and \$221,684 as of June 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 \$349,949. 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 \$676,946.

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			\$53,632
Structured Finance ⁽¹⁾	10,389	10,944			21,333
International Finance	19,757	19,734			39,491
Total Normal Insurance Premiums Earned	57,433	57,023	-	-	114,456
Accelerated Premiums Earned	25,114	7,990			33,104
Total Premiums Earned	\$82,547	\$65,013	-	-	\$147,560
Fees on credit derivative contracts	\$775	\$717			\$1,492

2013 (\$ Thousands)	Predecessor Ambac			Successor Ambac			
	First Quarter	April	Four Months Ended April 30	Two Months Ended June 30	Third Quarter	Fourth Quarter	Eight Months Ended December 31
Public Finance	\$36,051	\$11,829	\$47,880	\$23,559	\$33,028	\$29,994	\$86,581
Structured Finance ⁽¹⁾	15,662	4,635	20,297	8,884	(544)	11,685	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) ⁽²⁾	Fees on Credit Derivative Contracts ⁽³⁾	Estimated Net Future Installments ⁽³⁾	Consolidated VIE
2014 (3rd and 4th Qtrs)	\$89.8	\$1.2	\$58.5	\$18.9
2015	163.2	2.0	91.5	21.7
2016	148.9	1.1	83.5	21.1
2017	137.7	0.8	76.7	20.5
2018	128.5	0.8	81.0	19.8
2019	120.3	0.8	63.7	18.5
2014 (3rd and 4th Qtrs)	\$89.8	\$1.2	\$58.5	\$18.9
2015-2019	698.6	5.5	396.4	101.6
2020-2024	499.5	2.5	263.9	76.9
2025-2029	342.7	0.1	206.3	47.5
2030-2034	190.4	-	151.0	27.7
After 2034	115.0	-	96.1	4.5
Total	\$1,936.0	\$9.3	\$1,172.2	\$277.1

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

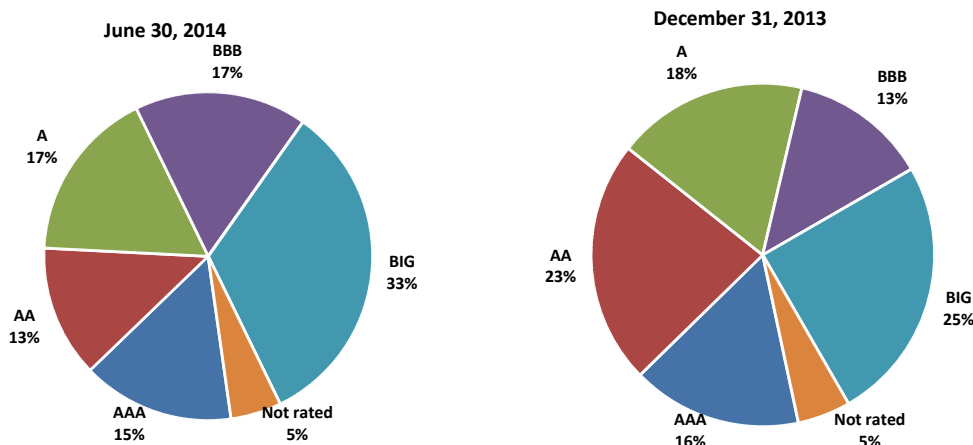
3) Represents management's undiscounted estimate of fees on credit derivative contracts and future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation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

Fixed Income Investment Portfolio

As of June 30, 2014

INCOME ANALYSIS BY TYPE OF SECURITY	Fair Value	U.S. GAAP Book Value	Pre-tax Yield To Maturity ⁽¹⁾
Investment category (\$ thousands)			
Financial Guarantee investments:			
Long-term investments			
U.S. government and agency obligations	\$ 107,600	\$ 107,908	0.28%
Municipal obligations ⁽²⁾	981,082	969,764	3.70%
Corporate obligations	1,835,963	1,820,706	2.44%
Ambac-insured - loss mitigation strategy ⁽³⁾	1,820,972	1,628,779	10.15%
Mortgage and asset-backed securities	1,003,090	980,939	3.43%
Total long-term investments	5,748,707	5,508,096	5.07%
Short-term investments	290,393	290,393	0.03%
Other	100	100	
Total Financial Guarantee investments excl. Ambac UK	6,039,200	5,798,589	4.82%
Ambac UK Investments ⁽⁴⁾	521,389	530,282	1.79%
Total Financial Guarantee investments	6,560,589	6,328,871	4.57%
Financial Services investments: ⁽⁵⁾			
Long-term investments			
U.S. government and agency obligations	45,055	45,018	
Mortgage and asset-backed securities	119,258	119,064	
Total long-term investments	164,313	164,082	
Short-term investments	4,055	4,056	
Total Financial Services investments	168,368	168,138	
Corporate investments:			
Long-term investments			
Mortgage and asset-backed securities	32,227	32,200	
Total long-term investments	32,227	32,200	
Short-term investments	4,918	4,918	
Total Corporate investments	37,145	37,118	
Total Investments	\$ 6,766,102	\$ 6,534,127	

RATING DISTRIBUTION OF THE FIXED INCOME INVESTMENT PORTFOLIO ⁽³⁾⁽⁶⁾



Duration of Financial Guarantee investment portfolio ⁽³⁾ 3.3

- 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 \$450,782 and \$530,300 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) 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	
Financial Guarantee operating expenses:						
Compensation	\$ 12,436	\$ 12,197			\$ 24,633	
Non-compensation	10,360	9,072			19,432	
Total Financial Guarantee operating expenses	22,796	21,269	-	-	44,065	
Financial Services operating expenses	642	606			1,248	
Corporate and other operating expenses	2,433	1,128			3,561	
Total gross operating expenses	\$ 25,871	\$ 23,003	\$ -	\$ -	\$ 48,874	
Ceding commissions	(85)	1,030			945	
Total operating expenses	\$ 25,786	\$ 24,033	\$ -	\$ -	\$ 49,819	
Reorganization costs	\$ 23	\$ 186			\$ 209	
Total gross operating expenses, including reorganization costs	\$ 25,894	\$ 23,189	\$ -	\$ -	\$ 49,083	

2013		Predecessor Ambac			Successor Ambac			
(\$ Thousands)	First Quarter	April	Four Months Ended April 30	Two Months Ended June 30	Third Quarter	Fourth Quarter	Eight Months Ended December 31	
Financial Guarantee operating expenses:								
Compensation	\$ 14,408	\$ 4,549	\$ 18,957	\$ 8,965	\$ 12,991	\$ 13,382	\$ 35,338	
Non-compensation	12,560	4,431	16,991	5,849	10,208	11,062	27,119	
Total Financial Guarantee operating expenses	26,968	8,980	35,948	14,814	23,199	24,444	62,457	
Financial Services operating expenses	769	526	1,295	429	796	577	1,802	
Corporate and other operating expenses	608	(69)	539	383	337	2,298	3,018	
Total gross operating expenses	\$ 28,345	\$ 9,437	\$ 37,782	\$ 15,626	\$ 24,332	\$ 27,319	\$ 67,277	
Ceding commissions	194	110	304	591	715	186	1,492	
Change in deferred acquisition costs	5,335	1,145	6,480	-	-	-	-	
Total operating expenses	\$ 33,874	\$ 10,692	\$ 44,566	\$ 16,217	\$ 25,047	\$ 27,505	\$ 68,769	
Reorganization costs	\$ 2,059	\$ (2,747,239)	\$ (2,745,180)	\$ 424	\$ 4	\$ 65	\$ 493	
Total gross operating expenses, including reorganization costs	\$ 30,404	\$ (2,737,802)	\$ (2,707,398)	\$ 16,050	\$ 24,336	\$ 27,384	\$ 67,770	

Historical Net Financial Guarantee Exposures Outstanding ⁽¹⁾

(\$ Millions Net Par Value)	June 30, ⁽²⁾	December 31, ⁽²⁾			Segregated Account June 30, 2014
	2014	2013	2012	2011	
Public Finance ⁽³⁾:					
Lease and tax backed	\$39,328	\$41,858	\$50,415	\$59,864	\$ -
General obligation	26,778	29,115	34,623	42,959	11
Utility	14,024	14,933	18,651	22,529	444
Transportation	9,000	9,653	13,892	18,945	332
Higher education	7,274	7,810	10,382	13,618	-
Housing	7,217	7,439	8,176	8,823	-
Health care	3,507	3,903	5,266	7,824	90
Other	1,321	1,351	1,613	2,255	-
Total Public Finance	108,449	116,062	143,018	176,817	877
Structured Finance:					
Mortgage-backed & home equity	14,876	16,026	19,117	23,164	14,876
Investor-owned utilities	5,754	5,881	7,071	9,049	55
Student loan	4,185	4,357	5,411	7,824	4,185
Asset-backed	1,423	2,361	2,905	4,732	-
CDOs	787	897	5,941	8,060	252
Other	1,882	1,890	1,914	2,316	312
Total Structured Finance	28,907	31,412	42,359	55,145	19,680
International Finance ⁽⁴⁾:					
Investor-owned and public utilities	9,945	9,595	10,314	10,510	-
Sovereign/sub-sovereign	7,516	7,394	7,289	7,282	-
Asset-backed	6,792	6,884	8,702	9,560	-
Transportation	3,864	5,021	6,002	5,914	146
Mortgage-backed & home equity	477	484	1,268	1,397	-
CDOs	391	822	3,191	4,375	196
Other	1,373	1,418	1,490	1,504	-
Total International Finance	30,358	31,618	38,256	40,542	342
Grand Total	\$167,714	\$179,092	\$223,633	\$272,504	\$20,899
Percent of Total Net Par Outstanding					
Public Finance	64.7%	64.8%	64.0%	64.9%	4.2%
Structured Finance	17.2%	17.5%	18.9%	20.2%	94.2%
International Finance	18.1%	17.7%	17.1%	14.9%	1.6%
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 \$2,203, \$2,776, \$11,282, and \$14,167, at June 30, 2014 and December 31, 2013, 2012, and 2011, respectively.

(2) Includes exposure allocated to the Segregated Account.

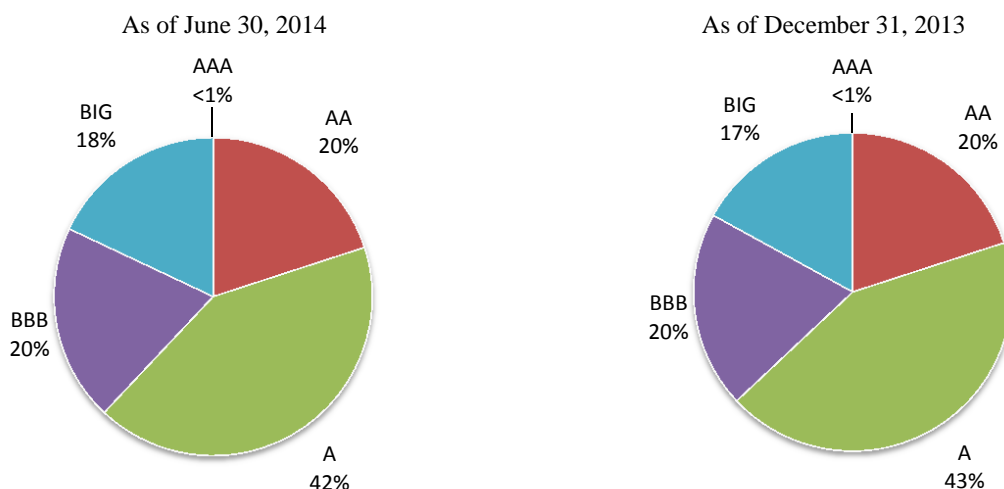
(3) Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy.

(4) International transactions include components of domestic exposure.

Geographic Distribution of Net Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	June 30,		December 31,		
	2014	%	2013	2012	2011
Domestic:					
California	\$24,261	14.5%	\$25,657	\$32,105	\$36,133
New York	10,736	6.4%	11,577	14,389	18,267
Florida	8,259	4.9%	8,545	11,110	13,906
Texas	6,747	4.0%	7,431	10,016	12,983
New Jersey	6,091	3.6%	6,559	7,906	9,650
Illinois	5,267	3.1%	5,730	6,878	8,524
Massachusetts	4,429	2.6%	4,689	5,373	5,799
Pennsylvania	3,754	2.2%	3,906	4,304	5,301
Colorado	3,669	2.2%	3,741	4,376	5,010
Washington	2,743	1.6%	2,998	3,480	4,772
Mortgage and asset-backed	16,299	9.7%	18,387	22,022	27,896
Other states	45,101	26.9%	48,254	63,418	83,721
Total Domestic	137,356	81.9%	147,474	185,377	231,962
International:					
United Kingdom	21,145	12.6%	21,282	22,585	22,317
Australia	3,504	2.1%	3,331	4,820	5,176
Italy	1,861	1.1%	2,412	3,068	3,346
Austria	961	0.6%	967	943	956
New Zealand	515	0.3%	526	529	523
Internationally diversified	1,441	0.9%	1,918	3,968	5,318
Other international	931	0.6%	1,182	2,343	2,906
Total International	30,358	18.1%	31,618	38,256	40,542
Grand Total	\$167,714	100.0%	\$179,092	\$223,633	\$272,504

Rating Distribution of Net Financial Guarantee Exposures Outstanding ⁽¹⁾



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

25 Largest Domestic Public Finance Exposures ⁽¹⁾

(\$ Millions)	Ambac Rating ⁽²⁾	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$ 2,492	1.5%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	1,915	1.1%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	1,230	0.7%
Massachusetts Commonwealth - GO	AA	1,182	0.7%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	1,112	0.7%
Los Angeles Unified School District, CA - GO	AA -	895	0.5%
Washington State - GO	AA	867	0.5%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	846	0.5%
Puerto Rico Sales Tax Financing Corporation	BIG	805	0.5%
Puerto Rico Highways & Transportation Authority, Transportation Revenue	BIG	733	0.4%
Chicago, IL - GO	BBB +	670	0.4%
New York City, NY - GO	AA	661	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	0.3%
New York City, NY Water and Sewer System Revenue	AA	566	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	564	0.3%
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue	BIG	561	0.3%
New Jersey Turnpike Authority Revenue	A	544	0.3%
Alameda Corridor Transportation Authority, Transportation Revenue	BBB	539	0.3%
Miami-Dade County, FL School Board, Master Lease ⁽³⁾	A -	533	0.3%
Minneapolis-St. Paul Metropolitan Airports Commission Airport Revenue Bonds	AA -	518	0.3%
Illinois Sports Facility Authority	A -	509	0.3%
Metropolitan Washington Airports Authority, DC, Airport System Revenue	AA -	493	0.3%
Total:		<u>\$ 20,718</u>	<u>12.4%</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 ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 ⁽²⁾	BIG	\$918	0.5%
Ballantyne Re Plc ⁽³⁾	BIG	900	0.5%
The National Collegiate Student Loan Trust 2007-4 ⁽²⁾	BIG	731	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 ⁽²⁾	BIG	642	0.4%
Timberlake Financial, LLC	BIG	608	0.4%
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	426	0.3%
Niagara Mohawk Power Corporation	A	414	0.2%
Countrywide Asset-Backed Certificates Trust 2005-16 ⁽²⁾	BIG	404	0.2%
Countrywide Revolving Home Equity Loan Trust 2005-F ⁽²⁾	BIG	393	0.2%
The National Collegiate Student Loan Trust 2007-3 ⁽²⁾	BIG	380	0.2%
CenterPoint Energy Inc.	BBB +	376	0.2%
Impac CMB Trust Series 2005-7 ⁽²⁾	BIG	355	0.2%
Consolidated Edison Company of New York	A	347	0.2%
Countrywide Asset Backed Certificates Trust 2005-17 ⁽²⁾	BIG	328	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 ⁽²⁾	BIG	318	0.2%
Privately Placed RMBS Transaction ⁽²⁾	BIG	317	0.2%
Countrywide Asset Backed Certificates Trust 2006-11 ⁽²⁾	BIG	299	0.2%
CDO of HY Corporate	AA +	292	0.2%
The National Collegiate Student Loan Trust 2005-3 ⁽²⁾	BIG	282	0.2%
GMACM Home Equity Loan Trust 2005-HE3 ⁽²⁾	BIG	266	0.2%
Terwin Mortgage Trust Asset-Backed Certificates, Series 2006-6 ⁽²⁾	BIG	255	0.2%
Duke Energy Ohio, Inc.	BBB +	255	0.2%
Total:		<u>\$11,134</u>	<u>6.6%</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 +	\$2,046	1.2%
National Grid Electricity Transmission ⁽³⁾	A -	1,335	0.8%
Aspire Defence Finance plc ⁽³⁾	BBB +	1,251	0.7%
Punch Taverns Finance plc-UK Pub Securitization ⁽³⁾	BIG	1,236	0.7%
Telereal Securitization plc ⁽³⁾	AA	1,145	0.7%
Capital Hospitals plc ⁽³⁾	BBB	1,131	0.7%
Channel Link Enterprises ⁽³⁾	BBB -	1,031	0.6%
Posillipo Finance II S.r.l ⁽³⁾	BBB	1,030	0.6%
Ostregion Investmentgesellschaft NR 1 SA ⁽³⁾	BIG	961	0.6%
Anglian Water ⁽³⁾	A -	931	0.6%
National Grid Gas ⁽³⁾	A -	860	0.5%
RMPA Services plc ⁽³⁾	BBB +	851	0.5%
Scotia Gas Networks ⁽³⁾	BBB	766	0.5%
Catalyst Healthcare (Manchester) Financing plc ⁽³⁾	BBB +	733	0.4%
Powercor Australia	BBB +	684	0.4%
South East Water (Finance) Limited ⁽³⁾	BBB	626	0.4%
CDO of HY Corporate ^{(2) (3)}	BBB +	513	0.3%
Babcock & Brown Air Funding I Limited	BIG	502	0.3%
United Energy Distribution	BBB	475	0.3%
Northern Powergrid (Yorkshire) plc ⁽³⁾	BBB +	470	0.3%
Dampier to Bunbury Natural Gas Pipeline	BBB	423	0.3%
Spirit Issuer plc ⁽³⁾	BBB -	422	0.3%
Airspeed Limited	BIG	418	0.2%
Annes Gate Property PLC ⁽³⁾	BBB +	417	0.2%
CitiPower	A -	414	0.2%
Total:		<u>\$20,671</u>	<u>12.3%</u>

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

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

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

Net Exposure Amortization ⁽¹⁾

As of June 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 (3rd and 4th Qtrs)	\$9,133	\$254,434	\$1,331	\$25,163
2015.....	17,646	236,788	2,847	22,316
2016.....	15,782	221,006	2,602	19,714
2017.....	14,954	206,052	1,844	17,870
2018.....	14,863	191,189	1,482	16,388
2019.....	13,502	177,687	1,279	15,109
2014 (3rd and 4th Qtrs)	\$9,133	\$254,434	\$1,331	\$25,163
2015-2019.....	76,747	177,687	10,054	15,109
2020-2024.....	57,098	120,589	3,980	11,129
2025-2029.....	43,265	77,324	2,256	8,873
2030-2034.....	35,557	41,767	3,680	5,193
After 2034.....	41,767	-	5,193	-
Total.....	\$263,567		\$26,494	

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