

***Ambac***

2013 Quarterly Operating Supplement

*Q1*

---

## **Company Profile**

Ambac Financial Group, Inc. (“Ambac”), headquartered in New York City, is a holding company whose subsidiaries, including its principal operating subsidiaries, Ambac Assurance Corporation (“Ambac Assurance”), Everspan Financial Guarantee Corp., and Ambac Assurance UK Limited, provided financial guarantees and other financial services to clients in both the public and private sectors globally. Ambac Assurance, including the Segregated Account of Ambac Assurance (in rehabilitation), is a guarantor of public finance and structured finance obligations. Ambac is also exploring opportunities involving the development or acquisition of new financial services businesses. Ambac’s common stock trades on the NASDAQ Global Select Market (NASDAQ: AMBC).

## **Company Information**

Corporate headquarters are located at:

Ambac Financial Group, Inc.  
One State Street Plaza  
New York, New York 10004  
[www.ambac.com](http://www.ambac.com)

Investor Relations Contact:  
Michael Fitzgerald (212) 208-3222  
[mfitzgerald@ambac.com](mailto:mfitzgerald@ambac.com)

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

**Ambac Financial Group, Inc.**  
**Quarterly Operating Supplement**  
**First Quarter 2013**

**Table of Contents**

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

Note 1: Internal Ambac Assurance credit ratings contained in this Supplement are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance. In cases where Ambac Assurance has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac Assurance credit ratings are subject to revision at any time and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has insured the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees.

Note 2: Information contained in this report is unaudited.

## Key Financial Data

(Dollars in millions except share data)

	1Q 2013	2012	2011	2010	2009
<b>Summary GAAP Financial Data:</b>					
<b>Statement of Operations:</b>					
Net premiums earned	\$100	\$415	\$406	\$546	\$797
Net investment income	85	383	355	359	554
Change in fair value of credit derivatives	13	(9)	48	60	3,813
Gain (loss) on variable interest entities (VIEs)	38	28	(214)	(617)	7
Loss and loss expenses	(51)	684	1,859	719	2,815
Underwriting and operating expenses	34	139	141	254	206
Interest expense	23	112	128	181	154
Reorganization items	2	7	50	32	-
Net income (loss) attributable to Ambac common shareholders	282	(257)	(1,960)	(753)	(15)
<b>Balance Sheets:</b>					
Total non-VIE investments	\$6,512	\$6,330	\$6,877	\$6,853	\$8,703
Premium receivable	1,543	1,621	2,028	2,423	3,718
Subrogation recoverable	545	497	660	714	903
Total VIE assets	16,752	17,842	16,543	17,931	3,277
Total assets	26,165	27,085	27,114	29,047	18,886
Unearned premium reserve	2,623	2,778	3,457	4,008	5,687
Loss and loss expense reserve	6,590	6,619	7,044	5,289	4,772
Obligations under investment and payment agreements	363	362	547	806	1,291
Long-term debt <sup>(1)</sup>	154	150	224	208	1,632
Liabilities subject to compromise <sup>(1)</sup>	1,705	1,705	1,707	1,695	-
Ambac stockholders' deficit	(3,531)	(3,908)	(3,813)	(2,009)	(2,288)
<b>Summary Statutory Data of Ambac Assurance:</b>					
Invested assets	\$5,278	\$5,168	\$5,854	\$5,943	\$8,009
Loss and loss expense reserve	2,901	2,946	3,226	2,478	1,141
Estimated impairment losses on subsidiary guarantees	149	144	-	-	3,842
Policyholders' Surplus	159	100	495	1,027	802
Qualified statutory capital	693	633	688	1,540	1,154
Total claims-paying resources	\$6,628	\$6,513	\$7,450	\$7,877	\$10,790
Net par outstanding	\$210,963	\$223,633	\$272,504	\$318,854	\$390,406
Net debt service outstanding	\$328,567	\$350,163	\$433,484	\$509,429	\$619,566

1) Long-term debt from and including 2010 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 from and including 2010 is included under liabilities subject to compromise.

## Ambac Assurance

### Claims-Paying Resources <sup>(1)</sup> and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	March 31, 2013	December 31, 2012
Contingency reserve . . . . .	\$533,596	\$533,479
Policyholders' Surplus <sup>(2)(3)</sup> . . . . .	<u>159,451</u>	<u>100,000</u>
Qualified statutory capital . . . . .	693,047	633,479
Unearned premiums . . . . .	1,287,133	1,358,741
Losses and loss adjustment expenses . . . . .	2,900,636	2,946,481
Estimated impairment losses on subsidiary guarantees . . . . .	148,800	144,000
Segregated Account liabilities <sup>(3)</sup> . . . . .	<u>-</u>	<u>(163,687)</u>
Policyholders' reserves . . . . .	5,029,616	4,919,014
Present Value of Future Installment Premiums <sup>(4)</sup> . . . . .	<u>533,732</u>	<u>546,281</u>
Ambac Assurance Claims-Paying Resources . . . . .	5,563,348	5,465,295
Ambac Assurance UK Ltd. Claims-Paying Resources <sup>(5)</sup> . . . . .	<u>1,065,124</u>	<u>1,047,494</u>
Total Claims-Paying Resources . . . . .	<u>\$6,628,472</u>	<u>\$6,512,789</u>
Net financial guarantees in force <sup>(6)</sup> . . . . .	\$328,566,506	\$350,162,883
Total Claims-Paying Ratio <sup>(7)</sup> . . . . .	<u>50 : 1</u>	<u>54 : 1</u>
Gross financial guarantees in force . . . . .	\$362,592,961	\$385,803,398
Gross par outstanding . . . . .	\$231,539,192	\$245,029,528

- 1) Total claims-paying resources quantifies total resources available to pay claims, including guarantees on subsidiary obligations.
- 2) Surplus Notes with a par value of \$1,299,902 are included in the capital and surplus for March 31, 2013 and December 31, 2012.
- 3) Pursuant to a prescribed practice by the State of Wisconsin Office of the Commissioner of Insurance, Ambac Assurance is not obligated to make payments to the Segregated Account if Ambac Assurance's surplus would be less than \$100,000, (the "Minimum Surplus Amount"). Accordingly, \$163,687 of losses in the Segregated Account did not reduce Ambac Assurance's surplus at December 31, 2012. At March 31, 2013, Ambac Assurance's surplus is greater than the Minimum Surplus Amount. Refer to Ambac's filings with the Securities and Exchange Commission for further discussion of the Segregated Account of Ambac Assurance.
- 4) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts (excluding Ambac UK) and credit derivatives. Present value calculations are discounted at 5.1%.
- 5) Ambac UK's claims paying resources will become available to Ambac Assurance only to the extent Ambac UK receives approval from its regulator to dividend monies to Ambac Assurance. Components of Ambac UK's claims paying resources are discounted at Ambac UK's projected investment rate of return. Ambac UK's claims-paying resources primarily consist of the present value of future installment premiums of approximately \$635,685.
- 6) Includes Ambac UK net financial guarantees in force of \$35,380,881 and \$38,616,515 as of March 31, 2013 and December 31, 2012, respectively. Financial guarantees in force includes principal and interest on insurance policies and credit derivative contracts.
- 7) Claims-paying Ratio is net financial guarantees in force divided by total claims-paying resources.

## Ambac Assurance

### Rollforward of Statutory Policyholders' Surplus <sup>(1)</sup>

(\$ Thousands)

	For the three months ended March 31, 2013	For the year ended December 31, 2012
Policyholders' Surplus, beginning of period . . . . .	\$ 100,000	\$ 495,293
Net income <sup>(2)</sup> . . . . .	39,118	616,121
Exercise of surplus notes - general account <sup>(2)</sup> . . . . .	-	(789,179)
Change in contingency reserves . . . . .	-	(338,985)
Change in investments <sup>(3)</sup> . . . . .	26,292	104,477
Other changes in surplus . . . . .	(5,959)	12,273
Policyholders' Surplus, end of period <sup>(4)</sup> . . . . .	<u>\$ 159,451</u>	<u>\$ 100,000</u>

- 1) Financial results are impacted by commutations, refinancings, bond purchases (of securities guaranteed by Ambac Assurance) and other claims reduction or defeasance outcomes (collectively "commutations"). For the three months ended March 31, 2013 Ambac Assurance and the Segregated Account executed such transactions for a total notional amount of \$17,431 for total cash payments of \$14,855.
- 2) Net income for the period ended December 31, 2012 includes a gain on the exercise of surplus note call options of \$600,733. Additionally, the exercise of surplus note call options reduced surplus directly by \$789,179, the par of the related surplus notes, resulting in an overall surplus reduction of \$188,446, which is equal to the total cash payment.
- 3) Includes non-income statement changes in investments such as change in non-admitted investments, unrealized losses on below investment grade investments and changes in investment in subsidiaries, excluding dividends.
- 4) Pursuant to a prescribed practice by the Wisconsin Insurance Commissioner, the results of the Segregated Account are not included in Ambac Assurance's statutory financial statements if it causes Ambac Assurance's surplus to drop below the Minimum Surplus Amount. Accordingly, \$163,687 of the Segregated Account's liabilities did not reduce Ambac Assurance's surplus at December 31, 2012.

**Ambac Assurance Segregated Account, in Rehabilitation**  
**Claims Paying Position <sup>(1)</sup>**

(\$ Thousands)	March 31, 2013	December 31, 2012
Liabilities allocated from Ambac Assurance <sup>(2)</sup> . . . . .	\$ 6,211,471	\$ 6,245,484
Segregated Account resources:		
Secured Note provided by Ambac Assurance including accrued interest . . . . .	363,328	477,426
Liabilities ceded to Ambac Assurance <sup>(3)</sup> . . . . .	5,935,594	5,692,972
Other Segregated Account Net Assets . . . . .	14,079	13,274
Total resources available . . . . .	<u>6,313,001</u>	<u>6,183,672</u>
Current Surplus/(Shortfall) to pay Segregated Account permitted claims . . . . .	<u>\$ 101,530</u>	<u>\$ (61,812)</u>

- 1) Total resources available to pay claims at Ambac Assurance are the same resources available to pay claims at the Segregated Account subject to limitations discussed in footnote (3) below. Permitted claims of the Segregated Account will initially receive partial payment of 25%.
- 2) Pursuant to the Plan of Operation for the Segregated Account, Ambac Assurance has allocated certain policies to the Segregated Account, including (i) residential mortgage-backed securities, (ii) student loans, (iii) collateralized debt obligations and (iv) other policies insuring obligations with substantial projected impairments or relating to transactions which have contractual triggers based upon Ambac Assurance's financial condition or the commencement of rehabilitation, which triggers are potentially damaging. Please refer to Ambac's filings with the Securities and Exchange Commission for further information.
- 3) Liabilities ceded to Ambac Assurance via an excess of loss reinsurance agreement are limited by Ambac Assurance maintaining a minimum surplus amount of \$100,000.

## Ratio of Net Claims Recorded <sup>(1)</sup>

(\$ Thousands)	March 31,	December 31,			
	2013	2012	2011	2010	2009
Net claims presented and paid - Insurance <sup>(2)</sup>	\$ (20,997)	\$ 932,930	\$ 147,762	\$ 290,519	\$ 1,458,498
Net unpaid claims - Insurance <sup>(3)</sup>	205,742	619,431	1,357,181	1,411,445	-
Net credit derivatives payments	-	-	-	(263)	47,749
Net credit derivatives commutation payments <sup>(4)</sup>	-	-	-	4,589,107	1,380,628
Total net claims recorded	\$ 184,745	\$ 1,552,361	\$ 1,504,943	\$ 6,290,808	\$ 2,886,875
Net insurance premiums and credit derivative fees	\$ 102,765	\$ 428,317	\$ 422,971	\$ 577,195	\$ 846,001
Ratio of net claims recorded <sup>(5)</sup>	179.8%	362.4%	355.8%	1089.9%	341.2%

## Estimated Future Gross RMBS Claims Presented <sup>(6)</sup>

(\$ Thousands)	March 31,	December 31,
	2013	2012
2013	\$ 407,179	\$ 676,676
2014	601,653	721,341
2015	435,199	408,984
2016	225,282	197,316
2017	122,352	104,555
2018	85,796	68,920
2013	\$ 407,179	\$ 676,676
2014-2018	1,470,282	1,501,116
2019-2023	181,295	167,631
2024-2028	36,803	32,291
2029-2033	3,172	5,281
After 2033	763,924	757,743
Total	\$ 2,862,655	\$ 3,140,738

- 1) Net claims recorded include (i) claims paid (recovered); (ii) changes to claims presented and unrepresented for policies which were allocated to the Segregated Account; and (iii) commutation settlements.
- 2) Net claims presented and paid are net of subrogation received of \$127,829, \$222,205, \$104,805, \$107,914, and \$111,737 for the three months ended March 31, 2013 and years ended December 31, 2012, 2011, 2010, and 2009, respectively. Includes the issuance of surplus notes at par value in the amount of \$0, \$0, \$3,000, and \$50,000 for the three months ended March 31, 2013 and years ended December 31, 2012, 2011 and 2010, respectively.
- 3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain Ambac Assurance liabilities, and in connection with such segregation Ambac Assurance has allocated certain policies to the Segregated Account. On June 4, 2012, the Rehabilitation Court approved the Rehabilitator's motion to make partial interim policy claim payments to Segregated Account policyholders. As a result, the Segregated Account began paying 25% of each permitted policy claim that has arisen since the commencement of the Segregated Account Rehabilitation Proceedings and will pay 25% of each policy claim submitted and permitted in the future. Unpaid claims are included in our net insurance reserves.
- 4) 2010 credit derivative commutation payments include the issuance of surplus notes by Ambac Assurance at par in the amount of \$2,000,000.
- 5) Ratio of net claims recorded is total net claims presented for payment divided by net premiums earned and other credit enhancement fees.
- 6) Represents management's estimate of future claims recorded, excluding reinsurance recoveries and representation and warranty subrogation recoveries. Future losses exclude claims presented and unpaid through March 31, 2013. At March 31, 2013, Ambac's estimate of representation and warranty subrogation recoveries is \$1,487,882 and \$1,009,513 in 2014 and 2015, on certain RMBS transactions. Actual claims presented may differ from estimates.



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

(\$ Thousands)	3/31/13	12/31/12	12/31/11	12/31/10	12/31/09
Total insurance reserves <sup>(1)</sup> . . . . .	\$5,896,459	\$5,974,731	\$6,230,780	\$4,424,450	\$3,777,321
Estimated credit impairment losses on credit derivatives <sup>(2)</sup> . . . . .	42,105	46,469	36,940	22,055	4,208,198
Total impairment losses . . . . .	5,938,564	6,021,200	6,267,720	4,446,505	7,985,519
Mark-to-market reserve (asset) on credit derivatives <sup>(2)</sup> . . . . .	161,202	167,116	153,713	199,629	(1,168,707)
Grand total net insurance loss reserves and credit derivatives . . . . .	<u>\$6,099,766</u>	<u>\$6,188,316</u>	<u>\$6,421,433</u>	<u>\$4,646,134</u>	<u>\$6,816,812</u>

## Summary of Below Investment Grade Exposures <sup>(3)</sup>

(\$ Thousands)	Segregated Account Net Par Outstanding	Total Net Par Outstanding	Total Impairment Losses
<b>Public Finance:</b>			
Lease & tax backed . . . . .	\$0	\$1,129,091	\$28,009
Housing . . . . .	-	761,059	4,265
Transportation revenue . . . . .	86,286	518,955	10,741
General obligation . . . . .	-	389,404	43,270
Other . . . . .	-	927,008	95,717
Total Public Finance . . . . .	<u>86,286</u>	<u>3,725,517</u>	<u>182,002</u>
<b>Structured Finance:</b>			
Mortgage-backed & home equity - first lien & other . . . . .	9,547,322	9,547,322	3,022,932
Mortgage-backed & home equity - second lien . . . . .	7,252,925	7,252,925	519,645
Student loans . . . . .	5,148,268	5,160,289	973,492
Other . . . . .	137,000	2,206,060	990,257
Total Structured Finance . . . . .	<u>22,085,515</u>	<u>24,166,596</u>	<u>5,506,326</u>
<b>International Finance:</b>			
	299,234	3,272,172	250,236
Total . . . . .	<u>\$22,471,035</u>	<u>\$31,164,285</u>	<u>\$5,938,564</u>

1) As a result of the partial claim moratorium on the Segregated Account of Ambac Assurance by the Rehabilitator, \$3,593,799 of claims, net of reinsurance remain unpaid. Total insurance reserves are inclusive of these unpaid claims.

2) Total net mark-to-market losses are \$203,307, \$213,585, \$190,653, 221,684 and \$3,039,491 as of March 31, 2013, December 31, 2012, 2011, 2010 and 2009, respectively, and are reported on the consolidated balance sheet under derivative liabilities and derivative assets.

3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain Ambac Assurance liabilities, and in connection with such segregation Ambac Assurance has allocated certain insurance policies to the Segregated Account. Please see discussion in Ambac's filings with the Securities and Exchange Commission for further information.

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

2013 (\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year-to Date
Public Finance . . . . .	\$36,051				\$36,051
Structured Finance <sup>(1)</sup> . . . . .	15,662				15,662
International Finance . . . . .	19,183				19,183
Total Normal Insurance Premiums Earned . . . . .	70,896	-	-	-	70,896
Accelerated Premiums Earned . . . . .	29,360				29,360
Total Premiums Earned . . . . .	\$100,256	-	-	-	\$100,256
Fees on credit derivative contracts . . . . .	\$2,509				\$2,509

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

## Net Unearned Premium Amortization and Estimated Future Installment Premiums

(\$ Millions)	Net Unearned Premium Amortization (GAAP) <sup>(2)</sup>	Fees on Credit Derivative Contracts <sup>(3)</sup>	Estimated Net Future Installments <sup>(3)</sup>
2013 (2nd, 3rd and 4th Qtrs) . . . . .	\$167.2	\$6.6	\$93.9
2014 . . . . .	194.2	7.2	103.9
2015 . . . . .	177.5	4.4	90.9
2016 . . . . .	165.5	2.4	82.8
2017 . . . . .	154.7	1.8	77.1
2018 . . . . .	145.2	1.8	70.8
2013 (2nd, 3rd and 4th Qtrs) . . . . .	\$167.2	\$6.6	\$93.9
2014-2018 . . . . .	837.1	17.6	425.5
2019-2023 . . . . .	598.8	5.7	279.1
2024-2028 . . . . .	419.1	0.2	197.9
2029-2033 . . . . .	259.3	-	147.4
After 2033 . . . . .	171.9	-	111.4
Total . . . . .	\$2,453.4	\$30.1	\$1,255.2

1) Reductions (increases) to net insurance premiums earned for changes in premium receivables relating to a non-investment grade obligation deemed uncollectible were \$197 for the first quarter of 2013, and \$2,674, \$12,525, (\$1,366) and \$12,023 for the first, second, third and fourth quarter of 2012, respectively.

2) Represents unearned premium amounts for both upfront and installment paying policies, net of deferred ceded premiums, which is reported separately as an asset on Ambac's Consolidated Balance Sheet. Depicts amortization of existing guaranteed portfolio, assuming no advance refunding as of March 31, 2013. Actual future installments may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. The unearned premium amortization disclosed in the above table consider the use of contractual lives for many bond types that do not have homogeneous pools of underlying collateral, which results in a higher unearned premium than if expected lives were considered. If those bond types are retired early, premium earnings may be negative in the period of call or refinancing.

3) Represents management's estimate of future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments exclude amounts eliminated as a result of the Consolidations Accounting Standard (\$354.0 million). Please see discussion in Ambac's filings with the Securities and Exchange Commission for further information.

## Fixed Income Investment Portfolio

As of March 31, 2013

INCOME ANALYSIS BY TYPE OF SECURITY	Fair Value	Book Value	Pre-tax Yield to Maturity <sup>(1)</sup>	YTD GAAP Investment Income
Investment category (\$ thousands)				
Financial Guarantee investments:				
Long-term investments				
U.S. government obligations	\$ 304,463	\$ 302,602	0.38%	\$ 517
U.S. agency obligations	49,908	47,368	4.13%	538
Municipal obligations <sup>(2)</sup>	1,794,355	1,606,136	5.18%	20,666
Foreign obligations	11,878	10,796	3.31%	495
Corporate obligations	1,069,073	986,866	4.20%	10,244
Mortgage and asset-backed securities	2,021,508	1,556,208	14.04%	52,660
Total long-term investments	5,251,185	4,509,976	7.68%	85,120
Short-term investments	734,268	734,255	0.11%	589
Other <sup>(3)</sup>	113,812	113,812		(458)
Total Financial Guarantee investments	6,099,265	5,358,043	6.48%	85,251
Investment expenses				(1,422)
Financial Guarantee net investment income				\$ 83,829
Financial Services investments: <sup>(4)</sup>				
Long-term investments				
U.S. government obligations	22,077	21,990		55
U.S. agency obligations	4,067	3,887		63
Corporate obligations	-	-		64
Mortgage and asset-backed securities	353,189	349,309		1,029
Total long-term investments	379,333	375,186		1,211
Short-term investments	3,101	3,101		-
Total Financial Services investments	382,434	378,287		1,211
Corporate investments:				
Short-term investments	30,563	30,563		29
Total Corporate investments	30,563	30,563		29
Total Investments	\$ 6,512,262	\$ 5,766,893		\$ 85,069

### RATING DISTRIBUTION OF INVESTMENT PORTFOLIO <sup>(5)</sup>

Rating	Percent of Investment Portfolio		
	Fin. Guar. <sup>(6)</sup>	Fin. Services	Combined
AAA	23%	99%	28%
AA	26	1	25
A	17	-	16
BBB	10	-	9
Below investment grade	18	-	17
Not rated	6	-	5
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Duration of Financial Guarantee investment portfolio			2.5

- "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.
- Includes taxable and tax-exempt municipal obligations with a fair value of \$601,649 and \$1,192,705 respectively.
- Includes income earned on equity interests in pooled investment funds and loans. Loans are classified separately on the balance sheet.
- Financial Services investments relate primarily to the investment agreement business.
- Ratings are based on the lower of Standard & Poor's or Moody's rating. If guaranteed, rating represents the higher of the underlying or wrapped rating. Rating distribution is calculated based on book value.
- Includes Ambac Assurance insured RMBS bonds purchased as part of our loss remediation strategy. These bonds represent 12% of the Financial Guarantee portfolio.

## Expense Analysis (GAAP)

<b>2013</b>					
(\$ Thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>Financial Guarantee operating expenses:</b>					
Compensation . . . . .	\$ 14,500				\$ 14,500
Non-compensation . . . . .	13,023				13,023
<b>Total Financial Guarantee operating expenses . . . . .</b>	<b>27,523</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,523</b>
<b>Financial Services operating expenses . . . . .</b>	<b>769</b>				<b>769</b>
<b>Corporate and other operating expenses . . . . .</b>	<b>608</b>				<b>608</b>
<b>Total gross operating expenses . . . . .</b>	<b>\$ 28,900</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,900</b>
Ceding commissions and change in deferred acquisition costs . . . . .	5,529				5,529
Total operating expenses, net of deferred expenses. . . . .	\$ 34,429	\$ -	\$ -	\$ -	\$ 34,429
<b>Reorganization costs . . . . .</b>	<b>\$ 2,059</b>				<b>\$ 2,059</b>
<b>Total gross operating expenses, including reorganization costs . . . . .</b>	<b>\$ 30,959</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,959</b>

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

## Historical Net Financial Guarantee Exposures Outstanding <sup>(1)(2)</sup>

(\$ Millions Net Par Value)	March 31,	December 31,			Segregated Account March 31, 2013
	2013	2012	2011	2010	
<b>Public Finance:</b>					
Lease and tax backed . . . . .	\$48,893	\$50,415	\$59,864	\$65,843	\$ -
General obligation . . . . .	32,987	34,623	42,959	48,241	11
Utility . . . . .	17,660	18,651	22,529	26,360	425
Transportation . . . . .	11,572	13,892	18,945	20,722	334
Higher education . . . . .	10,030	10,382	13,618	15,279	-
Housing . . . . .	7,939	8,176	8,823	9,878	-
Health care . . . . .	5,067	5,266	7,824	9,603	86
Other . . . . .	1,493	1,613	2,255	3,423	-
Total Public Finance . . . . .	135,641	143,018	176,817	199,349	856
<b>Structured Finance:</b>					
Mortgage-backed & home equity . . . . .	18,267	19,117	23,164	27,488	18,267
Investor-owned utilities . . . . .	6,769	7,071	9,049	10,685	59
Student loan . . . . .	5,225	5,411	7,824	11,408	5,155
Other CDOs . . . . .	5,015	5,941	8,060	11,463	363
Asset-backed . . . . .	2,827	2,905	4,732	10,005	-
Other . . . . .	1,906	1,914	2,316	2,750	318
Total Structured Finance . . . . .	40,009	42,359	55,145	73,799	24,162
<b>International Finance <sup>(3)</sup>:</b>					
Investor-owned and public utilities . . . . .	9,559	10,314	10,510	10,861	-
Asset-backed . . . . .	8,182	8,702	9,560	10,738	3
Sovereign/sub-sovereign . . . . .	6,832	7,289	7,282	7,119	-
Transportation . . . . .	5,130	6,002	5,914	6,744	247
Other CDOs . . . . .	2,994	3,191	4,375	6,775	618
Mortgage-backed & home equity . . . . .	1,205	1,268	1,397	1,898	237
Other . . . . .	1,411	1,490	1,504	1,571	-
Total International Finance . . . . .	35,313	38,256	40,542	45,706	1,105
Grand Total . . . . .	\$210,963	\$223,633	\$272,504	\$318,854	\$26,123
<b>Percent of Total Net Par Outstanding</b>					
Public Finance . . . . .	64.3%	64.0%	64.9%	62.5%	3.3%
Structured Finance . . . . .	19.0%	18.9%	20.2%	23.2%	92.5%
International Finance . . . . .	16.7%	17.1%	14.9%	14.3%	4.2%
Total Net Par Outstanding . . . . .	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Included in the above exposures are structured credit derivatives. Total structured credit derivative net par outstanding amounted to \$10,205, \$11,282, \$14,167, and \$18,766, at March 31, 2013 and December 31, 2012, 2011, and 2010, respectively.

(2) Includes exposure allocated to the Segregated Account.

(3) International transactions include components of domestic exposure.

## Geographic Distribution of Net Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	March 31,		December 31,			
	2013	%	2012	2011	2010	2009
<b>Domestic:</b>						
California . . . . .	\$30,046	14.2%	\$32,105	\$36,133	\$39,210	\$43,388
New York . . . . .	13,819	6.6%	14,389	18,267	20,944	22,865
Florida . . . . .	10,385	4.9%	11,110	13,906	15,910	17,816
Texas . . . . .	9,345	4.4%	10,016	12,983	14,776	16,941
New Jersey . . . . .	7,478	3.5%	7,906	9,650	10,415	11,654
Illinois . . . . .	6,595	3.1%	6,878	8,524	9,351	10,472
Massachusetts . . . . .	5,290	2.5%	5,373	5,799	6,576	8,255
Colorado . . . . .	4,383	2.1%	4,376	5,010	5,786	6,392
Pennsylvania . . . . .	4,156	2.0%	4,304	5,301	6,036	7,405
Washington . . . . .	3,290	1.6%	3,480	4,772	5,710	6,124
Mortgage and asset-backed . . . . .	21,094	10.0%	22,022	27,896	37,493	48,862
Other states . . . . .	59,769	28.3%	63,418	83,721	100,941	137,708
Total Domestic . . . . .	175,650	83.3%	185,377	231,962	273,148	337,882
<b>International:</b>						
United Kingdom . . . . .	21,109	10.0%	22,585	22,317	22,215	22,840
Australia . . . . .	4,493	2.1%	4,820	5,176	6,292	6,034
Italy . . . . .	2,309	1.1%	3,068	3,346	3,674	3,821
Austria . . . . .	916	0.4%	943	956	999	1,149
Germany . . . . .	569	0.3%	598	619	692	765
Internationally diversified . . . . .	3,771	1.8%	3,968	5,318	7,793	9,914
Other international . . . . .	2,146	1.0%	2,274	2,810	4,041	8,001
Total International . . . . .	35,313	16.7%	38,256	40,542	45,706	52,524
Grand Total . . . . .	\$210,963	100.0%	\$223,633	\$272,504	\$318,854	\$390,406

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

As of March 31, 2013

Rating	Percentage of Guaranteed Portfolio		
	Public Finance	Structured and International	Total
AAA . . . . .	<1	2	1
AA . . . . .	29	9	22
A . . . . .	55	23	44
BBB . . . . .	13	30	18
BIG . . . . .	3	36	15
	100	100	100

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

## 25 Largest Domestic Public Finance Exposures

(\$ Millions)	Ambac Rating <sup>(1)</sup>	AADS <sup>(2)</sup>	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$195.3	\$ 2,757	1.3%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	\$169.0	2,053	1.0%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	\$139.5	1,414	0.7%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	\$96.5	1,248	0.6%
Massachusetts Commonwealth - GO	AA	\$88.6	1,215	0.6%
Washington State - GO	AA	\$83.6	960	0.5%
Los Angeles Unified School District, CA - GO	AA -	\$78.2	944	0.4%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	\$77.7	846	0.4%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A	\$54.2	833	0.4%
Puerto Rico Sales Tax Financing Corporation	A +	\$177.1	805	0.4%
Puerto Rico Highways & Transportation Authority, Transportation Revenue <sup>(3)</sup>	BBB +	\$47.2	752	0.4%
Chicago, IL - GO	A +	\$35.9	728	0.3%
New York City, NY - GO	AA	\$41.3	725	0.3%
New Jersey Turnpike Authority Revenue	A	\$41.3	691	0.3%
University of California Board of Regents, General Revenue	AA -	\$42.2	682	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	\$47.6	660	0.3%
New York City, NY Water and Sewer System Revenue	AA	\$45.1	652	0.3%
New York Convention Center Development Corporation, Hotel Fee Revenue	A -	\$44.1	651	0.3%
Dallas Area Rapid Transit, TX, Sales Tax Revenue	AA	\$48.0	638	0.3%
New Jersey Economic Development Authority - School Facilities Construction	A +	\$41.1	638	0.3%
Missouri Joint Municipal Electric Utility Commission, Project Revenue	A -	\$40.0	625	0.3%
Mets Queens Baseball Stadium Project, NY, Lease Revenue	BIG	\$35.9	592	0.3%
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue	BBB +	\$39.0	587	0.3%
Tobacco Settlement Financing Corporation, NY, Tobacco Settlement Revenue	A +	\$92.3	585	0.3%
Miami-Dade County, FL School Board, Master Lease <sup>(3)</sup>	A -	\$45.6	584	0.3%
Total:			<u>\$ 22,865</u>	<u>10.8%</u>

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

2) Average Annual Debt Service, net of reinsurance.

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

## 25 Largest Structured Finance Exposures

(\$ Millions)	Ambac Rating <sup>(1)</sup>	Net Par Outstanding	% of Total Net Par Outstanding
Wachovia Asset Securitization Issuance II, LLC 2007-HE2 <sup>(2)</sup>	BIG	\$1,117	0.5%
CDO of ABS < 25% MBS	A	1,117	0.5%
Ballantyne Re Plc <sup>(3)</sup>	BIG	900	0.4%
The National Collegiate Student Loan Trust 2007-4 <sup>(2)</sup>	BIG	786	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 <sup>(2)</sup>	BIG	771	0.4%
Spirit Master Funding	BBB	755	0.4%
Timberlake Financial, LLC	BIG	620	0.3%
Michigan Higher Education Student Loan Authority <sup>(2)</sup>	BIG	581	0.3%
Progress Energy Carolinas, INC	A -	558	0.3%
Ares XI CLO, Ltd.	AA +	499	0.2%
Local Insight Media Finance LLC	BIG	489	0.2%
Massachusetts Educational Financing Authority Revenue Bonds <sup>(2)</sup>	BIG	477	0.2%
Countrywide Asset-Backed Certificates Trust 2005-16 <sup>(2)</sup>	BIG	470	0.2%
Option One Mortgage Loan Trust 2007-FXD1 <sup>(2)</sup>	BIG	465	0.2%
Countrywide Revolving Home Equity Loan Trust 2005-F <sup>(2)</sup>	BIG	454	0.2%
Niagara Mohawk Power Corporation	A	444	0.2%
The National Collegiate Student Loan Trust 2007-3 <sup>(2)</sup>	BIG	429	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 <sup>(2)</sup>	BIG	426	0.2%
Impac CMB Trust Series 2005-7 <sup>(2)</sup>	BIG	406	0.2%
Privately Placed RMBS Transaction <sup>(2)</sup>	BIG	395	0.2%
Countrywide Asset Backed Certificates Trust 2005-17 <sup>(2)</sup>	BIG	384	0.2%
CenterPoint Energy Inc.	BBB +	376	0.2%
Countrywide Asset Backed Certificates Trust 2006-11 <sup>(2)</sup>	BIG	361	0.2%
Consolidated Edison Company of New York	A	347	0.2%
Fairway Loan Funding Company	AA +	346	0.2%
Total:		<u>\$13,973</u>	<u>6.6%</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>(3)</sup>	A +	\$1,934	0.9%
Channel Link Enterprises <sup>(3)</sup>	BBB -	1,210	0.6%
Telereal Securitization plc <sup>(3)</sup>	AA	1,160	0.5%
National Grid Electricity Transmission <sup>(3)</sup>	A -	1,148	0.5%
Punch Taverns Finance plc-UK Pub Securitization <sup>(3)</sup>	BIG	1,147	0.5%
Aspire Defence Finance plc <sup>(3)</sup>	BBB +	1,112	0.5%
Regione Campania <sup>(3)</sup>	BBB	998	0.5%
Capital Hospitals plc <sup>(3)</sup>	BBB -	958	0.5%
Ostregion Investmentgesellschaft NR 1 SA <sup>(3)</sup>	BIG	916	0.4%
Romulus Finance s.r.l. <sup>(3)</sup>	BBB -	808	0.4%
Anglian Water <sup>(3)</sup>	A -	790	0.4%
RMPA Services plc <sup>(3)</sup>	BBB +	771	0.4%
Powercor Australia	A -	756	0.4%
National Grid Gas <sup>(3)</sup>	A -	739	0.4%
Scotia Gas Networks <sup>(3)</sup>	BBB	681	0.3%
Private CMBS Transaction <sup>(3)</sup>	A +	665	0.3%
Spirit Issuer plc <sup>(3)</sup>	BIG	651	0.3%
Dampier to Bunbury Natural Gas Pipeline	BBB	648	0.3%
Catalyst Healthcare (Manchester) Financing plc <sup>(3)</sup>	BBB +	637	0.3%
Babcock & Brown Air Funding I Limited	BBB +	573	0.3%
South East Water (Finance) Limited <sup>(3)</sup>	BBB	556	0.3%
CDO of HY Corporate	AA	545	0.3%
United Energy Distribution	BBB	508	0.2%
European Single-Borrower CMBS Transaction	AA	489	0.2%
CDO of HY Corporate	A	476	0.2%
Total:		<u>\$20,876</u>	<u>9.9%</u>

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

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

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



## Net Exposure Amortization <sup>(1)</sup>

As of March 31, 2013

(\$ Millions)	Total, including Segregated Account		Segregated Account	
	Estimated Net Debt Service Amortization	Ending Net Financial Guarantees in Force	Estimated Net Debt Service Amortization	Ending Net Financial Guarantees in Force
2013 (2nd, 3rd and 4th Qtrs).....	\$15,837	\$312,730	\$2,308	\$30,971
2014.....	19,331	293,399	3,200	27,771
2015.....	20,416	272,983	2,868	24,903
2016.....	18,201	254,782	2,625	22,278
2017.....	17,313	237,469	1,873	20,405
2018.....	18,213	219,256	1,541	18,864
2013 (2nd, 3rd and 4th Qtrs).....	\$15,837	\$312,730	\$2,308	\$30,971
2014-2018.....	93,474	219,256	12,107	18,864
2019-2023.....	73,501	145,755	4,972	13,892
2024-2028.....	51,772	93,983	2,889	11,003
2029-2033.....	41,863	52,120	4,204	6,799
After 2033.....	52,120	-	6,799	-
Total.....	\$328,567		\$33,279	

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