

Ambac

2013 Quarterly Operating Supplement

Q2

Company Profile

Ambac Financial Group, Inc. (“Ambac”), headquartered in New York City, is a holding company whose subsidiaries, including its principal operating subsidiaries, Ambac Assurance Corporation (“Ambac Assurance”), Everspan Financial Guarantee Corp., and Ambac Assurance UK Limited (“Ambac UK”), 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

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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 2013

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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)

	Successor ⁽¹⁾	Predecessor ⁽¹⁾					
	2Q 2013	2Q 2013	1Q 2013	2012	2011	2010	2009
Summary GAAP Financial Data:							
Statement of Operations:							
Net premiums earned	\$58	\$30	\$100	\$415	\$406	\$546	\$797
Net investment income ⁽²⁾	27	32	85	383	355	359	554
Change in fair value of credit derivatives	51	(73)	13	(9)	48	60	3,813
Gain (loss) on variable interest entities (VIEs)	5	388	38	28	(214)	(617)	7
Loss and loss expenses	(26)	13	(51)	684	1,859	719	2,815
Insurance intangible amortization ⁽²⁾	25	-	-	-	-	-	-
Underwriting and operating expenses ⁽²⁾	17	11	34	139	141	254	206
Interest expense ⁽²⁾	21	8	23	112	128	181	154
Reorganization items ⁽²⁾	-	(2,747)	2	7	50	32	-
Net income (loss) attributable to Ambac common shareholders ⁽²⁾	206	3,065	282	(257)	(1,960)	(753)	(15)
Balance Sheets:							
Total non-VIE investments	\$6,601	-	\$6,512	\$6,330	\$6,877	\$6,853	\$8,703
Premium receivable	1,465	-	1,543	1,621	2,028	2,423	3,718
Insurance intangible asset ⁽²⁾	1,622	-	-	-	-	-	-
Goodwill ⁽²⁾	515	-	-	-	-	-	-
Subrogation recoverable	501	-	545	497	660	714	903
Total VIE assets	16,263	-	16,752	17,842	16,543	17,931	3,277
Total assets	27,475	-	26,165	27,085	27,114	29,047	18,886
Unearned premium reserve	2,373	-	2,623	2,778	3,457	4,008	5,687
Loss and loss expense reserve	6,043	-	6,590	6,619	7,044	5,289	4,772
Obligations under investment and payment agreements	365	-	363	362	547	806	1,291
Long-term debt ⁽³⁾	946	-	154	150	224	208	1,632
Liabilities subject to compromise ⁽³⁾	-	-	1,705	1,705	1,707	1,695	-
Ambac stockholders' equity (deficit)	287	-	(3,531)	(3,908)	(3,813)	(2,009)	(2,288)
Summary Statutory Data of Ambac Assurance:							
Invested assets	\$5,466	-	\$5,278	\$5,168	\$5,854	\$5,943	\$8,009
Loss and loss expense reserve	3,008	-	2,901	2,946	3,226	2,478	1,141
Estimated impairment losses on subsidiary guarantees	96	-	149	144	-	-	3,842
Policyholders' Surplus	394	-	159	100	495	1,027	802
Qualified statutory capital	973	-	693	633	688	1,540	1,154
Total claims-paying resources	\$6,890	-	\$6,628	\$6,513	\$7,450	\$7,877	\$10,790

1) Following the Company's emergence from bankruptcy on May 1, 2013, the consolidated financial statements reflect the application of fresh start reporting ("Fresh Start"), incorporating, among other things, the discharge of debt obligations, issuance of new common stock, and fair value adjustments. The effects of the reorganization and Fresh Start adjustments are recorded in Predecessor Ambac's Consolidated Statement of Total Comprehensive Income for the period ended April 30, 2013. The financial results of the Company for the periods from May 1, 2013, through June 30, 2013 are referred to as "Successor" and the financial results for the periods through April 30, 2013 are referred to as "Predecessor". The 2013 Successor Period and the 2013 Predecessor Period are distinct reporting periods. The effects of emergence and Fresh Start had a material impact on the comparability of our results of operations between these periods.

2) As a result of the implementation of Fresh Start, results and balances are not comparable between Successor Ambac and Predecessor Ambac.

3) Long-term debt 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 ⁽¹⁾ and Statutory Financial Ratios

(\$ Thousands, Except Ratios)	June 30, 2013	December 31, 2012
Contingency Reserve	\$578,926	\$533,479
Policyholders' Surplus ⁽²⁾⁽³⁾	393,730	100,000
Qualified Statutory Capital	972,656	633,479
Unearned Premiums	1,218,413	1,358,741
Losses and Loss Adjustment Expenses	3,008,395	2,946,481
Estimated Impairment Losses on Subsidiary Guarantees	95,500	144,000
Segregated Account Liabilities ⁽³⁾	-	(163,687)
Policyholders' Reserves	5,294,964	4,919,014
Present Value of Future Installment Premiums ⁽⁴⁾	530,204	546,281
Ambac Assurance Claims-paying Resources	5,825,168	5,465,295
Ambac UK Claims-paying Resources ⁽⁵⁾	1,064,902	1,047,494
Total Claims-paying Resources	\$6,890,070	\$6,512,789
Net financial guarantees in force ⁽⁶⁾	\$307,228,704	\$350,162,883
Total Claims-paying Ratio ⁽⁷⁾	45 : 1	54 : 1
Gross Financial Guarantees in Force	\$339,504,853	\$385,803,398
Gross Par Outstanding	\$216,063,165	\$245,029,528

- 1) Total claims-paying resources quantifies total resources available to pay claims, including guarantees on subsidiary obligations.
- 2) Surplus Notes with a par value of \$1,641,860 and \$1,299,902 are included in the capital and surplus for June 30, 2013 and December 31, 2012, respectively. On May 1, 2013 the Segregated Account issued \$350 million of Junior Surplus Notes to Ambac.
- 3) Pursuant to a prescribed practice by the State of Wisconsin Office of the Commissioner of Insurance, Ambac Assurance is not obligated to make payments to the Segregated Account if Ambac Assurance's surplus would be less than \$100,000, (the "Minimum Surplus Amount"). Accordingly, \$163,687 of losses in the Segregated Account did not reduce Ambac Assurance's surplus at December 31, 2012. At June 30, 2013, Ambac Assurance's surplus is greater than the Minimum Surplus Amount.
- 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 \$616,313.
- 6) Includes Ambac UK net financial guarantees in force of \$34,914,990 and \$38,616,515 as of June 30, 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 ⁽¹⁾

(\$ Thousands)

	For the six months ended June 30, 2013	For the year ended December 31, 2012
Policyholders' Surplus, beginning of period	\$ 100,000	\$ 495,293
Net income ^{(2) (3)}	(100,672)	616,121
Issuance of junior surplus note - segregated account ⁽²⁾	350,000	-
Extinguishment of junior surplus note - segregated account	(8,043)	-
Extinguishment of surplus notes - general account ⁽³⁾	-	(789,179)
Change in contingency reserves	(45,324)	(338,985)
Change in investments ⁽⁴⁾	105,794	104,477
Other changes in surplus.	(8,025)	12,273
Policyholders' Surplus, end of period ⁽⁵⁾	<u>\$ 393,730</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 six months ended June 30, 2013 Ambac Assurance and the Segregated Account executed such transactions for a total notional amount of \$321,908 for total cash payments of \$227,693.
- 2) Net income for the six months ended June 30, 2013 includes an expense related to the issuance of a junior surplus note to Ambac Financial Group, Inc. for \$350,000. The issuance of the surplus note also increases surplus directly by \$350,000, resulting in an overall surplus impact of \$0.
- 3) Net income for the period ended December 31, 2012 includes a gain on the exercise of surplus note call options of \$600,733. Additionally, the exercise of surplus note call options reduced surplus directly by \$789,179, the par of the related surplus notes, resulting in an overall surplus reduction of \$188,446, which is equal to the total cash payment.
- 4) 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.
- 5) Pursuant to a prescribed practice by the Wisconsin Insurance Commissioner, the results of the Segregated Account are not included in Ambac Assurance's statutory financial statements if it causes Ambac Assurance's surplus to drop below the Minimum Surplus Amount. Accordingly, \$163,687 of the Segregated Account's liabilities did not reduce Ambac Assurance's surplus at December 31, 2012.

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

(\$ Thousands)	June 30, 2013	December 31, 2012
Liabilities allocated from Ambac Assurance ⁽²⁾	\$ 6,150,172	\$ 6,245,484
Segregated Account resources:		
Secured Note provided by Ambac Assurance including accrued interest	282,332	477,426
Liabilities ceded to Ambac Assurance ⁽³⁾	6,298,473	5,692,972
Other Segregated Account Net Assets	12,684	13,274
Total resources available	<u>6,593,489</u>	<u>6,183,672</u>
Current Surplus/(Shortfall) to pay Segregated Account permitted claims	<u>\$ 443,317</u>	<u>\$ (61,812)</u>

- 1) Total resources available to pay claims at Ambac Assurance are the same resources available to pay claims at the Segregated Account subject to limitations discussed in footnote (3) below. Permitted claims of the Segregated Account will initially receive partial payment of 25%. In August 2013, the Segregated Account will begin to make cash payments in excess of 25% of permitted claims on certain policies. Refer to Ambac's filings with the Securities and Exchange Commission for further discussion of the Rehabilitation Court's approval for supplemental payments above 25% for certain Segregated Account policies.
- 2) Pursuant to the Plan of Operation for the Segregated Account, Ambac Assurance has allocated certain policies to the Segregated Account, including (i) residential mortgage-backed securities, (ii) student loans, (iii) collateralized debt obligations and (iv) other policies insuring obligations with substantial projected impairments or relating to transactions which have contractual triggers based upon Ambac Assurance's financial condition or the commencement of rehabilitation, which triggers are potentially damaging. Please refer to Ambac's filings with the Securities and Exchange Commission for further information.
- 3) Liabilities ceded to Ambac Assurance via an excess of loss reinsurance agreement are limited by Ambac Assurance maintaining a minimum surplus amount of \$100,000.

Ratio of Net Claims Recorded ⁽¹⁾

(\$ Thousands)	Successor Ambac		Predecessor Ambac			
	Two Months ended	Four Months ended	December 31,			
	June 30, 2013	April 30, 2013	2012	2011	2010	2009
Net claims paid - Insurance ⁽²⁾	\$ (9,796)	\$ (31,147)	\$ 932,930	\$147,762	\$290,519	\$1,458,498
Net unpaid claims - Insurance ⁽³⁾	89,885	274,222	619,431	1,357,181	1,411,445	-
Net credit derivatives payments	-	-	-	-	(263)	47,749
Net credit derivatives commutation payments ⁽⁴⁾	-	-	-	-	4,589,107	1,380,628
Total net claims recorded	\$80,089	\$243,075	\$1,552,361	\$1,504,943	\$6,290,808	\$2,886,875
Net insurance premiums and credit derivative fees	\$64,113	\$133,444	\$428,317	\$422,971	\$577,195	\$846,001
Ratio of net claims recorded ⁽⁵⁾	124.9%	182.2%	362.4%	355.8%	1089.9%	341.2%

Estimated Future Gross RMBS Claims Presented ⁽⁶⁾

(\$ Thousands)	Successor Ambac	Predecessor Ambac
	June 30, 2013	December 31, 2013
2013 (3rd and 4th Qtrs)	\$ 217,011	\$ 676,676
2014	431,622	721,341
2015	441,241	408,984
2016	269,123	197,316
2017	164,579	104,555
2018	120,710	68,920
2013	\$ 217,011	\$ 676,676
2014-2018	1,427,275	1,501,116
2019-2023	237,167	167,631
2024-2028	37,301	32,291
2029-2033	3,317	5,281
After 2033	762,767	757,743
Total	\$ 2,684,838	\$ 3,140,738

- 1) Net claims recorded include (i) claims paid (recovered); (ii) changes to claims presented and unrepresented for policies which were allocated to the Segregated Account; and (iii) commutation settlements.
- 2) Net claims paid are net of subrogation received of \$58,894, \$160,355, \$222,205, \$104,805, \$107,914, and \$111,737 for the two months ended June 30, 2013, the four months ended April 30, 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, \$0, \$3,000, and \$50,000 for the two months ended June 30, 2013, the four months ended April 30, 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 paid 25% of each permitted policy claim that has arisen since the commencement of the Segregated Account Rehabilitation Proceedings and will pay 25% of each policy claim submitted and permitted in the future. In August 2013, the Segregated Account will begin to make cash payments in excess of 25% of permitted claims on certain policies. Refer to Ambac's filings with the Securities and Exchange Commission for discussion of the Rehabilitation Court's approval for supplemental payments above 25% for certain Segregated Account policies. Unpaid claims are included in our net insurance reserves.
- 4) 2010 credit derivative commutation payments include the issuance of surplus notes by Ambac Assurance at par in the amount of \$2,000,000.
- 5) Ratio of net claims recorded is total net claims 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 June 30, 2013. At June 30, 2013, Ambac's estimate of representation and warranty subrogation recoveries is \$2,407,276, on certain RMBS transactions. Actual claims presented may differ from estimates.

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

(\$ Thousands)	Successor Ambac	Predecessor Ambac			
	6/30/13	12/31/12	12/31/11	12/31/10	12/31/09
Total insurance reserves ⁽¹⁾	\$5,399,050	\$5,974,731	\$6,230,780	\$4,424,450	\$3,777,321
Estimated credit impairment losses on credit derivatives ⁽²⁾	43,730	46,469	36,940	22,055	4,208,198
Total impairment losses ⁽³⁾	5,442,780	6,021,200	6,267,720	4,446,505	7,985,519
Mark-to-market reserve (asset) on credit derivatives ⁽²⁾	188,537	167,116	153,713	199,629	(1,168,707)
Grand total net insurance loss reserves and credit derivatives	\$5,631,317	\$6,188,316	\$6,421,433	\$4,646,134	\$6,816,812

Summary of Below Investment Grade Exposures⁽⁴⁾

(\$ Thousands)	Segregated Account	Total	Total
	Net Par Outstanding	Net Par Outstanding	Impairment Losses ⁽³⁾
Public Finance:			
Lease & tax backed	\$0	\$1,126,437	\$27,535
Housing	-	760,733	3,365
Transportation revenue	86,286	518,955	104,418
General obligation	-	361,849	106,640
Other	-	932,726	11,038
Total Public Finance	86,286	3,700,700	252,996
Structured Finance:			
Mortgage-backed & home equity - first lien & other	9,124,849	9,124,849	3,106,663
Mortgage-backed & home equity - second lien	6,957,810	6,957,810	440,606
Student loans	4,686,598	4,692,542	956,671
Other	137,000	2,202,114	468,816
Total Structured Finance	20,906,257	22,977,315	4,972,756
International Finance:			
	285,573	3,257,874	217,028
Total	\$21,278,116	\$29,935,889	\$5,442,780

1) As a result of the partial claim moratorium on the Segregated Account of Ambac Assurance by the Rehabilitator, \$3,752,164 of claims, net of reinsurance remain unpaid. Total insurance reserves are inclusive of these unpaid claims.

2) Total net mark-to-market losses are \$232,267, \$213,585, \$190,653, 221,684 and \$3,039,491 as of June 30, 2013, December 31, 2012, 2011, 2010 and 2009, respectively, and are reported on the consolidated balance sheet under derivative liabilities.

3) Estimated impairment losses includes both insurance loss reserves and estimated credit impairment losses on credit derivatives and excludes amounts eliminated as a result of the Consolidations Accounting Standard. Please see discussion in Ambac's filings with the Securities and Exchange Commission for further information.

4) 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)

	Predecessor Ambac			Successor Ambac			
	First Quarter	April 2013	Four Months Ended April 30, 2013	Two Months Ended June 30, 2013	Third Quarter	Fourth Quarter	Successor Year-to Date
2013 (\$ Thousands)							
Public Finance	\$36,051	\$11,829	\$47,880	\$23,559			\$23,559
Structured Finance ⁽¹⁾	15,662	4,635	20,297	8,884			8,884
International Finance	19,183	6,207	25,390	12,547			12,547
Total Normal Insurance Premiums Earned	70,896	22,671	93,567	44,990	-	-	44,990
Accelerated Premiums Earned	29,360	7,073	36,433	13,049			13,049
Total Premiums Earned	\$100,256	\$29,744	\$130,000	\$58,039	-	-	\$58,039
Fees on credit derivative contracts	\$2,509	\$935	\$3,444	\$6,074			\$6,074

Predecessor Ambac

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

Net Unearned Premium Amortization and Estimated Future Installment Premiums

(\$ Millions)	Net Unearned Premium Amortization (GAAP) ⁽²⁾	Fees on Credit Derivative Contracts ⁽³⁾	Estimated Net Future Installments ⁽³⁾	Consolidated VIE
2013 (3rd and 4th Qtrs)	\$105.5	\$2.4	\$59.1	\$16.8
2014	186.9	4.4	102.9	34.3
2015	168.3	3.2	89.9	30.0
2016	155.4	2.1	82.4	29.2
2017	144.5	1.7	76.3	27.9
2018	135.2	1.7	70.5	24.4
2013 (3rd and 4th Qtrs)	\$105.5	\$2.4	\$59.1	\$16.8
2014-2018	790.3	13.1	422.0	145.8
2019-2023	556.2	5.4	280.8	91.6
2024-2028	382.8	0.2	207.5	55.5
2029-2033	228.1	-	160.5	29.5
After 2033	150.7	-	126.1	9.8
Total	\$2,213.6	\$21.1	\$1,256.0	\$349.0

1) Reductions (increases) to net insurance premiums earned for changes in premium receivables relating to a non-investment grade obligation deemed uncollectible were \$197, \$425 and \$0 for the first quarter of 2013, April 2013 and two months ended June 2013, respectively, and \$2,674, \$12,525, (\$1,366) and \$12,023 for the first, second, third and fourth quarter of 2012, respectively.

2) Represents unearned premium amounts for both upfront and installment paying policies, net of deferred ceded premiums, which is reported separately as an asset on Ambac's Consolidated Balance Sheet. Depicts amortization of existing guaranteed portfolio, assuming no advance refunding as of June 30, 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.

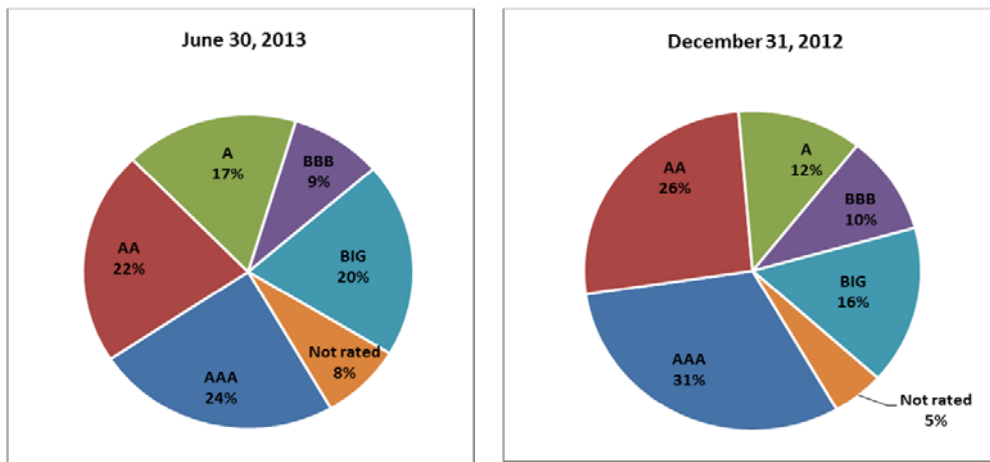
3) Represents management's estimate of future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments exclude amounts eliminated as a result of consolidating variable interest entities ("Consolidated VIE") as required under the Consolidations Accounting Standard.

Fixed Income Investment Portfolio

As of June 30, 2013

INCOME ANALYSIS BY TYPE OF SECURITY	Fair Value	Book Value ⁽¹⁾	Pre-tax Yield To Maturity ⁽²⁾
Investment category (\$ thousands)			
Financial Guarantee investments:			
Long-term investments			
U.S. government and agency obligations	\$ 433,946	\$ 434,561	0.15%
Municipal obligations ⁽³⁾	1,637,190	1,696,216	3.30%
Corporate obligations	944,377	968,305	2.12%
Mortgage and asset-backed securities	2,191,535	2,192,732	5.79%
Total long-term investments	5,207,048	5,291,814	3.86%
Short-term investments	503,784	503,778	0.05%
Other	50,079	50,079	
Total Financial Guarantee investments excl. Ambac UK	5,760,911	5,845,671	3.53%
Ambac UK Investments ⁽⁴⁾	410,994	417,228	1.18%
Total Financial Guarantee investments	6,171,905	6,262,899	3.44%
Financial Services investments: ⁽⁵⁾			
Long-term investments			
U.S. government and agency obligations	11,017	11,017	
Mortgage and asset-backed securities	364,622	364,611	
Total long-term investments	375,639	375,628	
Short-term investments	159	159	
Total Financial Services investments	375,798	375,787	
Corporate investments:			
Short-term investments	53,461	53,461	
Total Corporate investments	53,461	53,461	
Total Investments	\$ 6,601,164	\$ 6,692,147	

RATING DISTRIBUTION OF INVESTMENT PORTFOLIO ⁽⁶⁾⁽⁷⁾



Duration of Financial Guarantee investment portfolio 2.7

- As required under Fresh Start, book values were reset to fair value on the Fresh Start date.
- "Yield to maturity" refers to the rate of interest to be earned over the expected remaining life of the fixed income investments in the portfolio, and is calculated based on book value, estimated future cash flows and call schedules. As the result of Fresh Start, book yields on the fixed income portfolio have been reset to market yields as of April 30, 2013. Actual maturities may differ from stated maturities because borrowers may have the right to call or prepay obligations. For floating rate positions "yield to maturity" is based on the current interest rate and not forward rates.
- Includes taxable and tax-exempt municipal obligations with a fair value of \$574,763 and \$1,062,427, respectively.
- Includes fixed income investments as well as pooled investment funds and ETFs. The pre-tax yield to maturity is from the fixed income portfolio.
- 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 17% and 11% of the investment portfolio at June 30, 2013 and December 31, 2012, respectively.

Expense Analysis (GAAP)

2013	Predecessor Ambac			Successor Ambac				
	(\$ Thousands)	First Quarter	April 2013	Four Months Ended April 30, 2013	Two Months Ended June 30, 2013	Third Quarter	Fourth Quarter	Successor Year-to Date
Financial Guarantee operating expenses:								
Compensation	\$ 14,500	\$ 4,580	\$ 19,080	\$ 9,027				\$ 9,027
Non-compensation	13,023	4,585	17,608	6,157				6,157
Total Financial Guarantee operating expenses	27,523	9,165	36,688	15,184	-	-	-	15,184
Financial Services operating expenses	769	526	1,295	429				429
Corporate and other operating expenses	608	(69)	539	383				383
Total gross operating expenses	\$ 28,900	\$ 9,622	\$ 38,522	\$ 15,996	\$ -	\$ -	\$ -	\$ 15,996
Ceding commissions	194	110	304	591				591
Change in deferred acquisition costs	5,335	1,145	6,480	-				-
Total operating expenses, net of deferred expenses	\$ 34,429	\$ 10,877	\$ 45,306	\$ 16,587	\$ -	\$ -	\$ -	\$ 16,587
Reorganization costs	\$ 2,059	\$ (2,747,239)	\$ (2,745,180)	\$ 424				\$ 424
Total gross operating expenses, including reorganization costs	\$ 30,959	\$ (2,737,617)	\$ (2,706,658)	\$ 16,420	\$ -	\$ -	\$ -	\$ 16,420

Predecessor Ambac

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
(\$ Thousands)					
Financial Guarantee operating expenses:					
Compensation	\$ 13,824	\$ 13,441	\$ 13,239	\$ 12,604	\$ 53,108
Non-compensation	11,554	13,271	10,230	17,228	52,283
Total Financial Guarantee operating expenses	25,378	26,712	23,469	29,832	105,391
Financial Services operating expenses	792	923	859	1,114	3,688
Corporate and other operating expenses	1,930	(593)	1,745	(3,233)	(151)
Total gross operating expenses	\$ 28,100	\$ 27,042	\$ 26,073	\$ 27,713	\$ 108,928
Ceding commissions	3,134	(33)	497	1,036	4,634
Change in deferred acquisition costs	5,300	6,558	6,777	6,832	25,467
Total operating expenses, net of deferred expenses	\$ 36,534	\$ 33,567	\$ 33,347	\$ 35,581	\$ 139,029
Reorganization costs	\$ 2,461	\$ 767	\$ 1,252	\$ 2,735	\$ 7,215
Total gross operating expenses, including reorganization costs	\$ 30,561	\$ 27,809	\$ 27,325	\$ 30,448	\$ 116,143

Historical Net Financial Guarantee Exposures Outstanding ⁽¹⁾⁽²⁾

(\$ Millions Net Par Value)	June 30,	December 31,			Segregated Account June 30, 2013
	2013	2012	2011	2010	
Public Finance:					
Lease and tax backed	\$46,876	\$50,415	\$59,864	\$65,843	\$ -
General obligation	31,216	34,623	42,959	48,241	11
Utility	16,503	18,651	22,529	26,360	429
Transportation	11,185	13,892	18,945	20,722	335
Higher education	8,916	10,382	13,618	15,279	-
Housing	7,772	8,176	8,823	9,878	-
Health care	4,491	5,266	7,824	9,603	94
Other	1,491	1,613	2,255	3,423	-
Total Public Finance	128,450	143,018	176,817	199,349	869
Structured Finance:					
Mortgage-backed & home equity	17,447	19,117	23,164	27,488	17,447
Investor-owned utilities	6,299	7,071	9,049	10,685	59
Student loan	4,874	5,411	7,824	11,408	4,810
Asset-backed	2,603	2,905	4,732	10,005	-
Other CDOs	2,259	5,941	8,060	11,463	363
Other	1,905	1,914	2,316	2,750	317
Total Structured Finance	35,387	42,359	55,145	73,799	22,996
International Finance ⁽³⁾:					
Investor-owned and public utilities	9,080	10,314	10,510	10,861	-
Asset-backed	7,940	8,702	9,560	10,738	-
Sovereign/sub-sovereign	6,868	7,289	7,282	7,119	-
Transportation	5,049	6,002	5,914	6,744	238
Other CDOs	1,388	3,191	4,375	6,775	616
Mortgage-backed & home equity	954	1,268	1,397	1,898	-
Other	1,325	1,490	1,504	1,571	-
Total International Finance	32,604	38,256	40,542	45,706	854
Grand Total	\$196,441	\$223,633	\$272,504	\$318,854	\$24,719
Percent of Total Net Par Outstanding					
Public Finance	65.4%	64.0%	64.9%	62.5%	3.5%
Structured Finance	18.0%	18.9%	20.2%	23.2%	93.0%
International Finance	16.6%	17.1%	14.9%	14.3%	3.5%
Total Net Par Outstanding	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Included in the above exposures are structured credit derivatives. Total structured credit derivative net par outstanding amounted to \$5,861, \$11,282, \$14,167, and \$18,766, at June 30, 2013 and December 31, 2012, 2011, and 2010, respectively.

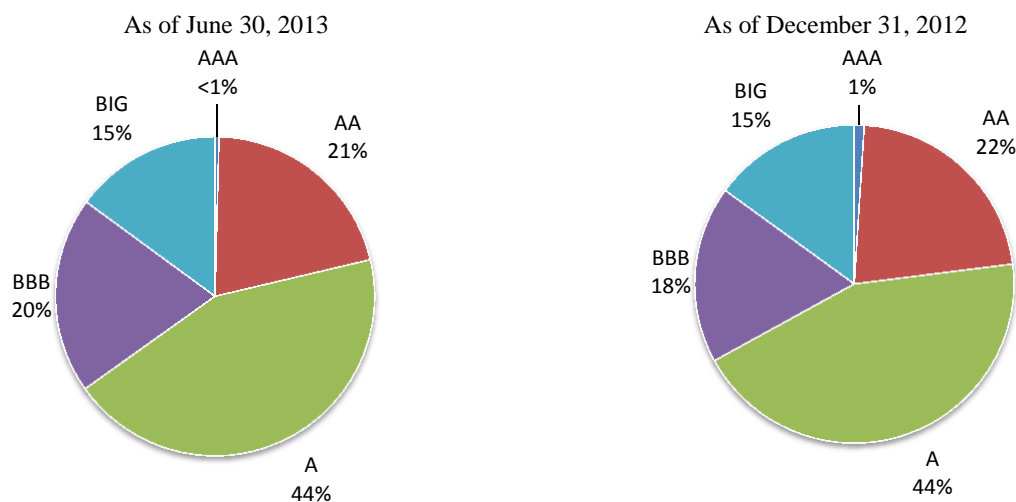
(2) Includes exposure allocated to the Segregated Account.

(3) International transactions include components of domestic exposure.

Geographic Distribution of Net Financial Guarantee Exposures Outstanding

(\$ Millions Net Par Value)	June 30,		December 31,			
	2013	%	2012	2011	2010	2009
Domestic:						
California	\$28,162	14.3%	\$32,105	\$36,133	\$39,210	\$43,388
New York	13,315	6.8%	14,389	18,267	20,944	22,865
Florida	10,001	5.1%	11,110	13,906	15,910	17,816
Texas	8,592	4.4%	10,016	12,983	14,776	16,941
New Jersey	7,146	3.6%	7,906	9,650	10,415	11,654
Illinois	6,134	3.1%	6,878	8,524	9,351	10,472
Massachusetts	4,969	2.5%	5,373	5,799	6,576	8,255
Pennsylvania	4,194	2.1%	4,304	5,301	6,036	7,405
Colorado	3,890	2.0%	4,376	5,010	5,786	6,392
Washington	3,255	1.7%	3,480	4,772	5,710	6,124
Mortgage and asset-backed	20,050	10.2%	22,022	27,896	37,493	48,862
Other states	54,129	27.6%	63,418	83,721	100,941	137,708
Total Domestic	163,837	83.4%	185,377	231,962	273,148	337,882
International:						
United Kingdom	21,154	10.8%	22,585	22,317	22,215	22,840
Australia	3,743	1.9%	4,820	5,176	6,292	6,034
Italy	2,306	1.2%	3,068	3,346	3,674	3,821
Austria	923	0.5%	943	956	999	1,149
Germany	567	0.3%	598	619	692	765
Internationally diversified	2,145	1.1%	3,968	5,318	7,793	9,914
Other international	1,766	0.9%	2,274	2,810	4,041	8,001
Total International	32,604	16.6%	38,256	40,542	45,706	52,524
Grand Total	\$196,441	100.0%	\$223,633	\$272,504	\$318,854	\$390,406

Rating Distribution of Net Financial Guarantee Exposures Outstanding ⁽¹⁾



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

25 Largest Domestic Public Finance Exposures

(\$ Millions)	Ambac Rating ⁽¹⁾	AADS ⁽²⁾	Net Par Outstanding	% of Total Net Par Outstanding
California State - GO	A	\$188.6	\$ 2,657	1.4%
New Jersey Transportation Trust Fund Authority - Transportation System	A +	\$164.7	1,967	1.0%
NYS Thruway Authority, Highway & Bridge Revenue	AA -	\$136.5	1,374	0.7%
Massachusetts School Building Authority, MA, Sales Tax Revenue	AA	\$96.6	1,230	0.6%
Massachusetts Commonwealth - GO	AA	\$87.0	1,182	0.6%
Washington State - GO	AA	\$84.6	957	0.5%
Los Angeles Unified School District, CA - GO	AA -	\$79.2	944	0.5%
Sales Tax Asset Receivable Corporation, NY, Revenue	A	\$77.6	846	0.4%
Puerto Rico Sales Tax Financing Corporation	A +	\$178.2	805	0.4%
Puerto Rico Highways & Transportation Authority, Transportation Revenue ⁽³⁾	BBB +	\$47.6	752	0.4%
Chicago, IL - GO	A +	\$36.0	728	0.4%
New Jersey Turnpike Authority Revenue	A	\$41.8	691	0.4%
New York City, NY - GO	AA	\$38.6	682	0.3%
MTA, NY, Transportation Revenue (Farebox)	A	\$47.4	660	0.3%
New York Convention Center Development Corporation, Hotel Fee Revenue	A -	\$43.9	651	0.3%
Dallas Area Rapid Transit, TX, Sales Tax Revenue	AA	\$47.8	638	0.3%
New Jersey Economic Development Authority - School Facilities Construction	A +	\$41.2	638	0.3%
Missouri Joint Municipal Electric Utility Commission, Project Revenue	A -	\$40.4	625	0.3%
Golden State Tobacco Securitization Corp., CA, Enhanced Tobacco Settlement	A	\$43.2	600	0.3%
Mets Queens Baseball Stadium Project, NY, Lease Revenue	BIG	\$36.1	592	0.3%
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue	BBB +	\$39.3	587	0.3%
Tobacco Settlement Financing Corporation, NY, Tobacco Settlement Revenue	A +	\$93.1	585	0.3%
New York City, NY Water and Sewer System Revenue	AA	\$39.1	581	0.3%
Dallas/Fort Worth Airport, TX, Joint Revenue	A	\$52.6	575	0.3%
New York State Personal Income Tax Revenue	AA -	\$39.9	575	0.3%
Total:			<u>\$ 22,122</u>	<u>11.3%</u>

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

2) Average Annual Debt Service, net of reinsurance.

3) On March 24, 2010, Ambac Assurance established a Segregated Account. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities. In connection with such segregation Ambac Assurance has allocated 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	\$1,070	0.5%
CDO of ABS < 25% MBS	A	1,023	0.5%
Ballantyne Re Plc ⁽³⁾	BIG	900	0.5%
The National Collegiate Student Loan Trust 2007-4 ⁽²⁾	BIG	773	0.4%
Spirit Master Funding	BBB	750	0.4%
Wachovia Asset Securitization Issuance II, LLC 2007-HE1 ⁽²⁾	BIG	740	0.4%
Timberlake Financial, LLC	BIG	620	0.3%
Michigan Higher Education Student Loan Authority ⁽²⁾	BIG	581	0.3%
Progress Energy Carolinas, INC	A -	558	0.3%
Local Insight Media Finance LLC	BIG	489	0.2%
Option One Mortgage Loan Trust 2007-FXD1 ⁽²⁾	BIG	457	0.2%
Countrywide Asset-Backed Certificates Trust 2005-16 ⁽²⁾	BIG	452	0.2%
Niagara Mohawk Power Corporation	A	444	0.2%
Countrywide Revolving Home Equity Loan Trust 2005-F ⁽²⁾	BIG	439	0.2%
The National Collegiate Student Loan Trust 2007-3 ⁽²⁾	BIG	420	0.2%
Morgan Stanley Credit Corporation Heloc Trust 2007-1 ⁽²⁾	BIG	396	0.2%
Impac CMB Trust Series 2005-7 ⁽²⁾	BIG	395	0.2%
CenterPoint Energy Inc.	BBB +	376	0.2%
Privately Placed RMBS Transaction ⁽²⁾	BIG	375	0.2%
Countrywide Asset Backed Certificates Trust 2005-17 ⁽²⁾	BIG	372	0.2%
Consolidated Edison Company of New York	A	347	0.2%
Countrywide Asset Backed Certificates Trust 2006-11 ⁽²⁾	BIG	343	0.2%
CDO of HY Corporate	AA +	331	0.2%
Massachusetts Educational Financing Authority Revenue Bonds ⁽²⁾	BIG	330	0.2%
GMACM Home Equity Loan Trust 2005-HE3 ⁽²⁾	BIG	306	0.2%
Total:		<u>\$13,287</u>	<u>6.8%</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 +	1,923	1.0%
Channel Link Enterprises ⁽³⁾	BBB -	1,226	0.6%
National Grid Electricity Transmission ⁽³⁾	A -	1,159	0.6%
Telereal Securitization plc ⁽³⁾	AA	1,153	0.6%
Punch Taverns Finance plc-UK Pub Securitization ⁽³⁾	BIG	1,139	0.6%
Aspire Defence Finance plc ⁽³⁾	BBB +	1,113	0.6%
Regione Campania ⁽³⁾	BBB	1,002	0.5%
Capital Hospitals plc ⁽³⁾	BBB -	968	0.5%
Ostregion Investmentgesellschaft NR 1 SA ⁽³⁾	BIG	923	0.5%
Romulus Finance s.r.l. ⁽³⁾	BBB -	815	0.4%
Anglian Water ⁽³⁾	A -	809	0.4%
RMPA Services plc ⁽³⁾	BBB +	772	0.4%
National Grid Gas ⁽³⁾	A -	747	0.4%
Scotia Gas Networks ⁽³⁾	BBB	681	0.3%
Powercor Australia	BBB +	664	0.3%
Private CMBS Transaction ⁽³⁾	BBB +	662	0.3%
Spirit Issuer plc ⁽³⁾	BIG	652	0.3%
Catalyst Healthcare (Manchester) Financing plc ⁽³⁾	BBB +	643	0.3%
Babcock & Brown Air Funding I Limited	BBB +	565	0.3%
South East Water (Finance) Limited ⁽³⁾	BBB	557	0.3%
CDO of HY Corporate	AA	531	0.3%
European Single-Borrower CMBS Transaction	AA	485	0.2%
United Energy Distribution	BBB	466	0.2%
Airspeed Limited	BBB +	464	0.2%
CDO of HY Corporate ^{(2) (3)}	BBB +	456	0.2%
Total:		<u>\$20,575</u>	<u>10.5%</u>

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

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

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

Net Exposure Amortization ⁽¹⁾

As of June 30, 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 (3rd and 4th Qtrs).....	\$10,476	\$296,753	\$1,450	\$29,604
2014.....	18,577	278,176	3,148	26,456
2015.....	19,724	258,452	2,910	23,546
2016.....	17,208	241,244	2,576	20,970
2017.....	16,237	225,007	1,813	19,157
2018.....	16,631	208,376	1,488	17,669
2013 (3rd and 4th Qtrs).....	\$10,476	\$296,753	\$1,450	\$29,604
2014-2018.....	88,377	208,376	11,935	17,669
2019-2023.....	67,940	140,436	4,847	12,822
2024-2028.....	49,418	91,018	2,768	10,054
2029-2033.....	39,949	51,069	3,784	6,270
After 2033.....	51,069	-	6,270	-
Total.....	\$307,229		\$31,054	

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of June 30, 2013. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.