



INVESTOR PRESENTATION

SECOND QUARTER 2014

FORWARD LOOKING STATEMENT

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

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

AGENDA

- ▶ **Ambac Overview**
- ▶ **Insured Portfolio**
- ▶ **Investment Portfolio**
- ▶ **Financial Services Business**
- ▶ **Parallel Strategic Priorities**
 - Value Creation
 - Growth and Diversification
- ▶ **Financial Overview**
- ▶ **Conclusion**

AMBAC OVERVIEW

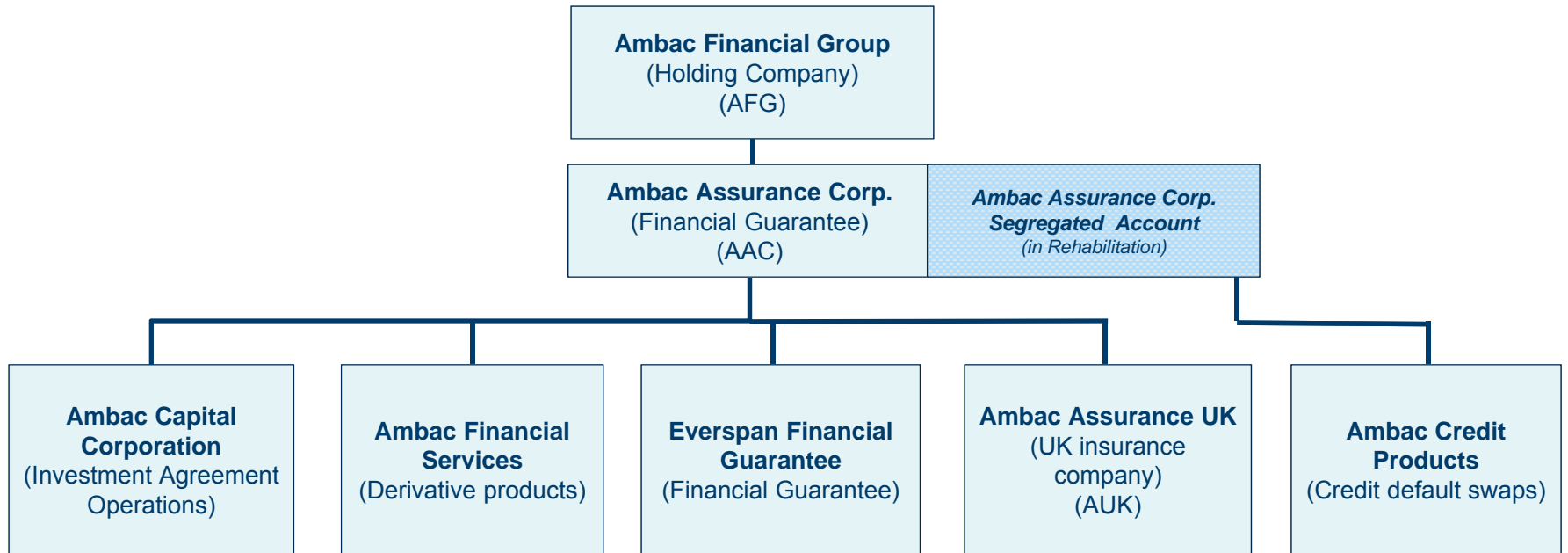
Ambac

AMBAC TODAY

- ▶ **Global provider of financial guarantees and other financial services**
- ▶ **Pursuing parallel paths to create long-term shareholder value**
 - Maximize the value of existing financial guarantee operations
 - Profitably grow and diversify through the acquisition and / or development of new business opportunities

▶ **AMBC** \$1 billion+ market cap
NASDAQ
LISTED

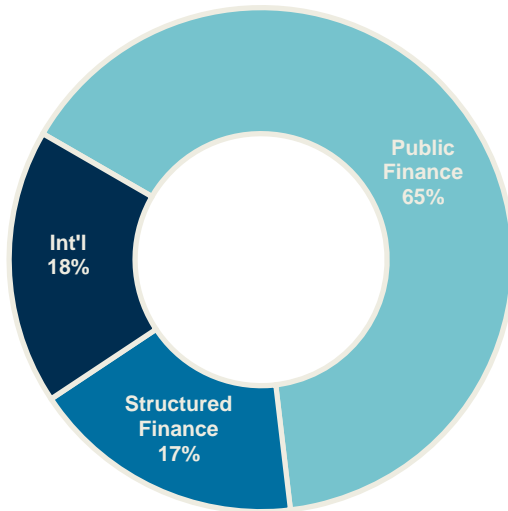
SIMPLIFIED CORPORATE STRUCTURE



AMBAC OVERVIEW JUNE 30, 2014

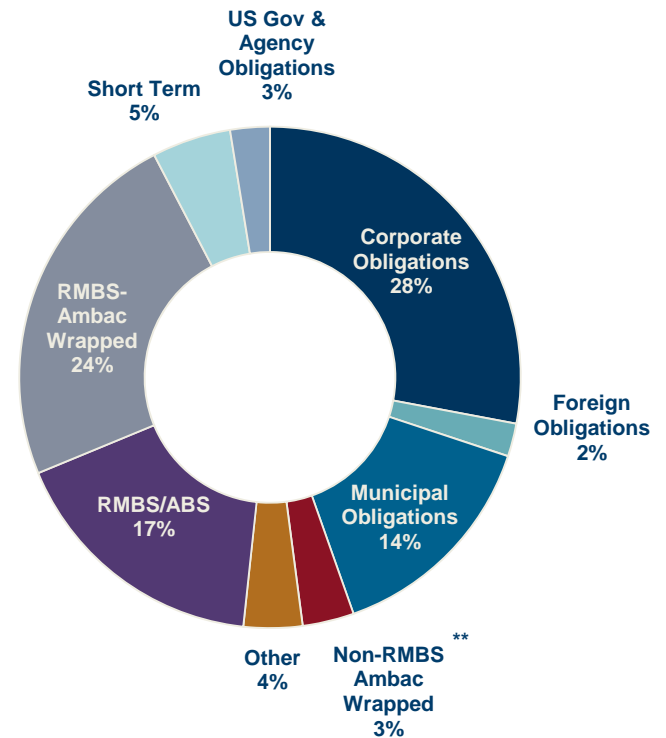
Insured Portfolio

**\$167.7 billion
Net Par***



Investment Portfolio

**\$6.8 billion
Fair Value**



* Net Par throughout this presentation includes capital appreciation bonds ("CABs") which are reported at the par amount at the time of issuance of the insurance policy

** Non-RMBS Ambac Wrapped as part of loss remediation strategy

STRATEGY: PARALLEL PRIORITIES

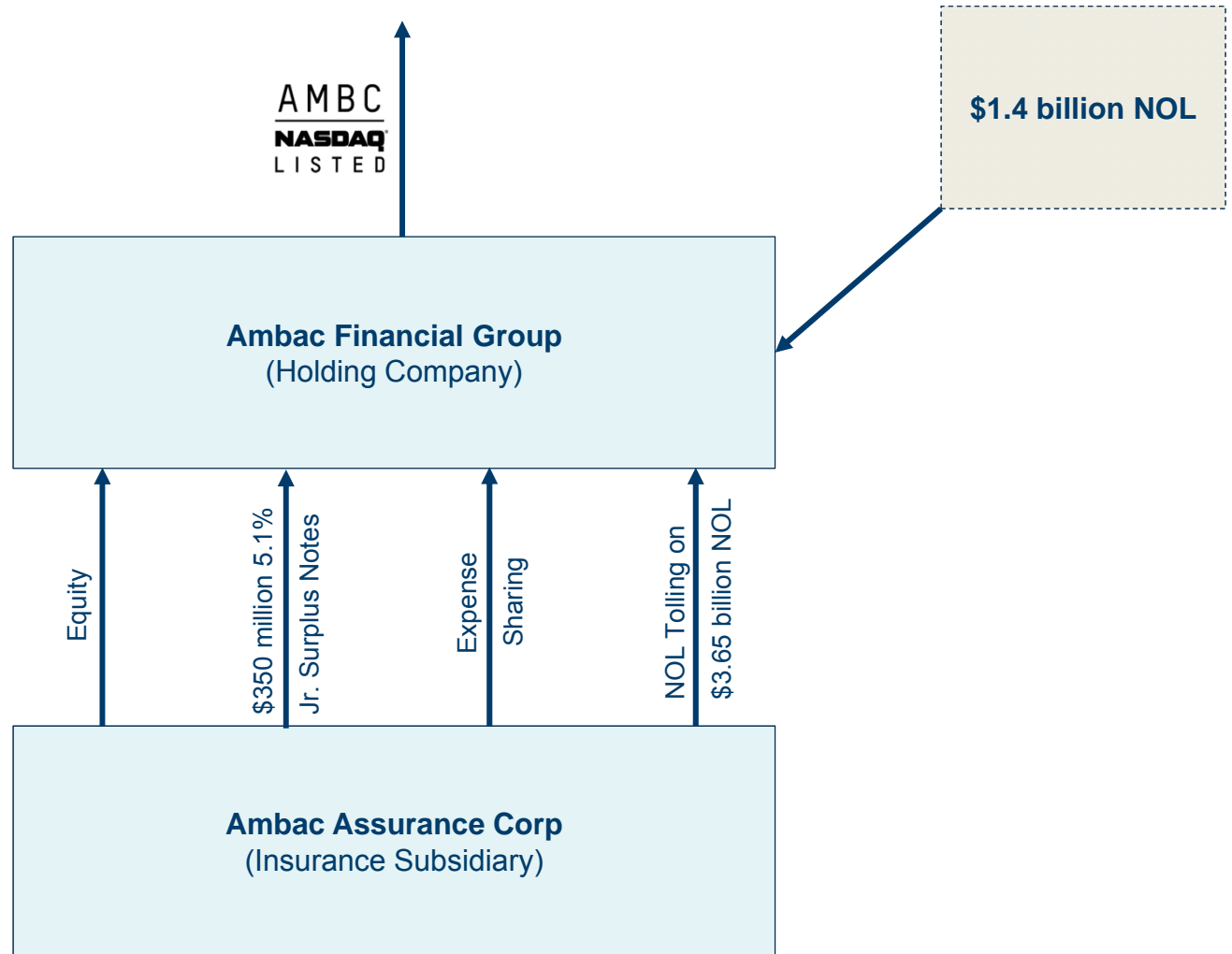
Value Creation Initiatives

- ▶ Representations and Warranties
- ▶ Commutations and Restructurings
- ▶ Insured Buybacks
- ▶ Servicer Intervention

Growth and Diversification Initiatives

- ▶ Acquisitions
- ▶ Development Opportunities

VALUE COMPONENTS



AMBAC'S CAPITAL STRUCTURE

Category	(\$ in millions) 6/30/14	Comments
Policyholder Reserves	\$9,085	<ul style="list-style-type: none"> ▶ Before subrogation recoveries, Unearned Premium Reserves (UPR) and reinsurance ▶ Includes \$4.3 billion of unpaid claims, including accrued interest on Deferred Amounts ▶ Includes \$0.9 billion of AUK policyholder reserves
5.1% Surplus Notes Par	\$1,264	<ul style="list-style-type: none"> ▶ After 2012 calls ▶ \$1.2 billion General Account notes ▶ \$53 million Segregated Account notes ▶ Does not include \$335 million of accrued interest
5.1% Junior Surplus Notes Par	\$378	<ul style="list-style-type: none"> ▶ Includes \$350 million held by AFG ▶ Does not include \$26 million of accrued interest
Auction Rate Preferred Shares (AMPS) Liquidation Value	\$660	<ul style="list-style-type: none"> ▶ Originally \$800 million
Common Stock Market Cap*	\$1,229	<ul style="list-style-type: none"> ▶ 45,002,575 common shares ▶ 5,040,775 warrants

* Based on AMBC closing stock price \$27.31 June 30, 2014

SEGREGATED ACCOUNT

▶ March 24, 2010

- AAC established the Segregated Account pursuant to Wisconsin law
- Wisconsin's Office of the Commissioner of Insurance (OCI) commenced rehabilitation proceedings for the Segregated Account

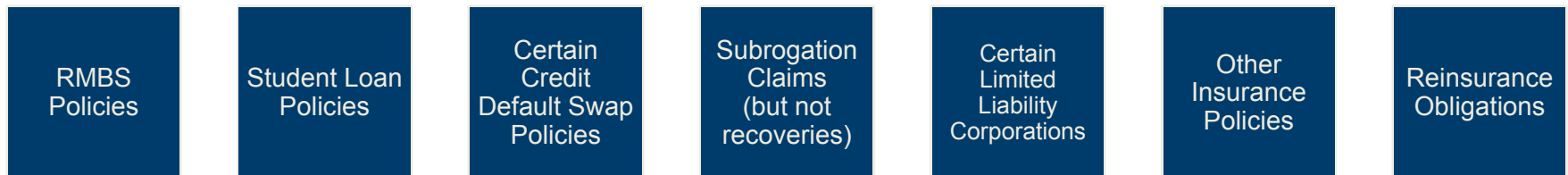
▶ Rehabilitator has ultimate decision-making authority over the Segregated Account

- Governed by Plan of Operation and certain other operative documents

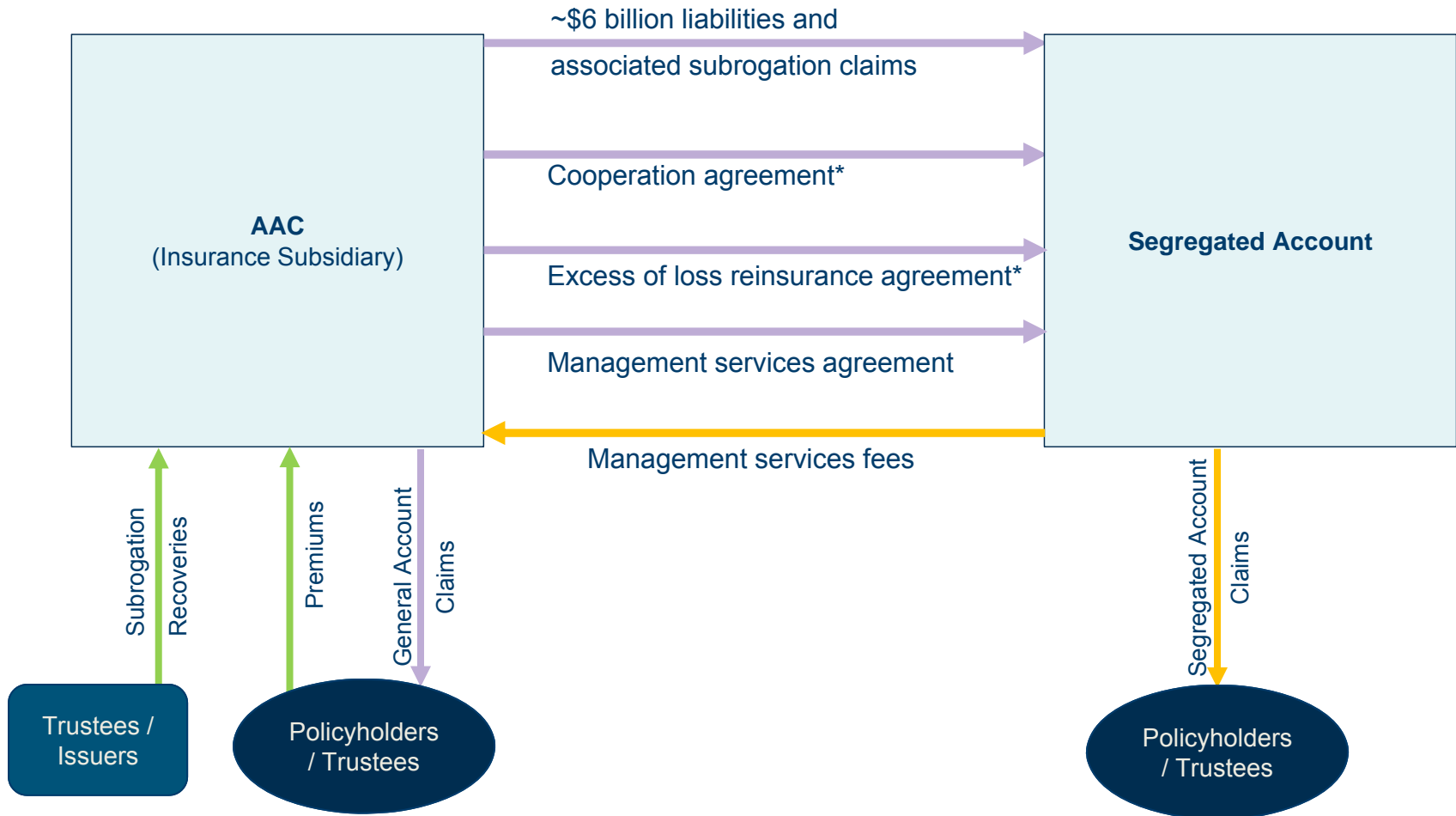
▶ Segregated certain sectors of Ambac Assurance's most distressed exposures and associated subrogation claims

▶ General Account (the remainder of AAC) is not in rehabilitation

AAC's Segregated Account Sectors



AAC – SEGREGATED ACCOUNT STRUCTURE



* Subject to \$100 million minimum surplus at AAC

SEGREGATED ACCOUNT PLAN OF REHABILITATION

▶ Confirmation and Effective Date

- Confirmed by Wisconsin court on January 24, 2011
- Amended Plan approved by Wisconsin court on June 11, 2014
- Effective Date June 12, 2014

▶ Segregated Account started paying 25% of permitted policy claims September 20, 2012

▶ Payout ratio* increased to 45% beginning July 21, 2014

▶ Allows for Supplemental Payments, Special Policy Payments, commutations, and restructurings

▶ “Deferred Amounts” represent unpaid portions of claims and generally accrue and compound interest at 5.1%

- \$308.1 million accrued interest as of June 30, 2014, including \$49.8 million in 2Q 2014

▶ December 22, 2014 payments on Deferred Amounts and redemptions of surplus notes expected to exceed \$1.5 billion

* Payout ratio is the percentage of the initial cash Interim Payment for permitted policy claims

REHABILITATOR'S ROLE

General Account

- ▶ **Rehabilitator approval is required for:**
 - **Non-ordinary course transactions > \$5 million**
 - **Changes to Investment Policy**
 - **Paying dividends** or acquiring securities issued by AAC
 - **Changing assumptions** or vendors utilized in determining **statutory loss reserves**
 - **Adopting certain tax positions** (covenant applies to AFG)

Segregated Account

- ▶ **Rehabilitator has ultimate decision-making authority**
 - **Policy payments and commutations**
 - **Prosecution of subrogation claims**
 - **Distribution of subrogation recoveries**
- ▶ **Contracted with AAC as Management Services Provider**
 - Risk management
 - Loss mitigation
 - Treasury, accounting, tax
 - Business continuity
 - Technology
- ▶ **Contracted with independent advisors / consultants**

OTHER KEY AAC RESTRICTIONS

Bank Settlement Agreement (June 2010)

Board	<ul style="list-style-type: none"> ▶ Independent AAC Board members – minimum one-third
Business	<ul style="list-style-type: none"> ▶ AAC generally restricted to runoff activities unless obtain an A rating
Debt Parity	<ul style="list-style-type: none"> ▶ Limits issuance of surplus notes or other obligations on parity with or senior to bank surplus notes
Other Restrictions	<ul style="list-style-type: none"> ▶ Prohibits mergers, asset dispositions and certain payments, including dividends ▶ Restricts distributions on, or purchases of, surplus notes
Waivers	<ul style="list-style-type: none"> ▶ Waivers require approval from (and/or) <ul style="list-style-type: none"> ○ OCI ○ Independent AAC directors ○ Bank surplus note holders

Auction Market Preferred Shares (AMPS)

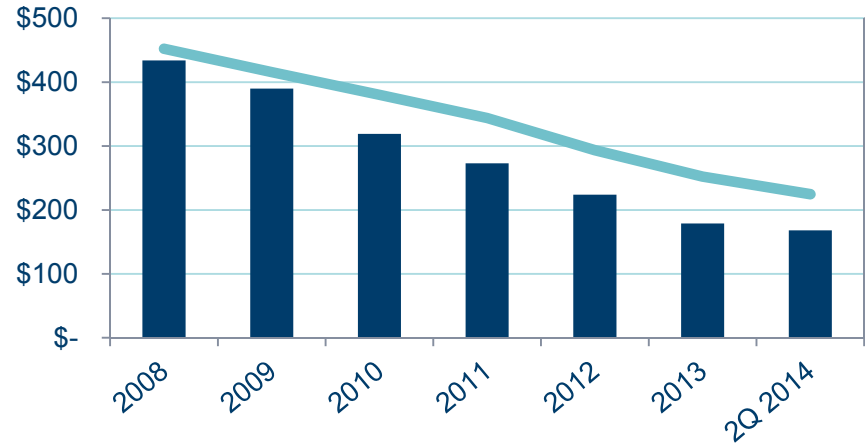
Dividends on AAC Common Equity	<ul style="list-style-type: none"> ▶ Prohibited unless dividends are paid on AMPS for then current dividend period <ul style="list-style-type: none"> ○ Exception for dividends to pay debt service or operating expenses at AFG <ul style="list-style-type: none"> ▪ If paid while dividends on AMPS for the then current dividend period are not paid, then dividends on AMPS will be cumulative
---------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

INSURED PORTFOLIO

Ambac

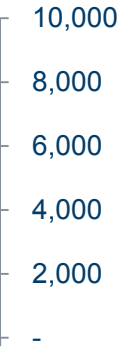
INSURED PORTFOLIO - \$167.7 BILLION AS OF JUNE 30, 2014

Net Par Exposures
\$ in billions

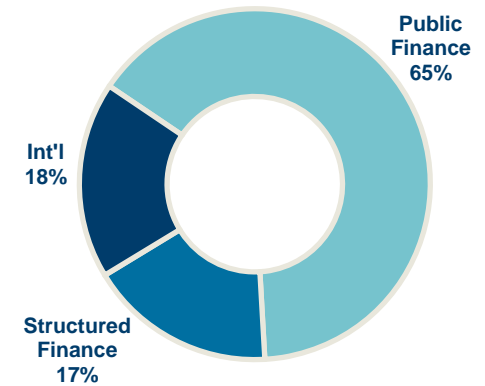


■ Net Par Exposures — # of Credits (right axis)

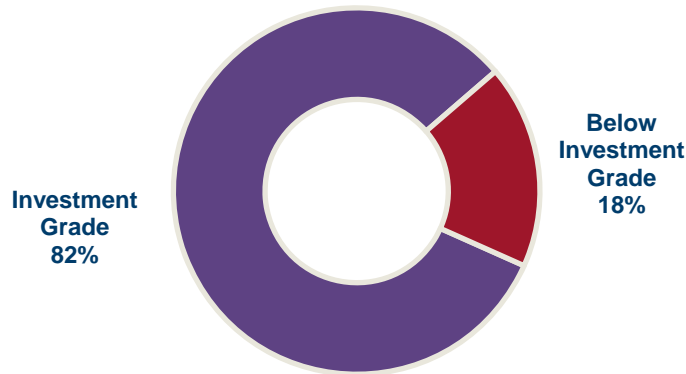
of Credits



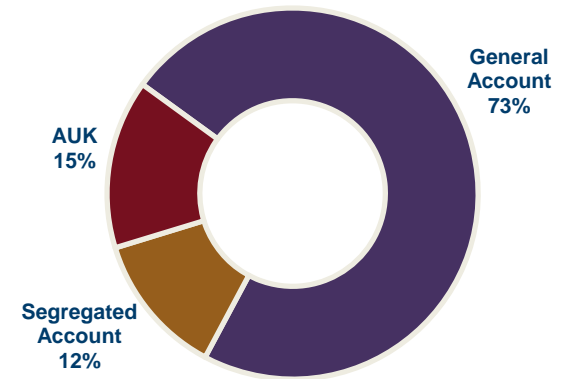
Sector % Breakdown



Ambac Rating % Breakdown



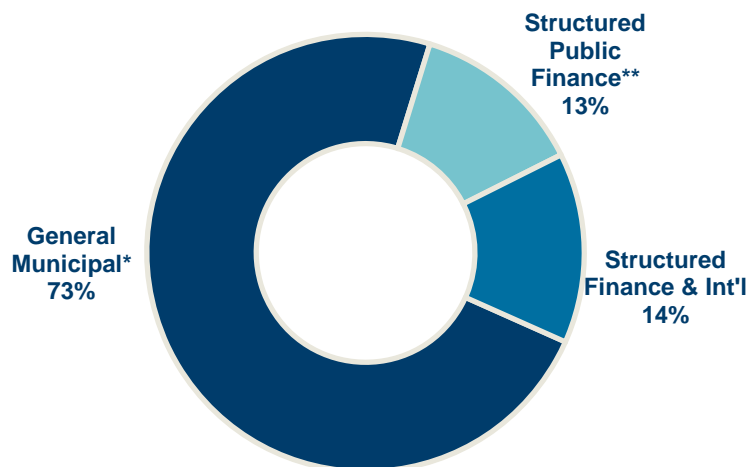
Portfolio % Breakdown



2Q 2014 INSURED PORTFOLIO – AAC GENERAL / SEGREGATED ACCOUNTS

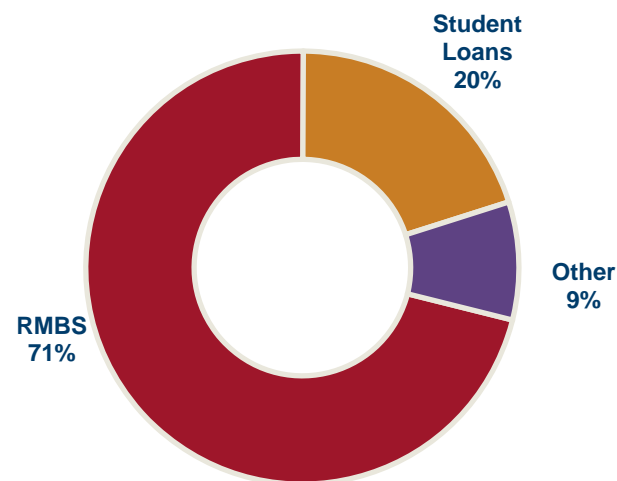
AAC General Account

\$122 billion Net Par
~4,300 credits



AAC Segregated Account

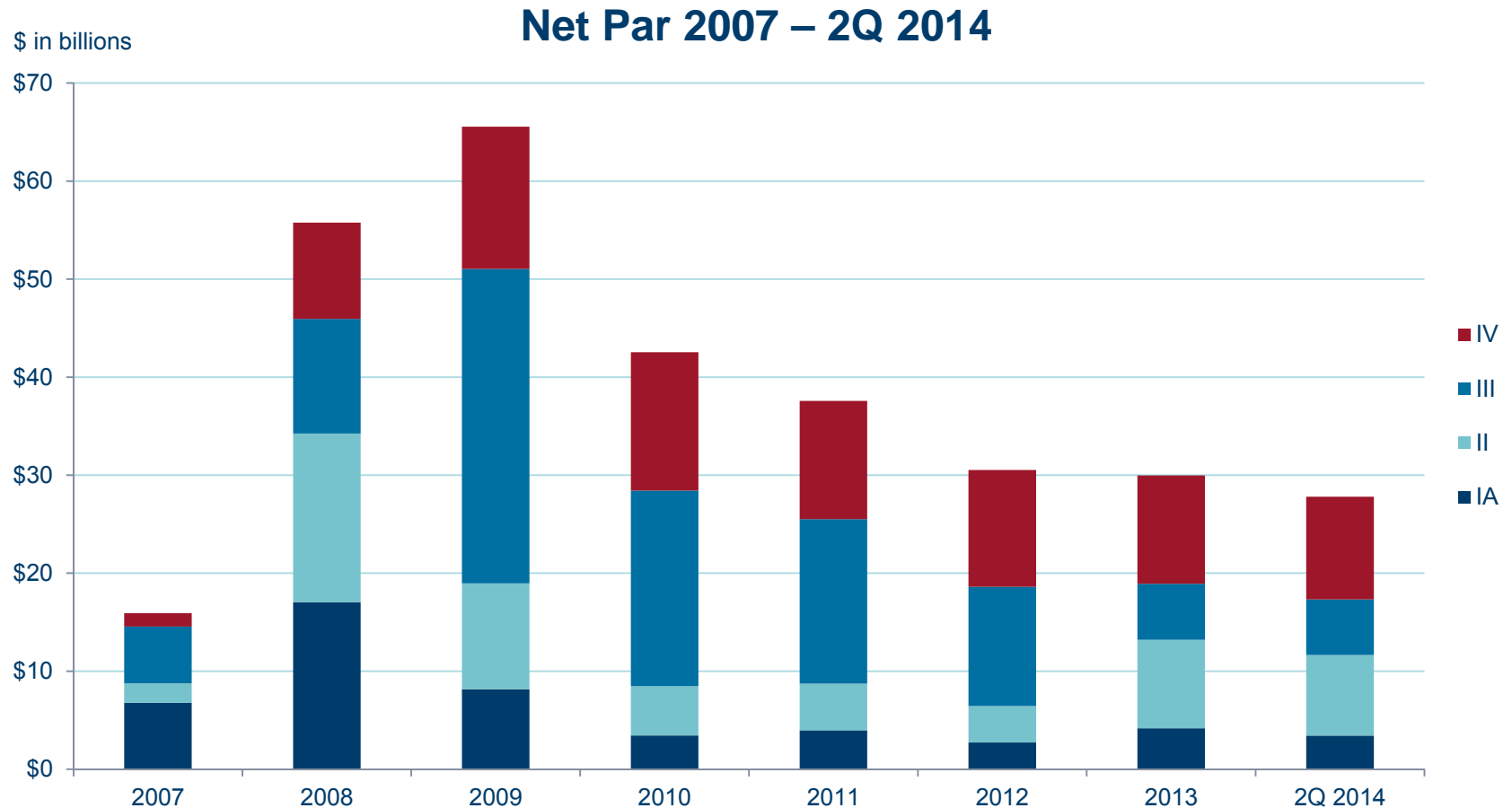
\$21 billion Net Par
~300 credits



* General Municipal includes municipal bonds backed by revenue sources including taxes, pledges, tolls and municipal lease payments.

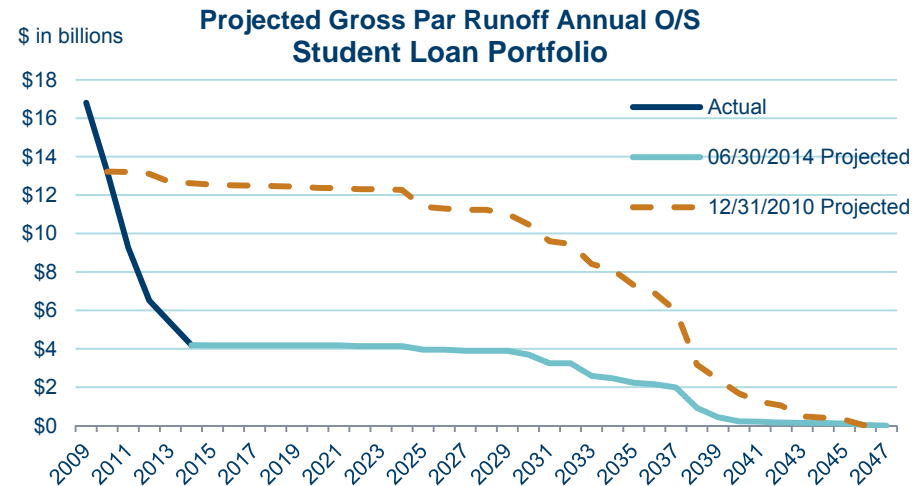
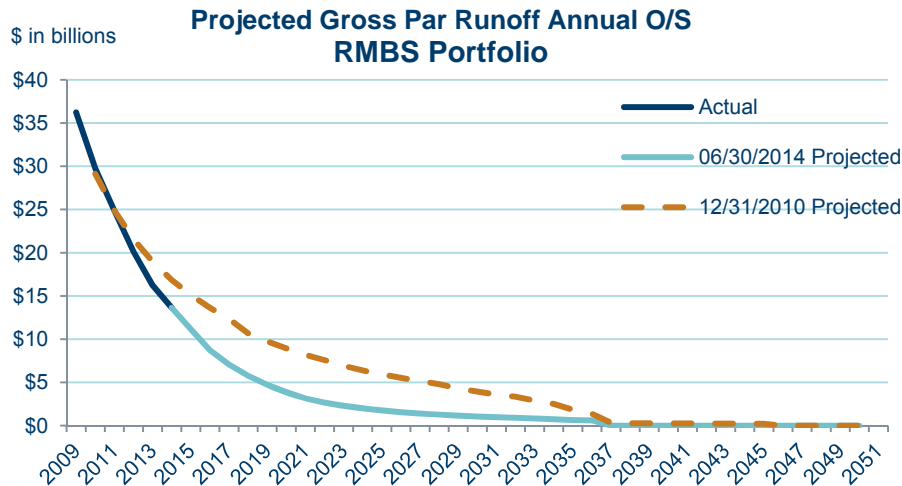
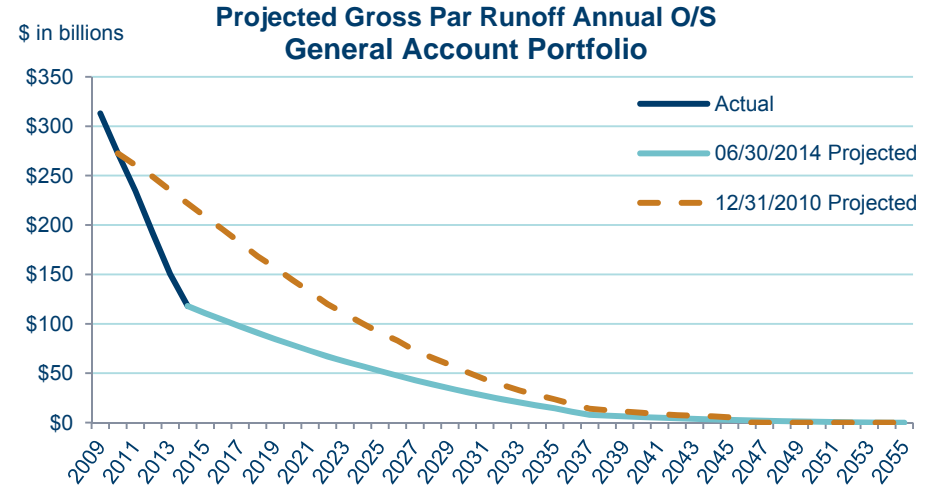
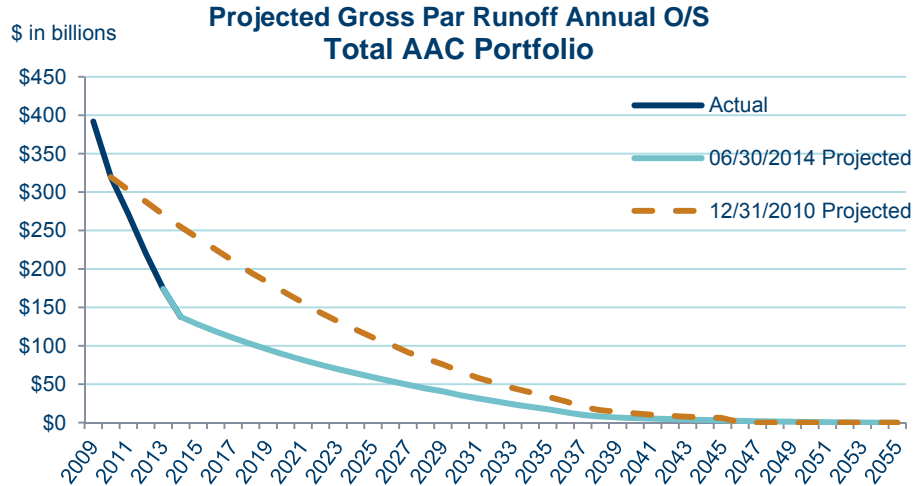
** Structured Public Finance includes transactions with indirect municipal support or public purpose essentiality such as not for profit hospitals, private higher education, stadiums, military and affordable housing, and Federal leases. These transactions typically have covenants and control rights closer to structured finance than municipal bonds.

AAC INSURED PORTFOLIO – ADVERSE CREDIT CLASSIFICATION*



* Adverse credit classification definitions in Appendix

AAC PROJECTED GROSS PAR RUNOFF – SELECTED DATA*



* Depicts amortization of existing guaranteed portfolio (principal), 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.

RMBS PORTFOLIO SNAPSHOT

(\$ in billions, except number of credits)	6/30/14	12/31/13
Gross Par	\$15.1	\$16.2
Net Par	\$14.9	\$16.0
Number of credits	250	253
Gross par related to policies in loss reserves	\$10.9	\$11.7
Number of credits related to policies in loss reserves	173	179
Gross claims paid (ever-to-date)*	\$3.9	\$3.8
GAAP Gross claim liability ("GCL")**	\$1.5	\$1.7
GAAP Unpaid claims***	4.3	3.9
GAAP R&W subrogation recoverables	(2.3)	(2.2)
GAAP UPR	(0.1)	(0.1)
GAAP Loss reserves****	\$3.4	\$3.3

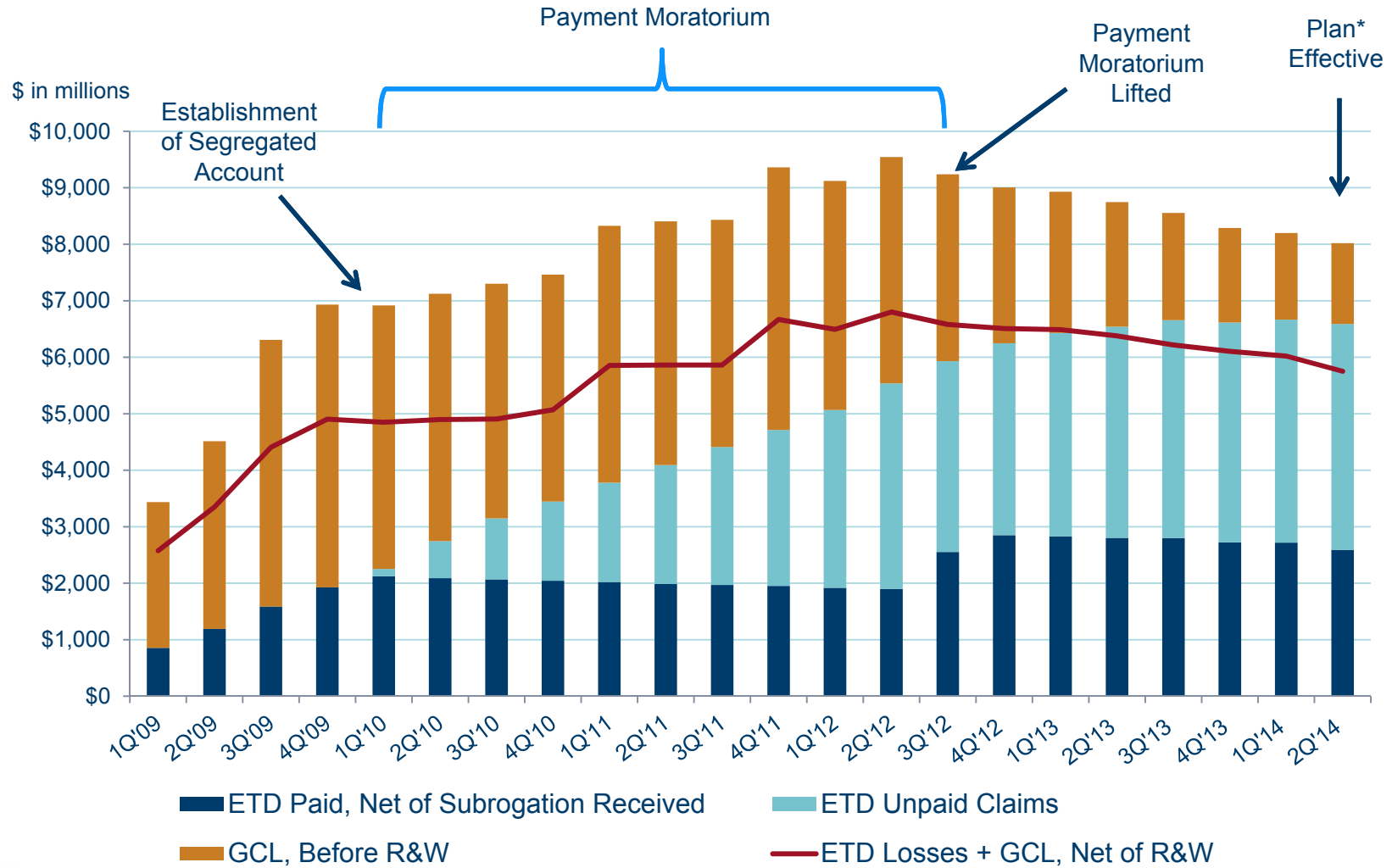
* Gross of reinsurance and R&W and other subrogation recoverables

** Present value of expected net cash flows gross of reinsurance and before unpaid claims, R&W subrogation recoverables and UPR

*** Includes accrued interest relating to amendments to the Plan of Rehabilitation of the Segregated Account of \$307.0mm

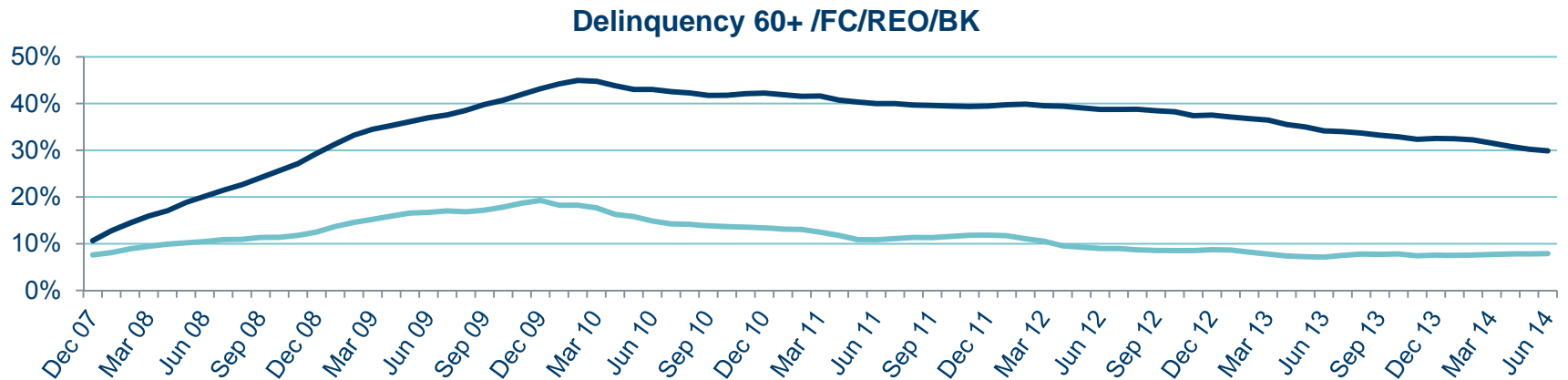
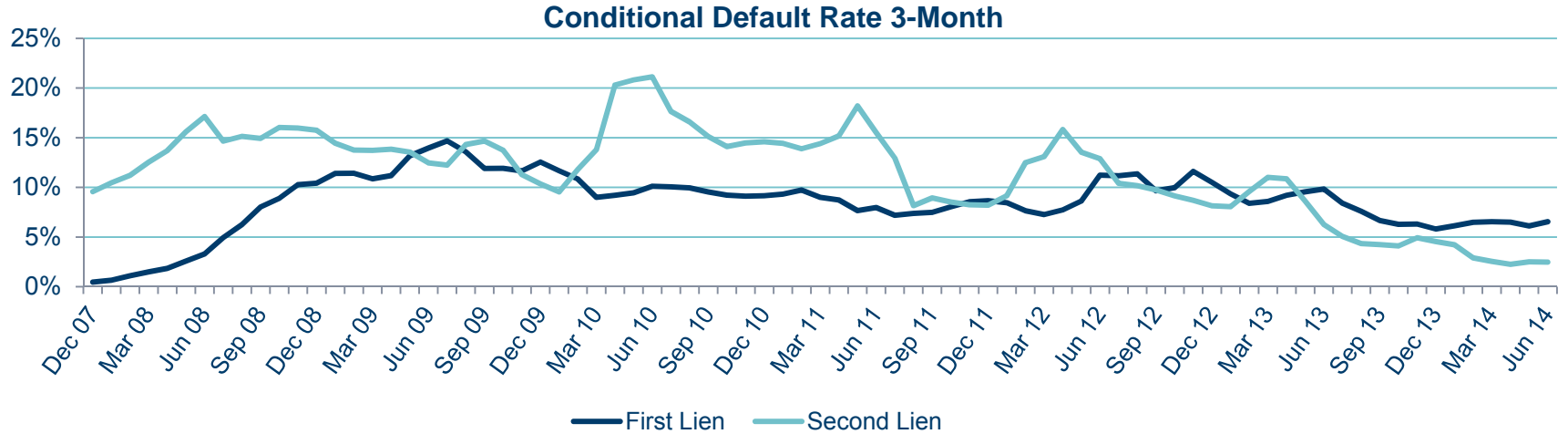
**** Gross of reinsurance and net of R&W and other subrogation recoverables. Includes unpaid claims

POINT IN TIME PROJECTED LIFETIME RMBS LOSSES



* Amended Plan of Rehabilitation of the Segregated Account effective June 12, 2014

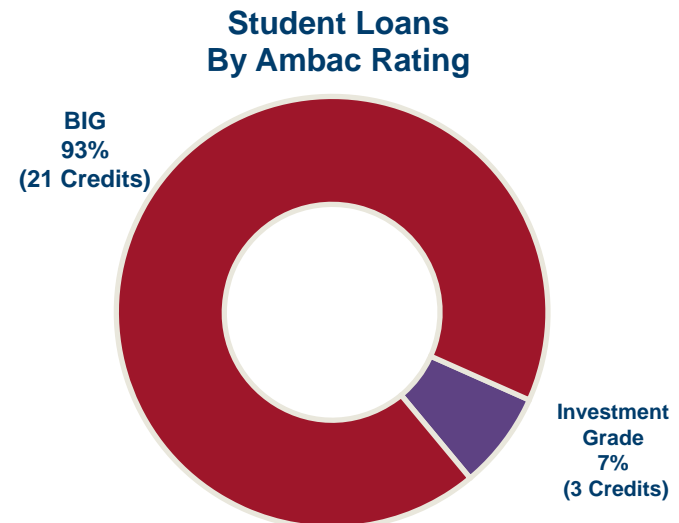
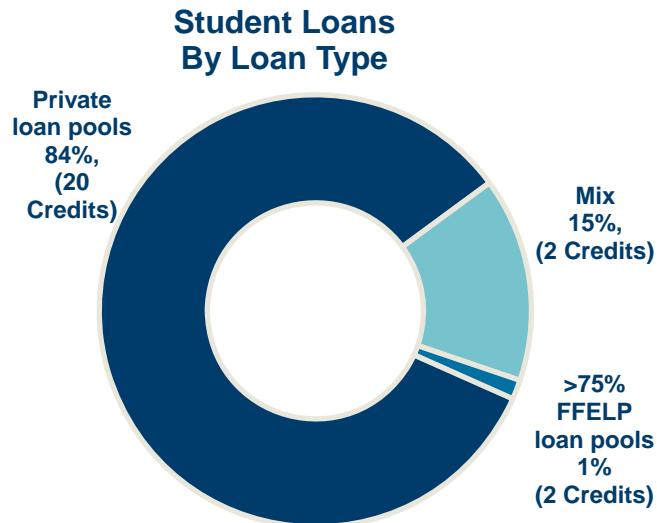
RMBS PERFORMANCE TRENDS



Data Source: IntexCalc
 Portfolio: RMBS transactions representing more than 90% of Ambac's future claims exposure

STUDENT LOAN PORTFOLIO

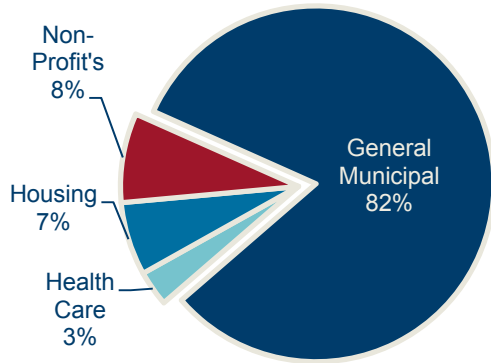
- ▶ \$4.2 billion net par
- ▶ Long dated maturities
- ▶ \$920 million loss reserves (projected losses back ended)
- ▶ Exposures down \$10.8 billion gross par since 1Q 2010
- ▶ Losses concentrated in private student loan pools with under-collateralization



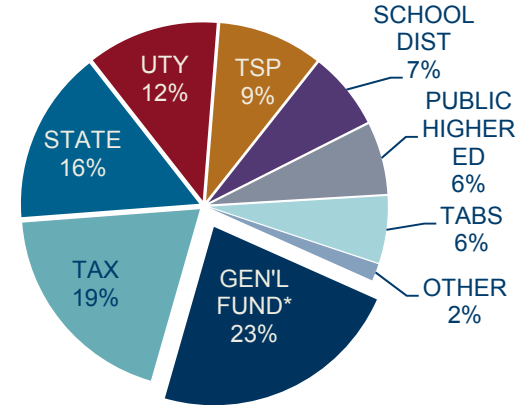
PUBLIC FINANCE PORTFOLIO

June 30, 2014

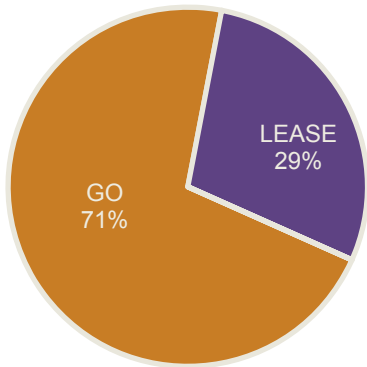
Public Finance
\$108 billion Net Par



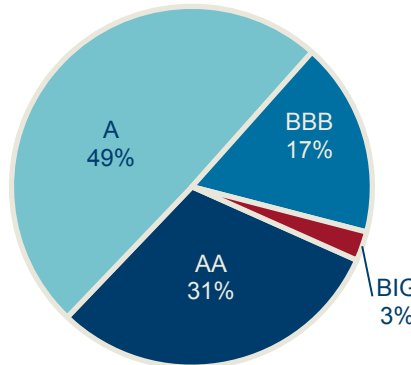
General Municipal
\$89 billion Net Par



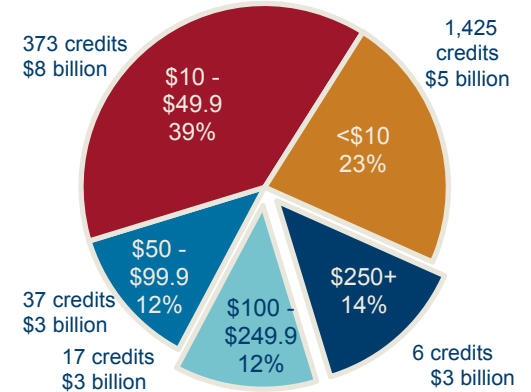
General Fund*
\$20 billion Net Par



General Fund* By Ambac Rating



General Fund* By Exposure Size (\$ in millions)



* General fund represents GOs, leases, and municipal general fund obligations. Excludes states and school districts.

PUBLIC FINANCE: DETROIT

(\$ in millions) Bonds	Net Par as of Bankruptcy Filing	Net Par June 30, 2014	Claims paid as of June 30, 2014	Key Settlement Terms*
Unlimited Tax GO ("UTGO")	\$78	\$69	\$10	<ul style="list-style-type: none"> • Agreed settlement terms in April 2014 • 74% recovery of net par as of the filing • City will pay debt service on reinstated bonds • We will pay claims on unreinstated bonds and insure the reinstated bonds. • Reinstated bonds are further secured by a pledge of state aid
Limited Tax GO ("LTGO")	92	74	21	<ul style="list-style-type: none"> • Agreed settlement terms July 2014 • Two recovery components <ul style="list-style-type: none"> ○ Hard Note: 34% recovery of net par as of the filing <ul style="list-style-type: none"> ▪ City will pay debt service on the Hard Note on an extended amortization schedule ▪ We will pay claims on the LTGOs and receive City's payments on the Hard Note as claim recoveries ○ Potential additional recovery: up to ~19% via our share in the release of litigation reserves established for the COPs litigation
Total	\$170	\$143	\$31	

* Both settlements are subject to overall plan confirmation

PUERTO RICO EXPOSURE & RATINGS SUMMARY

Ambac Puerto Rico Exposure (\$ in millions) as of June 30, 2014:

Single Risk	Gross Par	Net Par**	Gross Principal & Interest	Net Principal & Interest**, ***	Maturity	Credit Class	Rating
General Fund Debt:							
1 PR Commonwealth GO*	\$59.0	\$59.0	\$79.8	\$79.8	2023	IA	BIG
2 PR Public Buildings Authority Revenue - GO Guaranty*	191.2	191.2	313.9	313.9	2035	IA	BIG
Subtotal	<u>250.2</u>	<u>250.2</u>	<u>393.7</u>	<u>393.7</u>			
Revenue Debt:							
3 PR Highway and Transp'n Revenue 1968 Resolution - Highway Rev	27.5	26.5	38.3	37.1	2027	III	BIG
4 PR Highway and Transp'n Revenue 1998 Resolution - Senior Transp'n Rev	732.3	706.0	1,486.8	1,432.9	2045	III	BIG
5 PR Infrastructure Financing Special Tax Revenue (Rum Tax)*	573.9	560.7	1,193.5	1,166.1	2044	II	BIG
6 Convention Center (Hotel Occupancy Tax)	137.1	137.1	219.3	219.3	2031	II	BIG
7 Sales Tax Rev (COFINA)*	808.5	804.7	7,355.4	7,321.3	2054	IA	BIG
Subtotal	<u>2,279.3</u>	<u>2,235.0</u>	<u>10,293.3</u>	<u>10,176.7</u>			
Grand total	<u>\$2,529.5</u>	<u>\$2,485.2</u>	<u>\$10,687.0</u>	<u>\$10,570.4</u>			

* Specifically excluded from The Puerto Rico Public Corporations Debt Enforcement and Recovery Act

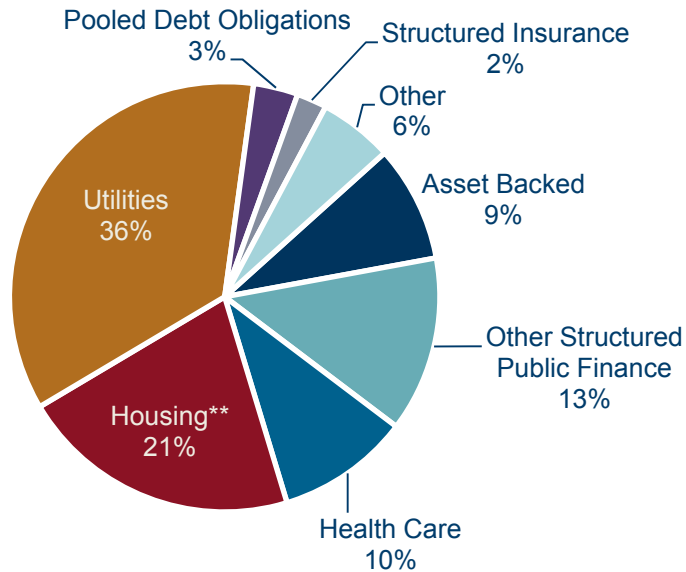
** Net Par and Net Principal & Interest are net of reinsurance

*** On of July 1, 2014 Net Principal & Interest decreased by \$86.6 million due to regularly scheduled debt service

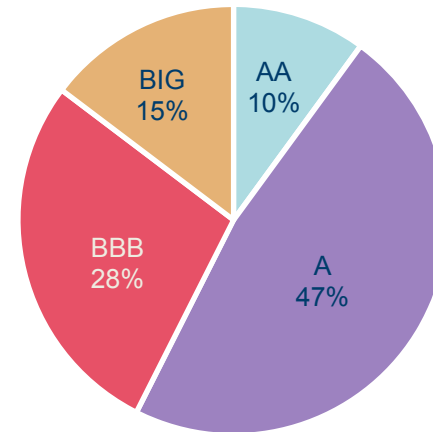
AAC STRUCTURED AND CORPORATE PORTFOLIO*

June 30, 2014
\$35 billion Net Par

By Exposure Type



By Ambac Rating



* Excludes RMBS, Student Loans and General Municipal

** Includes \$6.1 billion Military Housing

MILITARY HOUSING

▶ Ambac insures \$6.1 billion of privatized military housing debt

- Diverse exposure to 58 US military bases across 15 states
- Two credits are adversely classified
- Exposures are long-dated, with most maturing after 2040

▶ Debt service is not directly paid or guaranteed by the U.S. Government

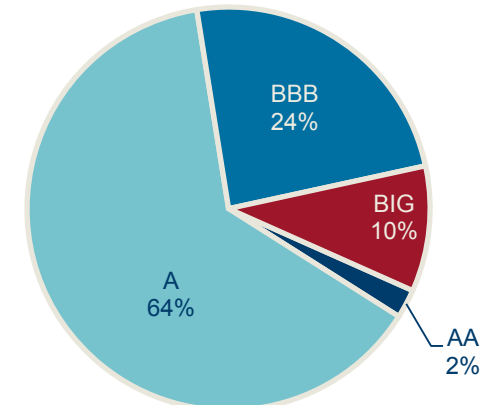
- Serviced from rental payments via US Government funding of individual's Basic Allowance for Housing (BAH)
- BAH flows directly into transaction accounts, not through the individuals
- Primary security is the assignment of BAH payments

▶ Risk factors affecting these transactions include

- Large scale domestic military cutbacks
- Base essentiality and risk of base closures
- Military deployments
- U.S. government commitment to fund BAH

Military Housing

**\$6.1 billion Net Par
By Ambac Rating**



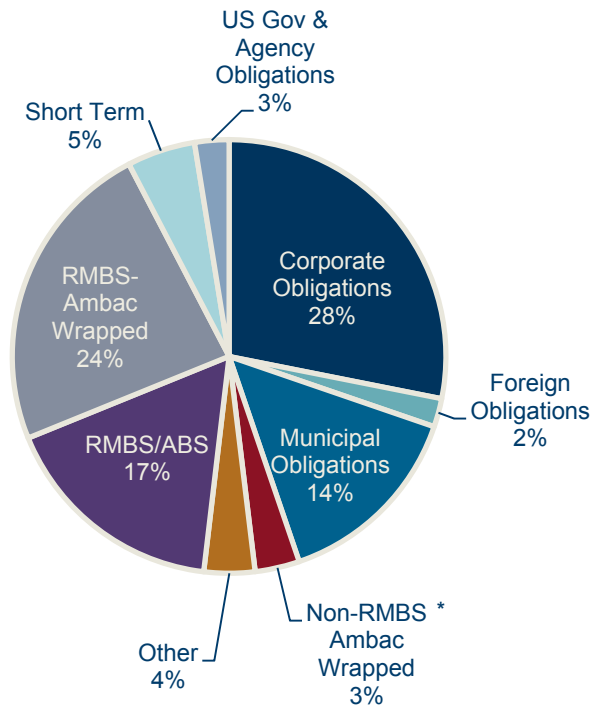
INVESTMENT PORTFOLIO

Ambac

CONSOLIDATED INVESTMENT PORTFOLIO FAIR VALUE

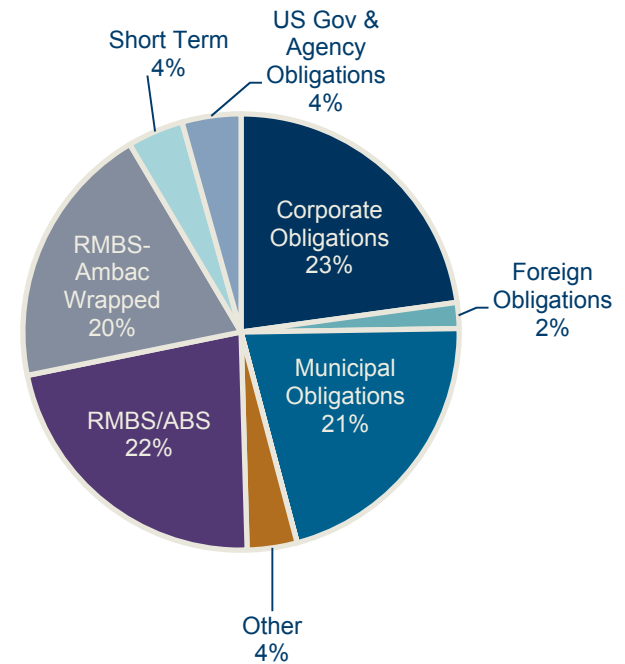
June 30, 2014

\$6.8 billion



December 31, 2013

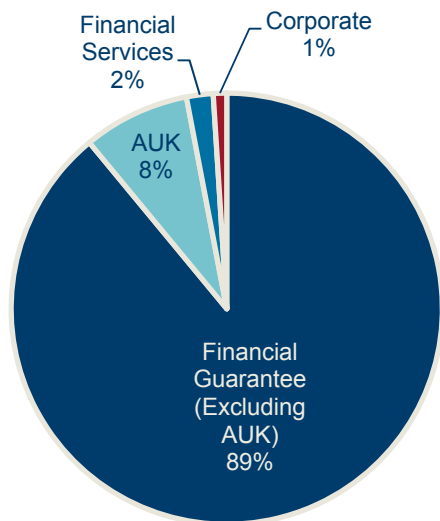
\$6.5 billion



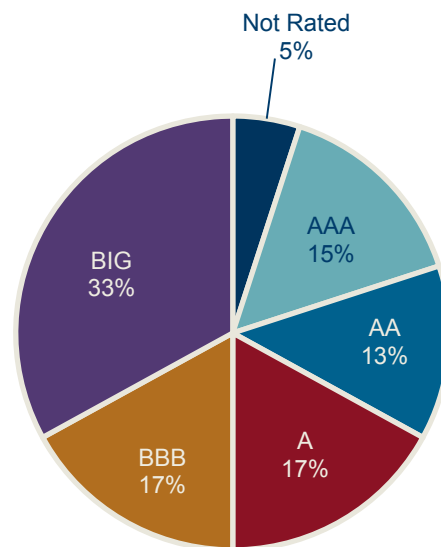
* Non-RMBS Ambac wrapped as part of loss remediation strategy

CONSOLIDATED INVESTMENT PORTFOLIO JUNE 30, 2014

Business Segment



Ratings

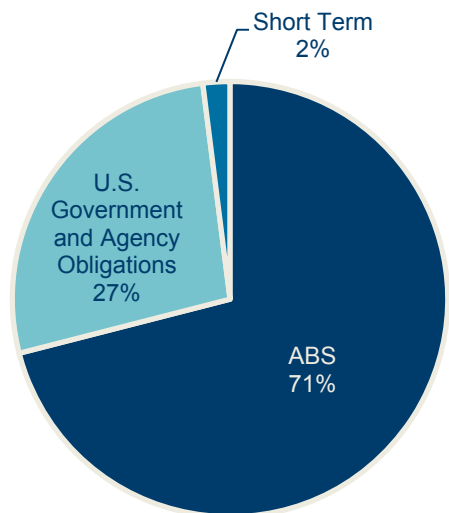


FINANCIAL SERVICES BUSINESS

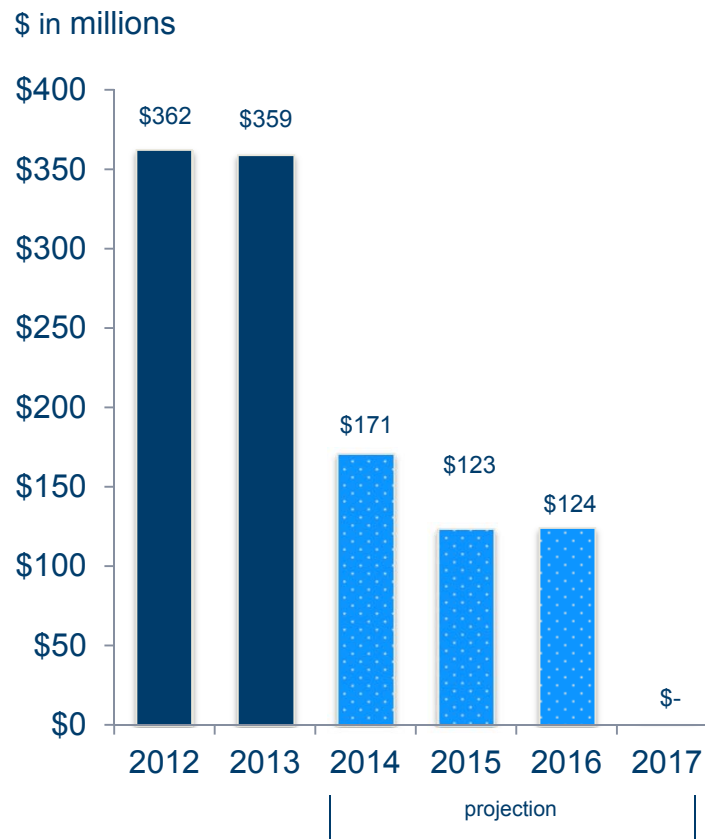
Ambac

INVESTMENT AGREEMENT BUSINESS SUMMARY

Investment Holdings by Sector – \$168 million Fair Value*



Year-end Balance of Liabilities



* As of June 30, 2014

SWAP BUSINESS

(\$ in millions)	Successor Ambac		Predecessor Ambac
	Period from April 1 through June 30, 2014	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013
Notional (at period end)	\$2,440.9	\$2,611.8	\$2,676.9
Interest rate sensitivity (DV01)	0.8	0.8	1.0
Derivative product revenues	(48.0)	83.7	(33.2)
Net fair market value of derivatives at period end	\$(162.9)	\$(128.3)	\$(222.6)

PARALLEL STRATEGIC PRIORITIES

VALUE CREATION INITIATIVES

Ambac

STRATEGY - VALUE CREATION INITIATIVES

Representations & Warranties (R&W)

- ▶ *Enforcement of R&W contractual rights and remedies through litigation and other means*
- ▶ *Strong cases against RMBS sponsors*

Commutations and Restructurings

- ▶ *Key loss mitigation tool*
- ▶ *Tear up exposures*
- ▶ *Balance return, risk and liquidity management*

Insured Buybacks

- ▶ *Disciplined buyback of distressed Ambac insured securities*
- ▶ *Enhance risk-adjusted returns*

Servicer Intervention

- ▶ *Transfer to special servicers*
- ▶ *Work with existing servicers*
- ▶ *Reduces defaults and loss severities*

RMBS R&W ENFORCEMENT AND LITIGATION

- ▶ **Seek to make sponsors live up to their obligations to repurchase loans**
- ▶ **Through repurchase demands, negotiation, and/or litigation**
- ▶ **Five active litigations for breach of contract and/or fraud**
 - Seek recovery of policy claims, interest, and costs
- ▶ **Benefits recognized since 2009 of approximately \$360 million**
 - Repurchase of loans from transactions
 - Direct payments to resolve disputes
 - Already reflected in financial statements
 - Includes \$95 million received in 2Q 2014, of which \$90 million was previously reflected in R&W subrogation
- ▶ **\$2.3 billion GAAP estimated subrogation recoverable**
 - Includes \$123 million increase in 2Q 2014 from change in estimation approach

COMMUTATIONS AND RESTRUCTURINGS

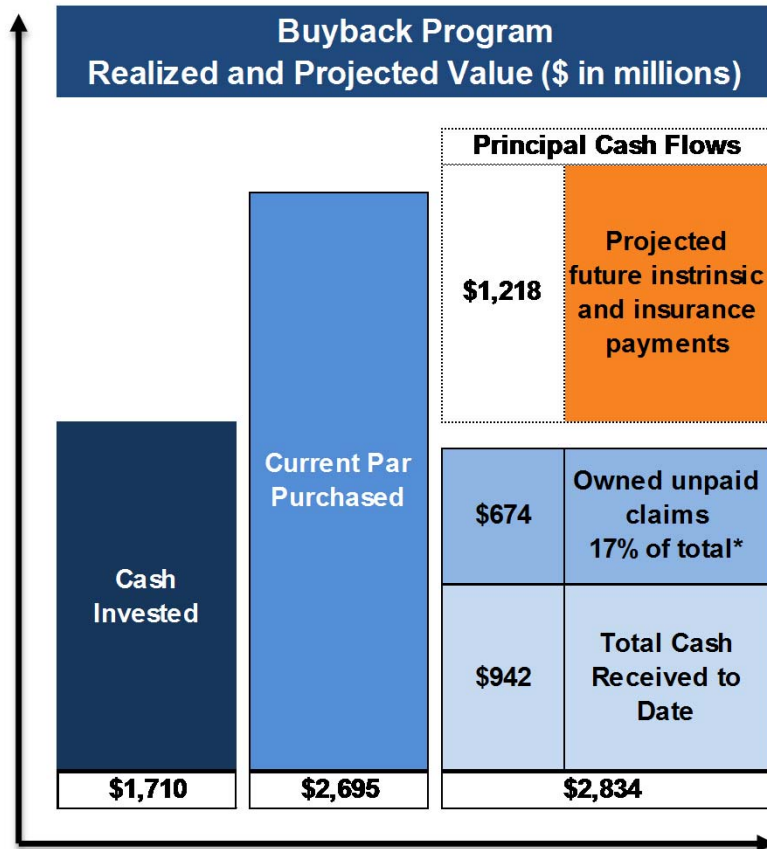
	Explanation	Key methods used
Commutation	<ul style="list-style-type: none">▶ Defeasance or settlement of future projected claims▶ Tearing up policies at a discount	<ul style="list-style-type: none">▶ Upfront payment in exchange for removing underlying policy from insured securities▶ Upfront payment to purchase the right to all future claims on insured securities
Restructuring	<ul style="list-style-type: none">▶ Active use of creditor rights to mitigate potential losses on insured securities	<ul style="list-style-type: none">▶ Enforcing controlling creditor rights in covenant breach or default situations to achieve improved outcomes▶ Restructuring of liabilities (with or without removing the policy) of distressed issuers – may also include an investment by Ambac

STUDENT LOAN PORTFOLIO REDUCTION

**\$10.8 billion Gross Par Reduction
1Q 2010 – 2Q 2014**



INSURED RMBS BUYBACKS

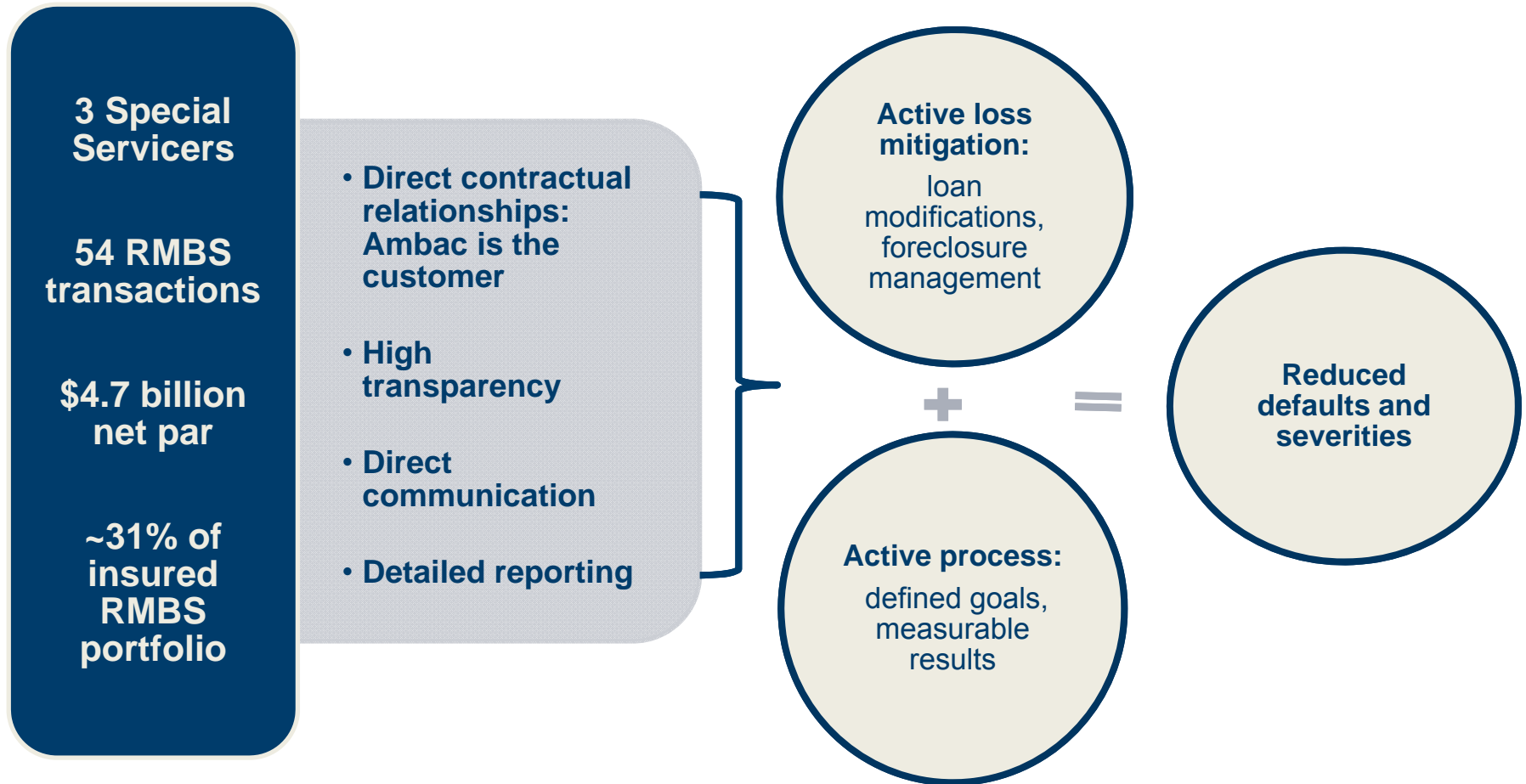


- ▶ **Key element of asset liability management strategy**
 - \$1.6 billion total fair value*
 - 24% of investment portfolio*
- ▶ **Ambac maintains pricing and execution discipline**
- ▶ **Execute at accretive prices under a range of expected claim payout scenarios**
 - Invested \$136 million cash in insured RMBS buybacks during 2Q 2014

* As of June 30, 2014

SPECIAL SERVICING

► Improving collateral performance at the loan level



LEGACY SERVICERS AND TRANSFERS

▶ Legacy servicers

- Where necessary, enforce our rights to inspect and to receive information
- Data driven analysis of performance
- Communicate and reinforce best practices

▶ Servicing transfers

- Actively seek opportunities for transfer
- Effect transfer by active enforcement of Ambac's rights and remedies
- Negotiate voluntary agreements where possible
- 3 deals transferred in 2Q 2014

▶ Servicing oversight

- Regular data and information delivery
- Frequent review of servicer plans and actions, including on-site review
- Performance measurements and goals

PARALLEL STRATEGIC PRIORITIES

GROWTH AND DIVERSIFICATION INITIATIVES

Ambac

GROWTH AND DIVERSIFICATION INITIATIVES



FINANCIAL OVERVIEW

Ambac

INCOME STATEMENT HIGHLIGHTS

(\$ in millions, except per share data)	Successor Ambac		Predecessor Ambac
	Period from April 1 through June 30, 2014	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013
Net premiums earned	\$65.0	\$58.0	\$29.7
Net investment income	80.1	26.2	32.2
Net realized investment (losses) gains and OTTI	(5.7)	16.5	6.8
Net change in the fair value of credit derivatives	(1.2)	51.2	(73.2)
Derivative products	(48.0)	83.7	(33.2)
(Loss) income on variable interest entities	(38.1)	4.6	388.2
Losses and loss expenses (benefit)**	175.3	(26.1)	13.1
Insurance intangible amortization	36.3	25.0	-
Underwriting and operating expenses	24.0	16.2	10.7
Interest expense	32.0	21.1	7.9
Reorganization, including Fresh Start items	0.2	0.4	(2,747.2)
Net income (loss) (attributable to common shareholders)**	\$(207.9)	\$205.7	\$3,066.8
Net income (loss) per diluted share	\$(4.61)	\$4.42	\$10.14
Operating Earnings (Losses)*,**	\$(113.3)	\$203.1	\$(2.1)
Operating Earnings (Losses) per diluted share	\$(2.51)	\$4.36	\$(0.01)

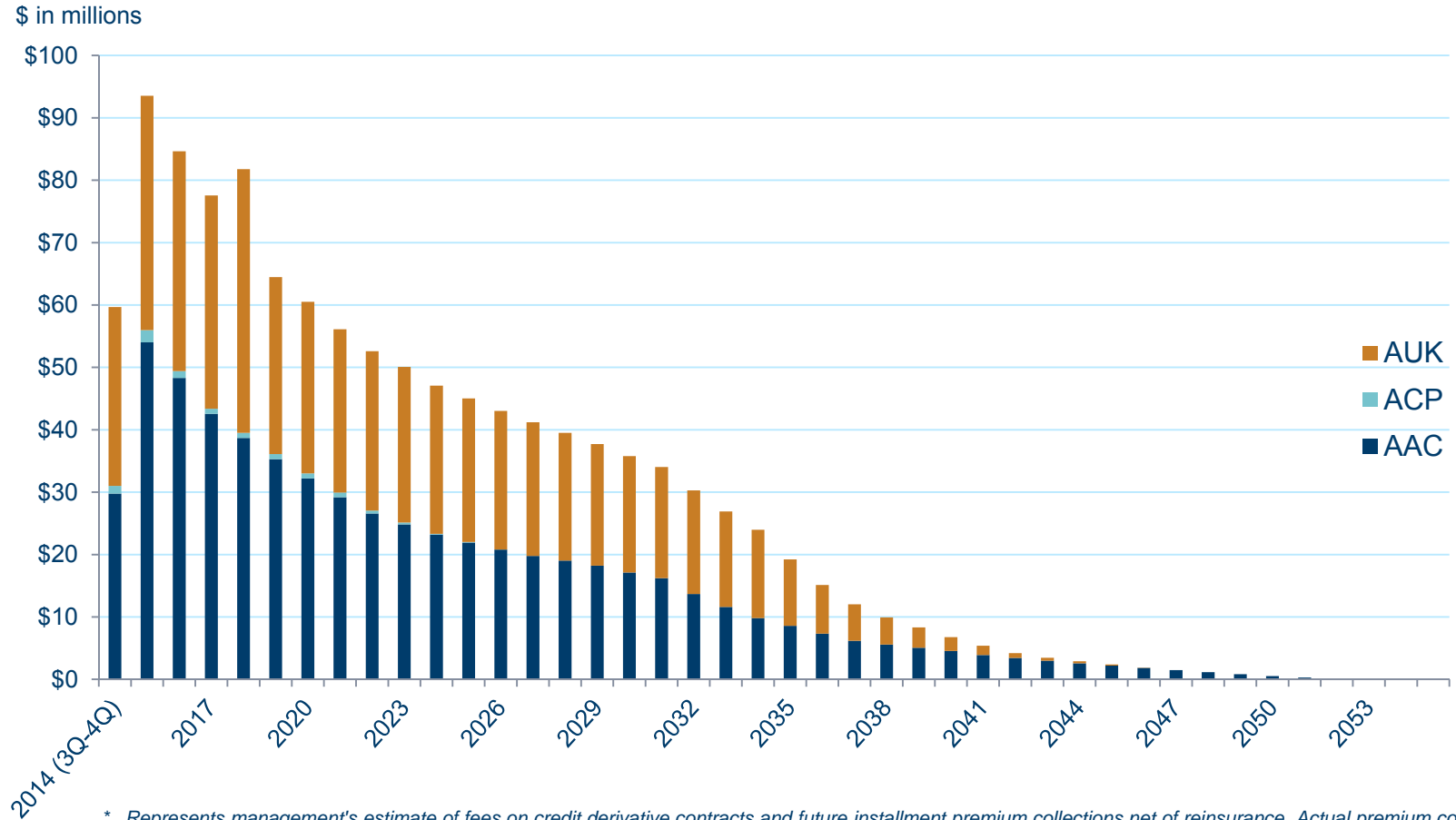
* Operating Earnings (Losses) is a non-GAAP measure. Refer to Appendix for a reconciliation of the most directly comparable financial measures calculated in accordance with GAAP

** Included in 2Q 2014 was \$308.1 million pre-tax, or \$303.6 net of tax, interest accrued since September 2012 related to unpaid Segregated Account claims

EARNED PREMIUMS

(\$ in millions)	Successor Ambac		Predecessor Ambac
	Period from April 1 through June 30, 2014	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013
Public Finance	\$26.3	\$23.6	\$11.8
Structured Finance	10.9	8.9	4.6
International Finance	19.8	12.5	6.2
Total normal premiums earned	57.0	45.0	22.6
Accelerated Earnings	8.0	13.0	7.1
Total net premiums earned	\$65.0	\$58.0	\$29.7

INSTALLMENT PREMIUM RUNOFF*

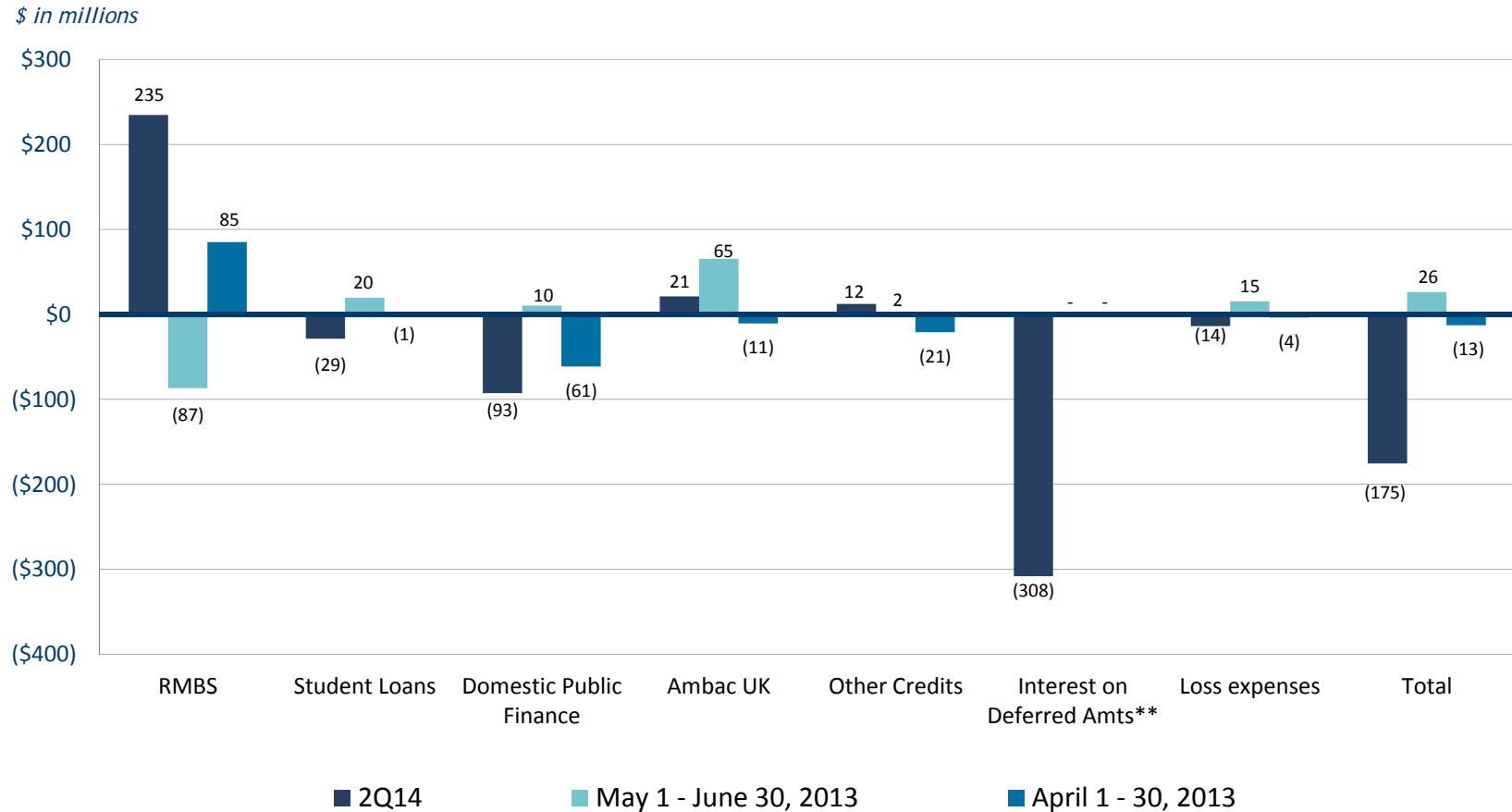


* Represents management's estimate of fees on credit derivative contracts and future installment premium collections net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments exclude amounts eliminated as a result of consolidating variable interest entities.

CREDIT DERIVATIVES

(\$ in millions)	Successor Ambac		Predecessor Ambac
	Period from April 1 through June 30, 2014	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013
Notional at period end	\$2,202.8	\$5,861.1	\$9,977.6
Net change in fair market value of credit derivatives	\$(1.2)	\$51.2	\$(73.2)
<i>Realized gains and other settlements</i>	0.7	6.1	0.9
<i>Unrealized (losses) gains</i>	(1.9)	45.1	(74.1)
Credit impairment on credit derivatives at period end	\$18.7	\$43.7	\$38.7
Net fair value of credit derivative liability at period end	\$(89.7)	\$(232.3)	\$(277.4)

INCURRED (LOSSES) BENEFIT BY CATEGORY*

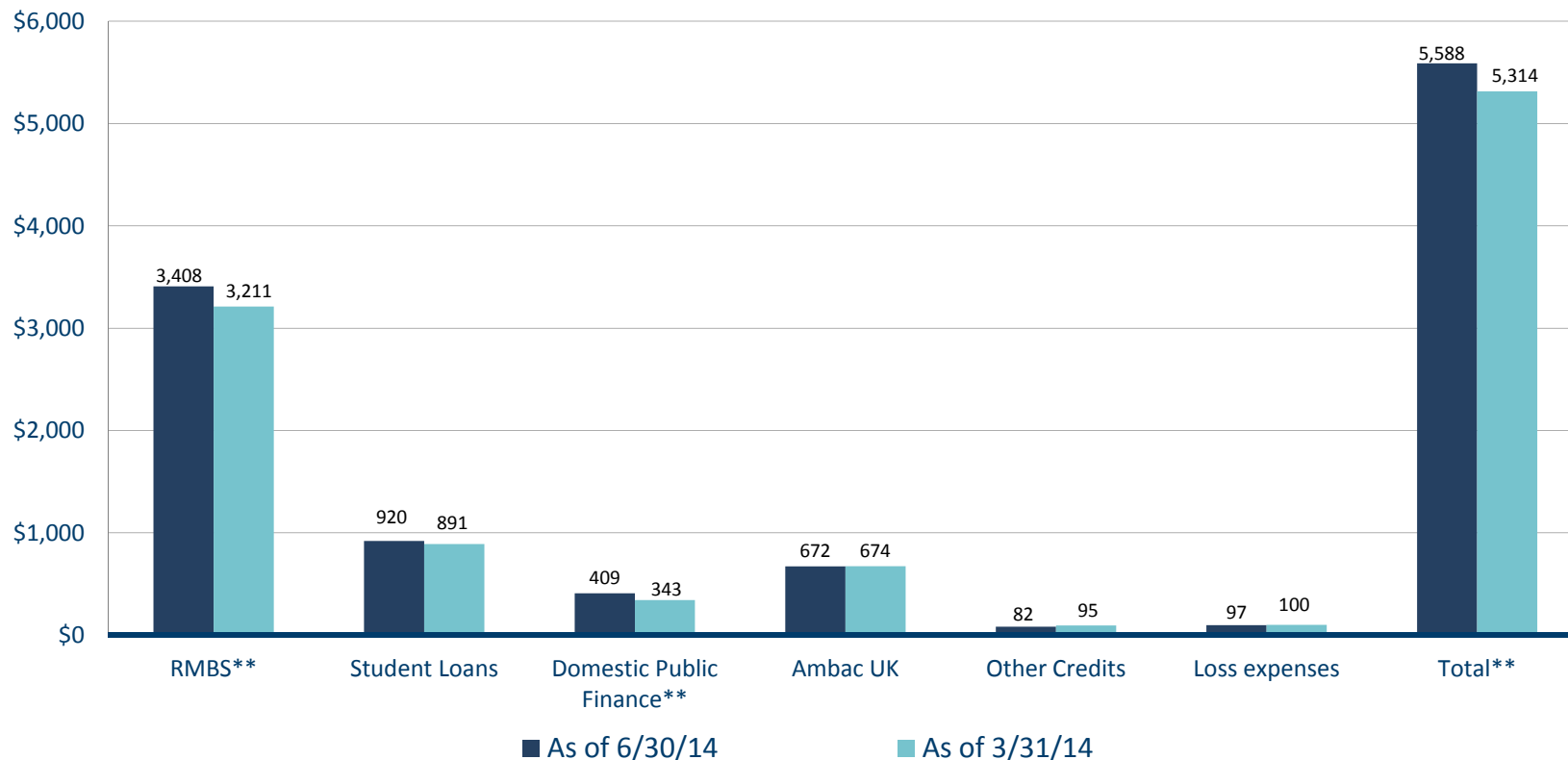


* Components may not add to total due to rounding

** Accrued interest related to payments associated with amendments to the Plan of Rehabilitation of the Segregated Account as follows: \$307.0 million in RMBS; \$1.1 million in Domestic Public Finance; and \$308.1 million in Total

GROSS LOSS RESERVES BY BOND CATEGORY*

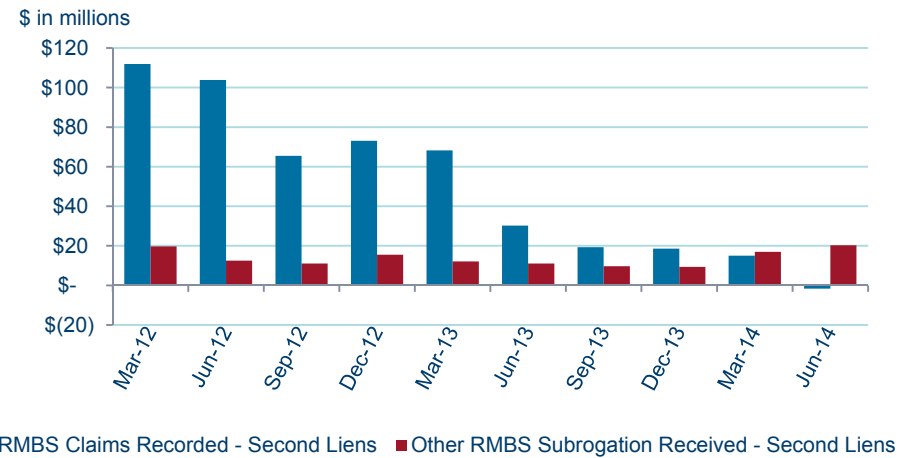
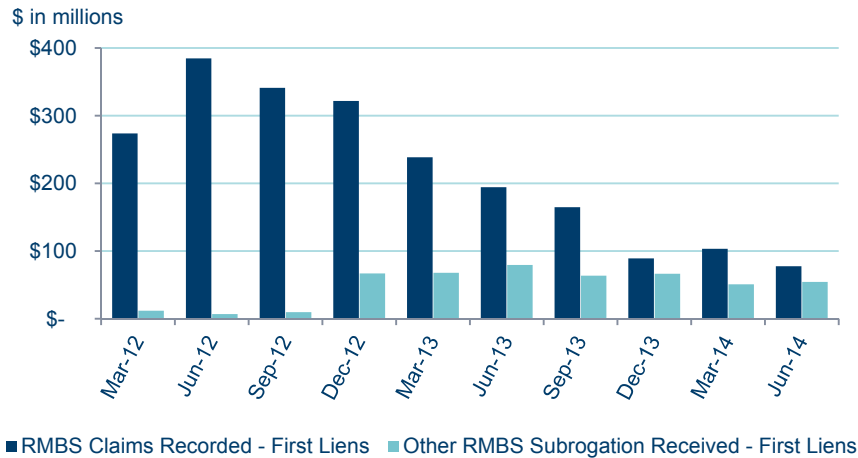
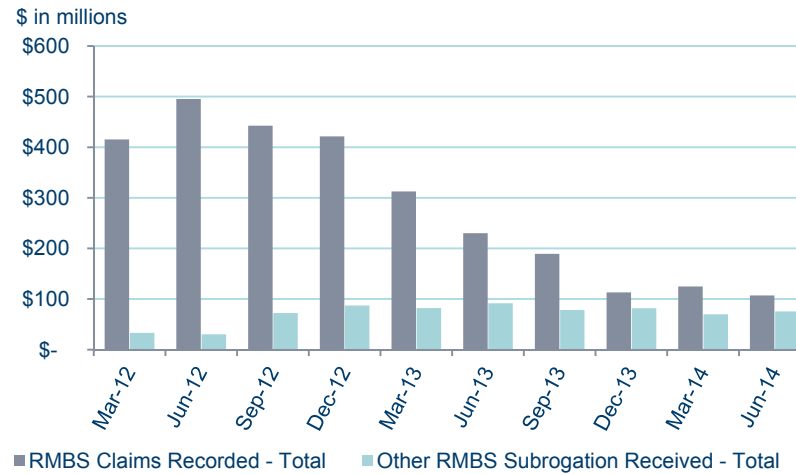
\$ in millions



* Gross loss reserves are net of subrogation and R&W recoveries and include \$4.3 billion and \$4.0 billion of unpaid segregated account policy claims as of June 30, 2014 and March 31, 2014, respectively

** June 30, 2014 unpaid segregated account policy claims include accrued interest related to payments associated with amendments to the Plan of Rehabilitation of the Segregated Account as follows: \$307.0 million in RMBS; \$1.1 million in Domestic Public Finance; and \$308.1 million in Total

CLAIMS RECORDED* BY QUARTER VS. SUBROGATION**

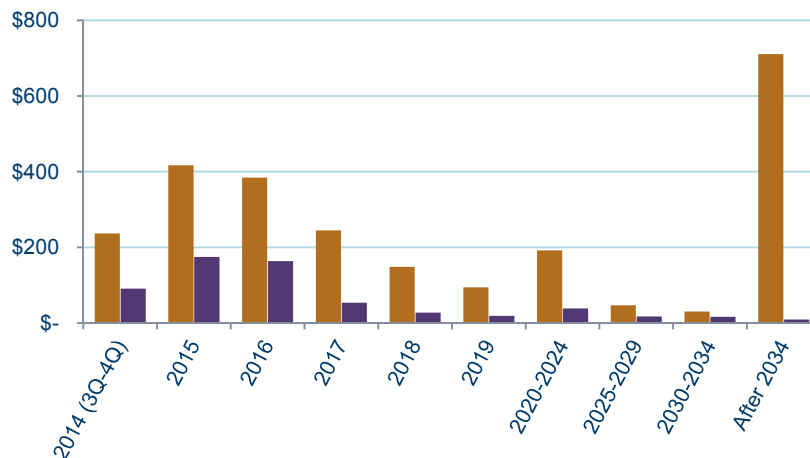


* Claims recorded include (i) claims paid and (ii) changes to claims presented and unrepresented through the balance sheet date for policies which were allocated to the Segregated Account.

** Excess spread, recoveries of past claims paid

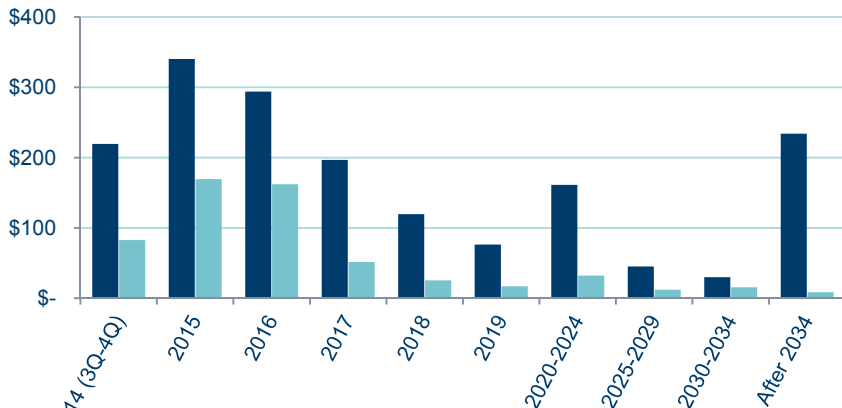
ESTIMATED FUTURE GROSS RMBS CLAIMS PRESENTED VS. SUBROGATION 2014 – AFTER 2034

\$ in millions



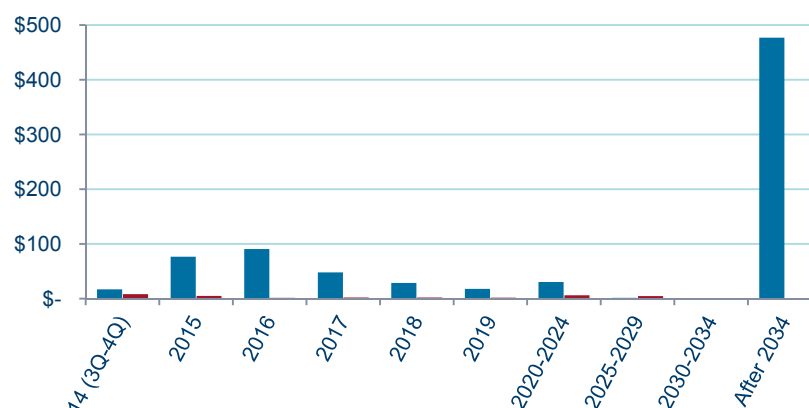
■ Estimated Future Gross RMBS Claims Presented - Total ■ Estimated Future RMBS Subrogation - Total

\$ in millions



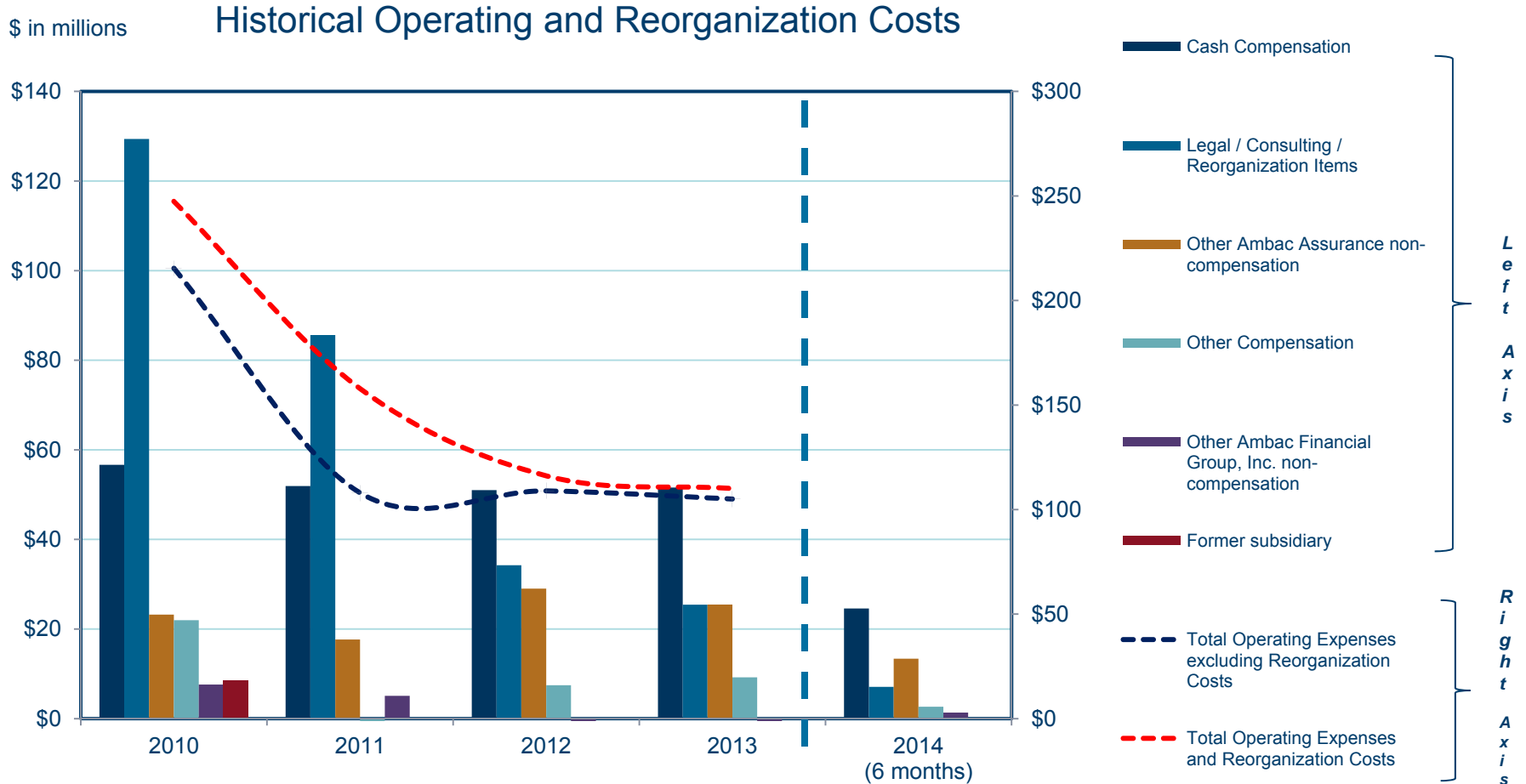
■ Estimated Future Gross RMBS Claims Presented - First Liens ■ Estimated Future RMBS Subrogation - First Liens

\$ in millions



■ Estimated Future Gross RMBS Claims Presented - Second Liens ■ Estimated Future RMBS Subrogation - Second Liens

MANAGING OPERATING EXPENSES



INTEREST EXPENSE

(\$ in millions)	Face Value	Carrying Value		Successor Ambac		Predecessor Ambac
		6/30/14	12/31/13	Period from April 1 through June 30, 2014	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013
<u>Ambac Assurance Corporation</u>						
5.1% surplus notes, general account, due 2020	\$ 1,210.8	\$926.0	\$ 909.2	\$29.5	\$19.4	\$7.0
5.1% surplus notes, segregated account, due 2020	53.0	40.5	39.8	1.2	0.8	0.3
5.1% junior surplus notes, segregated account, due 2020	28.0	14.9	14.2	0.8	0.5	0.2
Ambac Assurance long-term debt	\$ 1,291.8	\$981.4	\$ 963.2	\$31.5	\$20.7	\$7.5
<u>Financial Services</u>						
Investment agreements	\$ 170.1	\$169.6	\$ 359.1	\$0.5	\$0.3	\$0.3
Secured Borrowing	-	-	-	-	0.1	0.1
Total Interest Expense				\$32.0	\$21.1	\$7.9

Note: Ambac Assurance and the Segregated Account have not paid any interest on surplus notes since their issuance.

NET OPERATING LOSS CARRY-FORWARD (NOL)

► NOL as of 6/30/14

NOL Type (\$ in billions)	Total US and UK	Total US Consolidated	AFG	AAC
Ordinary NOL	\$5.7	\$5.4	\$1.4	\$4.0
Capital NOL	\$0.5	\$0.5	-	\$0.5
Post Determination Date (Free) NOL	\$0.3	\$0.3	-	\$0.3

► NOL Tolling

- AAC NOL includes \$346 million Free NOLs available before tolling applies*
- After using Free NOLs, AAC will pay AFG for usage of up to \$3.65 billion of NOLs
- Total potential amount of gross tolling payments \$236 million
 - Net of \$15 million bankruptcy-related credit
 - Net of \$14 million IRS settlement of 12.5% of Tier C and 17.5% of Tier D

NOL Usage Tier	Allocated AAC NOL Amount	Applicable Percentage
A	The first \$0.479 billion	15%
B	The next \$1.057 billion after NOL Usage Tier A	40%
C	The next \$1.057 billion after NOL Usage Tier B	10%
D	The next \$1.057 billion after NOL Usage Tier C	15%

* Subject to change based on future taxable income / losses at AAC and subsidiaries.

CONCLUSION

Ambac

CONCLUSION

▶ **Parallel strategic priorities to create long-term shareholder value**

- Value creation initiatives for existing operations
 - Representations and Warranties
 - Commutations and Restructurings
 - Insured Buybacks
 - Servicer Intervention
- Growth and diversification initiatives
 - Acquisitions
 - Development Opportunities

▶ **Continue progress in 2014 and beyond**

APPENDIX

Ambac

OPERATING EARNINGS (LOSSES)*

(\$ in millions, except per share data)	Successor Ambac				Predecessor Ambac	
	Period from April 1 through June 30, 2014		Period from May 1 through June 30, 2013		Period from April 1 through April 30, 2013	
	\$ Amount	Per Diluted Share	\$ Amount	Per Diluted Share	\$ Amount	Per Diluted Share
Net income (loss) attributable to common shareholders**	\$(207.9)	\$(4.61)	\$205.7	\$4.41	\$3,066.8	\$10.13
Adjustments:						
Non-credit impairment fair value (gain) loss on credit derivatives	2.3	0.05	(50.1)	(1.08)	77.5	0.26
Effect of consolidating financial guarantee VIEs	52.9	1.17	(15.3)	(0.33)	(386.6)	(1.28)
Insurance intangible amortization	36.3	0.80	25.0	0.54	-	-
Foreign exchange (gain) loss from re-measured premium receivables and loss and loss expense reserves	(6.8)	(0.14)	7.3	0.16	(6.7)	(0.02)
Fair value (gain) loss on derivatives from AMBAC CVA	9.9	0.22	30.5	0.65	(3.4)	(0.01)
Fresh Start accounting adjustments	-	-	-	-	(2,749.7)	(9.09)
Operating Earnings (Losses)	\$(113.3)	\$(2.51)	\$203.1	\$4.36	\$(2.1)	(0.01)

* Non-GAAP Financial Measures. See disclosure in Ambac's June 30, 2014 Form 10-Q

** For 2Q 2014, includes \$308.1 million pre-tax, or \$303.6 million net of tax, accrued interest related to payments associated with amendments to the Plan of Rehabilitation of the Segregated Account

ADJUSTED BOOK VALUE*

(\$ in millions, except per share data)	Successor Ambac – June 30, 2014	Successor Ambac – December 31, 2013
Total Ambac Financial Group, Inc. stockholders' equity	\$948.1	\$703.0
Adjustments:		
Non-credit impairment fair value losses on credit derivatives	70.9	72.8
Effect of consolidating financial guarantee VIEs	(324.6)	(372.7)
Insurance intangible asset and goodwill	(2,063.9)	(2,112.5)
Ambac CVA on derivative product liabilities (excluding credit derivatives)	(43.9)	(48.4)
Net unearned premiums in excess of expected losses	1,293.9	1,435.2
Net unrealized investment (gains) losses in AOCI	(232.0)	41.9
Adjusted Book Value	\$(351.5)	\$(280.7)
Adjusted Book Value per share	\$(7.81)	\$(6.24)

* Non-GAAP Financial Measures. See disclosure in Ambac's June 30, 2014 Form 10-Q.

GAAP FINANCIAL OVERVIEW – BALANCE SHEET

(\$ in millions)	As of June 30, 2014	As of December 31, 2013
Investments	\$6,766	\$ 6,523
Premium receivables	1,356	1,453
Reinsurance recoverable on losses	109	121
Deferred ceded premium	134	146
Subrogation recoverable	484	498
Derivative assets	90	78
Insurance intangible asset and goodwill	2,064	2,112
VIE assets	16,444	15,989
Other assets	276	172
Total assets	\$27,723	\$ 27,092
Loss and loss expense reserves	\$6,072	\$ 5,969
Unearned premium reserves	2,070	2,256
Long-term debt and investment agreements	1,151	1,322
Derivative liabilities	342	254
VIE liabilities	16,381	15,873
Other liabilities	483	440
Total liabilities	\$26,499	\$ 26,114
Total stockholder's equity	\$1,224	\$ 978
Total liabilities and stockholders' equity	\$27,723	\$ 27,092

CHANGES TO AMBAC ASSURANCE STATUTORY CAPITAL*

Increase (Decrease) (\$ in millions)	2Q 2014 Income Statement	2Q 2014 Changes in Surplus
Beginning surplus to policyholders		\$ 1,008
Net premiums earned	\$ 47	
Investment income	103	
Underwriting expenses	(19)	
Insurance losses and loss expenses	(236)	
Intercompany loans and guarantees of subsidiary liabilities	(32)	
Net realized gains and other income	39	
Net income		(98)
Contingency reserves contribution		(21)
Non-income statement changes to AAC investments		57
Ending surplus to policyholders		\$ 946

* Reflects combined surplus of both the General Account and the Segregated Account

GAAP VS. STATUTORY ACCOUNTING DIFFERENCES

	US GAAP Basis	US Statutory
Invested Assets	<ul style="list-style-type: none"> ▶ Investments carried at fair value ▶ Consolidation of subsidiaries and VIEs 	<ul style="list-style-type: none"> ▶ Investments carried primarily at book value ▶ Subsidiaries carried under equity method of accounting, if audited ▶ Loans to affiliates carried at current value, net of impairments ▶ VIEs are not a Statutory concept
Surplus Notes	<ul style="list-style-type: none"> ▶ Reported as long-term debt ▶ Carried at par less unamortized discount (set to fair value at Fresh Start Date) 	<ul style="list-style-type: none"> ▶ Reported as surplus ▶ Carried at par value per an OCI prescribed practice
Surplus Note Interest	<ul style="list-style-type: none"> ▶ Accrual basis 	<ul style="list-style-type: none"> ▶ Interest accrued only upon OCI's approval to pay
Credit Derivatives	<ul style="list-style-type: none"> ▶ Carried at fair value 	<ul style="list-style-type: none"> ▶ Liability recorded when expected losses for such contracts exceed financial resources of the subsidiary
Premium Receivables	<ul style="list-style-type: none"> ▶ Present value of future contractual premiums due over the life of the policy, discounted at the risk-free rate ▶ RMBS uses future expected premiums due 	<ul style="list-style-type: none"> ▶ Established only for installment premiums related to the period covered through the reporting date
Premium Earnings	<ul style="list-style-type: none"> ▶ Recognized based on a constant rate derived by daily principal exposure outstanding 	<ul style="list-style-type: none"> ▶ On upfront paying policies, recognized based on expiration of debt service of insured exposure ▶ On installment paying policies, recognized in income pro-rata over the installment period covered

GAAP VS. STATUTORY ACCOUNTING

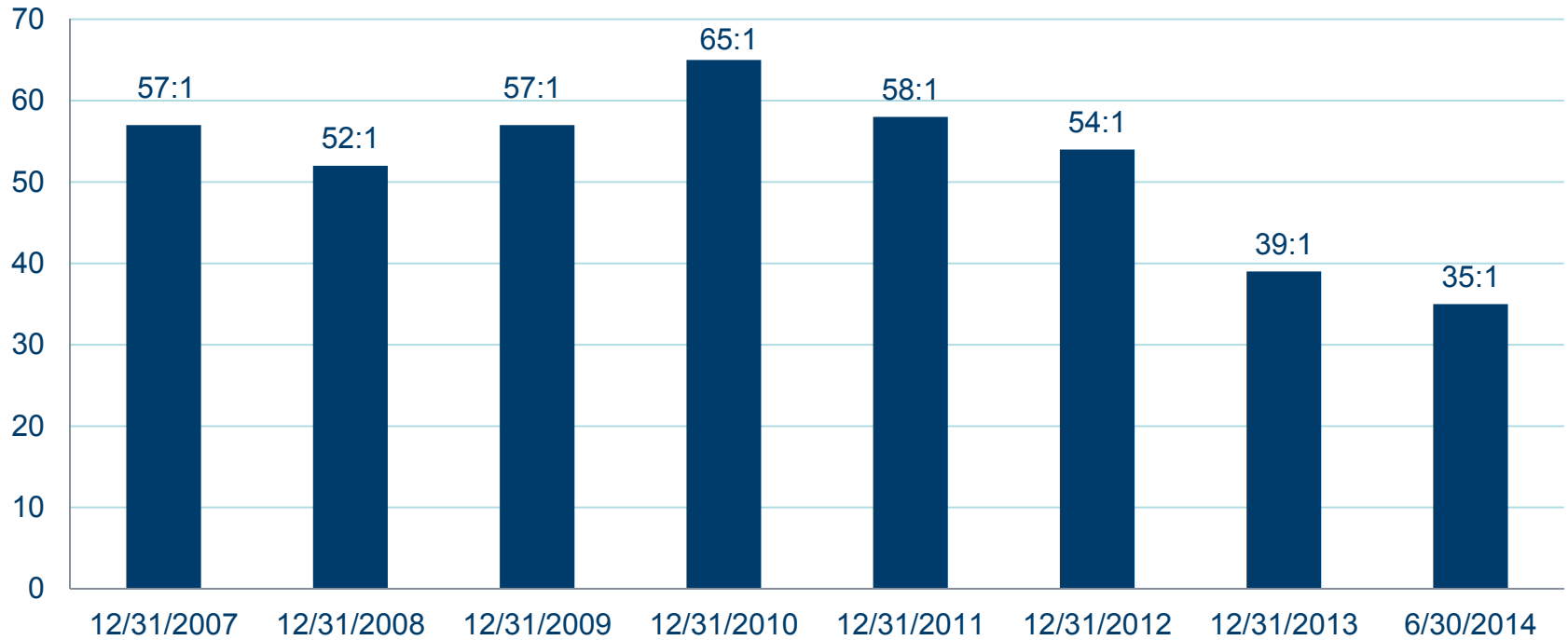
COMPARISON OF LOSS RESERVING METHODOLOGIES

	US GAAP Basis	US Statutory
Timing of Recognition of Loss Reserves	<ul style="list-style-type: none"> ▶ When expected losses exceed related unearned premium reserves 	<ul style="list-style-type: none"> ▶ Case Basis Reserves – upon failure of issuer to pay scheduled principal or interest ▶ Contingency Reserves – for non-defaulted general account policies (can release with OCI approval)
Measurement of Loss Reserves	<ul style="list-style-type: none"> ▶ Present value of probability weighted expected losses and subrogation recoverable, less related unearned premium reserves 	<ul style="list-style-type: none"> ▶ Present value of best estimate of expected losses and subrogation recoverable
Discount Rate	<ul style="list-style-type: none"> ▶ Risk free rate of return 	<ul style="list-style-type: none"> ▶ Rate of return on invested assets (determined annually) subject to OCI prescribed practices (currently at 5.1%)
Credit Derivative and other subsidiary Impairments	<ul style="list-style-type: none"> ▶ N/A – record mark-to-market gains or losses 	<ul style="list-style-type: none"> ▶ When expected losses from such contracts exceed the financial resources of the subsidiary ▶ Measured as the present value of best estimate of expected losses, discounted at the discount rate above, less the financial resources of the subsidiary
Balance Sheet Presentation	<ul style="list-style-type: none"> ▶ Balance Sheet grossed up for assets (policy level net recoveries) and liabilities (policy level net outflows) ▶ Reinsurance recoverables/payables reported separately ▶ Inclusive of loss expenses 	<ul style="list-style-type: none"> ▶ Reserves reported as a net liability reduced for remediation and reinsurance ▶ Loss expenses reported separately

OPERATING LEVERAGE

► Deleveraging of book

Claims Paying Ratio



RISK ADVERSE CREDIT CLASSIFICATIONS*

Classification	Description
CLASS I	▶ Fully Performing – Meets Ambac Criteria with Remote Probability of Claim
SURVEY LIST	▶ Investigation of Specific Condition or Weakness Underway
CLASS IA	▶ Potential Problem with Risks to be Dimensioned
CLASS II	▶ Substandard Requiring Intervention
CLASS III	▶ Doubtful with Clear Potential for Loss
CLASS IV	▶ Imminent Default or Defaulted
CLASS V	▶ Fully Reserved

* See Ambac's 2013 Form 10-K page 125 for further description of risk classifications

The logo for Ambac, featuring the word "Ambac" in a bold, italicized, blue sans-serif font. A thin horizontal line is positioned directly beneath the text. The background consists of a white field with large, abstract geometric shapes in shades of light blue and dark blue.