



## INVESTOR PRESENTATION

FOURTH QUARTER 2014

## AMBAC TODAY

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- ▶ **Global provider of financial guarantees and other financial services**
- ▶ **Pursuing opportunities to enhance long-term shareholder value**
  - Maximize value of existing financial guarantee operations through active Asset-Liability Management
  - Profitably grow and diversify through development and/or acquisition of select new business opportunities that leverage our key competencies and resources

▶  **~\$1 billion market cap**

# STRATEGIC PRIORITIES

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## Asset-Liability Management

- ▶ Successful Rehabilitation of the Segregated Account
- ▶ Representation and Warranty Recoveries
- ▶ Commutations
- ▶ Insured Buybacks
- ▶ Servicer Intervention

## Growth and Diversification Initiatives

- ▶ Development Opportunities
- ▶ Acquisitions

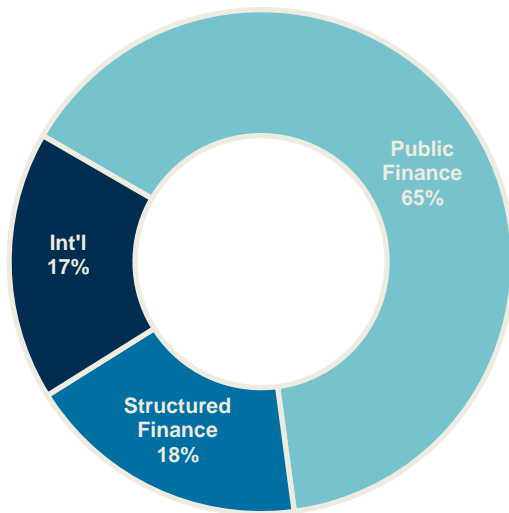
## 2014 HIGHLIGHTS

Category	Highlights
<b>2014 Financial results</b>	<ul style="list-style-type: none"> <li>▶ Net Income of \$484.1 million, or \$10.31 per Diluted Share</li> <li>▶ Operating Earnings of \$682.6 million, or \$14.54 per Diluted Share</li> <li>▶ December 31, 2014 Adjusted Book Value \$337.4 million, or \$7.50 per Share</li> </ul>
<b>Representations &amp; Warranties (R&amp;W)</b>	<ul style="list-style-type: none"> <li>▶ Estimated R&amp;W subrogation recoveries \$2.5 billion, up \$300 million from year-end last year</li> <li>▶ Value recognized of &gt; \$212 million, for a total of \$446 million ever-to-date</li> </ul>
<b>Insured buybacks and commutations</b>	<ul style="list-style-type: none"> <li>▶ Purchased &gt; \$435 million distressed Ambac insured residential mortgage backed (RMBS) securities; own 20% of Deferred Amounts</li> <li>▶ Commuted \$43 million and \$5 million of LVM and LIM bonds, respectively</li> </ul>
<b>Special servicing</b>	<ul style="list-style-type: none"> <li>▶ Transferred servicing on additional RMBS transactions bringing net RMBS insured par serviced by special servicers to 33%</li> </ul>
<b>Insured portfolio</b>	<ul style="list-style-type: none"> <li>▶ Gross loss reserves declined to \$3.8 billion from \$5.5 billion, -31%</li> <li>▶ Net par decreased from \$179 billion to \$145 billion; adversely classified credits -19%</li> <li>▶ Proactively managing exposures; resolved key credits across the portfolio including Detroit, Stockton, Hercules, Capmark and Adelanto</li> </ul>
<b>Rehabilitation of Segregated Account</b>	<ul style="list-style-type: none"> <li>▶ Successfully coordinated 2014 Rehabilitation Plan changes, including increased pay-out ratio and \$1.5 billion of redemption and equalizing payments</li> </ul>
<b>Private placement</b>	<ul style="list-style-type: none"> <li>▶ Monetized a significant portion of Junior Surplus Note, enhancing flexibility at AFG</li> </ul>

# AMBAC OVERVIEW DECEMBER 31, 2014

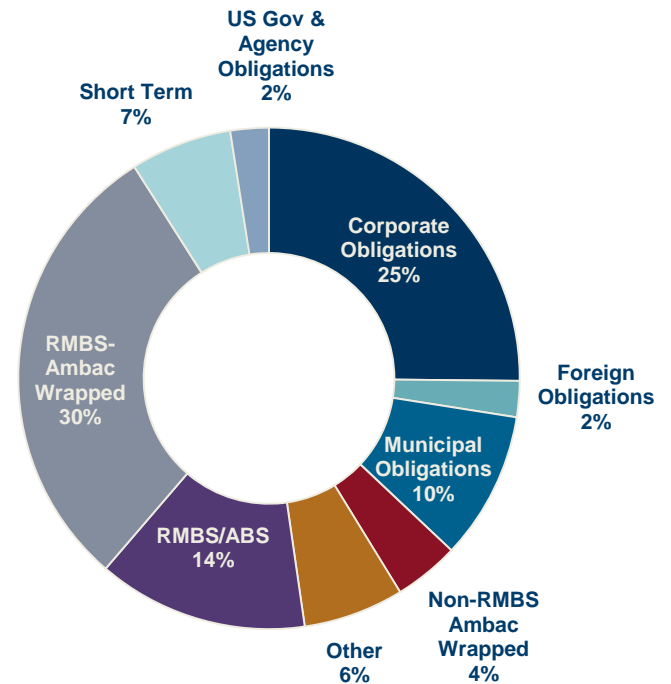
## Insured Portfolio

**\$144.7 billion  
Net Par<sup>(1)</sup>**



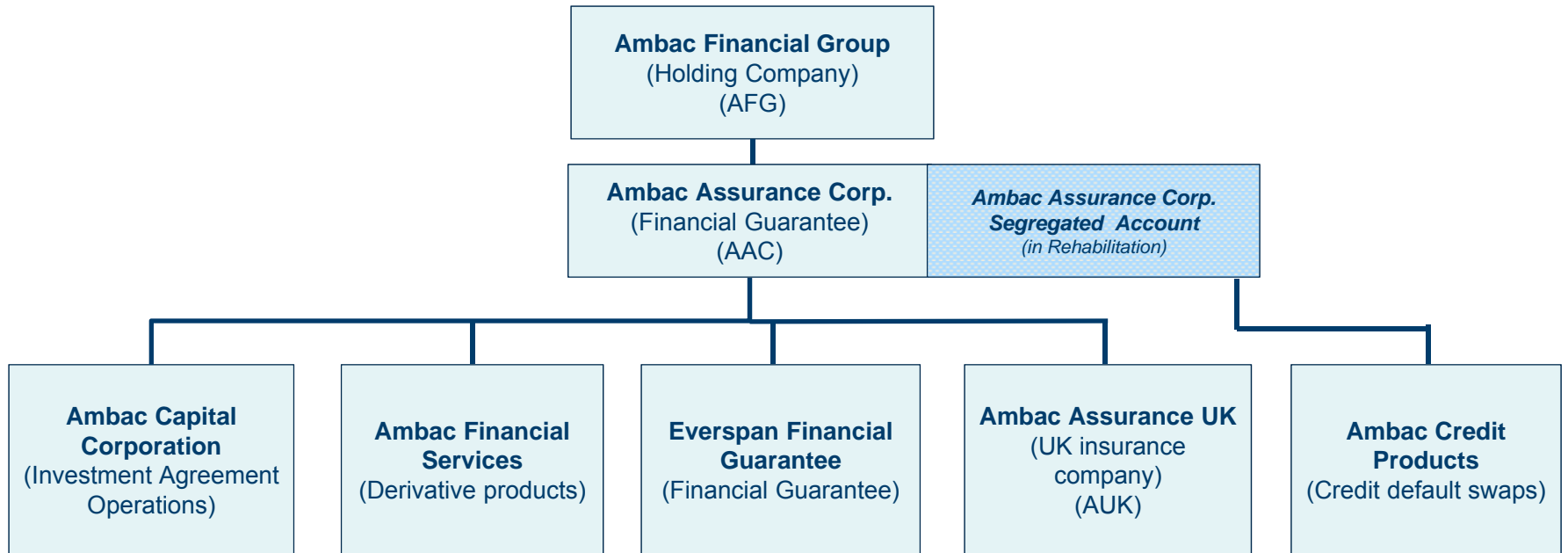
## Investment Portfolio

**\$5.5 billion  
Fair Value**

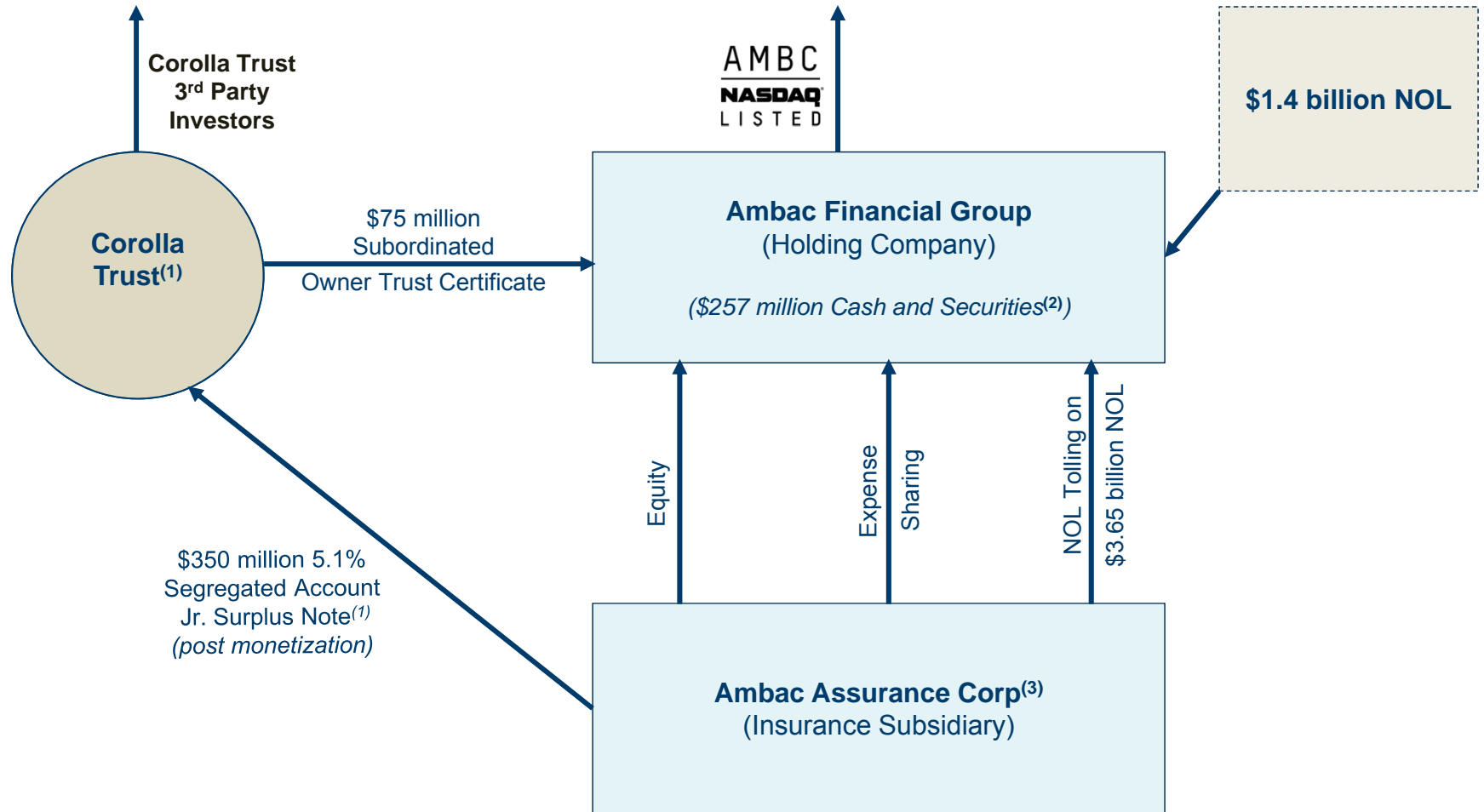


1) Par throughout this presentation includes capital appreciation bonds ("CABs") which are reported at the par amount at the time of issuance of the insurance policy

# CORPORATE STRUCTURE

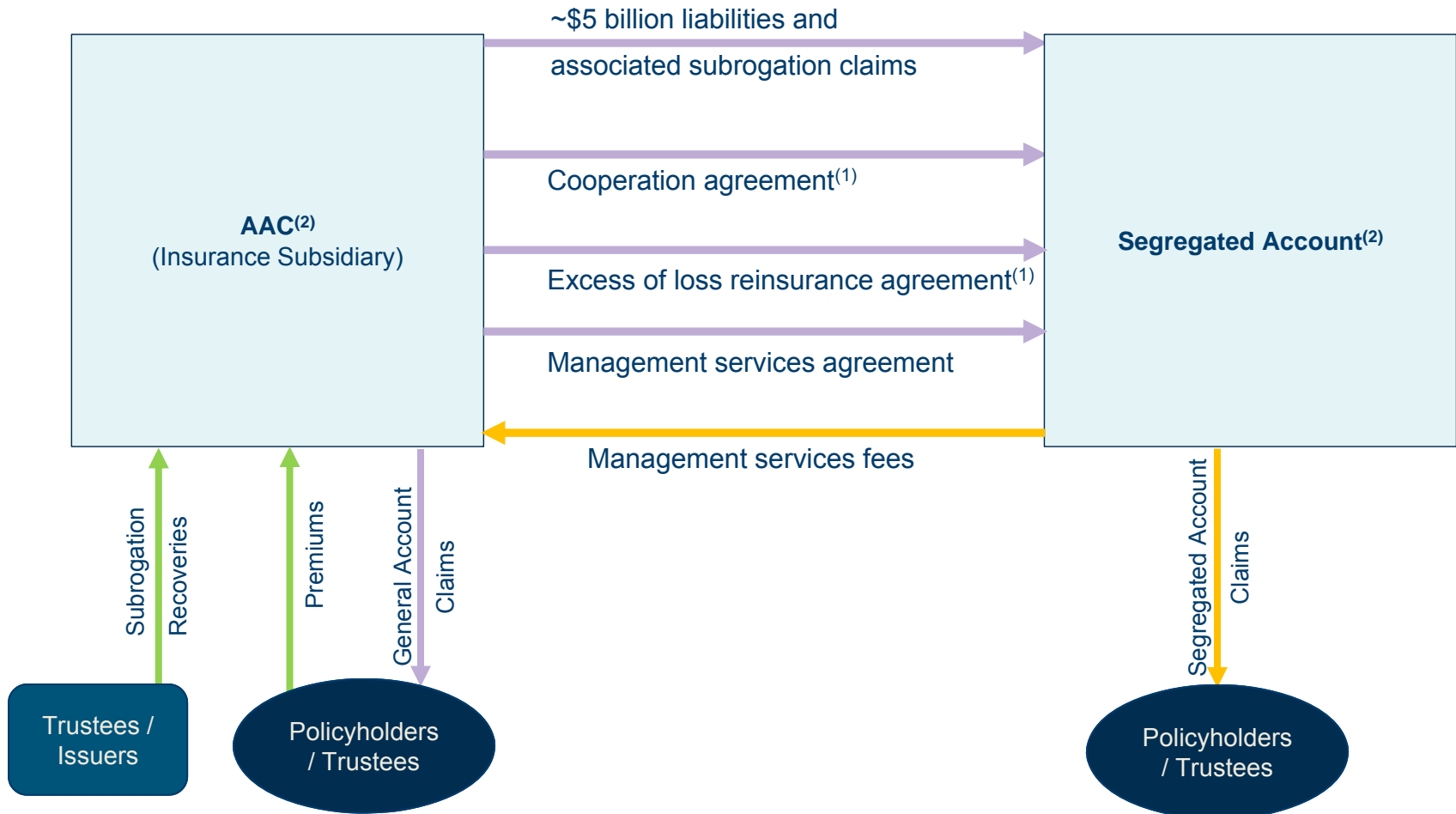


# VALUE COMPONENTS



- 1) On August 28, 2014, to help fund the Company's strategic priorities, AFG monetized 80% of its Segregated Account Junior Surplus Note and accrued interest, for net proceeds of approximately \$224 million. AFG also retained a 20% interest through a \$75 million subordinated Owner Trust Certificate.
- 2) Excludes the Owner Trust Certificate, investment in Corolla Trust, and AAC
- 3) Includes the Segregated Account (in Rehabilitation)

# AAC – SEGREGATED ACCOUNT STRUCTURE

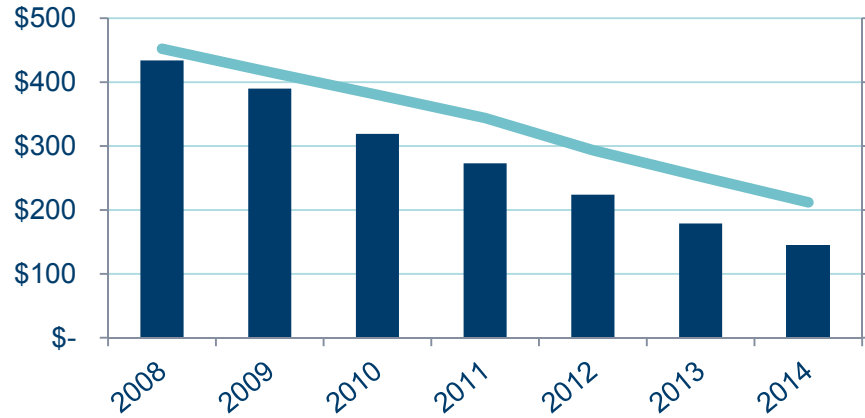


1) Subject to \$100 million minimum surplus at AAC  
 2) See Appendix for Organization Chart

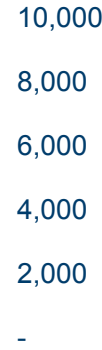


# INSURED PORTFOLIO - \$145 BILLION AS OF DECEMBER 31, 2014

**Net Par Exposures**  
\$ in billions

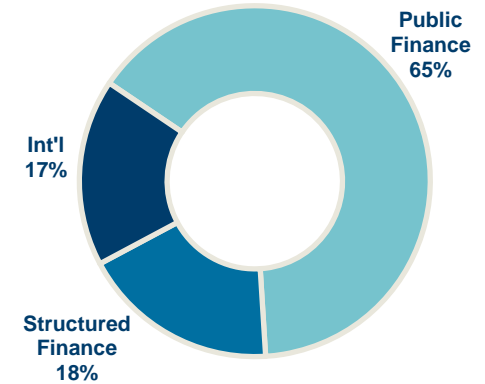


**# of Credits**

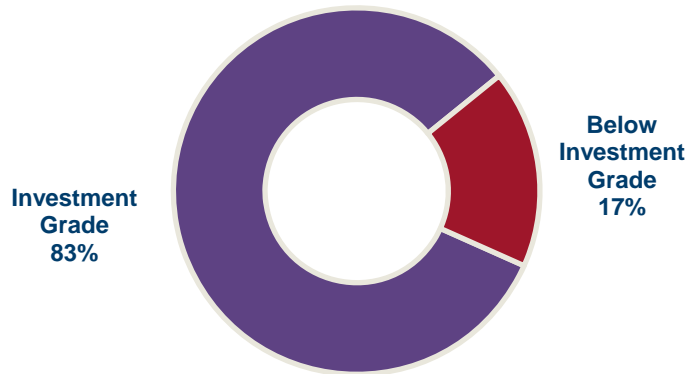


■ Net Par Exposures    — # of Credits (right axis)

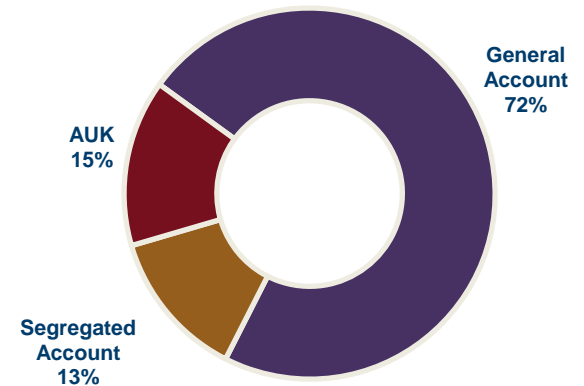
## Sector % Breakdown



## Ambac Rating % Breakdown



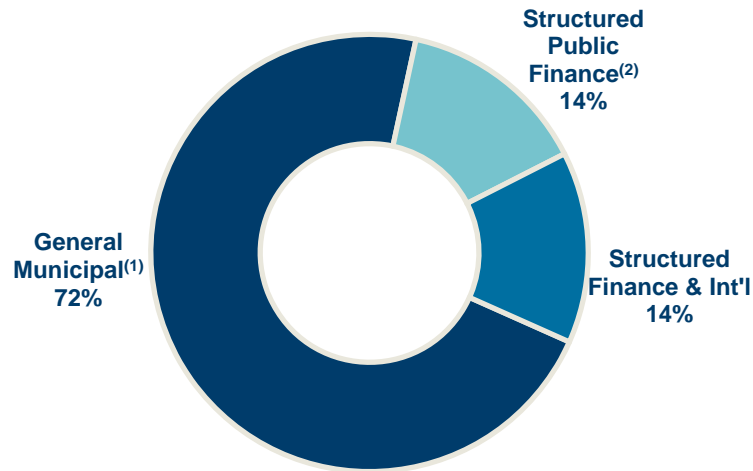
## Portfolio % Breakdown



# INSURED PORTFOLIO – AAC GENERAL AND SEGREGATED ACCOUNTS

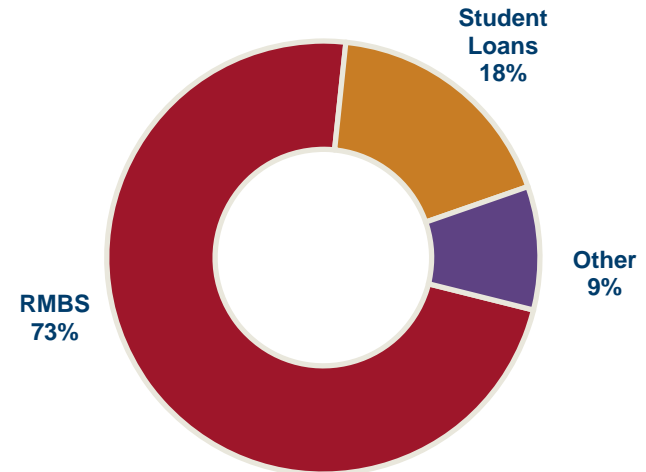
## AAC General Account

**\$105 billion Net Par**  
**~3,900 credits**



## AAC Segregated Account

**\$19 billion Net Par**  
**~330 credits**



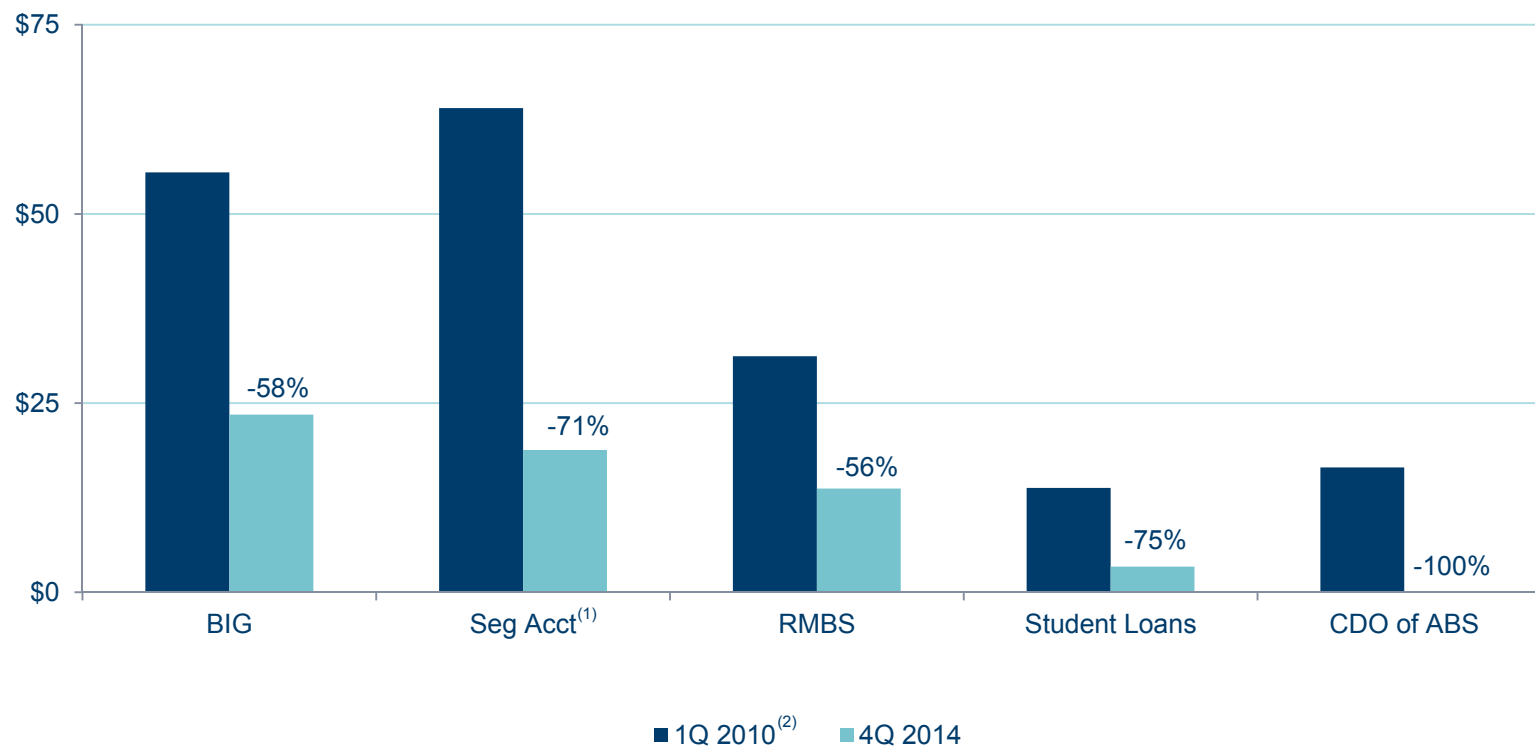
1) General Municipal includes municipal bonds backed by revenue sources including taxes, pledges, tolls and municipal lease payments.

2) 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 - PROGRESS IN REDUCING DISTRESSED LIABILITIES

\$ in billions

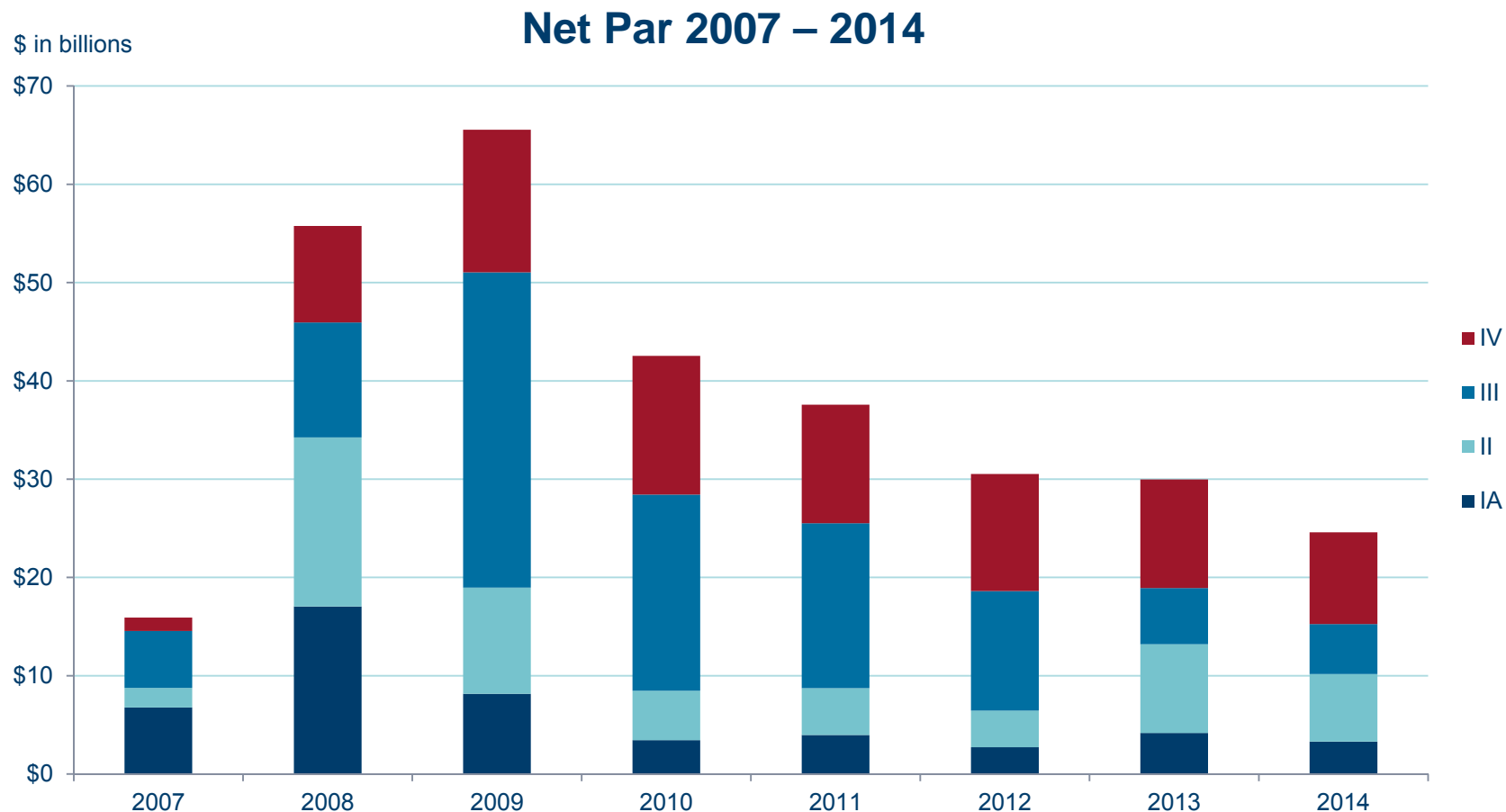
Net Par



1) 1Q 2010 Segregated Account includes \$23 billion of ceded exposures from AUK

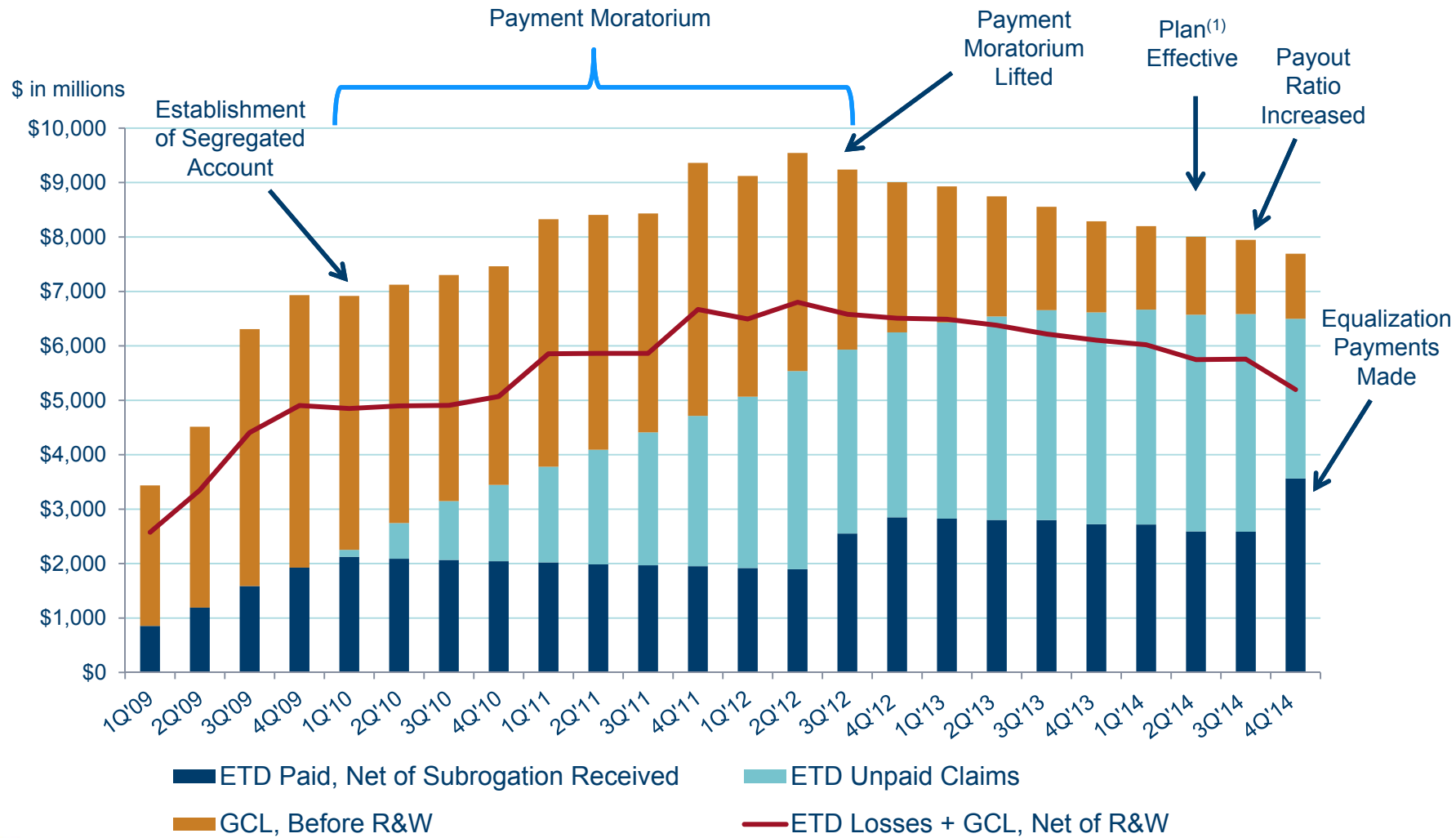
2) 1Q 2010 is the first quarter reported after the Segregated Account was established and entered into Rehabilitation

# AAC INSURED PORTFOLIO – ADVERSE CREDIT CLASSIFICATION<sup>(1)</sup>



1) Adverse credit classification definitions in Appendix

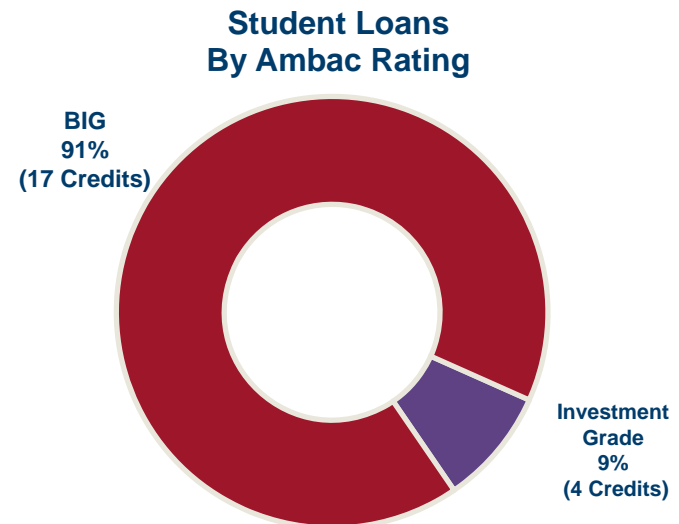
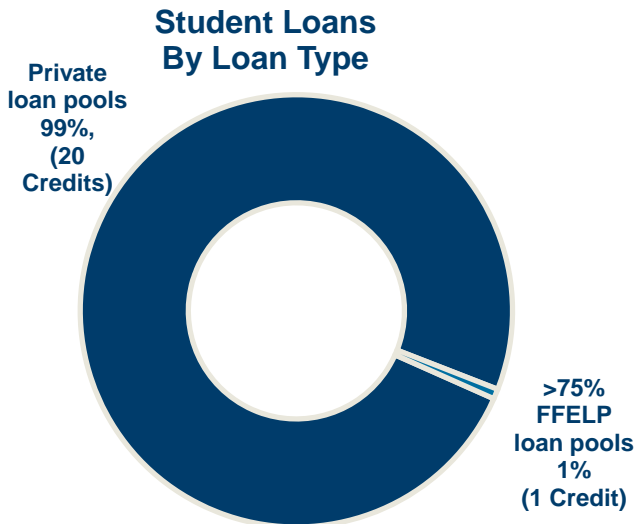
# PROJECTED LIFETIME RMBS LOSSES



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

# STUDENT LOAN PORTFOLIO

- ▶ \$3.4 billion net par
- ▶ Long dated maturities
- ▶ \$879 million loss reserves (projected payments back ended)
- ▶ Exposures down \$11.8 billion gross par since 1Q 2010
- ▶ Losses concentrated in private student loan pools with under-collateralization



# STUDENT LOAN PORTFOLIO REDUCTION

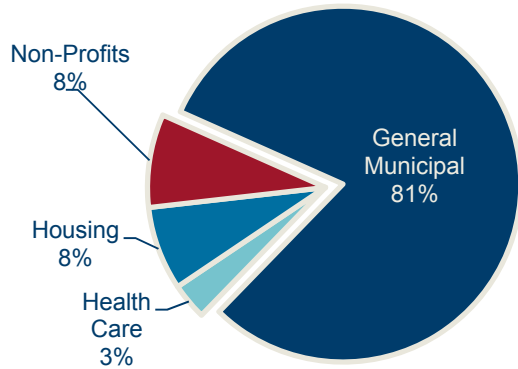
**\$11.8 billion Gross Par Reduction  
1Q 2010 – 4Q 2014**



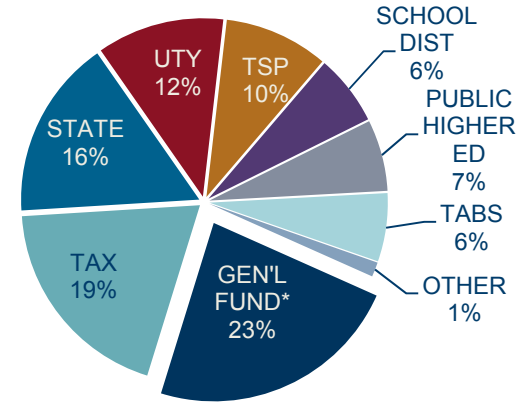
# PUBLIC FINANCE PORTFOLIO

December 31, 2014

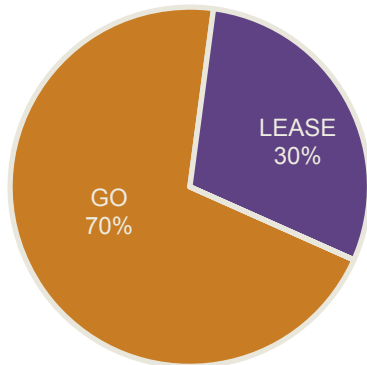
**Public Finance**  
\$93 billion Net Par



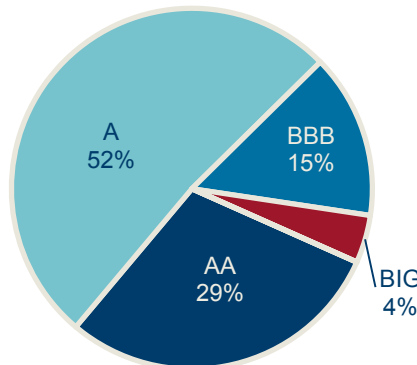
**General Municipal**  
\$75 billion Net Par



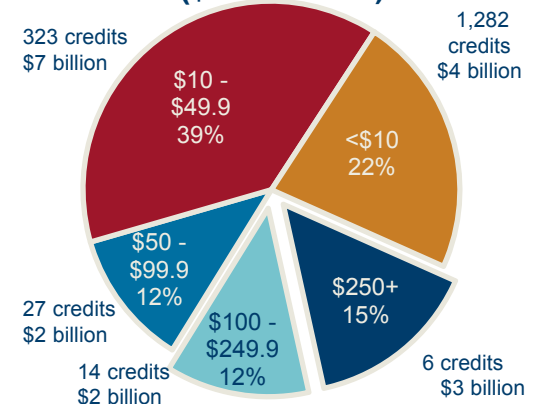
**General Fund<sup>(1)</sup>**  
\$17 billion Net Par



**General Fund<sup>(1)</sup>**  
By Ambac Rating



**General Fund<sup>(1)</sup>**  
By Exposure Size  
(\$ in millions)



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



# PUERTO RICO EXPOSURE & RATINGS SUMMARY

Ambac Puerto Rico Exposure (\$ in millions) as of December 31, 2014:

Single Risk	Gross Par <sup>(1)</sup>	Net Par <sup>(1),(2)</sup>	Gross Principal & Interest	Net Principal & Interest <sup>(2)</sup>	Maturity	Credit Class	Rating
<b>General Fund Debt:</b>							
1 PR Commonwealth GO	\$59.0	\$59.0	\$78.3	\$78.3	2023	IA	BIG
2 PR Public Buildings Authority Revenue - GO Guaranty	191.2	191.2	308.9	308.9	2035	IA	BIG
<b>Subtotal</b>	250.2	250.2	387.2	387.2			
<b>Revenue Debt:</b>							
3 PR Highway and Transp'n Revenue 1968 Resolution - Highway Rev	27.5	26.5	37.7	36.5	2027	III	BIG
4 PR Highway and Transp'n Revenue 1998 Resolution - Senior Transp'n Rev	708.3	685.6	1,446.8	1,397.0	2045	III	BIG
5 PR Infrastructure Financing Special Tax Revenue (Rum Tax)	545.0	532.5	1,152.5	1,126.0	2044	II	BIG
6 Convention Center (Hotel Occupancy Tax)	137.1	137.1	215.8	215.8	2031	II	BIG
7 Sales Tax Rev (COFINA)	808.5	804.7	7,355.4	7,321.3	2054	IA	BIG
<b>Subtotal</b>	\$2,226.4	\$2,186.4	\$10,208.2	\$10,096.6			
<b>Grand total</b>	\$2,476.6	\$2,436.6	\$10,595.4	\$10,483.8			

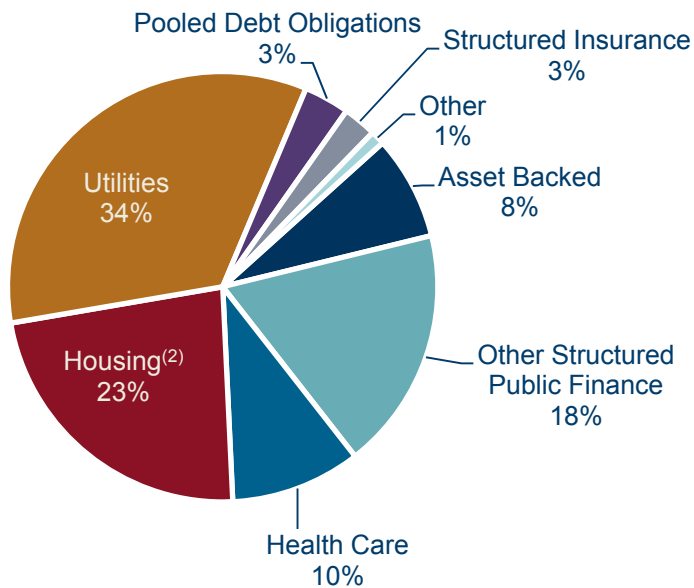
1) Gross Par and Net Par include capital appreciation bonds ("CABS") which are reported at the par amount at the time of issuance of the insurance policy

2) Net Par and Net Principal & Interest are net of reinsurance

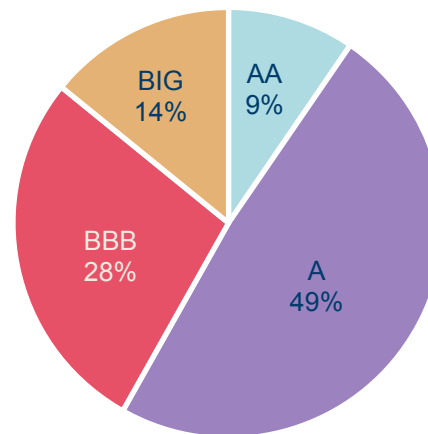
# AAC STRUCTURED AND CORPORATE PORTFOLIO<sup>(1)</sup>

December 31, 2014  
\$32 billion Net Par

### By Exposure Type



### By Ambac Rating



1) Excludes RMBS, Student Loans and General Municipal

2) Includes \$6.1 billion Military Housing

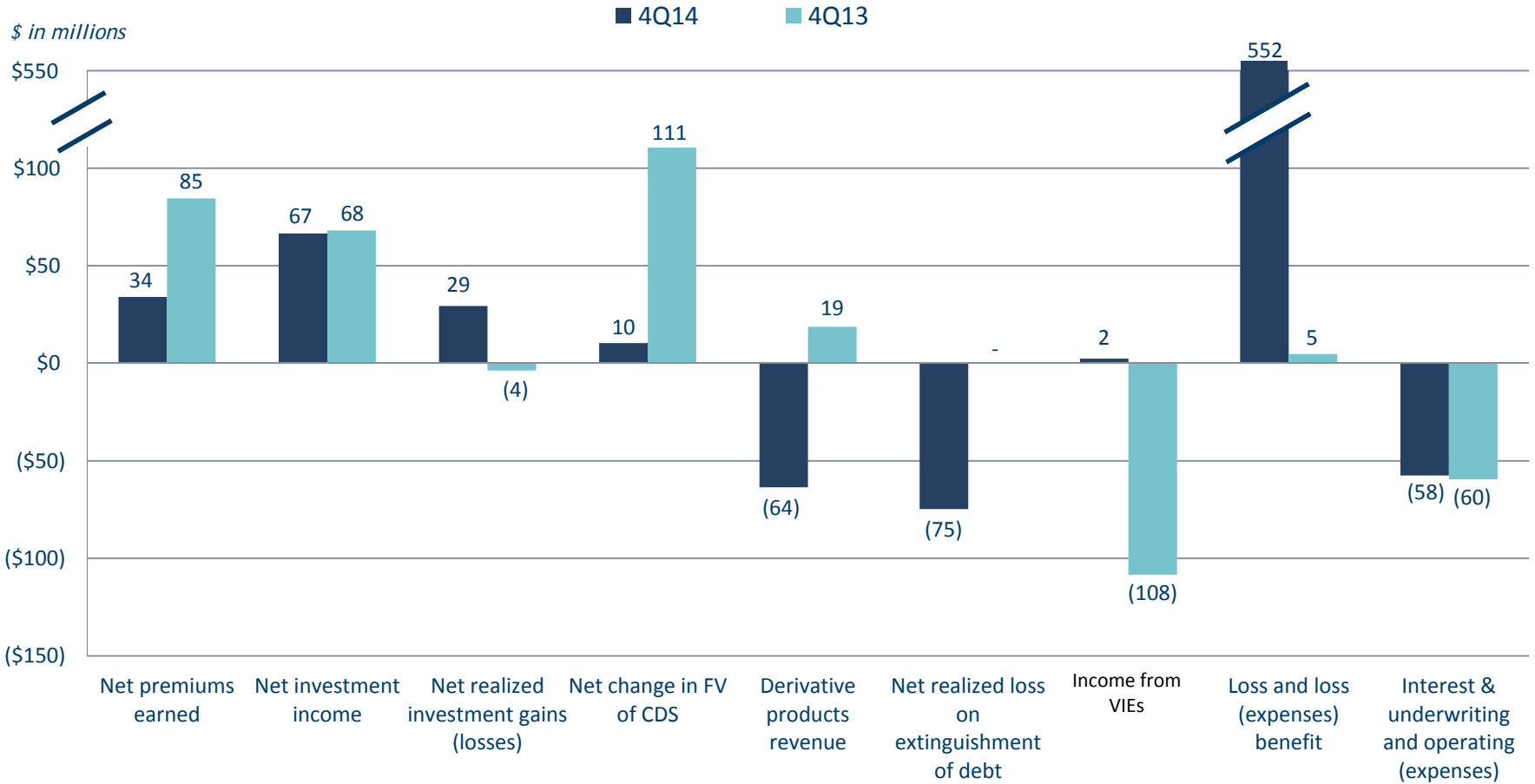
## CAPITAL SUMMARY

Category	(\$ in millions) 12/31/14	Comments
Claim Liabilities	\$7,264	<ul style="list-style-type: none"> <li>▶ Before estimated subrogation recoveries, Unearned Premium Reserves (UPR) and reinsurance</li> <li>▶ Includes \$3.3 billion of unpaid claims, including accrued interest on Deferred Amounts</li> <li>▶ Includes \$0.5 billion of AUK claim liabilities</li> </ul>
5.1% Surplus Notes Par	\$932	<ul style="list-style-type: none"> <li>▶ \$893 million General Account notes</li> <li>▶ \$39 million Segregated Account notes</li> <li>▶ Does not include \$238 million of accrued interest</li> </ul>
5.1% Junior Surplus Notes Par	\$378	<ul style="list-style-type: none"> <li>▶ Includes \$350 million (formerly held by AFG<sup>(1)</sup>)</li> <li>▶ Does not include \$36 million of accrued interest</li> </ul>
Auction Rate Preferred Shares (AMPS)	\$660	<ul style="list-style-type: none"> <li>▶ Liquidation Value, originally \$800 million</li> </ul>
Common Stock Market Cap <sup>(2)</sup>	\$1,103	<ul style="list-style-type: none"> <li>▶ 45,003,473 common shares</li> <li>▶ 5,039,877 warrants</li> </ul>

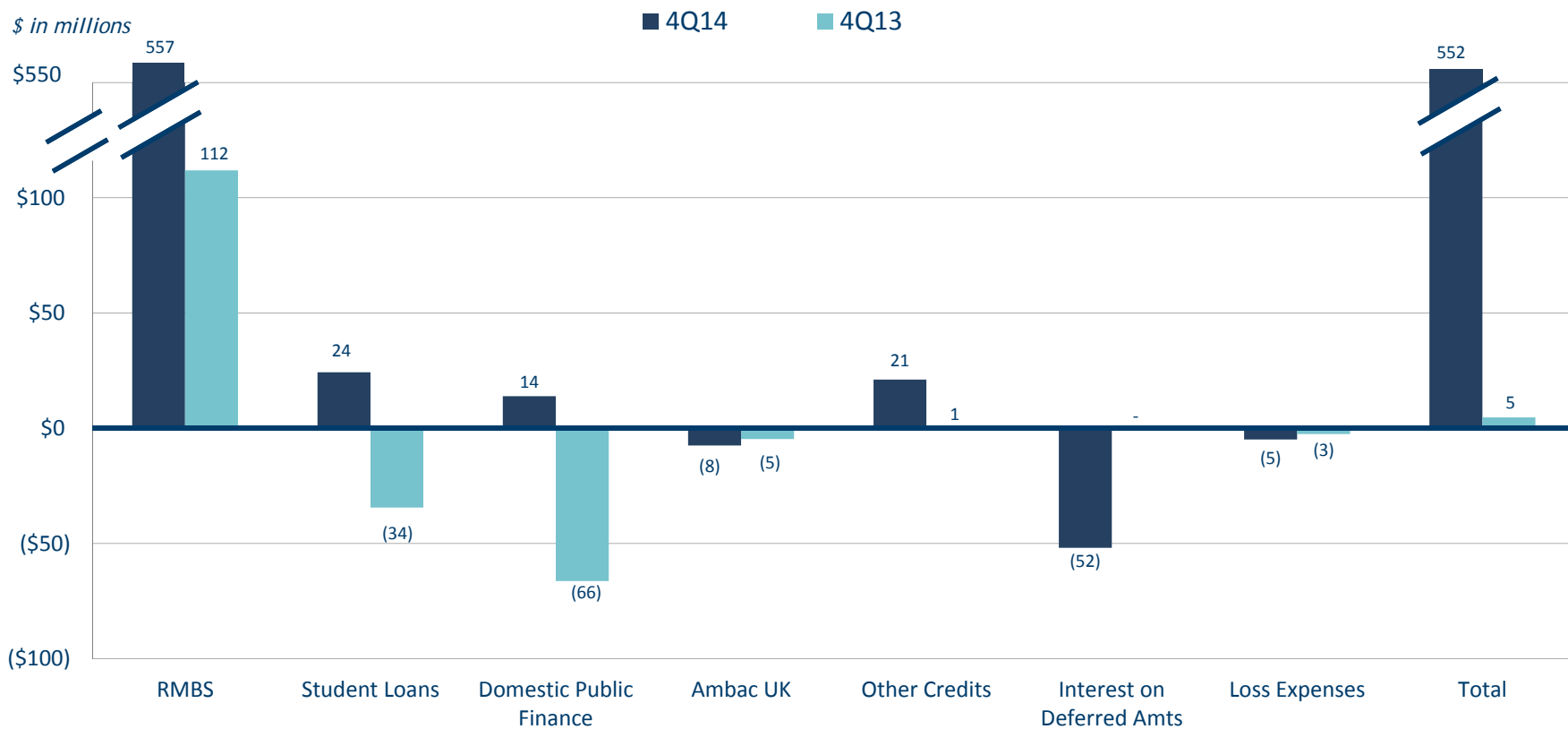
1) On August 28, 2014, AFG monetized 80% of Segregated Account Junior Surplus Note and accrued interest, for net proceeds of approximately \$224 million. AFG also retained a 20% interest through a \$75 million subordinated Owner Trust Certificate

2) Common Stock Market Cap based on AMBC common shares closing stock price of \$24.50 on December 31, 2014

# 4Q14 - KEY FINANCIAL RESULTS

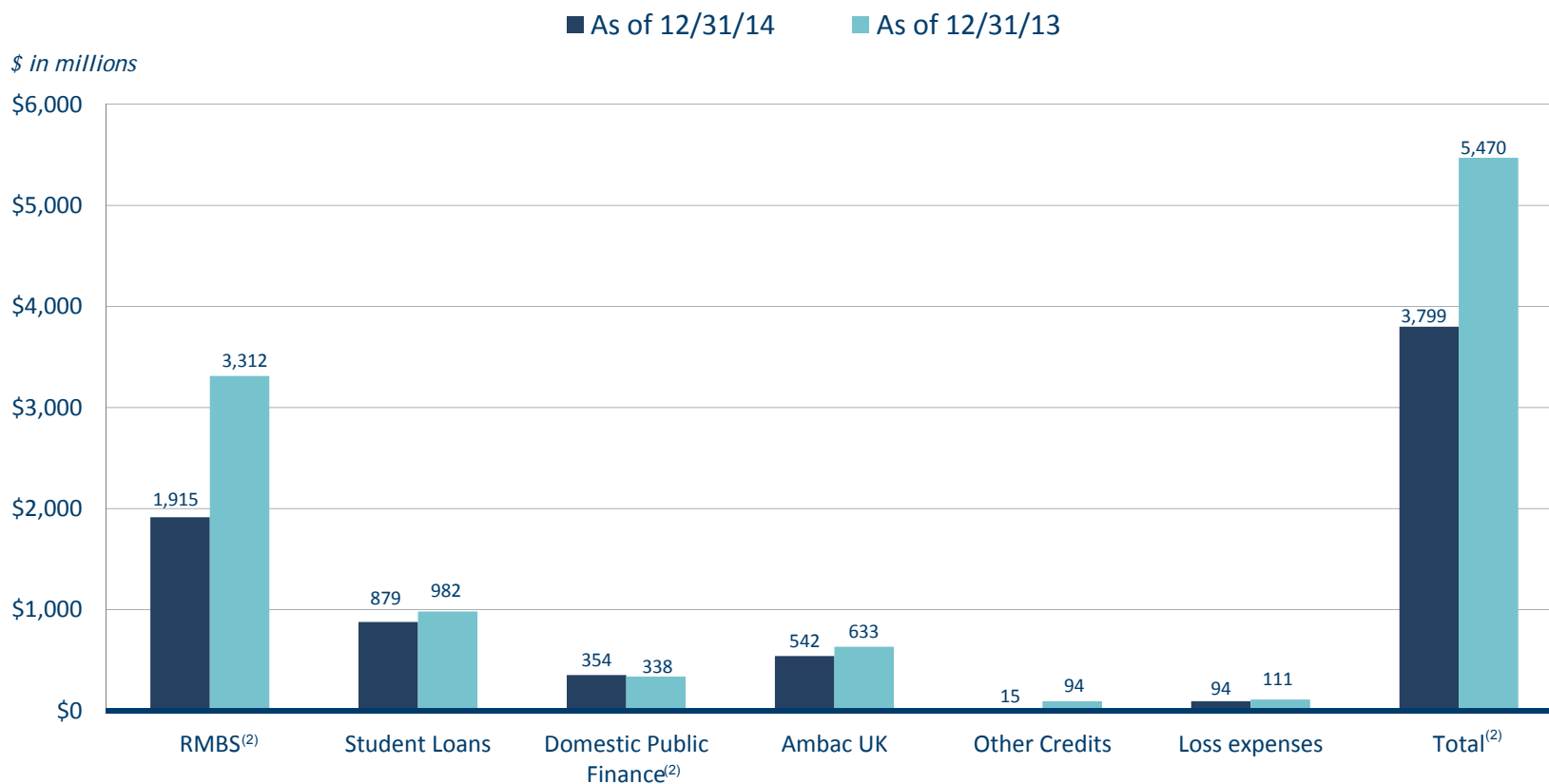


# 4Q14 - INCURRED (LOSSES) BENEFIT BY CATEGORY<sup>(1)</sup>



1) Components may not add to total due to rounding

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



1) Gross loss reserves are net of estimated R&W subrogation recoveries and other subrogation recoverables and include \$3.3 billion and \$3.9 billion of unpaid segregated account policy claims and interest as of December 31, 2014 and December 31, 2013, respectively

2) Gross loss reserves for December 31, 2014 include accrued interest on Deferred Amounts as follows: \$328 million in RMBS; \$1 million in Domestic Public Finance; Total \$329 million

# NET OPERATING LOSS CARRY-FORWARD (NOL)

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## ▶ \$5 billion of NOLs as of 12/31/14

- \$1.4 billion @ AFG
- \$3.6 billion @ AAC

## ▶ NOL tolling agreement between AFG and AAC

- AAC will pay AFG for usage of up to \$3.65 billion of NOLs
- Total potential amount of net tolling payments: \$236 million
  - Net of \$29 million of bankruptcy-related and IRS settlement credits

## ▶ AAC utilized all of its post determination date (free) NOL's<sup>(1)</sup>

- Future taxable income of AAC subject to payments<sup>(2)</sup> under its NOL tolling agreement with AFG
- A credit is available to offset the first \$5 million of payments due under each of the first three tiers
  - In the fourth quarter 2014, AAC used approximately \$2 million of its Tier A credit

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

2) Payments subject to NOL usage tier and after certain credits and any additional post determination date NOLs

## APPENDIX

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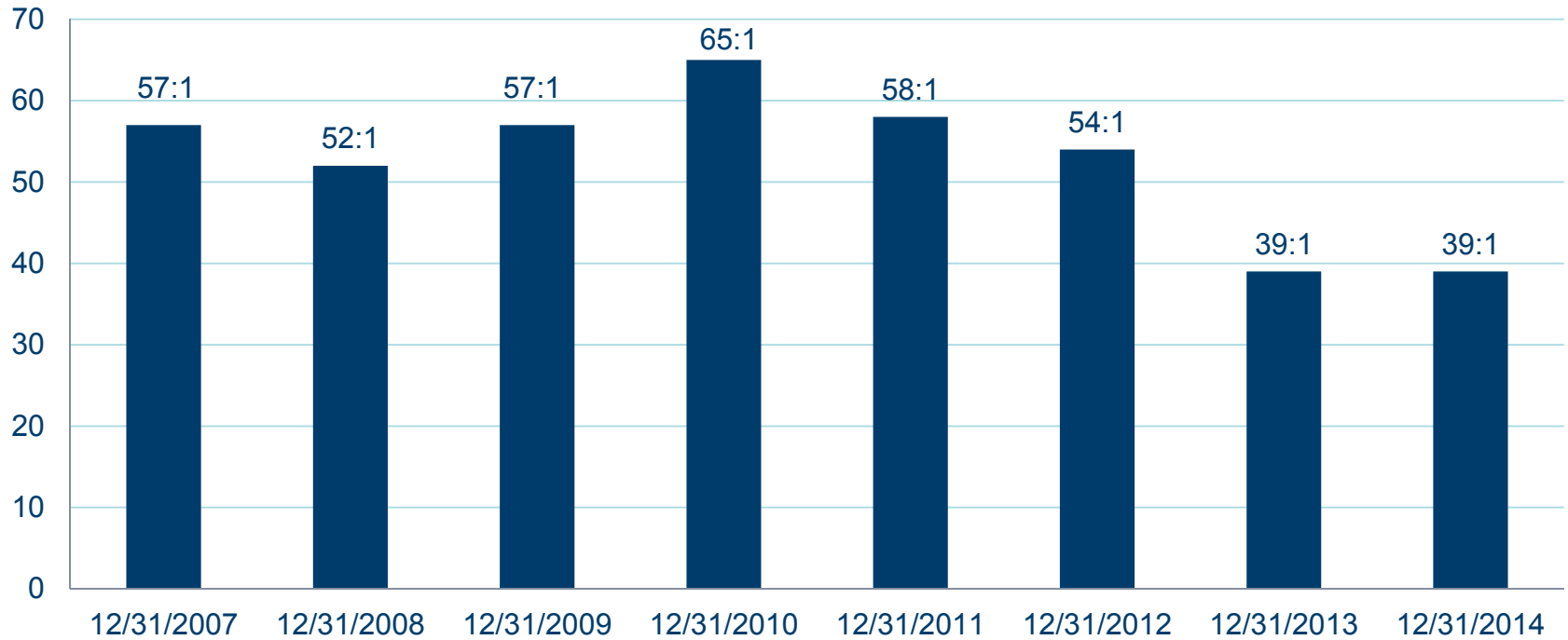
***Ambac***



# OPERATING LEVERAGE

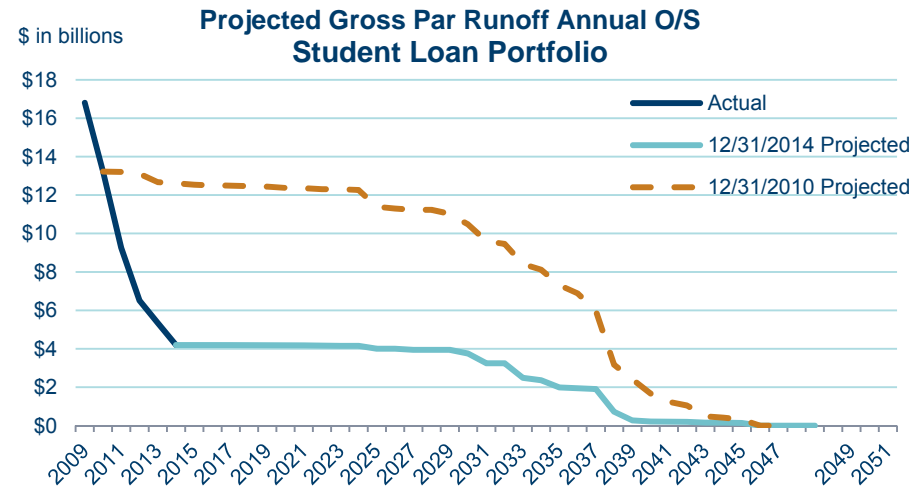
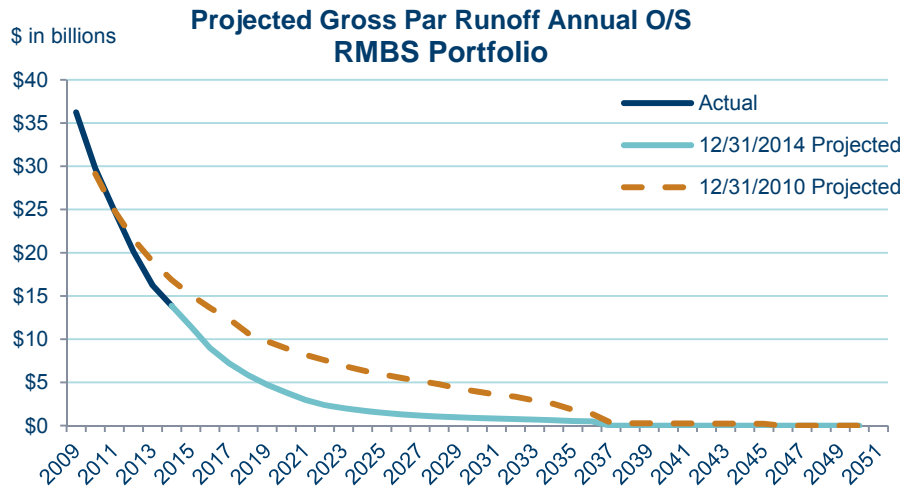
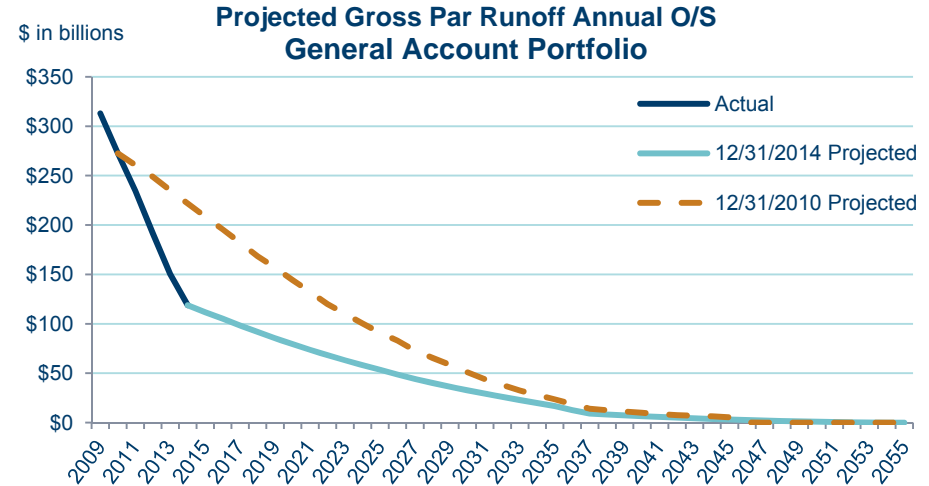
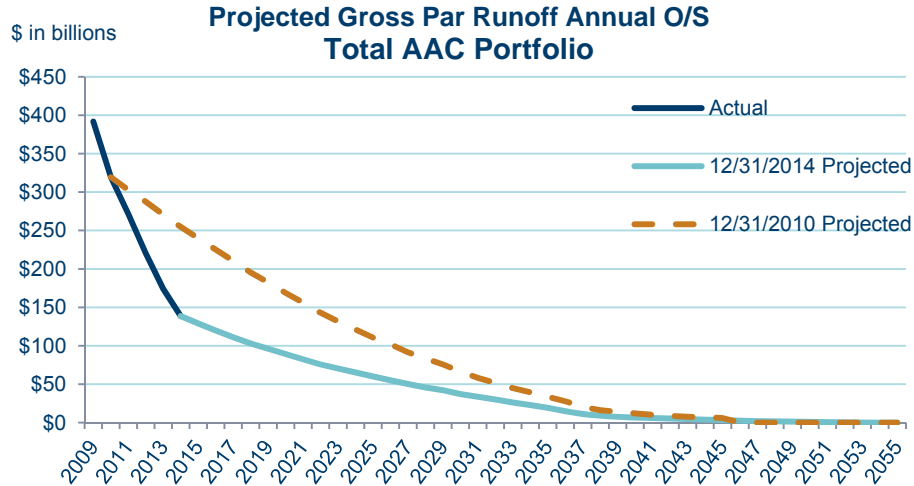
## ► Deleveraging of book

### Claims-Paying Ratio<sup>(1)</sup>



1) Claims-Paying Ratio is net financial guaranties in force divided by total claims-paying resources

# AAC PROJECTED GROSS PAR RUNOFF – SELECTED DATA<sup>(1)</sup>



1) Depicts amortization of existing guaranteed portfolio (principal), assuming no advance refundings, as of December 31, 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)	12/31/14	12/31/13
Gross Par	\$13.9	\$16.2
Net Par	\$13.7	\$16.0
Number of credits	247	253
Gross par related to policies in loss reserves	\$9.7	\$11.7
Number of credits related to policies in loss reserves	172	179
Gross claims paid (ever-to-date) <sup>(1)</sup>	\$5.0	\$3.8
GAAP Gross claim liability ("GCL") <sup>(2)</sup>	\$1.1	\$1.7
GAAP Unpaid claims <sup>(3)</sup>	3.3	3.9
GAAP R&W subrogation recoveries <sup>(4)</sup>	(2.5)	(2.2)
GAAP UPR	-	(0.1)
<b>GAAP Loss reserves<sup>(5)</sup></b>	<b>\$1.9</b>	<b>\$3.3</b>

1) Gross of reinsurance and R&W recoveries and other subrogation recoverables

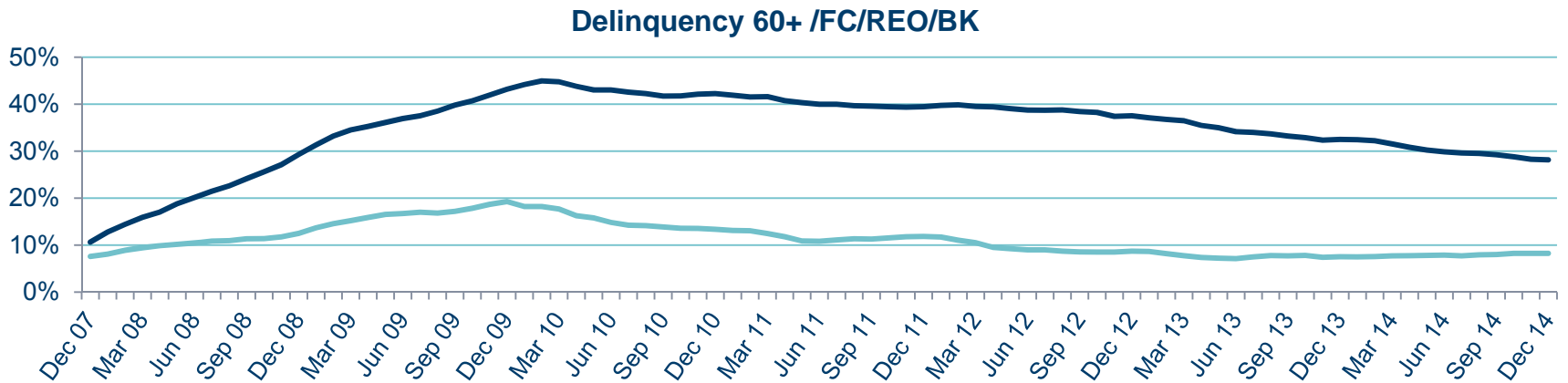
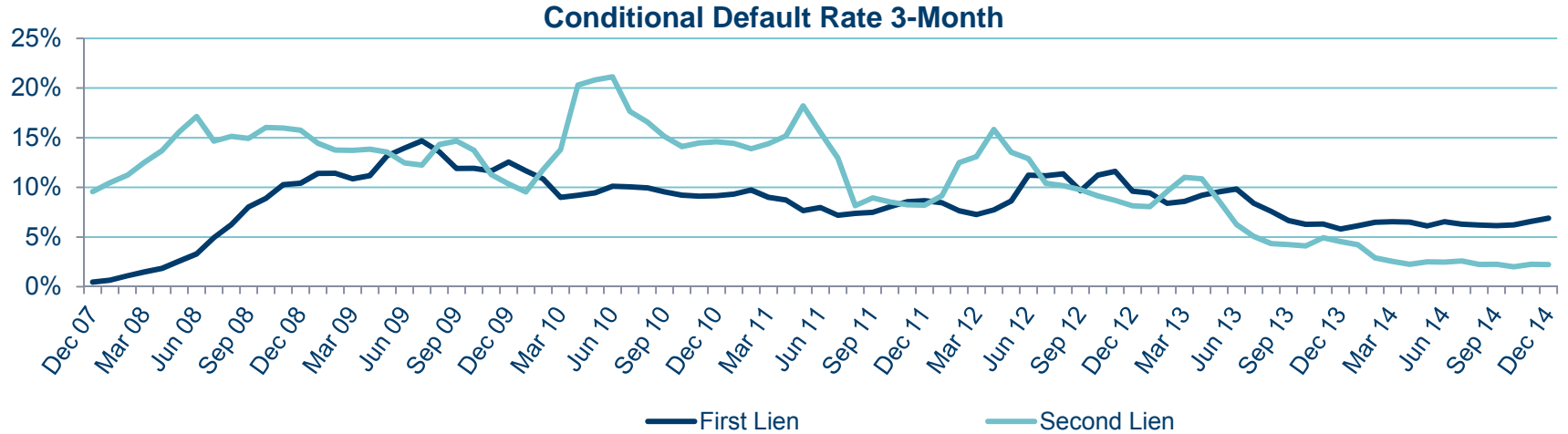
2) Present value of expected net cash flows gross of reinsurance and before unpaid claims, R&W subrogation recoveries and UPR

3) Includes accrued interest relating to amendments to the Plan of Rehabilitation of the Segregated Account of \$328 million in 2014

4) For policies which have estimated R&W subrogation recoveries as of December 31, 2014, Ambac has estimated ultimate losses of \$4.102 billion, which include net paid claims of \$2.205 billion, and gross loss reserves of \$1.897 billion before estimated R&W subrogation recoveries. Gross loss reserves include Deferred Amounts and accrued interest on Deferred Amounts of \$1.268 billion and \$144 million, respectively. These estimated ultimate losses exclude estimated ultimate losses of \$999 million (including interest on Deferred Amounts) associated with policies that are the subject of litigation filed in December 2014 against transaction sponsors asserting claims only for fraudulent inducement. Ambac's estimated R&W subrogation recoveries do not include potential recoveries attributed solely to the fraudulent inducement claims in its litigations.

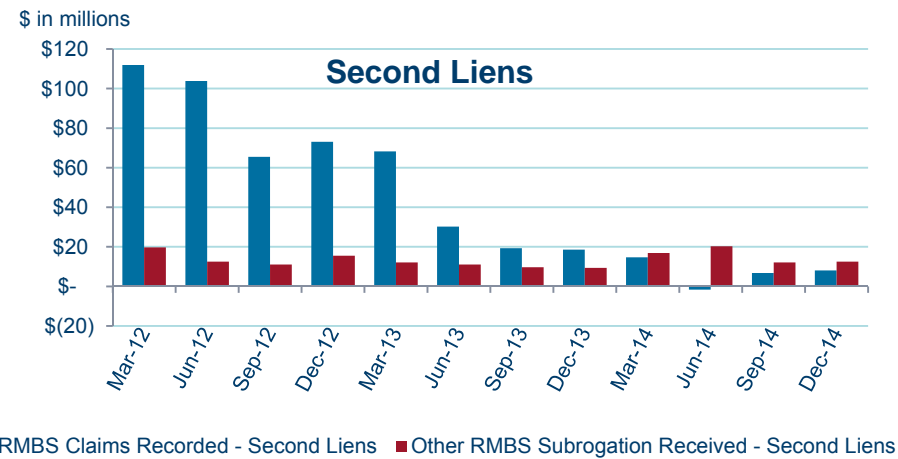
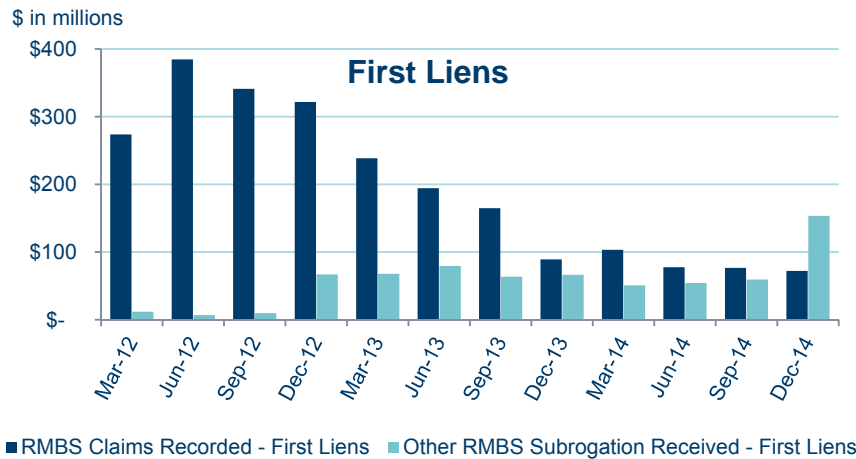
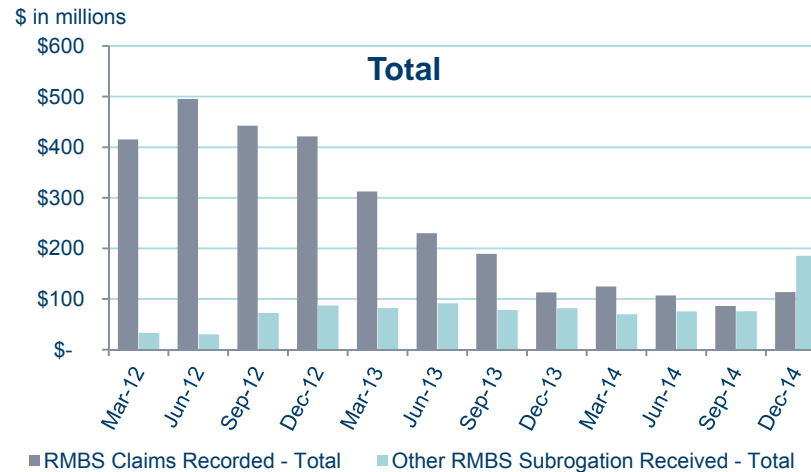
5) Gross of reinsurance and net of estimated R&W recoveries and other subrogation recoverables. Includes unpaid claims

# RMBS PERFORMANCE SHOWING IMPROVING TRENDS



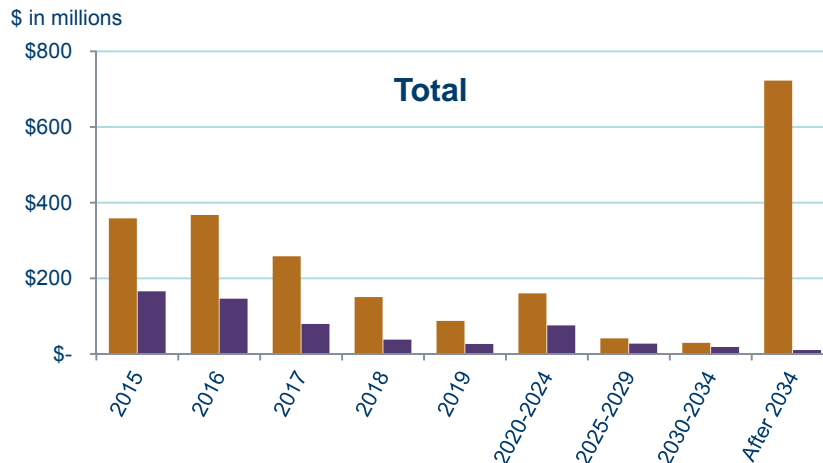
Data Source: IntexCalc  
 Portfolio: RMBS transactions representing more than 90% of Ambac's future claims exposure

# CLAIMS RECORDED<sup>(1)</sup> BY QUARTER VS. SUBROGATION<sup>(2)</sup>

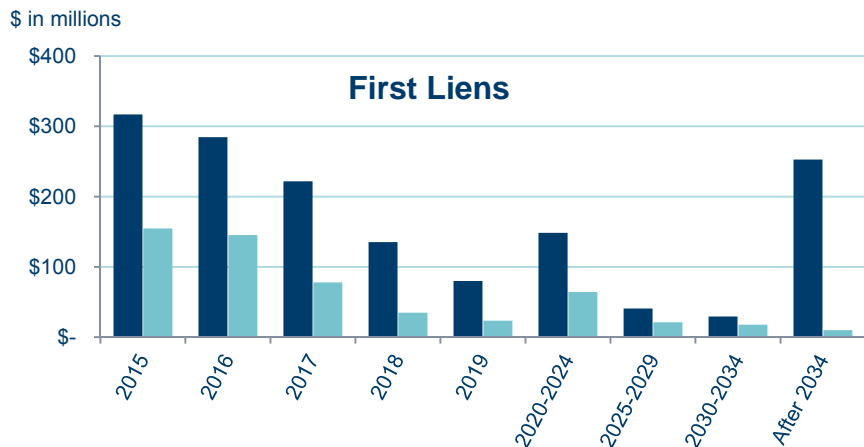


- 1) Claims recorded include (i) claims paid and (ii) unpaid claims presented and changes to unrepresented claims through the balance sheet date for policies which were allocated to the Segregated Account
- 2) Excess spread, recoveries of past claims paid

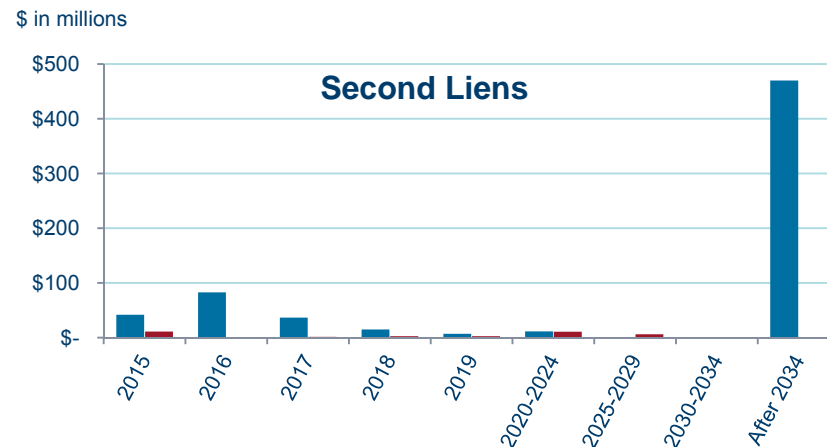
# ESTIMATED FUTURE GROSS RMBS CLAIMS RECORDED VS. SUBROGATION 2015 – AFTER 2034



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

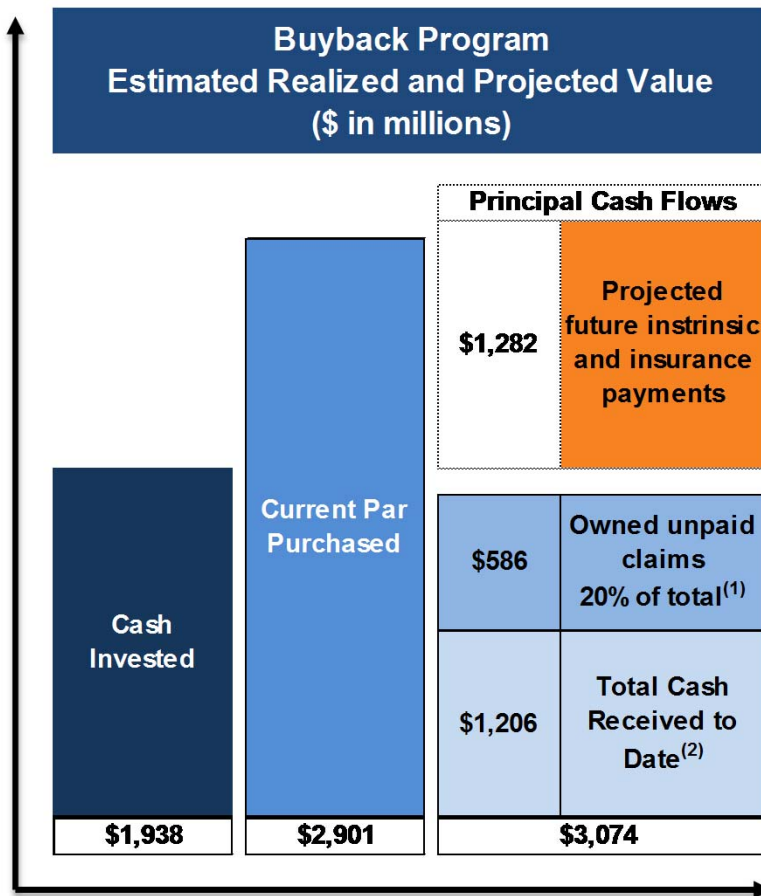


■ Estimated Future Gross RMBS Claims Recorded - First Liens  
■ Estimated Future RMBS Subrogation - First Liens



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

# INSURED RMBS BUYBACKS



► **Key element of asset liability management strategy**

- \$1.6 billion total fair value<sup>(1)</sup>
- 30% of investment portfolio<sup>(1)</sup>

► **Ambac maintains pricing and execution discipline**

► **Execute at accretive prices under a range of expected claim payout scenarios**

- Invested \$439 million cash in insured RMBS buybacks in 2014
  - \$177 million in 4Q 2014

1) As of December 31, 2014

2) Total cash received includes amounts received in January and February 2015 related to the December 2014 equalizing payments

## STATUS OF RMBS LITIGATIONS<sup>(1)</sup>

Litigation Case	Current Status (as of March 2, 2015)
<p><b>EMC Mortgage LLC (formerly known as EMC Mortgage Corporation), J.P. Morgan Securities, Inc. (formerly known as Bear, Stearns &amp; Co. Inc.), and JP Morgan Chase Bank, N.A.</b> -- New York State Supreme Court, Index No. 650421/2011 [re SACO 2005-10, SACO 2006-2, SACO 2006-8 and BSSLT 2007-1]</p>	<ul style="list-style-type: none"> <li>▶ Fact discovery has concluded</li> <li>▶ Initial expert reports were exchanged in December 2014</li> <li>▶ On December 18, 2014, defendants filed a motion for partial summary judgment solely with respect to the justifiable-reliance element of Ambac's fraudulent-inducement claim, plaintiff filed its opposition to the motion on February 13, 2015</li> </ul>
<p><b>EMC Mortgage LLC (formerly known as EMC Mortgage Corporation), J.P. Morgan Securities, Inc. (formerly known as Bear, Stearns &amp; Co. Inc.), and JP Morgan Chase Bank, N.A.</b> --New York State Supreme Court, Index No. 651013/2012 [re GPMF 2006-AR2, GPMF 2006-AR3, SAMI 2006-AR7, SAMI 2006-AR8, BSMF 2006-AR2, BSMF 2006-AR4, and BALTA 2006-R1]</p>	<ul style="list-style-type: none"> <li>▶ On June 13, 2013, the court denied defendants' motion to dismiss the claims for fraudulent inducement and successor liability but dismissed the contractual claims</li> <li>▶ Plaintiffs appealed and on October 16, 2014 the appellate court affirmed the dismissal of the contractual claims. On November 10, 2014, plaintiffs filed for leave to reargue, or in the alternative to appeal, the appellate court's decision</li> <li>▶ With respect to the fraudulent-inducement claims that remain in the case, discovery is ongoing</li> </ul>
<p><b>First Franklin Financial Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner &amp; Smith Inc., Merrill Lynch Mortgage Lending, Inc., and Merrill Lynch Mortgage Investors, Inc.</b> -- New York State Supreme Court, Index No. 651217/2012 [re First Franklin Mortgage Loan Trust 2007-FFC]</p>	<ul style="list-style-type: none"> <li>▶ On July 18, 2013 the court denied defendants' motion to dismiss the putback and fraudulent-inducement claims, but limited the material-breach-of-contract claim and dismissed the claim for indemnification</li> <li>▶ Discovery is ongoing</li> </ul>
<p><b>Countrywide Securities Corp., Countrywide Financial Corp. (a.k.a. Bank of America Home Loans) and Bank of America Corp</b> -- New York State Supreme Court, Index No. 651612/2010 [re CWHEQ 2006-S1, CWHEQ 2006-S4, CWHEQ 2006-S6, CWABS 2004-K, CWABS 2004-L, CWABS 2004-M, CWABS 2004-N, CWABS 2004-O, CWABS 2004-T, CWHEQ 2005-F, CWHEQ 2005-L, CWHEQ 2006-B, CWHEQ 2006-C, CWABS 2005-16, CWABS 2005-17, CWHEQ 2006-11, CWHEQ 2006-13]</p>	<ul style="list-style-type: none"> <li>▶ Fact discovery has concluded</li> <li>▶ The parties have exchanged initial and rebuttal expert reports on successor liability</li> <li>▶ The parties have exchanged initial expert reports on primary liability, with rebuttals due in April 2015</li> </ul>

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



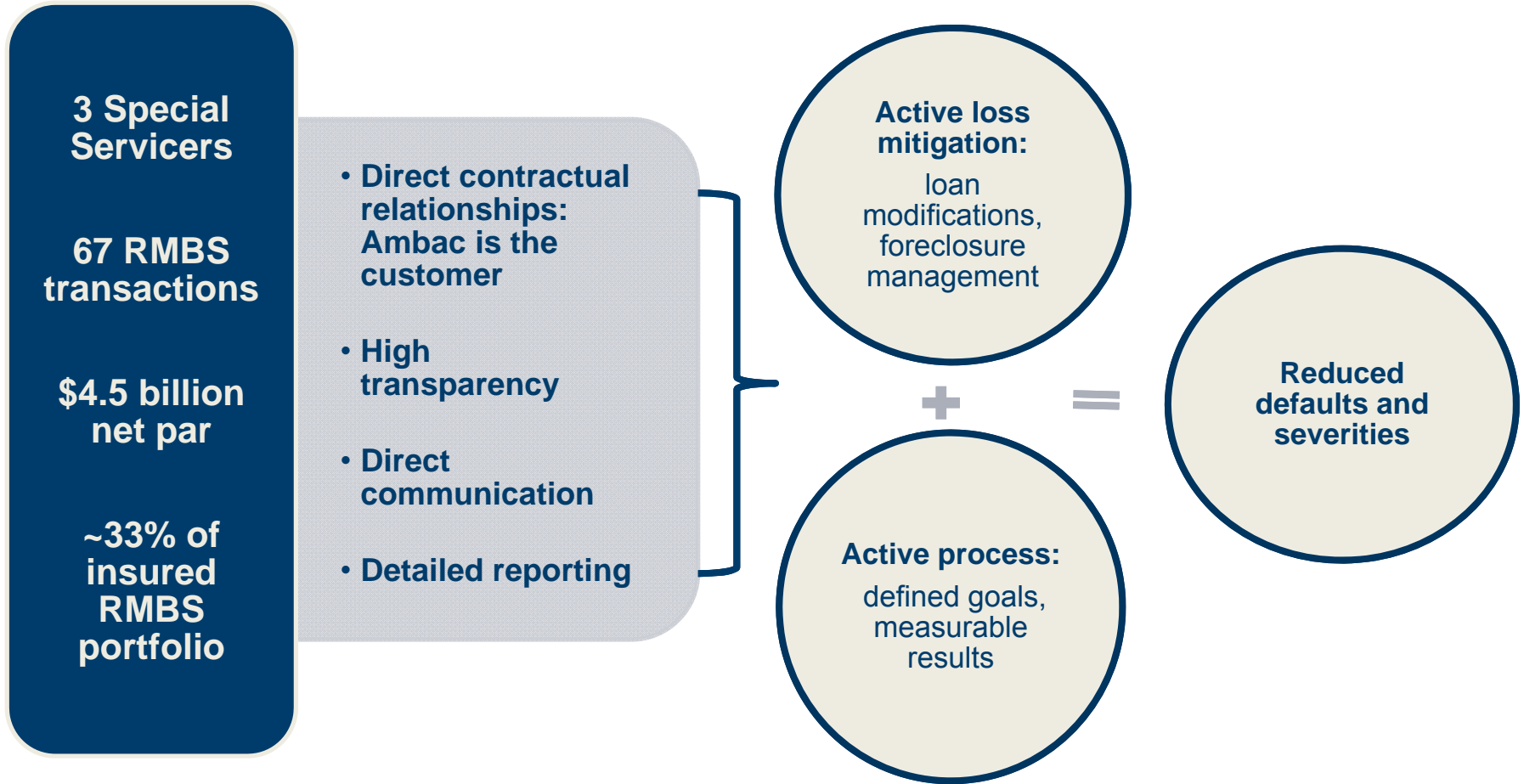
## STATUS OF RMBS LITIGATIONS - CONTINUED<sup>(1)</sup>

Litigation Case	Current Status (as of March 2, 2015)
<p><b>Nomura Credit &amp; Capital, Inc. and Nomura Holding America Inc.</b> – New York State Supreme Court, Index No. 651359/2013 [re Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2007-1 and Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2007-3]</p>	<ul style="list-style-type: none"> <li>▶ On July 12, 2013, defendants filed a motion to dismiss the complaint; oral argument was heard on November 13, 2013; no decision has been issued</li> <li>▶ Plaintiffs filed an Amended Complaint on September 22, 2014 adding a fraudulent-inducement claim</li> <li>▶ Defendants filed a motion to strike the Amended Complaint on October 31, 2014, which plaintiffs have opposed and plaintiffs have also cross-moved for leave to file an amended complaint</li> <li>▶ Defendants have also filed a motion to dismiss the fraudulent-inducement claim, which plaintiffs have opposed</li> </ul>
<p><b>Countrywide Home Loans, Inc., Countrywide Financial Corp., and Bank of America Corp.</b> – New York State Supreme Court, Index No. 653979/2014 [re CWALT 2005-81, CWALT 2006-OA19, HVMLT 2005-16, HVMLT 2006-9, Lehman XS 2005-7N, Lehman XS 2006-2N, Lehman XS 2007-7N, and Lehman XS 2007-15N]</p>	<ul style="list-style-type: none"> <li>▶ Complaint for fraudulent-inducement filed on December 30, 2014</li> <li>▶ Countywide filed a motion to dismiss on February 20, 2015 which Bank of America joined on February 23, 2015, and which plaintiffs intend to oppose.</li> </ul>
<p><b>Countrywide Home Loans, Inc.</b> – Circuit Court, Dane County, Wisconsin, Case No. 14CV3511 [re HVMLT 2005-2, HVMLT 2005-8, HVMLT 2005-10, Harborview Mortgage Loan Trust 2005-12, and HVMLT 2005-13]</p>	<ul style="list-style-type: none"> <li>▶ Complaint for fraudulent-inducement filed on December 30, 2014</li> <li>▶ Defendant filed a motion to dismiss on February 20, 2015, which plaintiffs intend to oppose</li> </ul>

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

# SPECIAL SERVICING

## ► Improving collateral performance at the loan level



# LEGACY SERVICERS AND TRANSFERS

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## ▶ 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

## ▶ Servicing oversight

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

# PUERTO RICO NET PRINCIPAL AND INTEREST<sup>(1)</sup> AMORTIZATION

Principal and Interest Amortization of Ambac Insured Puerto Rico Exposures by Calendar Year (\$ in millions)								
Calendar Year	Commonwealth GO	Public Bldg - GO Guaranteed	Senior Highway (1968)	Senior Transportation (1998)	Rum Tax	Hotel Occupancy Tax	Sales Tax (COFINA)	Total P & I
2015	5.9	10.1	1.2	51.8	52.0	6.9	-	127.9
2016	2.7	43.7	1.2	56.8	52.0	6.9	-	163.3
2017	2.7	27.1	13.7	54.6	52.0	18.6	-	168.7
2018	2.7	27.1	10.1	52.8	52.0	18.6	-	163.3
2019	27.7	8.6	-	37.8	15.2	18.6	-	107.9
2020	1.4	5.9	-	48.2	15.2	18.6	-	89.3
2021	1.4	12.9	1.3	30.0	15.2	4.3	-	65.1
2022	1.4	5.5	-	29.5	15.2	4.3	-	55.9
2023	32.4	5.5	-	30.5	60.8	4.3	-	133.5
2024	-	5.5	-	30.0	60.8	4.3	-	100.6
2025	-	5.5	1.0	30.0	60.8	4.3	-	101.6
2026	-	5.5	1.0	31.5	60.8	4.3	-	103.1
2027	-	5.5	7.0	57.9	60.8	4.3	-	135.5
2028	-	5.5	-	57.6	60.8	24.3	-	148.2
2029	-	5.5	-	57.8	68.7	24.3	-	156.3
2030	-	31.0	-	84.8	-	24.3	-	140.1
2031	-	27.9	-	104.2	-	24.6	-	156.7
2032	-	2.9	-	17.7	-	-	-	20.6
2033	-	2.9	-	17.7	-	-	-	20.6
2034	-	29.5	-	17.7	68.7	-	-	115.9
2035	-	35.0	-	17.7	68.7	-	-	121.4
2036	-	0.3	-	75.8	68.7	-	-	144.8
2037	-	-	-	75.8	49.1	-	-	124.9
2038	-	-	-	51.2	-	-	-	51.2
2039	-	-	-	9.4	-	-	-	9.4
2040	-	-	-	9.4	-	-	-	9.4
2041	-	-	-	9.4	-	-	-	9.4
2042	-	-	-	90.4	-	-	-	90.4
2043	-	-	-	68.9	84.0	-	-	152.9
2044	-	-	-	45.1	84.0	-	-	129.1
2045	-	-	-	45.0	0.5	-	-	45.5
2046	-	-	-	-	-	-	-	-
2047	-	-	-	-	-	-	786.2	786.2
2048	-	-	-	-	-	-	820.2	820.2
2049	-	-	-	-	-	-	855.5	855.5
2050	-	-	-	-	-	-	892.3	892.3
2051	-	-	-	-	-	-	930.5	930.5
2052	-	-	-	-	-	-	970.3	970.3
2053	-	-	-	-	-	-	1,011.7	1,011.7
2054	-	-	-	-	-	-	1,054.6	1,054.6
<b>Grand Total</b>	<b>78.3</b>	<b>308.9</b>	<b>36.5</b>	<b>1,397.0</b>	<b>1,126.0</b>	<b>215.8</b>	<b>7,321.3</b>	<b>10,483.8</b>

<sup>1</sup> Net of reinsurance

## 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

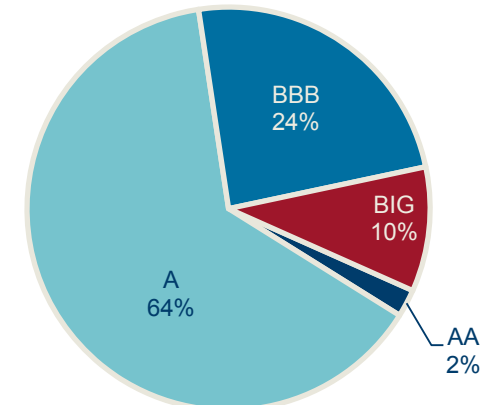
- Serviced from rental payments via US Government funding of individual's Basic Allowance for Housing (BAH)
- BAH flows directly into transaction accounts, not through the individuals
- Primary security is the assignment of BAH payments

### ▶ 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

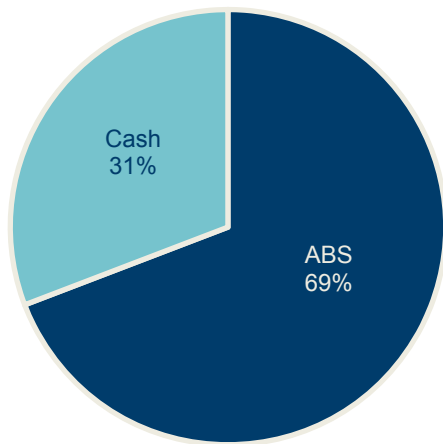
#### Military Housing

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

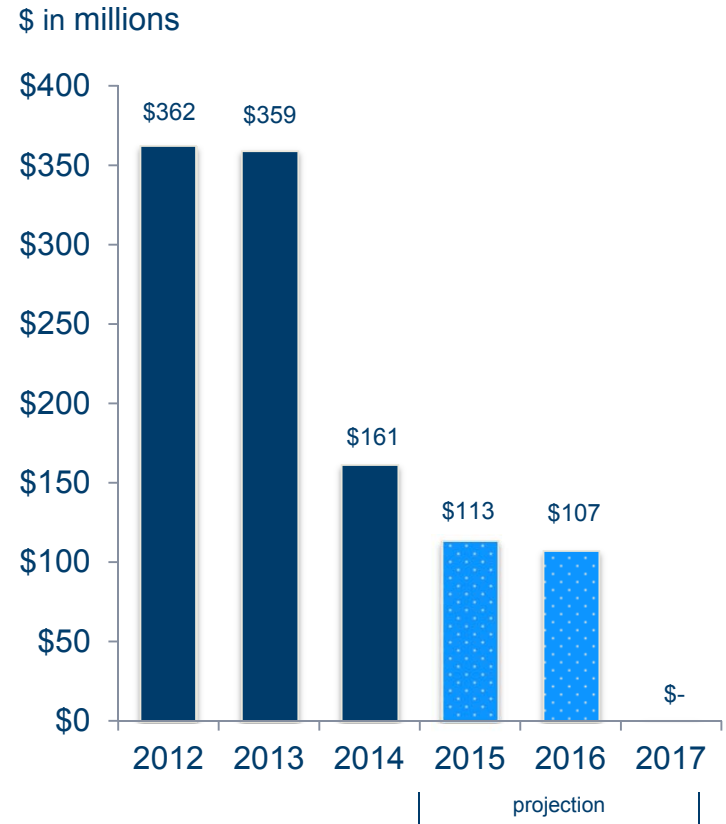


# FINANCIAL SERVICES BUSINESS INVESTMENT AGREEMENT BUSINESS SUMMARY

Investments and Cash by Sector – \$158 million Fair Value<sup>(1)</sup>



Year-end Balance of Liabilities



1) As of December 31, 2014

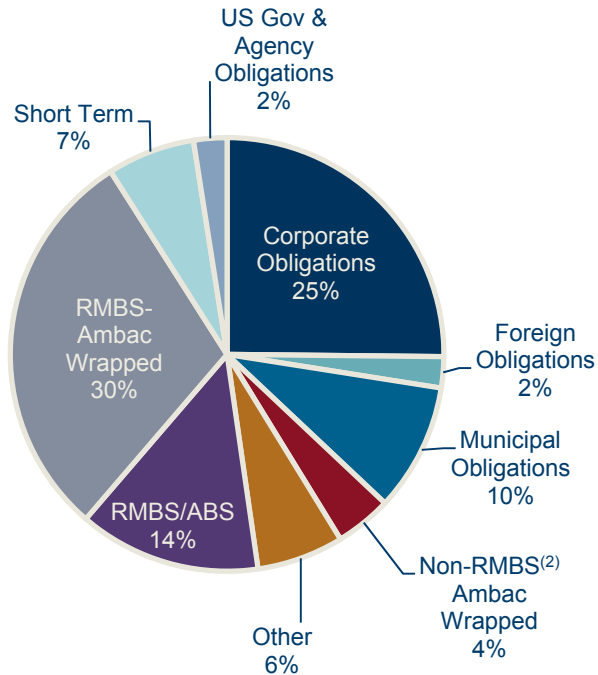
# FINANCIAL SERVICES BUSINESS SWAP BUSINESS

(\$ in millions)	4Q 2014	4Q 2013	2014	May-Dec 2013	Jan - April 2013
Notional (at period end)	\$2,474.0	\$2,561.2	\$2,474.0	\$2,561.2	\$2,676.9
Interest rate sensitivity (DV01)	1.4	1.4	1.4	1.4	1.8
Derivative product revenues	\$(63.6)	\$18.7	\$(181.1)	\$114.8	\$(33.7)
Net fair market value of derivatives at period end	\$(224.5)	\$(81.9)	\$(224.5)	\$(81.9)	\$(222.6)

# CONSOLIDATED INVESTMENT PORTFOLIO FAIR VALUE

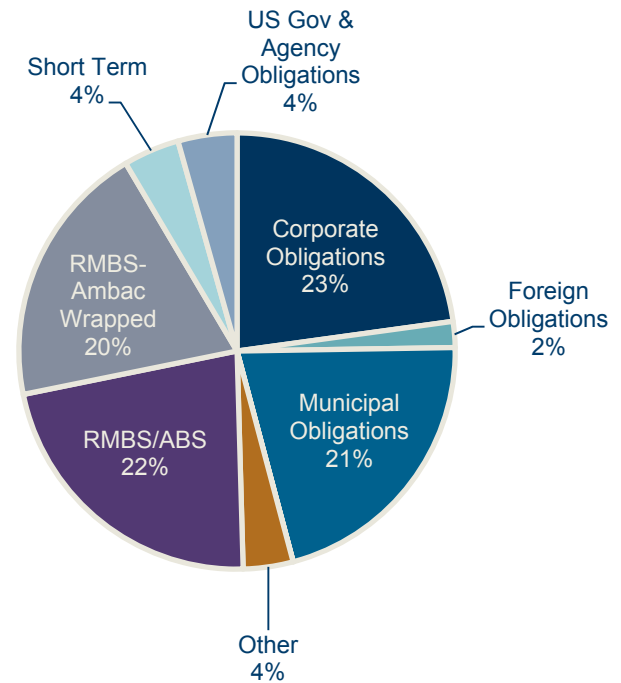
December 31, 2014

**\$5.5 billion<sup>(1)</sup>**



December 31, 2013

**\$6.5 billion**



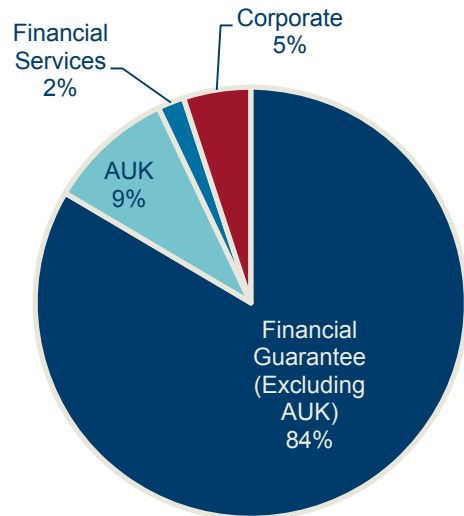
1) Used \$1.5 billion cash in 4Q 2014 for payments related to certain Deferred Amounts (and interest thereon) and redemptions of certain Surplus Notes (and interest thereon)

2) Non-RMBS Ambac wrapped as part of asset-liability management strategy

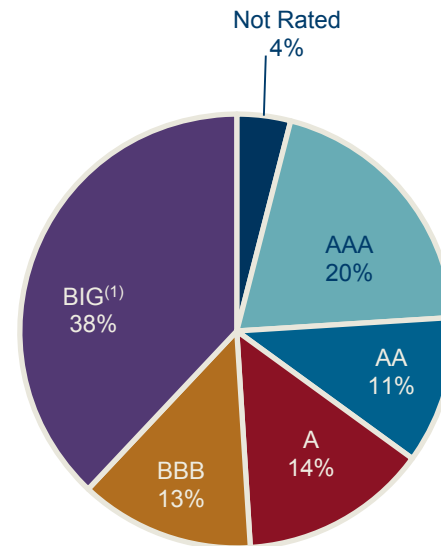


# CONSOLIDATED INVESTMENT PORTFOLIO DECEMBER 31, 2014

## Business Segment



## Ratings



1) Below Investment Grade Ambac wrapped bonds, which are owned as part of asset-liability management strategy, represent 36% of the consolidated fixed income investment portfolio fair value

# FINANCIAL HIGHLIGHTS

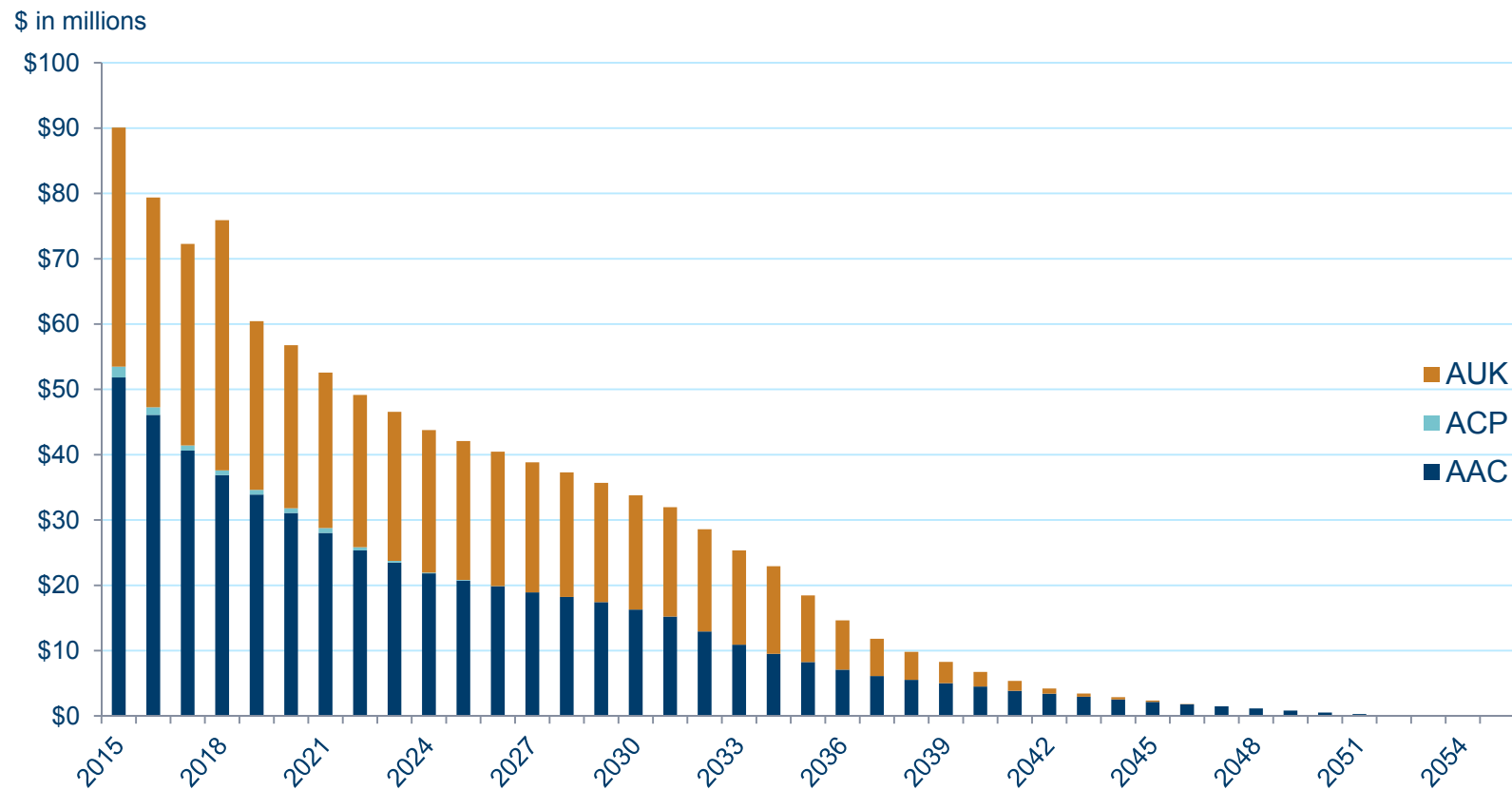
(\$ in millions)	4Q 2014	4Q 2013	2014	May-Dec 2013	Jan - April 2013
Net premiums earned	\$34.0	\$84.5	\$246.4	\$213.5	\$130.0
Net investment income	66.5	68.1	300.9	146.4	116.7
Net realized investment gains (losses) and OTTI	27.7	(10.4)	33.0	(42.3)	52.8
Net change in the fair value of credit derivatives	10.3	110.5	23.9	192.9	(60.4)
Derivative product revenues	(63.6)	18.7	(181.1)	114.8	(33.7)
Net realized loss on extinguishment of debt	(74.7)	-	(74.7)	-	-
Income (loss) on variable interest entities	2.4	(108.3)	(32.2)	(48.6)	426.6
Loss and loss (benefit) expense	(552.2)	(4.7)	(545.6)	(185.1)	(38.1)
Insurance intangible amortization	42.0	37.2	151.8	99.7	-
Net operating expenses	26.1	27.5	101.5	68.8	44.6
Interest expense	31.4	32.0	127.5	85.0	31.0
Reorganization items, including Fresh Start items	-	0.1	0.2	0.5	(2,745.2)
<b>Net income (attributable to common shareholders)<sup>(2)</sup></b>	<b>\$453.6</b>	<b>\$68.6</b>	<b>\$484.1</b>	<b>\$505.2</b>	<b>\$3,349.0</b>
<b>Net income (loss) per diluted share</b>	<b>\$9.73</b>	<b>\$1.49</b>	<b>\$10.31</b>	<b>\$10.91</b>	<b>NM</b>
<b>Operating Earnings (Losses)<sup>(1),(2)</sup></b>	<b>\$476.6</b>	<b>\$292.0</b>	<b>\$682.6</b>	<b>\$688.5</b>	<b>\$295.2</b>
<b>Operating Earnings (Losses) per diluted share</b>	<b>\$10.22</b>	<b>\$6.34</b>	<b>\$14.54</b>	<b>\$14.87</b>	<b>NM</b>
<b>Adjusted Book Value<sup>(1)</sup></b>	<b>\$337.4</b>	<b>\$(49.9)</b>	<b>\$337.4</b>	<b>\$(49.9)</b>	<b>NM</b>
<b>Adjusted Book Value per share<sup>(1)</sup></b>	<b>\$7.50</b>	<b>\$(1.11)</b>	<b>\$7.50</b>	<b>\$(1.11)</b>	<b>NM</b>

- 1) Operating Earnings (Losses), Adjust Book Value and related per share data are non-GAAP measures. Refer to the Appendix for a reconciliation of the most directly comparable financial measures calculated in accordance with GAAP
- 2) Included in 4Q 2014 and 2014 was \$51.9 million and \$411.7 million, respectively, of accrued interest related to unpaid Segregated Account claims

## EARNED PREMIUMS

(\$ in millions)	4Q 2014	4Q 2013	2014	May-Dec 2013	Jan - April 2013
Public Finance	\$25.6	\$30.0	\$104.8	\$86.6	\$47.9
Structured Finance	8.0	11.7	39.7	20.0	20.3
International Finance	12.7	19.0	71.9	50.4	25.4
<b>Total normal premiums earned</b>	<b>46.3</b>	<b>60.7</b>	<b>216.4</b>	<b>157.0</b>	<b>93.6</b>
Accelerated Earnings	(12.3)	23.8	30.0	56.5	36.4
<b>Total net premiums earned</b>	<b>\$34.0</b>	<b>\$84.5</b>	<b>\$246.4</b>	<b>\$213.5</b>	<b>\$130.0</b>

# INSTALLMENT PREMIUM RUNOFF<sup>(1)</sup>



1) 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.

# INTEREST EXPENSE

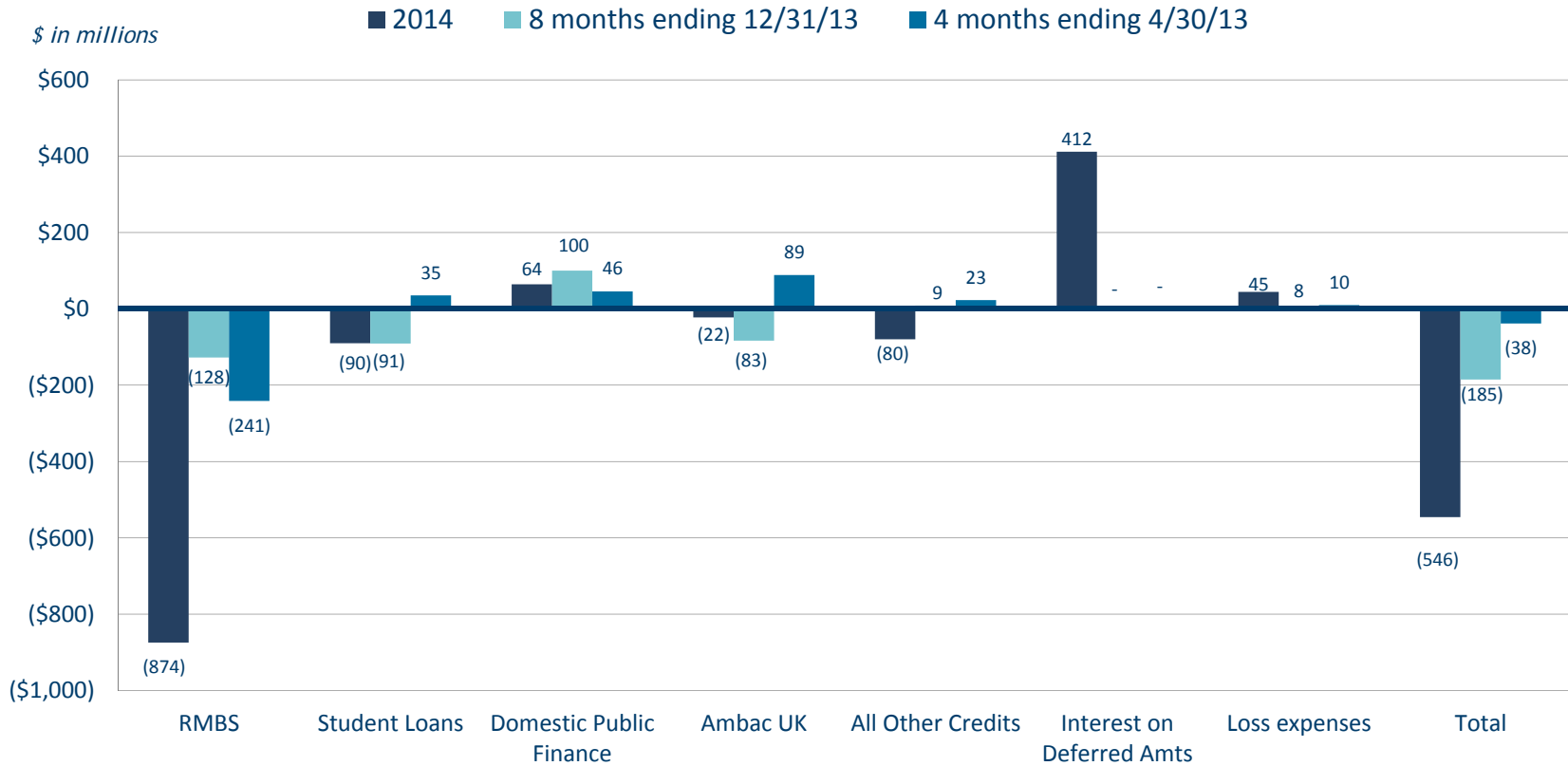
(\$ in millions)	Carrying Value <sup>(3)</sup>			4Q 2014	4Q 2013	2014	May-Dec 2013	Jan - April 2013
	Face Value <sup>(3)</sup>	12/31/14	12/31/13					
<b><u>Ambac Assurance Corporation<sup>(1)</sup></u></b>								
5.1% surplus notes, general account, due 2020	\$893.3	\$696.3	\$909.2	\$24.0	\$29.6	\$111.1	\$78.3	\$27.5
5.1% surplus notes, segregated account, due 2020	39.1	30.5	39.8	1.1	1.2	4.7	3.3	1.2
5.1% junior surplus notes, segregated account, due 2020 <sup>(2)</sup>	378.0	244.3	14.2	5.9	0.7	10.1	1.9	0.8
<b>Ambac Assurance long-term debt</b>	<b>\$1,310.4</b>	<b>\$971.1</b>	<b>\$963.2</b>	<b>\$31.0</b>	<b>\$31.5</b>	<b>\$125.9</b>	<b>\$ 83.5</b>	<b>\$ 29.5</b>
<b><u>Financial Services</u></b>								
Investment agreements	\$161.5	\$160.1	\$359.1	0.4	0.5	\$1.6	\$ 1.4	\$ 1.3
Secured Borrowing	-	-	-	-	-	-	0.1	0.2
<b>Financial Services long-term debt</b>	<b>\$161.5</b>	<b>\$160.1</b>	<b>\$359.1</b>	<b>\$0.4</b>	<b>\$0.5</b>	<b>\$1.6</b>	<b>\$ 1.5</b>	<b>\$ 1.5</b>
<b>Total Interest Expense</b>				<b>\$31.4</b>	<b>\$32.0</b>	<b>\$127.5</b>	<b>\$ 85.0</b>	<b>\$ 31.0</b>

1) Ambac Assurance and the Segregated Account have not paid any interest on surplus notes since their issuance (excluding those redeemed in November 2014)

2) Includes monetized junior surplus note and interest beginning in 3Q 2014

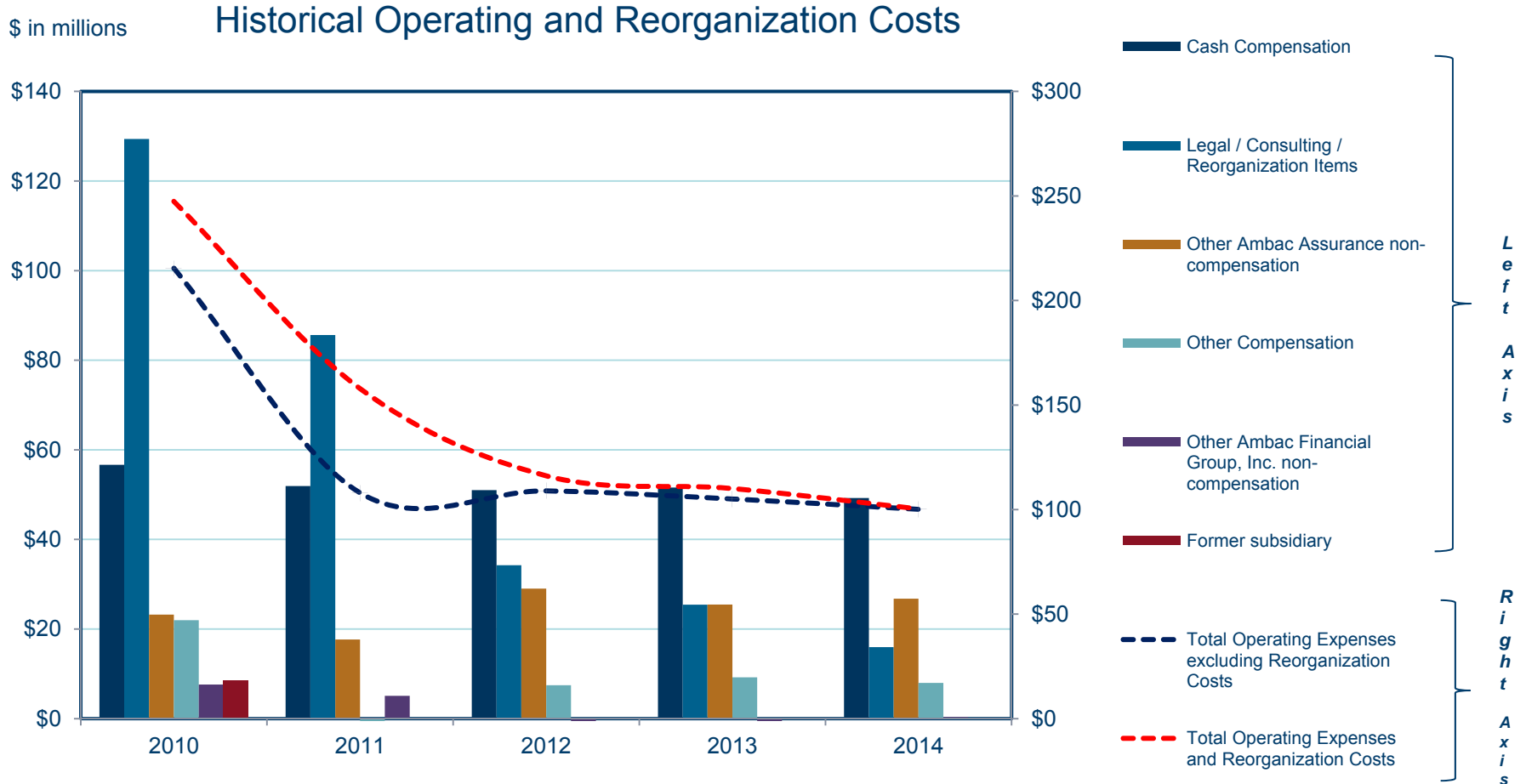
3) Reflects November 2014 redemptions

# INCURRED (LOSSES) BENEFIT BY CATEGORY<sup>(1)</sup>



1) Components may not add to total due to rounding

# MANAGING OPERATING EXPENSES



## CREDIT DERIVATIVES

(\$ in millions)	4Q 2014	4Q 2013	2014	May-Dec 2013	Jan - April 2013
Notional at period end	\$1,529.8	\$2,776.1	\$1,529.8	\$2,776.1	\$9,977.6
Net change in fair market value of credit derivatives	\$10.3	\$110.5	\$23.9	\$192.9	\$(60.4)
<i>Realized gains and other settlements</i>	0.9	2.1	3.0	9.8	3.4
<i>Unrealized (losses) gains</i>	9.4	108.4	20.9	183.1	(63.8)
Credit impairment on credit derivatives at period end	\$17.8	\$21.5	\$17.8	\$21.5	\$38.7
Fair market value of credit derivative at period end	\$(73.5)	\$(94.3)	\$(73.5)	\$(94.3)	\$(277.4)



## GAAP FINANCIAL OVERVIEW – BALANCE SHEET

(\$ in millions)	As of December 31, 2014	As of December 31, 2013
Investments	\$ 5,507	\$ 6,524
Premium receivables	1,001	1,453
Reinsurance recoverable on losses	100	121
Deferred ceded premium	123	146
Subrogation recoverable	953	498
Derivative assets	109	78
Insurance intangible asset and goodwill	1,925	2,112
VIE assets	15,126	15,989
Other assets	316	172
<b>Total assets</b>	<b>\$ 25,160</b>	<b>\$ 27,092</b>
Loss and loss expense reserves	\$ 4,752	\$ 5,969
Unearned premium reserves	1,674	2,256
Long-term debt and investment agreements	1,131	1,322
Derivative liabilities	407	254
VIE liabilities	15,086	15,873
Other liabilities	436	440
<b>Total liabilities</b>	<b>\$ 23,486</b>	<b>\$ 26,114</b>
<b>Total stockholders' equity</b>	<b>\$ 1,674</b>	<b>\$ 978</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 25,160</b>	<b>\$ 27,092</b>

# OPERATING EARNINGS<sup>(1)</sup>

(\$ in millions, except per share data)	4Q 2014		4Q 2013		2014		May-Dec 2013		Jan - April 2013	
	\$ Amount	Per Diluted Share	\$ Amount	Per Diluted Share	\$ Amount	Per Diluted Share	\$ Amount	Per Diluted Share	\$ Amount	Per Diluted Share
Net income (loss) attributable to common shareholders	\$453.6	\$9.73	\$68.6	\$1.49	\$484.1	\$10.31	\$505.2	\$10.91	\$3,349.0	NM
Adjustments:										
Non-credit impairment fair value (gain) loss on credit derivatives	(9.9)	(0.21)	(107.2)	(2.33)	(17.1)	(0.36)	(165.9)	(3.58)	71.6	NM
Effect of consolidating financial guarantee VIEs	(11.0)	(0.24)	287.7	6.25	45.0	0.96	223.7	4.83	(413.7)	NM
Insurance intangible amortization	42.0	0.90	37.2	0.81	151.8	3.23	99.7	2.15	-	NM
Foreign exchange (gain) loss from re-measured premium receivables and loss and loss expense reserves	18.0	0.39	(9.4)	(0.21)	34.9	0.74	(21.0)	(0.45)	11.3	NM
Fair value (gain) loss on derivatives from AMBAC CVA	(16.1)	(0.35)	15.1	0.33	(16.1)	(0.34)	46.8	1.01	26.7	NM
Fresh Start accounting adjustments	-	-	-	-	-	-	-	-	(2,749.7)	NM
<b>Operating Earnings</b>	<b>\$476.6</b>	<b>\$10.22</b>	<b>\$292.0</b>	<b>\$6.34</b>	<b>\$682.6</b>	<b>\$14.54</b>	<b>\$688.5</b>	<b>\$14.87</b>	<b>\$295.2</b>	<b>NM</b>

1) Non-GAAP Financial Measures. See disclosure in Ambac's December 31, 2014 Form 10-K

## ADJUSTED BOOK VALUE<sup>(1)</sup>

(\$ in millions, except per share data)	December 31, 2014	December 31, 2013
Total Ambac Financial Group, Inc. stockholders' equity (deficit)	\$1,399.1	\$703.0
Adjustments:		
Non-credit impairment fair value losses on credit derivatives	55.7	72.8
Effect of consolidating financial guarantee VIEs	(319.1)	(372.7)
Insurance intangible asset and goodwill	(1,925.4)	(2,112.5)
Ambac CVA on derivative product liabilities (excluding credit derivatives)	(64.5)	(48.4)
Net unearned premiums in excess of expected losses	1,402.3	1,666.0
Net unrealized investment (gains) losses in AOCI	(210.7)	41.9
<b>Adjusted Book Value</b>	<b>\$337.4</b>	<b>\$(49.9)</b>
<b>Adjusted Book Value per share</b>	<b>\$7.50</b>	<b>\$(1.11)</b>

1) Non-GAAP Financial Measures. See disclosure in Ambac's December 31, 2014 Form 10-K.

## CHANGES TO AMBAC ASSURANCE POLICYHOLDERS' SURPLUS

(\$ in millions)	4Q 2014 Income Statement	4Q 2014 Changes in Surplus	2014 Income Statement	2014 Changes in Surplus
<b>Beginning surplus to policyholders</b>		<b>\$ 898</b>		<b>\$ 840</b>
Net premiums earned	\$ 85		\$ 254	
Investment income	(10)		349	
Underwriting expenses	(21)		(78)	
Insurance losses and loss expenses (including interest on Deferred Amounts)	301		43	
Intercompany loans and guarantees of subsidiary liabilities	(43)		(133)	
Net realized gains, other income and tax benefits	39		140	
<b>Net income</b>		<b>351</b>		<b>575</b>
Contingency reserves contribution		(36)		(103)
Change in Surplus Notes classified as debt		(932)		(932)
Redemption of Surplus Notes		(332)		(332)
Change in Prescribed Practice – General Account minimum surplus adj.		149		149
Non-income statement changes to AAC investments		2		(97)
<b>Ending surplus to policyholders</b>		<b>\$ 100</b>		<b>\$ 100</b>

## GAAP VS. STATUTORY ACCOUNTING DIFFERENCES

	US GAAP Basis	US Statutory
<b>Invested Assets</b>	<ul style="list-style-type: none"> <li>▶ Investments carried at fair value</li> <li>▶ Consolidation of subsidiaries and VIEs</li> </ul>	<ul style="list-style-type: none"> <li>▶ Investments carried primarily at book value</li> <li>▶ Subsidiaries carried under equity method of accounting, if audited</li> <li>▶ Loans to affiliates carried at current value, net of impairments</li> <li>▶ VIEs is not a Statutory concept</li> </ul>
<b>Surplus Notes</b>	<ul style="list-style-type: none"> <li>▶ Reported as long-term debt</li> <li>▶ Carried at par less unamortized discount (set to fair value at Fresh Start Date)</li> </ul>	<ul style="list-style-type: none"> <li>▶ At 12/31/2014, reclassified senior Surplus Notes to a liability since they are pari-passu to policyholder obligations</li> <li>▶ Junior Surplus Notes reported as surplus</li> <li>▶ Carried at par value per an OCI prescribed practice</li> </ul>
<b>Surplus Note Interest</b>	<ul style="list-style-type: none"> <li>▶ Accrual basis</li> </ul>	<ul style="list-style-type: none"> <li>▶ Interest expensed only upon OCI's approval to pay</li> </ul>
<b>Premium Receivables</b>	<ul style="list-style-type: none"> <li>▶ Present value of future contractual premiums due over the life of the policy, discounted at the risk-free rate</li> <li>▶ RMBS uses future expected premiums due</li> </ul>	<ul style="list-style-type: none"> <li>▶ Established only for installment premiums related to the period covered through the reporting date</li> </ul>
<b>Premium Earnings</b>	<ul style="list-style-type: none"> <li>▶ Recognized based on a constant rate derived by daily principal exposure outstanding</li> </ul>	<ul style="list-style-type: none"> <li>▶ On upfront paying policies, recognized based on expiration of debt service of insured exposure</li> <li>▶ On installment paying policies, recognized in income pro-rata over the installment period covered</li> </ul>

# GAAP VS. STATUTORY ACCOUNTING

## COMPARISON OF LOSS RESERVING METHODOLOGIES

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

## COMMUTATIONS AND RESTRUCTURINGS

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

# RISK ADVERSE CREDIT CLASSIFICATIONS<sup>(1)</sup>

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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

1) See Ambac's 2014 Form 10-K for further description of risk classifications



## NOL TOLLING AGREEMENT TIERS

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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%

# SEGREGATED ACCOUNT PLAN OF REHABILITATION

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- ▶ **AAC established the Segregated Account March 24, 2010, pursuant to Wisconsin law**
- ▶ **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<sup>(1)</sup> increased to 45% beginning July 21, 2014**
  - November 20, 2014 – redeemed a portion of surplus notes and interest thereon of \$414 million
  - December 22, 2014 – made equalizing payments on Deferred Amounts and interest thereon of \$1.1 billion
- ▶ **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%**
  - \$329.2 million accrued interest as of December 31, 2014

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

# SEGREGATED ACCOUNT

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## ▶ 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

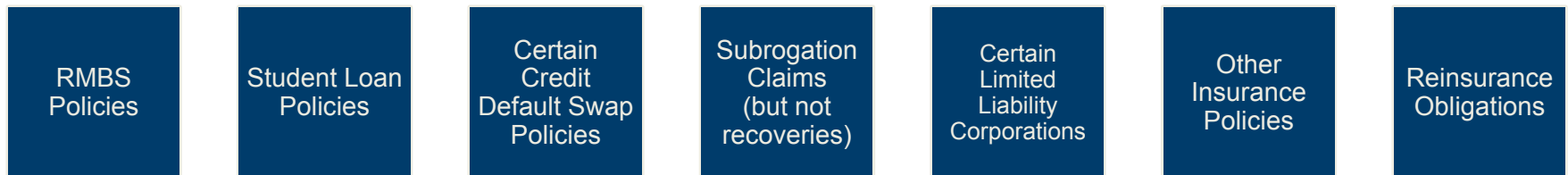
## ▶ Rehabilitator has ultimate decision-making authority over the Segregated Account

- 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



# 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)

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

### Auction Market Preferred Shares (AMPS)

<b>Dividends on AAC Common Equity</b>	<ul style="list-style-type: none"> <li>▶ Prohibited unless dividends are paid on AMPS for then current dividend period           <ul style="list-style-type: none"> <li>○ Exception for dividends to pay debt service or operating expenses at AFG               <ul style="list-style-type: none"> <li>▪ If paid while dividends on AMPS for the then current dividend period are not paid, then dividends on AMPS will be cumulative</li> </ul> </li> </ul> </li> </ul>
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# 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” described in our most recent SEC filed quarterly or annual report.

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) dilution of current shareholder value or adverse effects on our share price resulting from the issuance of additional shares of common stock; (4) adverse effects on our share price resulting from future offerings of debt or equity securities that rank senior to our common stock; (5) potential of rehabilitation proceedings against Ambac Assurance; (6) 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; (7) our inability to realize the expected recoveries included in our financial statements; (8) intercompany disputes or disputes with the rehabilitator of the Segregated Account; (9) our inability to monetize assets or restructure or exchange outstanding debt and insurance obligations, or the failure of any such monetization, restructuring or exchange to deliver anticipated results; (10) our results of operation may be adversely affected by events or circumstances that result in the accelerated amortization of our insurance intangible asset or impairments to goodwill; (11) increased fiscal stress experienced by issuers of public finance obligations or an increased incidence of Chapter 9 filings by municipal issuers; (12) adverse tax consequences or other costs resulting from the Segregated Account rehabilitation plan, from rules and procedures governing the payment of permitted policy claims, or from the characterization of our surplus notes as equity; (13) 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; (14) risks attendant to the change in composition of securities in our investment portfolio; (15) inadequacy of reserves established for losses and loss expenses; (16) 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; (17) changes in prevailing interest rates; (18) factors that may influence the amount of installment premiums paid to Ambac, including the Segregated Account rehabilitation proceedings; (19) default by one or more of Ambac Assurance’s portfolio investments, insured issuers or counterparties; (20) 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; (21) risks relating to determinations of amounts of impairments taken on investments; (22) 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; (23) our inability to realize value from Ambac Assurance UK Limited; (24) system security risks; (25) market spreads and pricing on derivative products insured or issued by Ambac or its subsidiaries; (26) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting; (27) changes in accounting principles or practices that may impact Ambac’s reported financial results; (28) legislative and regulatory developments; (29) operational risks, including with respect to internal processes, risk models, systems and employees, and failures in services or products provided by third parties; (30) 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 (31) other risks and uncertainties that have not been identified at this time.



# ***Ambac***

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