Ambac

May 10, 2012

Ambac Financial Group, Inc. Announces First Quarter 2012 Results, Board Approves Exercise of Call Options on Surplus Notes

NEW YORK--(BUSINESS WIRE)--May. 10, 2012-- **Ambac Financial Group, Inc.** ("Ambac") today announced a first quarter 2012 net profit of $253.3 million, or a net profit of $0.84 per share. This compares to a first quarter 2011 net loss of $819.3 million, or a net loss of $2.71 per share. Relative to first quarter 2011, first quarter 2012 results were primarily driven by lower net loss and loss expenses, and higher net investment income, derivative product revenues, and other income.

In addition, the Board of Directors of Ambac Assurance Corporation ("Ambac Assurance"), Ambac's principal operating subsidiary, has approved the exercise of all options to purchase surplus notes with an aggregate par amount of approximately $940 million. The exercise of such options also requires the approval of the Office of the Commissioner of Insurance for the State of Wisconsin ("OCI") and the Rehabilitator of the Segregated Account. Ambac Assurance is seeking such approvals. There can be no assurance that such approvals will be obtained.

As previously announced, on November 8, 2010, Ambac filed for a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code ("Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York ("Bankruptcy Court"). The Bankruptcy Court entered an order confirming Ambac's plan of reorganization on March 14, 2012. However, Ambac is not currently able to estimate when it will be able to consummate such plan. Until the plan of reorganization is consummated and Ambac emerges from bankruptcy, Ambac will continue to operate in the ordinary course of business as "debtor-in-possession" in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

First Quarter 2012 Summary

Relative to the first quarter of 2011,

- Net premiums earned increased $3.2 million to $95.0 million
- Net investment income increased $35.6 million to $112.1 million
- Net loss and loss expenses incurred improved $922.0 million to a net benefit of $2.3 million
- Other income increased $36.5 million to $64.8 million
- Derivative product revenues increased $26.0 million to $47.0 million
- Income related to variable interest entities ("VIEs") increased $21.3 million to $15.2 million

As of March 31, 2012, unrestricted cash, short-term securities and bonds at the holding company totaled $34.0 million, a decline of $1.4 million from December 31, 2011.

Financial Results

Net Premiums Earned

Net premiums earned for the first quarter of 2011 were $95.0 million, up 3% from $91.8 million earned in the first quarter of 2011. Net premiums earned include accelerated premiums, which result from refundings, calls, and other accelerations recognized during the quarter. Accelerated premiums were $15.8 million in the first quarter of 2012, up from ($0.1) million in the first quarter of 2011. The increase in accelerated premiums was primarily driven by an increase in the volume of calls of Ambac Assurance insured debt within the public finance market. Normal net premiums earned, which exclude accelerated premiums, were $79.2 million in the first quarter of 2012, down 14% from $91.9 million in the first quarter of 2011. The decline in normal net premiums earned was primarily due to the continued run-off of the insured portfolio as a result of transaction terminations, refundings, and scheduled maturities.

Net Investment Income

For the combined financial guarantee, financial services, and corporate investment portfolios, net investment income for the first quarter of 2012 was $112.1 million, an increase of 47% from $76.5 million earned in the first quarter of 2011. The increase was primarily attributable to a higher average portfolio yield and a higher average balance of investments in the financial guarantee portfolio. The invested asset balance continues to benefit from the moratorium on segregated account claim payments, while the higher average portfolio yield was achieved through the ongoing allocation shift of financial guarantee portfolio investments from tax exempt municipal securities to taxable securities having higher pre-tax yields, including Ambac

Assurance guaranteed securities. In addition to the greater holdings of Ambac Assurance guaranteed securities, investment income from such securities in the first quarter 2012 was higher than first quarter 2011 due to the impact of favorable changes in projected cash flows.

Financial Guarantee Loss Reserves

Loss and loss expenses for the first quarter of 2012 were a net benefit of $2.3 million as compared to a net loss of $919.6 million for the first quarter of 2011. The net benefit realized for the three months ended March 31, 2012, was driven by lower estimated losses in the first-lien residential mortgage backed securities (“RMBS”) and student loan portfolios, partially offset by higher estimated losses for public finance credits and loss expense reserves for RMBS credits.

Loss and loss expenses paid, including commutations, net of recoveries from all policies, amounted to a net recovery of $7.5 million during the first quarter 2012 versus a $6.9 million net recovery for the same period in 2011. The amount of actual claims paid during each period was impacted by the payment moratorium imposed on March 24, 2010, by the court overseeing the rehabilitation of the Segregated Account. Claims presented to Ambac Assurance and unpaid during the first quarter of 2012 amounted to $393.8 million versus $357.3 million during the same period in 2011. Since the establishment of the Segregated Account in March 2010, a total of $3,162.4 million of claims have been presented and remain unpaid.

Loss reserves (gross of reinsurance and net of subrogation recoveries) for all RMBS insurance exposures as of March 31, 2012, were $4,410.0 million, including claims on RMBS exposures that have been presented since March 24, 2010, and unpaid as a result of the claims moratorium. RMBS reserves as of March 31, 2012, are net of $2,655.4 million of estimated representation and warranty breach remediation recoveries. The estimate of remediation recoveries related to material representation and warranty breaches is down 2% from $2,720.3 million reported as of December 31, 2011. Ambac has initiated and will continue to initiate lawsuits and other methods to achieve compliance with the repurchase obligations in the securitization documents with respect to sponsors who disregard their obligations to repurchase loans.

Other Income

Other income for the three months ended March 31, 2012, was $64.8 million up 129% from $28.3 million for the three months ending March 31, 2011. The increase in other income for the first quarter of 2012 was primarily attributable to mark-to-market gains of $61.7 million relating to Ambac Assurance’s option to call certain surplus notes, compared to gains of $16.7 million in the first quarter 2011. This surplus note call option expires on June 7, 2012, and is carried as an asset on the balance sheet at a fair value of $67.7 million at March 31, 2012. Upon the earlier of exercise or expiration of the option, the asset will be reversed with the change in fair value recognized as a loss.

Derivative Products

The derivative products portfolio has been positioned to record gains in a rising interest rate environment in order to provide a hedge against the impact of rising rates on certain exposures within the financial guarantee insurance portfolio. For the first quarter of 2012, the derivatives product business produced net revenue of $47.0 million compared to net revenue of $21.0 million for the first quarter of 2011. First quarter 2012 results reflect mark-to-market gains of $49.7 million in the derivative products portfolio due to rising interest rates, partially offset by a net $2.7 million loss relating to the mark-to-market changes on financial guarantee customer swaps. The net mark-to-market loss on customer swaps in the first quarter 2012 includes the impact of negative valuation adjustments of $35.3 million relating to Ambac’s own credit risk. First quarter 2011 results included negative valuation adjustments of $4.2 million for Ambac’s own credit risk.

Income (loss) on Variable Interest Entities

Income on variable interest entities for the three months ended March 31, 2012, was $15.2 million compared to a loss of $6.1 million for the three month period ending March 31, 2011. For the current period, the gain was the result of the positive change in the fair value of net assets held in consolidated VIEs during the period, while the first quarter 2011 loss was largely driven by the impact of deconsolidating one VIE during the period.

Expenses

Expenses, other than loss and loss expenses and reorganization items, fell to $70.4 million in the first quarter of 2012 from $75.7 million for the same period in 2011. Underwriting and operating expenses declined in the first quarter of 2012 to $36.5 million from $45.5 million during the first quarter of 2011. The decline in underwriting and operating expenses is primarily related to lower compensation, premises, consulting and legal expenses. Interest expense increased in the first quarter of 2012 to $33.8 million from $30.3 million in the first quarter of 2011. This increase was primarily attributable to higher accrued interest on surplus notes issued by Ambac Assurance and by the Segregated Account.

Reorganization Items, Net

For purposes of presenting an entity's financial evolution during a Chapter 11 reorganization, the financial statements for periods including and after filing the Chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Reorganization items in the first quarter of 2012 fell to $2.5 million, from $24.8 million during the first quarter of 2011. The decline primarily related to lower professional advisory fees incurred during the current period and a one time non-recurring lease settlement charge associated with the termination of the Company's headquarters office lease during the first quarter of 2011.

Balance Sheet and Liquidity

Total assets increased during the first quarter of 2012 to $27.4 billion from $27.1 billion at December 31, 2011, primarily due to an increase in VIE assets.

During the first quarter of 2012, the amount of VIE assets increased by $315 million to $16.9 billion from $16.5 billion. VIE assets are restricted and Ambac's creditors do not have rights with regard to such VIE assets. The fair value of the consolidated non-VIE investment portfolio remained flat at $6.9 billion as of December 31, 2011, with growth of the financial guarantee investment portfolio partially offset by reductions to the financial services portfolio.

The financial guarantee non-VIE investment portfolio balance had a fair value of $6.1 billion (amortized cost of $5.7 billion) as of March 31, 2012, up $116 million from $6.0 billion (amortized cost of $5.6 billion) as of December 31, 2011. The portfolio consists of primarily high quality municipal and corporate bonds, asset backed securities, U.S. Treasuries, Agency MBS, as well as non-agency MBS, including Ambac Assurance guaranteed RMBS.

Liabilities subject to compromise totaled approximately $1.7 billion at March 31, 2012. As required by ASC Topic 852, the amount of liabilities subject to compromise represents Ambac's estimate at March 31, 2012, of known or potential pre-petition claims to be addressed in connection with the Chapter 11 reorganization. As of March 31, 2012, liabilities subject to compromise consist of the following *(in thousands):*

Accrued interest payable	$68,123
Other	17,105
Senior unsecured notes	1,222,189
Directly-issued Subordinated capital securities	400,000
Consolidated liabilities subject to compromise	$1,707.417

Overview of Ambac Assurance Statutory Results

As of March 31, 2012, Ambac Assurance reported policyholder surplus of $262.9 million, down from $495.3 million as of December 31, 2011. Ambac Assurance's statutory financial statements include the combined results of Ambac Assurance's general account and the Segregated Account. Policyholder surplus at March 31, 2012, was negatively impacted by a quarterly statutory net loss of $146.9 million and additions to the mandatory contingency reserve of $95.2 million.

Ambac Assurance's claims-paying resources amount to approximately $6.5 billion as of March 31, 2012, up $67.8 million from $6.4 billion at December 31, 2011. This excludes Ambac Assurance UK Limited's claims-paying resources of approximately $1.1 billion*.* The increase in claims paying resources was primarily attributable to net investment income during the period.

Additional information regarding Ambac's first quarter 2012 financial results, including its quarterly report on Form 10-Q for the quarter ended March 31, 2012, can be found on Ambac's website at www.ambac.com under the Investor Relations tab.

Forward-Looking Statements

This release contains statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of management's forward-looking statements here or in other publications may turn out to be incorrect and are based on Ambac 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) a plan of reorganization under Chapter 11 will not be consummated; (2) if Ambac is not successful in consummating a plan of reorganization under Chapter 11, it is likely it would have to liquidate pursuant to Chapter 7; (3) the impact of the bankruptcy proceeding on the holders of Ambac securities; (4) our dispute with the United States Internal Revenue Service may not be satisfactorily resolved; (5) the unlikely ability of Ambac Assurance to pay dividends to Ambac in the foreseeable future; (6) adverse events arising from the Segregated Account Rehabilitation Proceedings, including the failure of the injunctions issued by the Wisconsin Rehabilitation Court to protect the Segregated Account and Ambac Assurance from certain adverse actions; (7) litigation arising from the

Segregated Account Rehabilitation Proceedings; (8) decisions made by the Rehabilitator for the benefit of policyholders may result in material adverse consequences for Ambac's securityholders; (9) potential of a full rehabilitation proceeding against Ambac Assurance or material changes to the Segregated Account Rehabilitation Plan, with resulting adverse impacts; (10) inadequacy of reserves established for losses and loss expenses, including our inability to realize the remediation recoveries or future commutations included in our reserves; (11) adverse developments in our portfolio of insured public finance credits; (12) 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 and currency swap transactions; (13) risks relating to determination of amount of impairments taken on investments; (14) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (15) market spreads and pricing on insured collateralized loan obligations ("CLOs") and other derivative products insured or issued by Ambac or its subsidiaries; (16) Ambac's financial position and the Segregated Account Rehabilitation Proceedings may prompt departures of key employees and may impact our ability to attract qualified executives and employees; (17) 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; (18) credit risk throughout our business, including but not limited to credit risk related to residential mortgage-backed securities, pooled student loan securitizations, CLOs, public finance obligations and exposures to reinsurers; (19) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (20) 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; (21) factors that may influence the amount of installment premiums paid to Ambac, including the continuation of the moratorium with respect to claims payments as a result of Segregated Account Rehabilitation Proceedings; (22) changes in prevailing interest rates; (23) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting, required under the relevant derivative accounting guidance, to the portion of our credit enhancement business which is executed in credit derivative form; (24) changes in accounting principles or practices that may impact Ambac's reported financial results; (25) legislative and regulatory developments; (26) operational risks, including with respect to internal processes, risk models, systems and employees; (27) changes in tax laws, tax disputes and other tax-related risks; (28) other risks and uncertainties that have not been identified at this, and (29) the risks described in the Risk Factors section in Part I, Item 1A of Ambac's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and also disclosed from time to time by Ambac in its subsequent reports on Form 10-Q and Form 8-K, which are available on the Ambac website at www.ambac.com and at the SEC's website, www.sec.gov. Readers are cautioned that forward-looking statements speak only as of the date they are made and that Ambac does not undertake to update forward-looking statements to reflect circumstances or events that arise after the date the statements are made. You are therefore advised to consult any further disclosures we make on related subjects in Ambac's reports to the SEC.

Ambac Financial Group, Inc. and Subsidiaries
Consolidated Balance Sheets
March 31, 2012 and December 31, 2011
(Dollars in Thousands Except Share Data)

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Investments:		
Fixed income securities, at fair value (amortized cost of $5,296,055 in 2012 and $5,346,897 in 2011)	$ 5,763,133	$ 5,830,289
Fixed income securities pledged as collateral, at fair value (amortized cost of $286,846 in 2012 and $261,958 in 2011)	287,762	263,530
Short-term investments (amortized of $893,649 in 2012 and $783,015 in 2011)	893,822	783,071
Other, at cost (approximates fair value)	100	100
Total investments	6,944,817	6,876,990
Cash	39,931	15,999
Restricted cash	2,500	2,500
Receivable for securities	108,185	38,164
Investment income due and accrued	39,831	45,328
Premium receivables	1,917,536	2,028,479
Reinsurance recoverable on paid and unpaid losses	170,799	159,902
Deferred ceded premium	202,226	221,303
Subrogation recoverable	519,404	659,810

Deferred acquisition costs	219,001	223,510
Loans	19,243	18,996
Derivative assets	272,658	175,207
Other assets	58,875	104,300
Variable interest entity assets:		
Fixed income securities, at fair value	2,184,665	2,199,338
Restricted cash	2,297	2,140
Investment income due and accrued	1,215	4,032
Loans	14,661,522	14,329,515
Other assets	8,179	8,182
Total assets	$ 27,372,884	$ 27,113,695
Liabilities and Stockholders' Deficit		
Liabilities:		
Liabilities subject to compromise	$ 1,707,417	$ 1,707,421
Unearned premiums	3,291,152	3,457,157
Loss and loss expense reserve	6,924,346	7,044,070
Ceded premiums payable	99,643	115,555
Obligations under investment agreements	523,831	523,046
Obligations under investment repurchase agreements	23,500	23,500
Current taxes	97,449	95,709
Long-term debt	227,189	223,601
Accrued interest payable	196,853	170,169
Derivative liabilities	387,476	414,508
Other liabilities	97,144	107,441
Payable for securities purchased	37,856	1,665
Variable interest entity liabilities:		
Accrued interest payable	890	3,490
Long-term debt	14,666,921	14,288,540
Derivative liabilities	2,004,544	2,087,052
Other liabilities	315	304
Total liabilities	30,286,526	30,263,228
Stockholders' deficit:		
Ambac Financial Group, Inc.:		
Preferred stock	-	-
Common stock	3,080	3,080
Additional paid-in capital	2,172,027	2,172,027
Accumulated other comprehensive income	445,797	463,259
Accumulated deficit	(5,786,940)	(6,039,922)
Common stock held in treasury at cost	(411,081)	(411,419)
Total Ambac Financial Group, Inc. stockholders' deficit	(3,577,117)	(3,812,975)
Non-controlling interest	663,475	663,442
Total stockholders' deficit	(2,913,642)	(3,149,533)
Total liabilities and stockholders' deficit	$ 27,372,884	$ 27,113,695
Number of shares outstanding (net of treasury shares)	302,431,515	302,428,811

Ambac Financial Group, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
For the Three Months Ended March 31, 2012 and 2011
(Dollars in Thousands Except Share Data)

	Three Months Ended March 31, 2012	2011
Revenues:		
Net premiums earned	$ 94,950	$ 91,799
Net investment income	112,117	76,468
Other-than-temporary impairment losses:		
Total other-than-temporary impairment losses	(4,311)	(1,713)
Portion of loss recognized in other comprehensive income	1,240	-
Net other-than temporary impairment losses recognized in earnings	(3,071)	(1,713)
Net realized investment gains	392	2,450
Change in fair value of credit derivatives:		
Realized gains and other settlements	3,254	5,323
Unrealized losses	(10,476)	(14,226)
Net change in fair value of credit derivatives	(7,222)	(8,903)
Derivative products	46,957	21,004
Other income	64,793	28,303
Gain (loss) on variable interest entities	15,220	(6,125)
Total revenues before expenses and reorganization items	324,136	203,283
Expenses:		
Loss and loss expenses	(2,320)	919,647
Underwriting and operating expenses	36,534	45,467
Interest expense	33,839	30,260
Total expenses before reorganization items	68,053	995,374
Pre-tax gain (loss) from continuing operations before reorganization items	256,083	(792,091)
Reorganization items	2,461	24,805
Pre-tax gain (loss) from continuing operations	253,622	(816,896)
Provision for income taxes	300	2,350
Net income (loss)	253,322	(819,246)
Less: net gain attributable to noncontrolling interest	2	33
Net income (loss) attributable to common shareholders	$ 253,320	($819,279)
Net inome (loss) per share attributable to Ambac Financial Group, Inc. common shareholders	$ 0.84	($2.71)
Net income (loss) per diluted share attributable to Ambac Financial Group, Inc. common shareholders	$ 0.84	($2.71)

Weighted average number of common shares outstanding:		
Basic	**302,466,328**	**302,355,243**
Diluted	**302,580,597**	**302,355,243**

Source: Ambac Financial Group, Inc.

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