Ambac

May 15, 2013

Ambac Financial Group, Inc. Announces First Quarter 2013 Results and Update on Segregated Account Rehabilitation

NEW YORK--(BUSINESS WIRE)-- **Ambac Financial Group, Inc.** ("Ambac") (NASDAQ: AMBC) today announced a first quarter 2013 net profit of $282.3 million, as compared to a first quarter 2012 net profit of $253.3 million. Relative to first quarter 2012, the improvement in first quarter 2013 results was primarily driven by lower loss and loss expenses, higher net realized investment gains, and income from variable interest entities (VIE's), partially offset by lower net investment income, derivative product revenues, and other income. In addition, a reduction to the credit valuation adjustment ("CVA"), resulting from the improved perception of Ambac Assurance's credit quality, lowered net income by $99.6 million and $138.1 million for the three months ending March 31, 2013 and 2012, respectively.

First Quarter 2013 Summary

Relative to the first quarter of 2012,

- Net premiums earned increased $5.3 million to $100.3 million
- Net investment income decreased $27.0 million to $85.1 million
- Net realized investment gains increased $45.7 million to $46.1 million
- Other income decreased $55.3 million to $9.5 million
- Derivative product revenue decreased $47.5 million to a loss of $0.6 million
- Income on VIEs increased $23.1 million to $38.3 million
- Loss and loss expenses decreased $48.8 million to a net benefit of $51.1 million
- Operating and interest expense decreased $12.8 million to $57.6 million

Financial Results

Net Premiums Earned

Net premiums earned for the first quarter of 2012 were $100.3 million, up 6% from $95.0 million earned in the first quarter of 2012. Net premiums earned include accelerated premiums which result from calls and other policy accelerations recognized during the quarter. Accelerated premiums were $29.4 million in the first quarter of 2013, up 86% from $15.8 million in the first quarter of 2012. The increase in accelerated premiums was primarily the result of a negative acceleration on a structured finance policy that was terminated during the first quarter of 2012. Normal net premiums earned, which exclude accelerated premiums, were $70.9 million in the first quarter of 2013, down 10% from $79.2 million in the first quarter of 2012. The decline in normal net premiums earned was primarily due to the continued run-off of the insured portfolio.

Net Investment Income

Net investment income for the first quarter of 2013 was $85.1 million, a decrease of 24% from $112.1 million earned in the first quarter of 2012.

Financial Guarantee net investment income declined 20% to $83.9 million from $105.2 million which was largely attributable to a lower overall invested asset base, partially offset by a greater percentage of higher yielding assets, including residential mortgage backed securities ("RMBS") insured by Ambac Assurance Corporation ("Ambac Assurance"). Additionally, investment income for the first quarter of 2012 benefited from the favorable impact of actual and projected cash flows on certain Ambac Assurance insured RMBS. Since the first quarter of 2012, the collection of installment premiums and interest on invested assets was more than offset by claims payments, including partial claim payments on Segregated Account policies, commutation payments, and the repurchase of surplus notes in the second quarter of 2012.

Financial Services investment income for the three months ended March 31, 2013 was $1.2 million compared to $6.8 million for the first quarter of 2012. The decline in Financial Services investment income was driven primarily by sales of securities to fund payments under investment agreements and the partial repayment of intercompany loans from Ambac Assurance.

Net Realized Investment Gains

Net realized investment gains were $46.1 million for the three months ended March 31, 2013, as compared to $0.4 million for the three months ended March 31, 2012. The gains were primarily related to recoveries received from a litigation settlement associated with a previously written off investment in the financial services business.

Derivative Products

For the first quarter of 2013, the derivative products business produced a net loss of $0.6 million compared to net gains of $47.0 million for the first quarter of 2012. 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. While results in both periods were primarily attributable to mark-to-market gains in the portfolio due to rising interest rates, partially offset by mark-to-market losses resulting from the more favorable view of Ambac Assurance, the favorable impact of rising interest rates was greater in the first quarter of 2012. Changes in the CVA included in the fair value of financial services derivative liabilities contributed losses of $30.1 million and $35.3 million for the first quarter of 2013 and 2012, respectively.

Other Income

Other income for the three months ending March 31, 2013 was $9.5 million as compared to $64.8 million for the three months ended March 31, 2012. The change in other income was primarily due to market-to-market gains of $61.7 million recognized during the first quarter of 2012 relating to Ambac's option to call certain surplus notes issued by Ambac Assurance. Ambac called these surplus notes in the second quarter of 2012.

Income on Variable Interest Entities

Income on variable interest entities for the three months ended March 31, 2013 was $38.3 million compared to $15.2 million for the three months ending March 31, 2012. The gain in both periods was the result of positive changes in the fair value of VIE net assets.

Financial Guarantee Loss Reserves

Loss and loss expenses for the first quarter of 2013 were a net benefit of $51.1 million compared to a net benefit of $2.3 million for the first quarter of 2012. The net benefit for the three months ended March 31, 2013 was driven by lower estimated losses in the first lien RMBS portfolio.

Loss and loss expenses paid, net of recoveries and reinsurance from all policies, amounted to a net recovery of $12.3 million during the first quarter of 2013. The amount of actual claims paid during the period was impacted by the claims payment moratorium imposed on March 24, 2010 as part of the Segregated Account rehabilitation proceedings. On September 20, 2012, in accordance with certain rules published by the rehabilitator of the Segregated Account (the "Policy Claim Rules"), the Segregated Account commenced paying 25% of each permitted policy claim that arose since the commencement of the claims payment moratorium. Claims permitted in accordance with the Policy Claim Rules in the first quarter of 2013 were $418.6 million, including $89.5 million relating to the moratorium period, March 24, 2010 through July 31, 2012. At March 31, 2013, a total of $3.6 billion of presented claims remain unpaid because of the Segregated Account rehabilitation proceedings and related court orders.

Loss reserves (gross of reinsurance and net of subrogation recoveries) as of March 31, 2013 were $6.0 billion, down 1% from $6.1 billion at December 31, 2012. The following table provides loss reserves by bond type:

($ in millions)	**March 31, 2013**	**December 31, 2012**
RMBS	$3,425	$3,560
Student Loans	1,081	1,041
Public Finance	185	205
Ambac UK (including loss adjustment expenses)	657	619
All other credits	565	563
Loss adjustment expenses (excluding Ambac UK)	132	134
Totals	$6,045	$6,122

RMBS loss reserves, including unpaid claims, declined 4% to $3.4 billion at March 31, 2013 from $3.6 billion at December 31, 2012. Reserves as of March 31, 2013, are net of $2.5 billion of estimated representation and warranty breach remediation recoveries, substantially unchanged from December 31, 2012. Ambac Assurance is pursuing remedies and enforcing its rights, through lawsuits and other methods, to seek redress for breaches of representations and warranties and fraud related to various RMBS transactions.

Expenses

Underwriting and operating expenses for the three months ended March 31, 2013 were $34.4 million, as compared to $36.5 million for the three months ended March 31, 2012. Underwriting and operating expenses for the three months ended March 31, 2013 were driven by lower consulting costs, legal fees, and reinsurance commissions paid, partially offset by higher premium taxes and compensation expenses. Interest expense was $23.2 million during the first quarter of 2013 versus $33.8 million in the first quarter of 2012. The decrease in interest expense during the first quarter of 2013 was primarily attributable to the lower par amount of surplus notes outstanding following Ambac's exercise of certain call options on surplus notes in June 2012, and lower investment agreement liabilities outstanding during the period.

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 during the three months ended March 31, 2013 were $2.1 million as compared to $2.5 million for the three months ending March 31, 2012. The decrease was due to lower professional fees incurred following the confirmation of the bankruptcy plan of reorganization in March 2012.

Balance Sheet and Liquidity

Total assets decreased during the first quarter of 2013 to $26.2 billion from $27.1 billion at December 31, 2012. The decrease in total assets was due to declines in VIE assets to $16.8 billion from $17.8 billion and premium receivables to $1.5 billion from $1.6 billion, partially offset by an increase in the consolidated non-VIE investment portfolio to $6.5 billion from $6.3 billion.

During the first quarter of 2013, the fair value of the financial guarantee non-VIE investment portfolio increased by $183.1 million to $6.1 billion, as of March 31, 2013. The portfolio consists primarily of high quality municipal and corporate bonds, asset backed securities, and non-agency RMBS, including Ambac Assurance guaranteed RMBS. The increase in fair value between periods reflects higher valuations, particularly with respect to Ambac Assurance guaranteed RMBS, partially offset by the use of assets to fund the partial payment of Segregated Account permitted policy claims. The fair value of the financial services investment portfolio was substantially unchanged during the first quarter.

In accordance with ASC Topic 852 — Reorganizations, fresh start accounting principles are to be applied once a company's reorganization plan is confirmed by the bankruptcy court, and there are no remaining material contingencies to complete implementation of the plan. All conditions required for the adoption of fresh start accounting principles were satisfied by Ambac on April 30, 2013. The financial statements as of May 1, 2013 and for subsequent periods will report the results of the reorganized company with no beginning retained earnings. A pro-forma balance sheet, with the application of fresh start accounting principles as of March 31, 2013, is presented in Ambac's quarterly report on Form 10-Q for the quarter ended March 31, 2013.

Segregated Account Rehabilitation

The Rehabilitator of the Segregated Account has informed Ambac that it intends to seek rulings from the IRS as to certain tax issues associated with potential amendments to the Segregated Account Rehabilitation Plan. Pursuant to such amendments, surplus notes would not be issued with respect to the unpaid balance of permitted policy claims, but such balance would be recorded by the Segregated Account as outstanding policy obligations which would accrue interest at a rate of 5.1%, compounded annually until paid. If favorable rulings are received by the Rehabilitator from the IRS as to such tax issues, then the Rehabilitator would likely file amendments to the Segregated Account Rehabilitation Plan to effect such changes. Additionally, the Rehabilitator is considering seeking approval from the Rehabilitation Court for the Segregated Account to make cash payments in excess of 25% of the permitted policy claim amount ("Supplemental Payments") with respect to certain insured securities so that cash flow in the related securitization trusts that would have been available to reimburse Ambac Assurance had it paid claims in full is not diverted to uninsured holders who would not have received such cash flow if claims had been paid in full. Without making such Supplemental Payments, Ambac Assurance would likely realize lower levels of reimbursements than currently contemplated by our reserves in the relevant transactions. It is presently anticipated that the Rehabilitator will initially identify approximately 14 transactions on which the Segregated Account would make Supplemental Payments.

Overview of Ambac Assurance Statutory Results

During the first quarter of 2013, Ambac Assurance generated statutory net income of $202.8 million. First quarter 2013 results were primarily attributable to premiums earned of $95.2 million, net investment income of $92.4 million, and net loss and loss expenses (benefit) of ($59.0) million, partially offset by an increase in impairments of $20.8 million relating to intercompany loans and guarantees of subsidiary liabilities, plus other expenses of $24.3 million. As of March 31, 2013, Ambac Assurance reported policyholder surplus of $159.5 million, up from $100.0 million at December 31, 2012. Pursuant to a prescribed accounting practice, the results of the Segregated Account are not included in Ambac Assurance's financial statements if Ambac Assurance's surplus is (or would be) less than $100.0 million. As of December 31, 2012, Ambac Assurance's General Account (the "General Account") did not assume $163.7 million of the Segregated Account insurance liabilities under the Segregated Account reinsurance agreement. Since the General Account's surplus grew in the three months ending March 31, 2013, the amount of liabilities assumed by the General Account from the Segregated Account during the first quarter of 2013 was not capped. The Segregated Account reported statutory policyholder surplus of $101.5 million as of March 31, 2013, up from ($61.8) million as of December 31, 2012.

Ambac Assurance's claims-paying resources amounted to approximately $5.6 billion as of March 31, 2013, up approximately $0.1 billion from $5.5 billion at December 31, 2012. This excludes Ambac Assurance UK Limited's ("Ambac UK") claims-paying resources of approximately $1.1 billion. The increase in claims paying resources was primarily attributable to net insurance loss recoveries, premium collections, and principal and interest received on investments.

About Ambac

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

Additional information regarding Ambac's first quarter 2013 financial results, including its quarterly report on Form 10-Q for the quarter ended March 31, 2013, can be found on Ambac's website at www.ambac.com under the Investor Relations tab.

Forward-Looking Statements

This press 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. 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 2012 Annual Report on Form 10-K.

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 Financial Group, Inc. ("Ambac" or the "Company") 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) the inability of Ambac Assurance Corporation ("Ambac Assurance") to pay dividends to Ambac; (2) adverse events arising from the rehabilitation proceedings for the Segregated Account of Ambac Assurance Corporation (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; (3) litigation arising from the Segregated Account rehabilitation proceedings; (4) decisions made by the rehabilitator of the Segregated Account for the benefit of policyholders may result in material adverse consequences for Ambac's security holders; (5) intercompany disputes or disputes with the rehabilitator of the Segregated Account; (6) uncertainty concerning our ability to achieve value for holders of Ambac securities; (7) potential of a full rehabilitation proceeding against Ambac Assurance or material changes to the Segregated Account rehabilitation plan, with resulting adverse impacts; (8) 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; (9) inadequacy of reserves established for losses and loss expenses, including our inability to realize the recoveries or future commutations included in our reserves; (10) 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; (11) risks relating to determination of amount of impairments taken on investments; (12) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (13) market spreads and pricing on insured CLOs and other derivative products insured or issued by Ambac or its subsidiaries; (14) 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; (15) 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; (16) credit risk throughout our business, including but not limited to credit risk related to residential mortgage-backed securities, student loan and other asset securitizations, CLOs, public finance obligations and exposures to reinsurers; (17) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (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) factors that may influence the amount of installment premiums paid to Ambac, including the Segregated Account rehabilitation proceedings; (20) changes in prevailing interest rates; (21) 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; (22) changes in accounting principles or practices that may impact Ambac's reported financial results; (23) legislative and regulatory developments; (24) operational risks, including with respect to internal processes, risk models, systems and employees; (25) changes in tax laws, tax disputes and other tax-related risks; and (26) other risks and uncertainties that have not been identified at this time.

Ambac Financial Group, Inc. and Subsidiaries
(Debtor-In-Possession)
Consolidated Balance Sheets
March 31, 2013 and December 31, 2012
(Dollars in Thousands)

	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Investments:		
Fixed income securities, at fair value (amortized cost of $4,657,096 in 2013 and $4,751,824 in 2012)	$5,402,290	$5,402,395
Fixed income securities pledged as collateral, at fair value (amortized cost of $228,066 in 2013 and $265,517 in 2012)	228,228	265,779
Short-term investments, at fair value (amortized of $767,919 in 2013 and $661,219 in 2012)	767,932	661,658
Other, at fair value	113,812	100
Total investments	6,512,262	6,329,932
Cash	53,135	43,837
Receivable for securities	40,822	761
Investment income due and accrued	33,944	39,742
Premium receivables	1,543,098	1,620,621
Reinsurance recoverable on paid and unpaid losses	160,682	159,086
Deferred ceded premium	170,032	177,893
Subrogation recoverable	545,007	497,346
Deferred acquisition costs	192,306	199,160
Loans	8,691	9,203
Derivative assets	112,811	126,106
Other assets	40,365	39,715
Variable interest entity assets:		
Fixed income securities, at fair value	2,414,607	2,261,294
Restricted cash	2,258	2,290
Investment income due and accrued	1,338	4,101
Loans	14,327,840	15,568,711
Other assets	5,462	5,467
Total assets	$26,164,660	$27,085,265

Liabilities and Stockholders' Deficit

Liabilities:

Liabilities subject to compromise	$1,704,641	$1,704,904
Unearned premiums	2,623,445	2,778,401
Losses and loss expense reserve	6,590,216	6,619,486
Ceded premiums payable	92,085	94,527
Obligations under investment agreements	357,371	356,091
Obligations under investment repurchase agreements	5,926	5,926
Deferred taxes	1,540	1,586
Current taxes	97,274	96,778
Long-term debt	153,873	150,170
Accrued interest payable	246,378	228,835
Derivative liabilities	505,746	531,315
Other liabilities	91,057	102,488
Payable for securities purchased	17,051	25
Variable interest entity liabilities:		
Accrued interest payable	828	3,618
Long-term debt	14,229,373	15,436,008
Derivative liabilities	2,317,625	2,221,781
Other liabilities	301	293
Total liabilities	29,034,730	30,332,232
Stockholders' deficit:		
Preferred stock	-	-
Common stock	3,080	3,080
Additional paid-in capital	2,172,027	2,172,027
Accumulated other comprehensive income	720,071	625,385
Accumulated deficit	(6,015,025)	(6,297,264)
Common stock held in treasury at cost	(410,695)	(410,755)
Total Ambac Financial Group, Inc. stockholders' deficit	(3,530,542)	(3,907,527)
Non-controlling interest	660,472	660,560
Total stockholders' deficit	(2,870,070)	(3,246,967)
Total liabilities and stockholders' deficit	$26,164,660	$27,085,265

Ambac Financial Group, Inc. and Subsidiaries
(Debtor-In-Possession)
Consolidated Statements of Operations
(Unaudited)
For the Three Months Ended March 31, 2013 and 2012
(Dollars in Thousands)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Net premiums earned	$100,256	$94,950
Net investment income:		
Securities available-for-sale and short-term	85,612	112,117
Other investments	(543)	-
Total net investment income	85,069	112,117
Other-than-temporary impairments:		
Total other-than-temporary impairment losses	-	(4,604)
Portion of loss recognized in other comprehensive income	-	1,533
Net other-than temporary impairment losses recognized in earnings	-	(3,071)

Net realized investment gains	46,060	392
Change in fair value of credit derivatives:		
Realized gains and other settlements	2,509	3,254
Unrealized gains (losses)	10,278	(10,476)
Net change in fair value of credit derivatives	12,787	(7,222)
Derivative products	(569)	46,957
Other income	9,498	64,793
Income on variable interest entities	38,326	15,220
Total revenues before expenses and reorganization items	291,427	324,136
Expenses:		
Losses and loss expenses	(51,135)	(2,320)
Underwriting and operating expenses	34,429	36,534
Interest expense	23,165	33,839
Total expenses before reorganization items	6,459	68,053
Pre-tax income from continuing operations before reorganization items	284,968	256,083
Reorganization items	2,059	2,461
Pre-tax income from continuing operations	282,909	253,622
Provision for income taxes	657	300
Net income	282,252	253,322
Less: net (loss) income attributable to noncontrolling interest	(47)	2
Net income attributable to common shareholders	$282,299	$253,320

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