



August 14, 2013

## Ambac Financial Group, Inc. Announces Second Quarter 2013 Results

NEW YORK, Aug. 14, 2013 (GLOBE NEWSWIRE) -- **Ambac Financial Group, Inc.** ("Ambac" or the "Company") (Nasdaq:AMBC) today reported second quarter 2013 financial results. Following the Company's emergence from bankruptcy on May 1, 2013, the consolidated financial statements reflect the application of fresh start reporting ("Fresh Start") incorporating, among other things, the discharge of debt obligations, issuance of new common stock, and fair value adjustments. The financial results of the Company for the periods from May 1, 2013 are referred to as "Successor" and the financial results for the period through April 30, 2013 ("Fresh Start Reporting Date") are referred to as "Predecessor". The effects of the reorganization and Fresh Start are recorded in Predecessor Ambac's financial results for the period ended April 30, 2013 and amounted to a gain of \$2,747 million.

The Company is reporting Net Income as follows:

(\$ in millions)	Successor Ambac -	Predecessor Ambac -	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Net income (loss)	\$ 205.7	\$ 3,066.8	\$ (811.1)

Additionally, for the Successor Ambac period from May 1 through June 30, 2013, the Company is reporting earnings per diluted share of \$4.42.

Key drivers of results for the Successor Ambac period from May 1 through June 30, 2013 were

- Net earned premiums of \$58.0 million
- Net investment income of \$26.6 million
- Net change in fair value of credit derivatives of \$51.2 million
- Derivative product revenues of \$83.7 million
- Loss and loss expenses (net benefit) of (\$26.1) million
- Interest and operating expenses of \$37.7 million

In addition to the reorganization items noted above, the following significantly affect the comparability of second quarter results:

*Investment Income:* The amortized cost basis of Ambac's investment securities were adjusted to fair value as of the Fresh Start Reporting Date, resulting in an overall increase in the portfolio's amortized cost and elimination of the net unamortized discount on the portfolio, which will impact the net investment income of Successor Ambac.

*Interest Expenses:* Surplus notes issued by Ambac Assurance and the Segregated Account and the related accrued interest on such notes were adjusted to fair value as of the Fresh Start Reporting Date. This resulted in an overall increase in the combined carrying value of debt and accrued interest expense. Discounts to the face value of debt are accreted into interest expense based on the original projected cash flows of the instruments. As a result of Fresh Start, the unamortized discounts on surplus notes have decreased and the future cash flows have been re-projected, both of which will impact the amount of discount accretion recognized in interest expense for Successor Ambac.

*Operating Expenses - Deferred Acquisition Costs:* Deferred acquisition costs have been written off as of the Fresh Start Reporting Date and accordingly amortization of such costs will not be reflected in Successor Ambac's net income.

*Operating Expenses - Insurance Intangible Asset:* Insurance and reinsurance assets and liabilities continue to be measured in accordance with existing accounting policies and an intangible asset was recorded representing the difference between the fair value and carrying value of these insurance and reinsurance assets and liabilities as of the Fresh Start Reporting Date. As a result, the carrying values of our financial guarantee insurance and reinsurance contracts have not been adjusted. The intangible asset is amortized into expense using the level yield method based on par exposure of the related financial guarantee insurance or reinsurance contracts.

*Goodwill:* Represents the excess of the reorganization value over the fair value of identified tangible and intangible assets of Successor Ambac. Goodwill will be assessed for impairment on an annual basis, and more frequently if certain indicators of

impairment exist.

References to 2013 results combine the two periods when amounts are comparable to 2012 results.

## GAAP Financial Results

### Net Premiums Earned

Reporting of net premiums earned was not impacted by the adoption of Fresh Start. Net premiums earned include accelerated premiums which result from calls and other policy accelerations recognized during the period, and normal net premiums. For the second quarter of 2013, as compared to the second quarter of 2012, net premiums earned declined \$15.3 million from \$103 million, accelerated earnings declined \$15.8 million from \$35.9 million, and normal net premiums earned increased \$0.5 million from \$67.1 million. 2012 normal net premiums earned were adversely affected by the write-off of a premium receivable from a non-investment grade obligation that was deemed uncollectible. For the three months ended June 30, 2012, net premiums earned relating to this obligation were reduced \$12.5 million. Excluding the impact of the premium receivable write-off, normal net premiums earned for the second quarter of 2013, as compared to the second quarter of 2012, declined \$12.0 million due to the continued runoff of the insurance portfolio. The following table provides a summary of net premiums earned for all periods presented:

(\$ in millions)	Successor Ambac -	Predecessor Ambac -	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Public Finance	\$ 23.6	\$ 11.8	\$ 39.3
Structured Finance	8.9	4.6	6.5
International Finance	12.5	6.2	21.3
Total normal net premiums earned	45.0	22.6	67.1
Accelerated earnings	13.0	7.1	35.9
Total net premiums earned	<u>\$ 58.0</u>	<u>\$ 29.7</u>	<u>\$ 103.0</u>

### Net Investment Income

Net investment income for the Successor Ambac period from May 1 through June 30, 2013 was \$26.6 million, and for the Predecessor Ambac period from April 1 through April 30, 2013 was \$32.4 million. The following table provides a summary of net investment income for all periods presented:

(\$ in millions)	Successor Ambac -	Predecessor Ambac -	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Financial Guarantee	\$ 26.4	\$ 32.0	\$ 90.0
Financial Services	0.2	0.4	3.8
Total net investment income	<u>\$ 26.6</u>	<u>\$ 32.4</u>	<u>\$ 93.8</u>

At the Fresh Start Reporting Date, the amortized cost bases of securities in the Financial Guarantee investment portfolio were reset to fair value. As a result, for the Successor Ambac period from May 1 through June 30, 2013, Financial Guarantee net investment income generally reflects current market yields for such securities. Since the second quarter of 2012, the collection of premiums and investment coupons was more than offset by the resumption of partial claim payments on Segregated Account policies and payments made to commute certain financial guarantee exposures. This has resulted in a lower average invested base for Predecessor Ambac in 2013 compared to the second quarter of 2012. Partially offsetting the impact of this, the Company has continued to shift the portfolio toward higher yielding assets, including Ambac Assurance-wrapped securities purchased as part of the Company's loss remediation strategy. Since the second quarter of 2012, Financial Services investment income continues to decline, as the investment agreement portfolio runs off and the balance of investment assets declines accordingly.

### Net Realized Investment Gains

Net realized investment gains for the Successor Ambac period from May 1 through June 30, 2013 was \$18.5 million, and for the

Predecessor Ambac period from April 1 through April 30, 2013 was \$7.2 million. The gains during April 2013 primarily related to the repositioning of Ambac Assurance UK Limited's ("Ambac UK") investment portfolio, and for the May 1 through June 30, 2013 period were primarily the result of sales of Alt-A RMBS in response to favorable market conditions. The realized investment gains in the second quarter of 2012 were largely the result of portfolio repositioning and relative value trades executed in response to market conditions during the period. The following table provides a summary of net realized investment gains for all periods presented:

<i>(\$ in millions)</i>	Successor Ambac -	Predecessor Ambac -	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Financial Guarantee	\$ 18.4	\$ 7.2	\$ 40.5
Financial Services	0.1	—	26.6
Total net realized investment gains	\$ 18.5	\$ 7.2	\$ 67.1

### ***Net Change in Fair Value of Credit Derivatives***

The fair value of credit derivatives was not impacted by the adoption of Fresh Start. The loss attributable to the change in fair value of credit derivatives for the three months ended June 30, 2013 increased by \$14.5 million from a loss of \$7.4 million for the three months ended June 30, 2012. The increase in loss during both periods was due to a reduction of the Ambac Assurance credit valuation adjustment ("CVA"), partially offset by mark-to-market gains resulting from improvements in reference obligation prices, gains associated with runoff of the portfolio, and credit derivative fees earned. The reduction in CVA reflects observed increases in the fair value of Ambac Assurance's obligations during the periods, and resulted in losses within the change in fair value of credit derivative liabilities of \$14.6 million for the two months ended June 30, 2013, \$91.3 million for April 2013, and \$76.4 million for the three months ended June 30, 2012.

### ***Derivative Products***

Derivative product revenues were not impacted by the adoption of Fresh Start. 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. Derivative product revenues for the three months ended June 30, 2013 improved \$174.6 million from a loss of \$124.1 million reported for the three months ended June 30, 2012. Results in derivative product revenues for the second quarter of 2013 were primarily driven by mark-to-market swap gains caused by rising interest rates, offset by declines in the Ambac CVA on certain swap liabilities. The losses reported for the second quarter of 2012 resulted primarily from mark-to-market movements caused by declining interest rates and the impact of changes to the Ambac CVA. Changes in the CVA included in the fair value of derivative liabilities contributed gains (losses) of (\$30.5) million for the two months ended June 30, 2013, \$3.4 million for April 2013, and \$28.9 million for the three months ended June 30, 2012.

### ***Net Realized Losses on the Extinguishment of Debt***

During June 2012, Ambac Assurance exercised options to repurchase surplus notes with an aggregate par value of \$789.2 million for an aggregate cash payment of \$188.4 million. Certain of these options were free-standing derivatives for accounting purposes and were carried at fair value as assets on the Company's balance sheet. These surplus notes were originally recorded at their fair value at the date of issuance. The carrying value of the extinguished surplus notes and accrued interest less the fair value of the free-standing derivatives were below the call option exercise prices and, accordingly, for the three months ended June 30, 2012, Ambac recognized a realized loss of \$177.7 million. There have been no such losses realized during 2013.

### ***Income on Variable Interest Entities (VIEs)***

Income on VIEs was not significantly impacted by the adoption of Fresh Start. VIE income for the three months ending June 30, 2013 increased \$387.3 million from \$5.5 million for the three months ending June 30, 2012. Income on VIEs for April 2013 includes the net income related to a newly consolidated VIE. Consolidation of this VIE resulted in a gain of \$385.3 million, representing the difference between net assets of the VIE at fair value as of the consolidation date and the previous carrying value of Ambac's net insurance liabilities associated with the VIE. VIE income on variable interest entities for the second quarter of 2012 reflects the positive change in the fair value of net assets of VIEs during that period.

### ***Loss and Loss Expenses, and Loss Reserves***

Reporting of loss and loss expenses was not impacted by the adoption of Fresh Start. Loss and loss expenses for the second

quarter of 2013 declined \$754.4 million from \$741.4 million for the second quarter of 2012. Second quarter 2013 results were driven by lower estimated losses in the RMBS, asset backed securities, and international portfolios. The following table provides a summary of loss and loss expenses for all periods presented:

(\$ in millions)	Successor Ambac -	Predecessor Ambac -	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Loss and loss expenses	\$ (26.1)	\$ 13.1	\$ 741.4

During the second quarter of 2013, loss and loss expenses paid, net of recoveries and reinsurance from all policies, decreased \$6.5 million from a net recovery of \$18.4 million during the second quarter of 2012. 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 rehabilitation proceedings for the Segregated Account of Ambac Assurance ("Segregated Account"). 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. At June 30, 2013, a total of \$3.8 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) decreased \$0.5 billion at June 30, 2013 from \$6.0 billion at March 31, 2013, primarily due to the newly consolidated VIE. The following table provides loss reserves by bond type:

(\$ in millions)	June 30, 2013	March 31, 2013
RMBS	\$3,448	\$3,425
Student Loans	1,064	1,081
Domestic Public Finance	236	185
Ambac UK (including loss adjustment expenses)	604	657
All other credits	79	565
Loss adjustment expenses (excluding Ambac UK)	111	132
Totals	\$5,542	\$6,045

RMBS loss reserves, including unpaid claims, increased \$23 million from \$3.4 billion at March 31, 2013. Reserves as of June 30, 2013, are net of \$2.4 billion of estimated representation and warranty breach remediation recoveries. 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 consist of gross operating expenses, which were unaffected by Fresh Start, plus the amortization of previously deferred insurance acquisition costs. All deferred acquisition costs were written off in Fresh Start and accordingly no amortization is reported in Successor Ambac. The following table provides a summary of underwriting and operating expenses for all periods presented:

(\$ in millions)	Successor Ambac -	Predecessor Ambac -	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Underwriting and operating:			
Gross Operating Expenses	\$ 16.0	\$ 9.6	\$ 27.0
Reinsurance commissions, net	0.6	0.1	—
Amortization of deferred acquisition costs	—	1.2	6.6
Total	\$ 16.6	\$ 10.9	\$ 33.6

Gross operating expenses for the three months ended June 30, 2013 decreased by \$1.4 million from \$27.0 million for the three months ended June 30, 2012. The decrease was primarily due to lower consulting fees, legal expenses, subscription and data access, and insurance costs, partially offset by higher premium tax and compensation expenses.

At the Fresh Start Reporting Date, an insurance intangible asset was recorded which represents the difference between the fair value and aggregate carrying value of the insurance and reinsurance assets and liabilities. The insurance intangible asset is amortized using the level yield method based on par exposure of the related financial guarantee insurance or reinsurance contracts. The insurance intangible amortization expense for the two months ended June 30, 2013 was \$25.0 million.

Interest expense was \$21.1 million for the Successor Ambac period from May 1 through June 30, 2013, \$7.9 million for the Predecessor Ambac period from April 1 through April 30, 2013, and \$31.9 million for the quarter ending June 30, 2012. Interest expense includes accrued interest and accretion of the discount on surplus notes issued by Ambac Assurance and the Segregated Account, plus interest expense relating to investment agreements, and a secured borrowing transaction. As a result of Fresh Start, the unamortized discounts on surplus notes have decreased as carrying values were reset to fair value at the Fresh Start Reporting Date, and future cash flows on the surplus notes have been re-projected. Both of these items have impacted the amount of discount accretion recognized in interest expense for Successor Ambac. Accretion of surplus note discounts included within overall interest expense was \$8.3 million and \$1.4 million for the two months ended June 30, 2013, and April 2013, respectively, as compared to \$3.7 million for the quarter ending June 30, 2012. The following table provides a summary of interest expense for all periods presented:

(\$ in millions)	Successor Ambac -	Predecessor Ambac -	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Interest expense:			
Surplus notes	\$ 20.7	\$ 7.5	\$ 29.4
Investment agreements	0.3	0.3	1.7
Secured borrowing	0.1	0.1	0.8
Total	\$ 21.1	\$ 7.9	\$ 31.9

### Reorganization Items, Net

Reorganization items primarily relate to expenses directly attributed to the Company's Chapter 11 reorganization process. The following table provides a summary of reorganization items for all periods presented:

(\$ in millions)	Successor Ambac -	Predecessor Ambac -	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Reorganization items:			
Professional advisory fees	\$ 0.4	\$ 2.4	\$ 0.8
Fresh Start Adjustments	—	(2,749.6)	—
Total	\$ 0.4	\$ (2,747.2)	\$ 0.8

### Balance Sheet

As a result of the application of Fresh Start, Successor Ambac re-measured all tangible and intangible assets and all liabilities, other than deferred taxes and liabilities associated with post-retirement benefits, at fair value, and recorded goodwill representing the excess of reorganization value of Successor Ambac over the fair value of net assets being re-measured. Total assets increased by approximately \$1.3 billion from March 31, 2013 (Predecessor Ambac) to \$27.5 billion at June 30, 2013 (Successor Ambac). The increase is primarily the result of (i) Fresh Start adjustments of \$2.0 billion; and (ii) higher invested assets at fair value, partially offset by lower (i) variable interest entity assets; (ii) premium receivables; (iii) derivative assets; and (iv) subrogation recoverable. Fresh Start adjustments primarily related to the recording of an insurance intangible asset of \$1.6 billion and goodwill of \$515 million, partially offset by the write-off of deferred acquisition costs. Total liabilities declined by approximately \$2.1 billion from March 31, 2013 (Predecessor Ambac) to \$26.9 billion at June 30, 2013 (Successor Ambac).

The decline was primarily the result of (i) Fresh Start and Reorganization adjustments of \$1.1 billion; (ii) lower variable interest entity liabilities; and (iii) lower unearned premium reserves. Fresh Start Adjustments were primarily due to the elimination of liabilities subject to compromise of \$1.7 billion, partially offset by fair value adjustments increasing the carrying value of outstanding surplus notes issued by Ambac Assurance Corporation and the Segregated Account by \$786 million.

### Overview of Ambac Assurance Statutory Results

During the second quarter of 2013, Ambac Assurance generated a statutory net loss of \$139.8 million. Second quarter 2013 results were primarily attributable to a \$350.0 million expense (no impact on Ambac Assurance policyholder surplus) related to the issuance of junior surplus notes by the Segregated Account to Ambac as per the Mediation Agreement, dated September 21, 2011, between Ambac, Ambac Assurance and the Segregated Account (among others), and net loss and loss expenses of \$95.3 million. This was offset by realized gains of \$105.8 million, premiums earned of \$90.4 million, net investment income of \$72.9 million, and a reduction in impairments of \$48.3 million relating to intercompany loans and guarantees of subsidiary liabilities.

As of June 30, 2013, Ambac Assurance reported policyholder surplus of \$393.7 million, up from \$159.5 million at March 31, 2013. The Segregated Account reported policyholder surplus of \$443.3 million as of June 30, 2013, up from \$101.5 million as of March 31, 2013. Ambac Assurance policyholder surplus increased from March 2013 due to earned premiums, net investment income, realized gains on securities sold, in addition to an increase in fair value of below investment grade securities held.

Ambac Assurance's claims-paying resources amounted to approximately \$5.8 billion as of June 30, 2013, up approximately \$0.2 billion from \$5.6 billion at March 31, 2013. This excludes AUK's claims-paying resources of approximately \$1.1 billion. The increase in claims paying resources was primarily attributable to principal and interest received on investments and consideration received on sales of securities that were in an unrealized gain position.

### Non-GAAP Financial Data

In addition to reporting the Company's quarterly financial results in accordance with U.S. GAAP, the Company is reporting two non-GAAP financial measures: Operating Earnings and Adjusted Book Value. A non-GAAP financial measure is a numerical measure of financial performance or financial position that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with U.S. GAAP. We are presenting these non-GAAP financial measures because they provide greater transparency and enhanced visibility into the underlying profitability drivers of our business and the impact of certain items that the Company believes will reverse from GAAP book value over time through the GAAP statements of comprehensive income. Operating Earnings and Adjusted Book Value are not substitutes for the Company's GAAP reporting, should not be viewed in isolation and may differ from similar reporting provided by other companies, which may define non-GAAP measures differently because there is limited literature with respect to such measures.

For all periods presented, the Company is reporting Operating Earnings as follows:

(\$ in millions)	Successor Ambac -		Predecessor Ambac -
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Operating Earnings	\$ 203.1	\$ (2.1)	\$ (853.5)

The following table reconciles Net Income attributable to common shareholders to the non-GAAP measure, Operating Earnings, for all periods presented:

(\$ in millions)	Successor Ambac-		Predecessor Ambac -
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Net income attributable to common shareholders	\$ 205.7	\$ 3,066.8	\$ (811.1)
Adjustments:			
Non-credit impairment fair value (gain) loss on credit derivatives	(50.1)	77.5	21.7
Effect of consolidating financial guarantee VIEs	(15.3)	(386.6)	4.5
Insurance intangible amortization	25.0	—	—
Foreign exchange (gain) loss from re-measurement of premium receivables and loss and loss expense reserves	7.3	(6.7)	(0.7)
Fair value (gain) loss on derivatives from Ambac CVA	30.5	(3.4)	(28.9)
Mark-to-market (gain) loss on stand alone derivative surplus note calls	—	—	(39.0)

Fresh Start accounting adjustments	—	(2,749.7)	—
<b>Operating Earnings</b>	<u>\$ 203.1</u>	<u>\$ (2.1)</u>	<u>\$ (853.5)</u>

As of the dates presented, the Company is reporting Adjusted Book Value as follows:

<i>(\$ in millions)</i>	<u>Successor Ambac — June 30, 2013</u>	<u>Predecessor Ambac — December 31, 2012</u>
Adjusted Book Value	<u>\$ (424.9)</u>	<u>\$ (2,841.5)</u>

The following table reconciles Total Ambac Financial Group, Inc. stockholders' equity (deficit) to the non-GAAP measure Adjusted Book Value as of each date presented:

<i>(\$ in millions)</i>	<u>Successor Ambac — June 30, 2013</u>	<u>Predecessor Ambac — December 31, 2012</u>
Total Ambac Financial Group, Inc. stockholders' equity (deficit)	\$ 287.2	\$ (3,907.5)
Adjustments:		
Non-credit impairment fair value losses on credit derivatives	188.5	167.1
Effect of consolidating financial guarantee variable interest entities	(481.2)	(146.6)
Insurance intangible asset and goodwill	(2,136.1)	—
Ambac CVA on derivative product liabilities (excluding credit derivatives)	(64.6)	(121.9)
Net unearned premiums in excess of expected losses	1,690.3	1,818.7
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income	<u>91.0</u>	<u>(651.3)</u>
<b>Adjusted Book Value</b>	<u>\$ (424.9)</u>	<u>\$ (2,841.5)</u>

### Explanation of Non-GAAP Measures

*Operating Earnings.* Operating Earnings eliminates the impact of certain U.S. GAAP accounting requirements and includes certain items that the Company has realized or expects to realize in the future, but that are not reported under U.S. GAAP. Operating earnings is defined as net income attributable to common shareholders, as reported under U.S. GAAP, adjusted on an after-tax basis for the following:

- Elimination of the non-credit impairment fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated credit losses. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market factors such as interest rates and credit spreads, including the market's perception of Ambac's credit risk, and are not expected to result in an economic gain or loss. These adjustments allow for all financial guarantee segment contracts to be accounted for consistent with the Financial Services — Insurance Topic of ASC, whether or not they are subject to derivative accounting rules.
- Elimination of the effects of VIEs that were consolidated as a result of benefiting from Ambac's financial guarantee. These adjustments will eliminate the VIE consolidation and ensure that all financial guarantee segment contracts are accounted for consistent with the provisions of the Financial Services — Insurance Topic of the ASC, whether or not they are subject to consolidation accounting rules.
- Elimination of the amortization and/or impairment of the financial guarantee insurance intangible asset and goodwill that arose as a result of Ambac's emergence from bankruptcy and the implementation of Fresh Start reporting. The amount reported in net income attributable to common shareholders represents the amortization of Fresh Start adjustments relating to financial guarantee contracts. These adjustments will ensure that all financial guarantee segment contracts are accounted for consistent with the provisions of the Financial Services — Insurance Topic of the ASC.
- Elimination of the foreign exchange gains (losses) on re-measurement of net premium receivables and loss and loss expense reserves. Long-duration receivables constitute a significant portion of the net premium receivable balance and represent the present value of future contractual or expected collections. Therefore, the current period's foreign exchange re-measurement gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.
- Elimination of the gains (losses) relating to Ambac's CVA on derivative contracts other than credit derivatives. Similar to credit derivatives, fair values include the market's perception of Ambac's credit risk and this adjustment only allows for such gain or loss when realized.
- Elimination of the gains (losses) on call options on certain surplus notes of Ambac Assurance. Under U.S. GAAP accounting, Ambac recorded only a portion of its call options as derivatives. This adjustment allows for all such call

options to be accounted for consistently. All call options were either exercised or expired in June 2012. Gain (losses) on call option exercises are not being adjusted for within operating earnings, consistent with other gains and losses.

- Elimination of non-recurring U.S. GAAP Fresh Start reporting adjustments.

**Adjusted Book Value.** Adjusted Book Value eliminates the impact of certain U.S. GAAP accounting requirements and includes the addition of certain items that the Company has realized or expects to realize in the future, but that are not reported under U.S. GAAP. Adjusted Book Value is defined as Total Ambac Financial Group, Inc. stockholders' equity (deficit) as reported under U.S. GAAP, adjusted for after-tax impact of the following:

- Elimination of the non-credit impairment fair value loss on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit loss. U.S. GAAP fair values are heavily affected by, and in part fluctuate with, changes in market factors such as interest rates, credit spreads, including Ambac's CVA that are not expected to result in an economic gain or loss. These adjustments allow for all financial guarantee segment contracts to be accounted for within Adjusted Book Value consistent with the provisions of the Financial Services — Insurance Topic of the ASC, whether or not they are subject to derivative accounting rules.
- Elimination of the effects of VIEs that were consolidated as a result of benefiting from Ambac's financial guarantee. These adjustments will eliminate VIE consolidation and ensure that all financial guarantee segment contracts are accounted for within Adjusted Book Value consistent with the provisions of the Financial Services — Insurance Topic of the ASC, whether or not they are subject to consolidation accounting rules.
- Elimination of the financial guarantee insurance intangible asset and goodwill that arose as a result of Ambac's emergence from bankruptcy and the implementation of Fresh Start reporting. These adjustments will ensure that all financial guarantee segment contracts are accounted for within Adjusted Book Value consistent with the provisions of the Financial Services — Insurance Topic of the ASC.
- Elimination of the gain relating to Ambac's CVA embedded in the fair value of derivative contracts other than credit derivatives. Similar to credit derivatives, fair values include the market's perception of Ambac's credit risk and this adjustment only allows for such gain when realized.
- Addition of the value of the unearned premium reserve on financial guaranty contracts and fees on credit derivative contracts in excess of expected loss to be expensed, net of reinsurance. This amount represents the expected future net earned premiums and credit derivative fees, net of expected losses to be expensed, which are not reflected in GAAP equity.
- Elimination of the unrealized gains and losses on the Company's investments that are recorded as a component of accumulated other comprehensive income ("AOCI"). The AOCI component of the fair value adjustment on the investment portfolio will differ materially from realized gains and losses ultimately recognized by the Company based on the Company's investment strategy. This adjustment only allows for such gains and losses in Adjusted Book Value when realized.

Ambac has a significant tax net operating loss ("NOL") that is offset by a full valuation allowance in the U.S. GAAP consolidated financial statements. As a result, for purposes of Adjusted Book Value, we utilized a 0% effective tax rate. Otherwise we maintain a full valuation allowance and accordingly, further recognition of the value of the NOL would be reflected in Adjusted Book Value when realized.

## **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 second quarter 2013 financial results, including its quarterly report on Form 10-Q for the quarter ended June 30, 2013, can be found on Ambac's website at [www.ambac.com](http://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 and in Part II, Item 1A of the Second Quarter 2013 Form 10-Q.

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) 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; (2) litigation arising from the Segregated Account rehabilitation proceedings; (3) 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; (4) intercompany disputes or disputes with the rehabilitator of the Segregated Account; (5) uncertainty concerning our ability to achieve value for holders of Ambac securities; (6) potential of a full rehabilitation proceeding against Ambac Assurance; (7) 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; (8) inadequacy of reserves established for losses and loss expenses, including our inability to realize the recoveries or future commutations included in our reserves; (9) 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; (10) risks relating to determinations of amounts of impairments taken on investments; (11) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (12) market spreads and pricing on insured CLOs and other derivative products insured or issued by Ambac or its subsidiaries; (13) 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; (14) 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; (15) credit risk throughout our business, including but not limited to credit risk related to residential mortgage-backed securities, student loan and other asset securitizations, CLOs, public finance obligations and exposures to reinsurers; (16) default by one or more of Ambac Assurance's portfolio investments, insured issuers or counterparties, including as a result of bankruptcy (including municipal bankruptcy) proceedings; (17) 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; (18) factors that may influence the amount of installment premiums paid to Ambac, including the Segregated Account rehabilitation proceedings; (19) changes in prevailing interest rates; (20) 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; (21) changes in accounting principles or practices that may impact Ambac's reported financial results; (22) legislative and regulatory developments; (23) operational risks, including with respect to internal processes, risk models, systems and employees; (24) changes in tax laws, tax disputes and other tax-related risks; and (25) other risks and uncertainties that have not been identified at this time.

**Ambac Financial Group, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**June 30, 2013 and December 31, 2012**  
**(Dollars in Thousands)**

	<u>Successor</u>	<u>Predecessor</u>
	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	(unaudited)	
<b>Assets</b>		
<b>Investments:</b>		
Fixed income securities, at fair value (amortized cost of \$5,676,216 in 2013 and \$4,751,824 in 2012)	\$5,585,275	\$5,402,395
Fixed income securities pledged as collateral, at fair value (amortized cost of \$164,340 in 2013 and \$265,517 in 2012)	164,295	265,779
Short-term investments, at fair value (amortized cost of \$611,174 in 2013 and \$661,219 in 2012)	611,177	661,658
Other investments, at fair value	<u>240,417</u>	<u>100</u>
<b>Total investments</b>	<b>6,601,164</b>	<b>6,329,932</b>
<b>Cash</b>	<b>20,515</b>	<b>43,837</b>
<b>Receivable for securities</b>	<b>2,221</b>	<b>761</b>

Investment income due and accrued	35,718	39,742
Premium receivables	1,464,898	1,620,621
Reinsurance recoverable on paid and unpaid losses	154,964	159,086
Deferred ceded premium	159,165	177,893
Subrogation recoverable	501,087	497,346
Deferred acquisition costs	--	199,160
Loans	7,053	9,203
Derivative assets	91,178	126,106
Current taxes	4,224	--
Insurance intangible assets	1,621,612	--
Goodwill	514,511	--
Other assets	33,738	39,715
Variable interest entity assets:		
Fixed income securities, at fair value	2,242,989	2,261,294
Restricted cash	22,994	2,290
Investment income due and accrued	1,224	4,101
Loans	13,820,878	15,568,711
Intangible assets	162,012	--
Other assets	13,222	5,467
<b>Total assets</b>	<b>\$27,475,367</b>	<b>\$27,085,265</b>

#### Liabilities and Stockholders' Equity (Deficit)

##### Liabilities:

Liabilities subject to compromise	\$0	\$1,704,904
Unearned premiums	2,372,807	2,778,401
Losses and loss expense reserve	6,042,649	6,619,486
Ceded premiums payable	89,435	94,527
Obligations under investment agreements	358,610	356,091
Obligations under investment repurchase agreements	5,926	5,926
Deferred taxes	1,564	1,586
Current taxes	--	96,778
Long-term debt	945,940	150,170
Accrued interest payable	249,387	228,835
Derivative liabilities	451,790	531,315
Other liabilities	86,663	102,488
Payable for securities purchased	42,901	25
Variable interest entity liabilities:		
Accrued interest payable	724	3,618
Long-term debt	14,268,493	15,436,008
Derivative liabilities	1,989,783	2,221,781
Other liabilities	6,628	293
<b>Total liabilities</b>	<b>26,913,300</b>	<b>30,332,232</b>

##### Stockholders' equity (deficit):

Successor preferred stock, par value \$0.01 per share; authorized shares - 20,000,000; issued and outstanding shares - none at June 30, 2013	--	--
Predecessor preferred stock, par value \$0.01 per share; authorized shares - 4,000,000; issued and outstanding shares - none at December 31, 2012	--	--

Successor common stock, par value \$0.01 per share; authorized shares - 130,000,000; issued and outstanding shares - 45,002,456 at June 30, 2013	450	--
Predecessor common stock, par value \$0.01 per share; authorized shares - 650,000,000; issued and outstanding shares - 308,016,674 at December 31, 2012	--	3,080
Additional paid-in capital	184,565	2,172,027
Accumulated other comprehensive (loss) income	(103,507)	625,385
Retained earnings (accumulated deficit)	205,681	(6,297,264)
Predecessor common stock held in treasury at cost, 5,580,657 shares at December 31, 2012	--	(410,755)
Total Ambac Financial Group, Inc. stockholders' equity (deficit)	287,189	(3,907,527)
Non-controlling interest	<u>274,878</u>	<u>660,560</u>
Total stockholders' equity (deficit)	<u>562,067</u>	<u>(3,246,967)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$27,475,367</u>	<u>\$27,085,265</u>

Ambac Financial Group, Inc. and Subsidiaries  
Consolidated Statements of Operations  
(Unaudited)  
(Dollars in Thousands Except Share Data)

	Successor Ambac	Predecessor Ambac	
	Period from May 1 through June 30, 2013	Period from April 1 through April 30, 2013	Three Months Ended June 30, 2012
Revenues:			
Net premiums earned	\$58,039	\$29,744	\$103,042
Net investment income:			
Securities available-for-sale and short-term	29,581	31,499	93,836
Other investments	(3,015)	912	--
Total net investment income:	<u>26,566</u>	<u>32,411</u>	<u>93,836</u>
Other-than-temporary impairment losses:			
Total other-than-temporary impairment losses	(2,004)	(467)	(7,492)
Portion of loss recognized in other comprehensive income	<u>2</u>	<u>--</u>	<u>5,164</u>
Net other-than-temporary impairment losses recognized in earnings	(2,002)	(467)	(2,328)
Net realized investment gains	18,472	7,245	67,067
Change in fair value of credit derivatives:			
Realized gains and other settlements	6,074	935	3,073
Unrealized gains (losses)	<u>45,146</u>	<u>(74,106)</u>	<u>(10,488)</u>
Net change in fair value of credit derivatives	51,220	(73,171)	(7,415)
Derivative products	83,713	(33,166)	(124,091)

Net realized losses on extinguishment of debt	--	--	(177,745)
Other income	2,179	(1,135)	36,137
Income on variable interest entities	4,598	388,240	5,536
<b>Total revenues before expenses and reorganization items</b>	<b>242,785</b>	<b>349,701</b>	<b>(5,961)</b>
<b>Expenses:</b>			
Losses and loss expenses	(26,117)	13,079	741,411
Insurance intangible amortization	24,952	--	--
Underwriting and operating expenses	16,587	10,877	33,567
Interest expense	21,144	7,860	31,855
<b>Total expenses before reorganization items</b>	<b>36,566</b>	<b>31,816</b>	<b>806,833</b>
<b>Pre-tax income (loss) from continuing operations before reorganization items</b>	<b>206,219</b>	<b>317,885</b>	<b>(812,794)</b>
<b>Reorganization items</b>	<b>424</b>	<b>(2,747,239)</b>	<b>767</b>
<b>Pre-tax income (loss) from continuing operations</b>	<b>205,795</b>	<b>3,065,124</b>	<b>(813,561)</b>
<b>Provision (benefit) for income taxes</b>	<b>513</b>	<b>98</b>	<b>(211)</b>
<b>Net income (loss)</b>	<b>205,282</b>	<b>3,065,026</b>	<b>(813,350)</b>
<b>Less: net loss attributable to the noncontrolling interest</b>	<b>(399)</b>	<b>(1,724)</b>	<b>(2,232)</b>
<b>Net income (loss) attributable to common shareholders</b>	<b>\$205,681</b>	<b>\$3,066,750</b>	<b>(\$811,118)</b>
<b>Net income (loss) per share</b>	<b>\$4.57</b>	<b>\$10.14</b>	<b>(\$2.68)</b>
<b>Net income (loss) per diluted share</b>	<b>\$4.42</b>	<b>\$10.14</b>	<b>(\$2.68)</b>
<b>Weighted-average number of common shares outstanding:</b>			
<b>Basic</b>	<b>45,000,653</b>	<b>302,469,626</b>	<b>302,469,196</b>
<b>Diluted</b>	<b>46,575,717</b>	<b>302,579,219</b>	<b>302,469,196</b>

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