Ambac

November 14, 2012

Ambac Financial Group, Inc. Announces Third Quarter 2012 Results

NEW YORK--(BUSINESS WIRE)--Nov. 14, 2012-- **Ambac Financial Group, Inc.** ("Ambac") today announced a third quarter 2012 net profit of $157.5 million, or a net profit of $0.52 per share. This compares to a third quarter 2011 net loss of $75.5 million, or a net loss of $0.25 per share. Relative to third quarter 2011, third quarter 2012 results were primarily driven by lower derivative product losses, a positive net change in the fair value of credit derivatives, a lower provision for income taxes, and lower operating and interest expenses, partially offset by lower income on variable interest entities ("VIE") and higher loss and loss expenses.

Third Quarter 2012 Summary

Relative to the third quarter of 2011,

- Net premiums earned increased $11.1 million to $113.1 million
- Net investment income declined $6.6 million to $84.1 million
- Net change in the fair value of credit derivatives increased $22.9 million to a gain of $27.4 million
- Derivative product losses decreased $179.8 million to $36.0 million
- Income on VIEs decreased $48.9 million to $6.1 million
- Loss and loss expenses increased $41.5 million to a net benefit of $18.7 million
- Income tax expense decreased $74.3 million to $0.7 million
- Operating and interest expenses decreased $21.3 million to $56.6 million

As of September 30, 2012, unrestricted cash, short-term securities and bonds at Ambac, the holding company, totaled $31.5 million, a decline of $2.4 million from June 30, 2012.

Financial Results

Net Premiums Earned

Net premiums earned for the third quarter of 2012 were $113.1 million, up 11% from $102.0 million earned in the third quarter of 2011. Net premiums earned include accelerated premiums, resulting from refundings, calls, and other policy accelerations recognized during the quarter. Accelerated premiums were $34.4 million in the third quarter of 2012, up 83% from $18.8 million in the third quarter of 2011. The increase in accelerated premiums was primarily driven by an increase in the overall volume of bond calls within the public finance market due to low interest rates, and refinancings by healthcare providers, partially offset by negative accelerations resulting from the maturity and early termination of certain structured finance policies, during the period. Normal net premiums earned, which exclude accelerated premiums, were $78.7 million in the third quarter of 2012, down 5% from $83.2 million in the third 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 third quarter of 2012 was $84.1 million, a decrease of 7% from $90.7 million earned in the third quarter of 2011. Financial Guarantee net investment income fell less than 1% to $81.0 million from $81.6 million due to the shift in portfolio holdings toward short-term securities in anticipation of the commencement of the partial payment of claims allocated to the Segregated Account of Ambac Assurance Corporation (the "Segregated Account"), partially offset by the impact of a greater percentage of long-term holdings in higher yielding securities insured by Ambac Assurance Corporation ("Ambac Assurance"). The size of the Financial Guarantee long-term asset portfolio has declined by approximately $269 million since September 30, 2011, as continuing collection of installment paying financial guarantee premiums and coupon receipts on invested assets were offset by the resumption of 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 September 30, 2012 was $3.0 million compared to $9.0 million for the third quarter of 2011. The decline in Financial Services investment income was driven primarily by sales of securities to fund the repayment of intercompany loans and investment agreements as investment agreement obligations were reduced to $416 million at September 30, 2012, from $590 million at September 30, 2011.

Net Change in Fair Value of Credit Derivatives

The net change in fair value of credit derivatives was a gain of $27.4 million for the three months ended September 30, 2012, compared to a gain of $4.5 million for the three months ended September 30, 2011. The gain for the three month period ended September 30, 2012, resulted from improvement in reference obligation prices, gains associated with the runoff of the portfolio and credit derivative (“CDS”) fees earned. The gain for the three month period ended September 30, 2011, resulted primarily from CDS fees earned and the reversal of unrealized losses associated with terminations, partially offset by declines in certain reference obligation prices particularly related to student loan securitizations. There was no change to the Ambac Assurance credit valuation adjustment during the periods.

Derivative Products

For the third quarter of 2012, the derivative products business produced a net loss of $36.0 million compared to a net loss of $215.8 million for the third quarter of 2011. The net loss for the three months ended September 30, 2012 was primarily driven by realized losses relating to the negotiated termination of a derivatives contract. 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. Interest rate movements did not have a significant impact on results for the third quarter of 2012, while derivative product losses incurred during the third quarter of 2011 were primarily the result of mark-to-market movements in the portfolio caused by declining interest rates during the period.

Income on Variable Interest Entities

Income on variable interest entities for the three months ended September 30, 2012 was $6.1 million compared to $55.0 million for the three month period ending September 30, 2011. For the third quarter of 2012, the gain was the result of positive changes in the fair value of net assets of consolidated VIEs during the period. Results for the three months ended September 30, 2011 were driven by a $53.1 million net gain on one VIE. Adverse performance in the business underlying this VIE during the period was reflected through a decrease in the fair value of the VIE’s liabilities, partially offset by an impairment charge against its intangible assets.

Financial Guarantee Loss Reserves

Loss and loss expenses for the three months ended September 30, 2012 were a net benefit of $18.7 million compared to a net benefit of $60.2 million for the three months ended September 30, 2011. Losses for the three months ended September 30, 2012 were driven by lower estimated losses for first lien and second lien residential mortgage backed securities (“RMBS”), partially offset by an increase in estimated losses for certain student loan transactions and asset-backed transactions.

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 September 2012 were $2.7 billion, including $2.6 billion of claims related to the moratorium period. Loss and loss expenses paid, including commutations, net of recoveries and reinsurance from all policies, amounted to $644.6 million during the third quarter of 2012. At September 30, 2012, a total of $3.4 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) for all RMBS insurance exposures as of September 30, 2012, were $3.9 billion, including unpaid claims. RMBS reserves as of September 30, 2012, are net of $2.7 billion of estimated representation and warranty breach remediation recoveries, down 3% from $2.8 billion reported as of June 30, 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 the information provided by both the underwriters and sponsors of various RMBS transactions and for failure to comply with the obligation by the sponsors to repurchase ineligible loans.

Provision for Income Taxes

Income tax expense was $0.7 million for the three months ended September 30, 2012, compared to $75.0 million for the three months ended September 30, 2011. Income tax expense in the third quarter of 2011 related predominantly to the accrual of additional Federal income tax expense to bring the overall reserve for income taxes in line with Ambac’s intent to consummate the IRS settlement.

Expenses

Underwriting and operating expenses for the three months ended September 30, 2012 were $33.3 million, as compared to $44.9 million for the three months ended September 30, 2011. The decrease in underwriting and operating expenses for the three months ended September 30, 2012 was primarily due to lower amortization of deferred acquisition costs, consulting costs, legal fees, premium taxes, and compensation costs. Interest expense for the combined Financial Guarantee and Financial Services sectors was $23.3 million during the third quarter of 2012 versus $33.1 million in the third quarter of 2011. The decrease in interest expense during the third quarter of 2012 was primarily attributable to the lower par amount of surplus notes and 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 September 30, 2012 were $1.3 million as compared to $8.5 million for the three months ending September 30, 2011. 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 increased during the third quarter of 2012 to $26.9 billion from $26.6 billion at June 30, 2012. The increase in total assets was primarily due to an increase in VIE assets to $17.4 billion from $16.6 billion, partially offset by a decline in the consolidated non-VIE investment portfolio to $6.4 billion from $6.7 billion.

During the third quarter of 2012, the fair value of the financial guarantee non-VIE investment portfolio fell by $227 million to $5.8 billion (amortized cost of $5.3 billion) as of September 30, 2012. The decrease reflects the use of assets to fund the partial payment of Segregated Account policy claims beginning September 20, 2012, partially offset by improved valuations. The portfolio consists primarily of high quality municipal and corporate bonds, asset backed securities, U.S. Treasuries, Agency RMBS, as well as non-agency RMBS, including Ambac Assurance guaranteed RMBS. The fair value of the financial services investment portfolio declined $18 million to $569 million during the third quarter.

Liabilities subject to compromise totaled approximately $1.7 billion at September 30, 2012. The amount of liabilities subject to compromise represents Ambac's estimate of known or potential pre-petition claims to be addressed in connection with the Chapter 11 reorganization. As of September 30, 2012, liabilities subject to compromise consist of the following *(in thousands):*

Debt obligations and accrued interest payable	$1,690,312
Other	17,096
Consolidated liabilities subject to compromise	$1,707.408

Overview of Ambac Assurance Statutory Results

During the third quarter of 2012, Ambac Assurance generated statutory net income of $143.1 million. Third quarter 2012 results were primarily driven by (i) premiums earned of $122.6 million, and (ii) net investment income of $102.4 million, partially offset by net losses and loss expenses of $60.4 million. As of September 30, 2012, Ambac Assurance reported policyholder surplus of $100.0 million, unchanged from June 30, 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 September 30, 2012, Ambac Assurance's General Account did not assume $296.0 million of the Segregated Account insurance liabilities under the Segregated Account reinsurance agreement, down from $436.3 million as of June 30, 2012. The Segregated Account reported statutory policyholder surplus of ($193.7) million as of September 30, 2012, up from ($333.2) million as of June 30, 2012.

Ambac Assurance's claims-paying resources amounted to approximately $5.6 billion as of September 30, 2012, down approximately $600 million from $6.2 billion at June 30, 2012. This excludes Ambac Assurance UK Limited's claims-paying resources of approximately $1.1 billion. The decrease in claims paying resources was primarily attributable to the commencement by the Segregated Account of 25% partial payments on permitted policy claims that arose since the commencement of the Segregated Account rehabilitation proceedings.

About Ambac

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") on November 8, 2010. 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. Currently, Ambac's common stock trades in the over-the-counter market under ticker symbol ABKFQ. Upon consummation of the plan of reorganization, Ambac's existing common stock will be cancelled and extinguished and the holders thereof will not be entitled to receive, and will not retain, any property or interest on account of such common stock.

Additional information regarding Ambac's third quarter 2012 financial results, including its quarterly report on Form 10-Q for the quarter ended September 30, 2012, can be found on Ambac's website at www.ambac.com under the Investor Relations tab.

Forward-Looking Statements

This release includes 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) failure to consummate a plan of reorganization under Chapter 11, which may lead to the commencement of liquidation proceedings pursuant to Chapter 7; (2) the impact of the bankruptcy proceeding on the holders of Ambac securities; (3) failure to satisfactorily resolve our dispute with the United States Internal Revenue Service; (4) the unlikelihood that Ambac Assurance Corporation ("Ambac Assurance") will pay dividends to Ambac in the foreseeable future; (5) 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; (6) litigation arising from the Segregated Account Rehabilitation Proceedings; (7) decisions made by the Rehabilitator for the benefit of policyholders may result in material adverse consequences for Ambac's securityholders; (8) potential of a full rehabilitation proceeding against Ambac Assurance or material changes to the Segregated Account Rehabilitation Plan, with resulting adverse impacts; (9) inadequacy of reserves established for losses and loss expenses, including our inability to realize the remediation recoveries or future commutations included in our reserves; (10) adverse developments in our portfolio of insured public finance credits; (11) 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; (12) risks relating to determination of amount of impairments taken on investments; (13) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (14) market spreads and pricing on insured collateralized loan obligations ("CLOs") and other derivative products insured or issued by Ambac or its subsidiaries; (15) 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; (16) 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; (17) 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; (18) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (19) 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; (20) factors that may influence the amount of installment premiums paid to Ambac, including the Segregated Account Rehabilitation Proceedings; (21) changes in prevailing interest rates; (22) 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; (23) changes in accounting principles or practices that may impact Ambac's reported financial results; (24) legislative and regulatory developments; (25) operational risks, including with respect to internal processes, risk models, systems and employees; (26) changes in tax laws, tax disputes and other tax-related risks; and (27) other risks and uncertainties that have not been identified at this time, and (28) 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
September 30, 2012 and December 31, 2011
(Dollars in Thousands Except Share Data)

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Investments:		
Fixed income securities, at fair value		

(amortized cost of $4,887,684 2012 and $5,346,897 in 2011)	$ 5,440,690	$ 5,830,289
Fixed income securities pledged as collateral, at fair value		
(amortized cost of $285,284 in 2012 and $261,958 in 2011)	285,860	263,530
Short-term investments (amortized of $713,137 in 2012 and $783,015 in 2011)	713,467	783,071
Other (approximates fair value)	100	100
Total investments	6,440,117	6,876,990
Cash	90,065	15,999
Restricted cash	2,500	2,500
Receivable for securities	10,005	38,164
Investment income due and accrued	37,182	45,328
Premium receivables	1,755,830	2,028,479
Reinsurance recoverable on paid and unpaid losses	172,439	159,902
Deferred ceded premium	190,540	221,303
Subrogation recoverable	514,084	659,810
Deferred acquisition costs	205,818	223,510
Loans	10,380	18,996
Derivative assets	97,464	175,207
Other assets	63,759	104,300
Variable interest entity assets:		
Fixed income securities, at fair value	2,160,113	2,199,338
Restricted cash	2,293	2,140
Investment income due and accrued	1,228	4,032
Loans	15,188,358	14,329,515
Other assets	5,717	8,182
Total assets	$ 26,947,892	$ 27,113,695
Liabilities and Stockholders' Deficit		
Liabilities:		
Liabilities subject to compromise	$ 1,707,408	$ 1,707,421
Unearned premiums	2,985,542	3,457,157
Losses and loss expense reserve	7,034,224	7,044,070
Ceded premiums payable	94,089	115,555
Obligations under investment agreements	397,570	523,046
Obligations under investment repurchase agreements	18,276	23,500
Current taxes	97,379	95,709
Long-term debt	146,909	223,601
Accrued interest payable	210,108	170,169
Derivative liabilities	455,587	414,508
Other liabilities	98,161	107,441
Payable for securities purchased	15,009	1,665
Variable interest entity liabilities:		
Accrued interest payable	825	3,490
Long-term debt	15,113,094	14,288,540
Derivative liabilities	2,060,951	2,087,052
Other liabilities	273	304
Total liabilities	30,435,405	30,263,228
Stockholders' deficit:		
Preferred stock	-	-
Common stock	3,080	3,080
Additional paid-in capital	2,172,027	2,172,027
Accumulated other comprehensive income	527,969	463,259
Accumulated deficit	(6,440,840)	(6,039,922)
Common stock held in treasury at cost	(410,755)	(411,419)
Total Ambac Financial Group, Inc. stockholders' deficit	(4,148,519)	(3,812,975)

Noncontrolling interest	661,006	663,442
Total stockholders' deficit	(3,487,513)	(3,149,533)
Total liabilities and stockholders' deficit	$ 26,947,892	$ 27,113,695
Number of shares outstanding (net of treasury shares)	302,436,107	302,428,811

Ambac Financial Group, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
For the Three and Nine Months Ended September 30, 2012 and 2011
(Dollars in Thousands Except Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Net premiums earned	$ 113,074	$ 102,055	$ 311,066	$ 293,125
Net investment income	84,078	90,699	290,031	262,806
Other-than-temporary impairments:				
Total other-than-temporary impairment losses	(2,501)	(19,671)	(14,304)	(39,177)
Portion of loss recognized in other comprehensive income	2,147	8,784	8,551	8,999
Net other-than temporary impairment losses recognized in earnings	(354)	(10,887)	(5,753)	(30,178)
Net realized investment gains	3,162	5,084	70,621	5,006
Change in fair value of credit derivatives:				
Realized gains and other settlements	2,944	3,829	9,271	13,376
Unrealized gains	24,496	676	3,532	6,513
Net change in fair value of credit derivatives	27,440	4,505	12,803	19,889
Derivative products	(36,007)	(215,775)	(113,141)	(260,366)
Net realized (losses) gains on extinguishment of debt	-	-	(177,745)	3,119
Other (loss) income	(368)	(4,972)	100,562	32,558
Income on variable interest entities	6,137	55,008	26,893	51,236
Total revenues before expenses and reorganization items	197,162	25,717	515,337	377,195
Expenses:				
Losses and loss expenses	(18,745)	(60,238)	720,346	1,055,807
Underwriting and operating expenses	33,347	44,860	103,448	105,860
Interest expense	23,268	33,074	88,962	95,004
Total expenses before reorganization items	37,870	17,696	912,756	1,256,671
Pre-tax income (loss) from continuing operations before reorganization items	159,292	8,021	(397,419)	(879,476)
Reorganization items	1,252	8,519	4,480	39,794
Pre-tax income (loss) from continuing operations	158,040	(498)	(401,899)	(919,270)
Provision for income taxes	667	75,011	756	77,903
Net gain (loss)	157,373	(75,509)	(402,655)	(997,173)

Less: net (loss) gain attributable to noncontrolling interest	**(171)**	**(2)**	**(2,401)**	**45**
Net income (loss) attributable to common shareholders	**$ 157,544**	**($75,507)**	**($400,254)**	**($997,218)**
Net income (loss) per share attributable to Ambac Financial Group, Inc. common shareholders	**$ 0.52**	**($0.25)**	**($1.32)**	**($3.30)**
Net income (loss) per diluted share attributable to Ambac Financial Group, Inc. common shareholders	**$ 0.52**	**($0.25)**	**($1.32)**	**($3.30)**
Weighted average number of common shares outstanding:				
Basic	**302,469,966**	**302,467,255**	**302,468,502**	**302,429,879**
Diluted	**302,582,276**	**302,467,255**	**302,468,502**	**302,429,879**

Source: Ambac Financial Group, Inc.

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