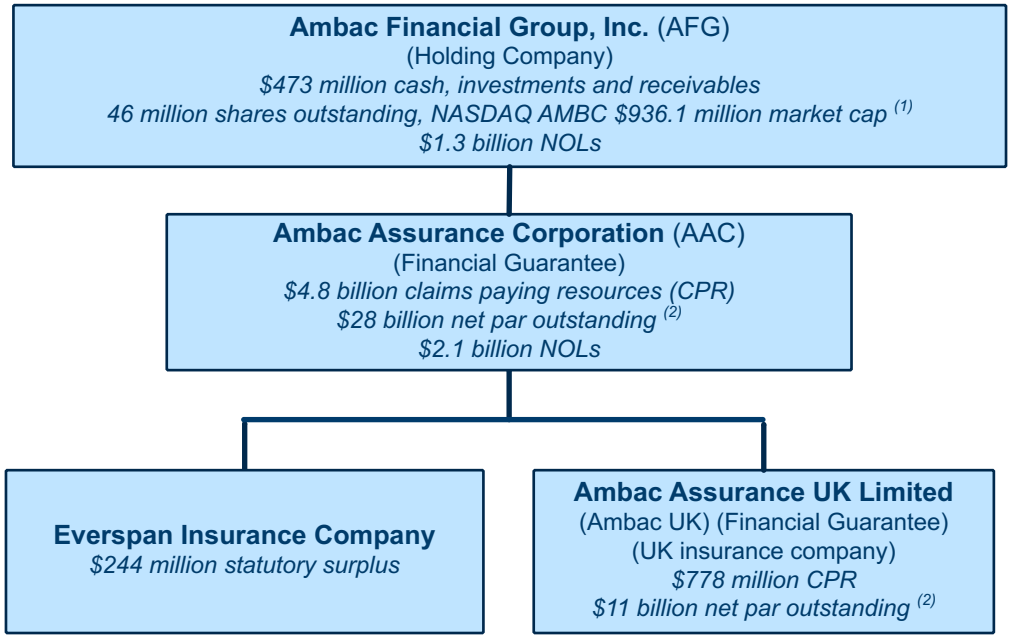
Investor Presentation
Quarterly Highlights

Third Quarter 2019

© 2019 Ambac Financial Group, Inc.
One State Street Plaza, New York, NY 10004
All Rights Reserved | 800-221-1854 | www.ambac.com

AMBAC - COMPANY OVERVIEW

Ambac Financial Group, Inc., is a financial services holding company whose subsidiaries include Ambac Assurance Corporation, a guarantor of public finance and structured finance obligations in run-off. Ambac's common stock trades on the NASDAQ Global Select Market under the symbols "AMBC"



MISSION

- Optimize our business and its components to achieve maximum return for shareholders
- Aggressively pursue financially sound strategies to reduce risk and decrease the size of the insured portfolio

VISION

- Transition to a growth-oriented platform sufficiently capitalized to support businesses that are synergistic with Ambac's core competencies

VALUES

- Culture of respect, inclusion, collaboration and transparency
- Attract, retain and reward top performers who meet standards of excellence, integrity and collaboration

(1) Common Stock Market Cap based on AMBC common shares outstanding at the closing stock price of $20.55 on 11/4/2019
(2) Par throughout this presentation includes capital appreciation bonds, which are reported as the par amount at issuance of the policy, as opposed to the current accreted value of the bonds

Ambac

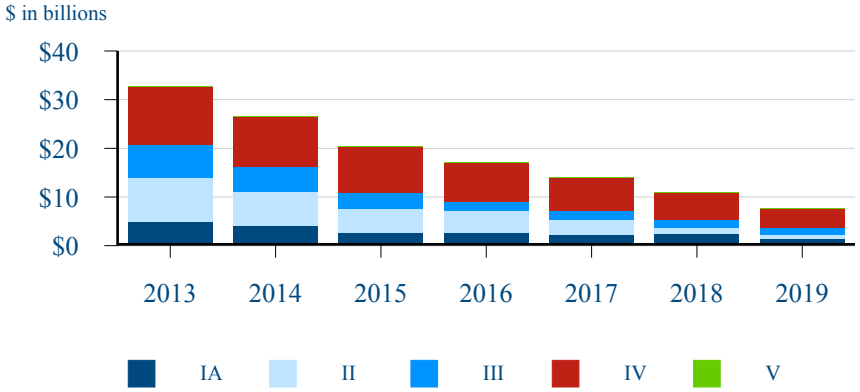
AMBAC STRATEGIC PRIORITIES

- Active runoff of Ambac Assurance and its subsidiaries through transaction terminations, policy commutations, reinsurance, settlements and restructurings, with a focus on our watch list credits and known and potential future Adversely Classified Credits ("ACC"), that we believe will improve our risk profile, and maximizing the risk-adjusted return on invested assets
- Ongoing rationalization of Ambac's and its subsidiaries' capital and liability structures
- Loss recovery through active litigation management and exercise of contractual and legal rights
- Ongoing review of the effectiveness and efficiency of Ambac's operating platform
- Evaluation of opportunities in certain business sectors that meet acceptable criteria that will generate long-term stockholder value with attractive risk-adjusted returns

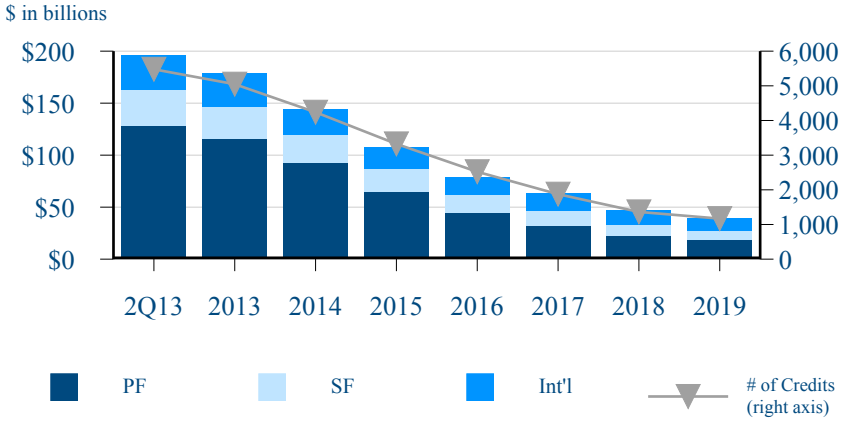
RISK MANAGEMENT – REDUCING INSURED LEGACY EXPOSURES

Natural run-off of exposure is complemented by proactive de-risking activities focused on reducing Adversely Classified and Watch List Credits…

Adversely Classified Credits - Net Par (definitions in Appendix)

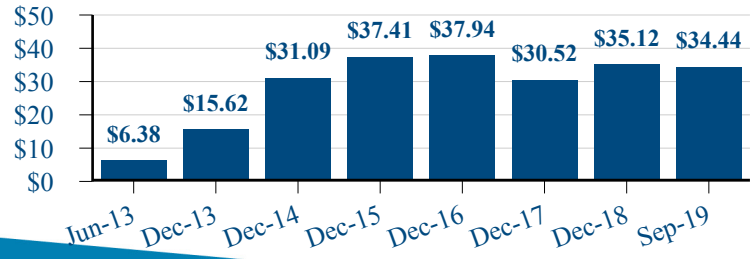


Net Par Exposure Since June 2013

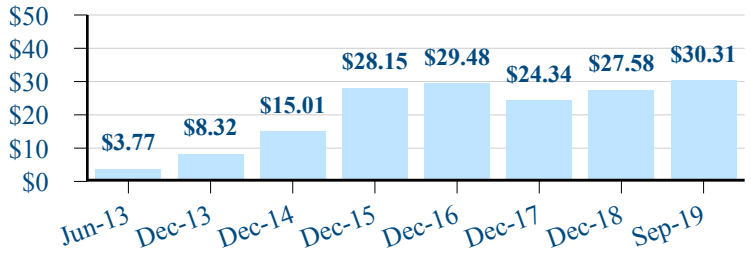


…while book value and adjusted book value have improved
(see slide 16 for explanation of Non-GAAP financial data)

Book Value Per Share
Increased $28.06 since June 2013



Adjusted Book Value Per Share
Increased $26.54 since June 2013



Ambac

RISK MANAGEMENT - ACTIVE DE-RISKING DROVE 8.8% DECLINE IN ADVERSELY CLASSIFIED AND WATCH LIST CREDITS EXPOSURE IN 3Q19

- **Adversely Classified and Watch List Credits decreased $1.5 billion or 8.8% in 3Q19 from 2Q19**
- **Insured net par reduced by $3.2 billion or 7.6% to $39.0 billion**
- **Risk Mitigation Activity - 3Q19**
  - Purchased quota share reinsurance to sculpt the risk profile of the insured portfolio. Reinsured $1.2 billion of performing par exposure for certain public finance insurance policies, with principal and interest of $2.4 billion, including $0.5 billion of Adversely Classified and Watch List Credits
  - Worked closely with services and owners of Master Servicing Rights to exercise clean-up calls on Watch List and Adversely Classified RMBS transactions reducing net par outstanding by $119 million
  - Facilitated the refinancing of several smaller public finance credits that had been subject to active risk remediation efforts, reducing Adversely Classified and Watch List Credit net par outstanding by $63 million

LOSS MITIGATION — LITIGATION AND OTHER RECOVERIES

Aggressively pursuing RMBS and other recoveries, through litigation and other means - Achieved approximately $1.6 billion of RMBS-related recoveries ever-to-date

Active Litigation

- **Countrywide, First Franklin and Nomura**
  - Estimated representation and warranty ("R&W") subrogation recoveries of $1.8 billion as of September 30, 2019
- **Countrywide**
  - Preparing for trial on contract and fraud claims in main case after favorable decision on appeals relating to pre-trial motions argued in 2018 (which defendants are seeking re-argument/further appeal)
  - Pursuing additional fraud-only cases relating to Harborview and Lehman transactions
- **First Franklin and Nomura**
  - Timing further behind main Countrywide case
- **U.S. Bank**
  - Seeking redress for trustee's failure to enforce rights and remedies and its treatment of trust recoveries with respect to 5 RMBS transactions
- **Puerto Rico**
  - HTA
  - FEGP, Fiscal Plan Compliance Law
  - Clawback
  - US Treasury (relating to rum taxes)
  - COFINA trustee
  - GO
  - PBA

Recent and Potential Recoveries

- **Citigroup settlement with the SEC**
  - Ambac received $142 million of settlement proceeds during 3Q19
- **Analyzing and pursuing other potential areas for recoveries**

3Q2019 FINANCIAL OVERVIEW

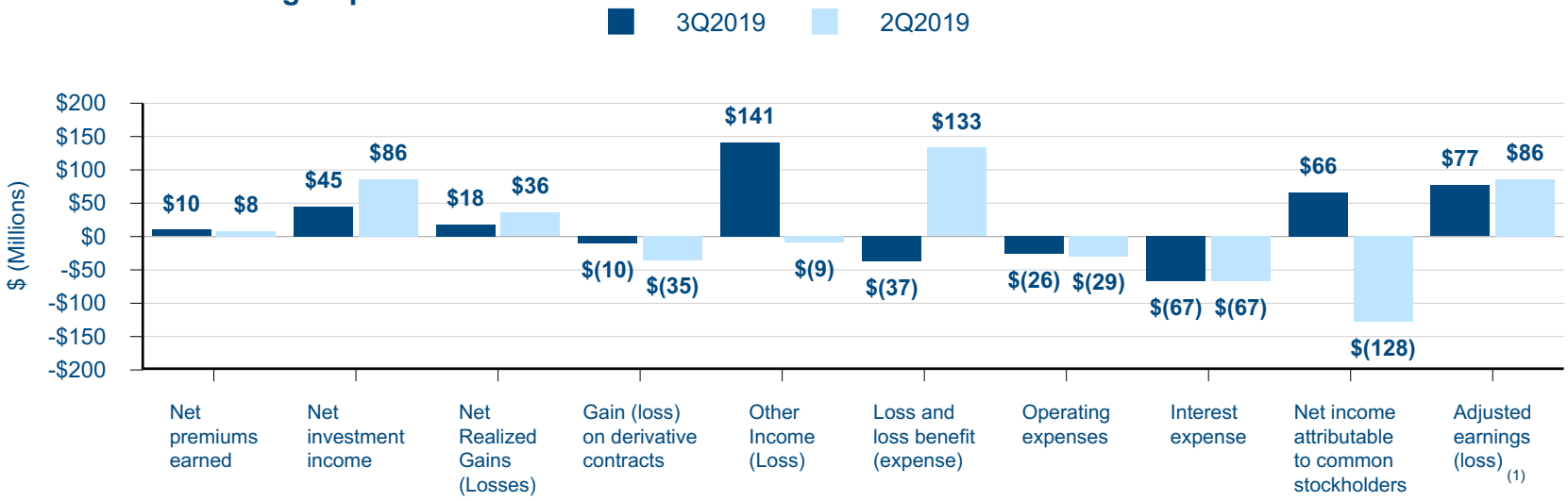
- **Net income attributable to common stockholders for the 3Q2019 was $66 million compared to a 2Q2019 Net loss of $128 million driven mostly by:**
  - A $142.2 million gain from the recognition of the amount awarded to Ambac from the SEC settlement with Citigroup
  - The absence of the impact of the Ballantyne restructuring and commutation which occurred in 2Q19 and included, among other charges and gains, higher insurance intangible amortization
  - Partially offset by the increase in loss and loss expense reserves, primarily related to Puerto Rico

($ in millions, except per share amounts)	3Q2019	2Q2019
Net income (loss) attributable to common stockholders	$ 66	$ (128)
Net income (loss) per diluted share	$ 1.41	$ (2.79)
Adjusted earnings (loss) [(1)]	$ 77	$ 86
Adjusted earnings (loss) per diluted share	$ 1.63	$ 1.88
Total Ambac Financial Group Inc. stockholders' equity (Book value)	$ 1,569	$ 1,493
Book value per share	$ 34.44	$ 32.78
Adjusted book value [(1)]	$ 1,381	$ 1,347
Adjusted book value per share	$ 30.31	$ 29.57

(1) Adjusted earnings and adjusted book value are non-GAAP financial measures of financial performance or financial position that excludes (or includes) amounts that are included in (or excluded from) net income attributable to common stockholders for Adjusted Earnings and Total Ambac Financial Group, Inc. stockholders' equity for Adjusted Book Value. A reconciliation between both financial measures can be found in Ambac's 3Q2019 Earnings Release included in Ambac's Current Report on Form 8-K filed with the SEC on November 7, 2019, and at the end of this document

3Q2019 vs 2Q2019 - KEY FINANCIAL RESULTS

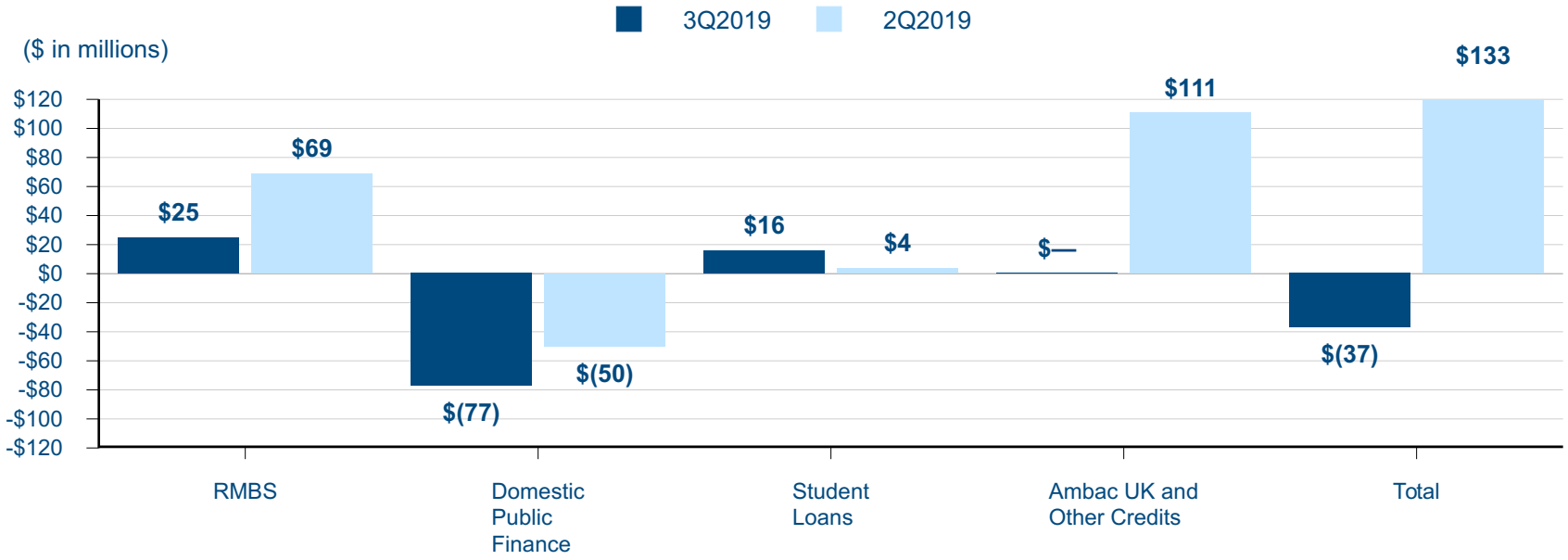
- **Net premiums earned increased $2.7 million primarily due to 2Q19's inclusion of negative accelerated earnings related to the Ballantyne commutation. 3Q19 includes an increase in uncollectable premiums**
- **Net investment income decreased $42.0 million mostly due to the inclusion in 2Q19 of accelerated accretion on owned Ballantyne notes associated with the commutation**
- **Net realized investment gains were $18.5 million consisting mostly of gains from the sale of COFINA bonds and foreign exchange gains**
- **Net losses on derivative contracts were $9.9 million for 3Q2019 compared to net losses of $35.4 million for 2Q2019, primarily due to losses on interest rate derivatives from forward interest rate declines**
- **Other income includes a $142.2 million gain in 3Q2019 from the amount awarded to Ambac from the SEC settlement with Citigroup**



(1) Adjusted earnings (loss) is a non-GAAP financial measure of financial position that excludes (or includes) amounts that are included in (or excluded from) net income which is presented in accordance with GAAP. A reconciliation to Net income (loss) attributable to common shareholders can be found in Ambac's 3Q2019 Earnings Release, included in Ambac's Current Report on Form 8-K filed with the SEC on November 7, 2019 and at the end of this document

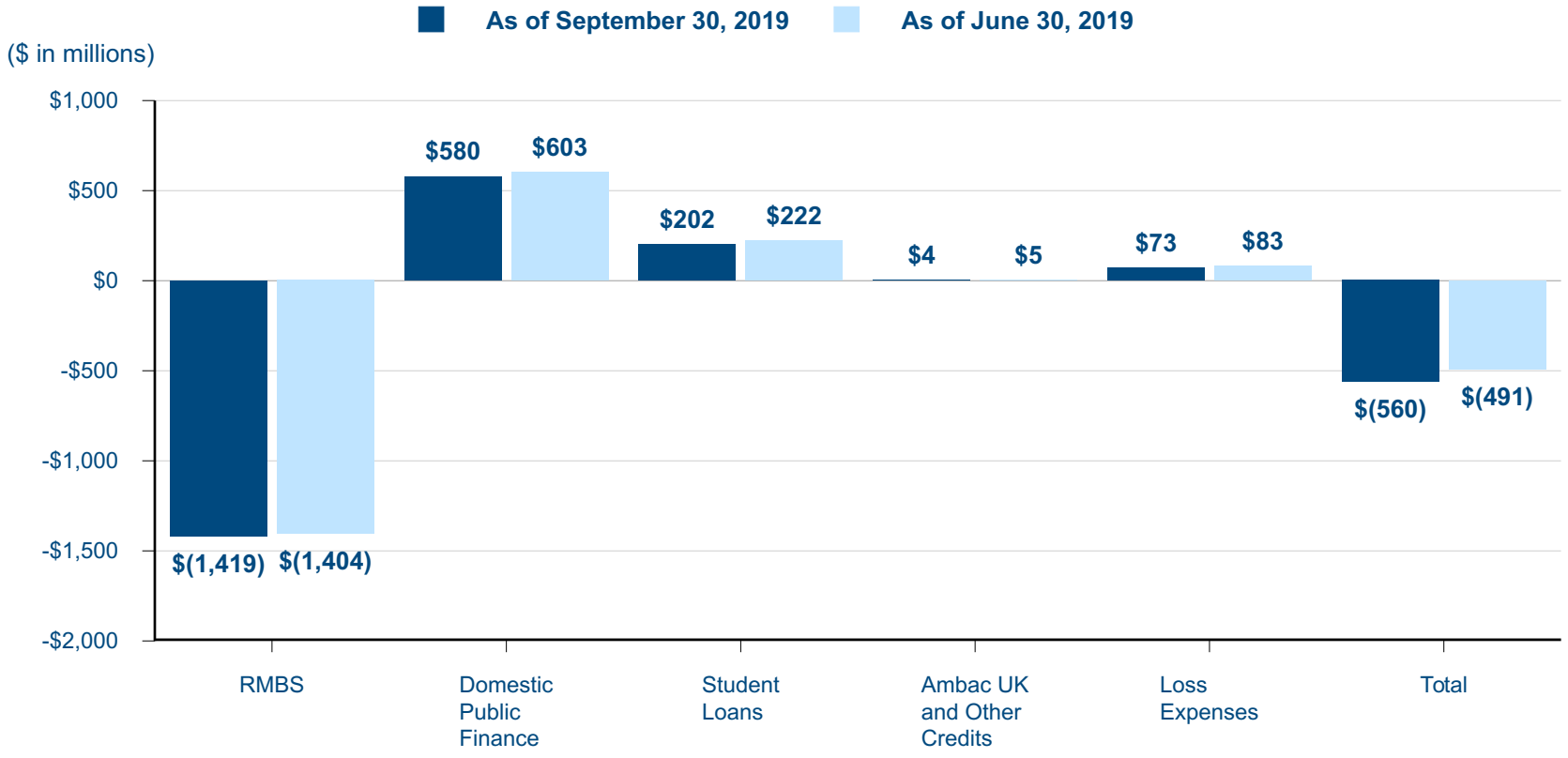
INCURRED (LOSSES) BENEFIT BY CATEGORY[(1)] - 3Q2019 vs 2Q2019

- **RMBS benefit of $24.5 million in 3Q2019 was driven by higher levels of expected excess spread due to lower interest rates**
- **Domestic Public Finance losses of $77.0 million were primarily due to an increase in non-COFINA Puerto Rico reserves**
- **Student loan benefit of $15.7 million in 3Q2019 is due to improved recovery experience**
- **Ambac UK and other credits benefit of $110.8 million in 2Q19 reflected the impact of the Ballantyne commutation**



(1) Components may not add to total due to rounding

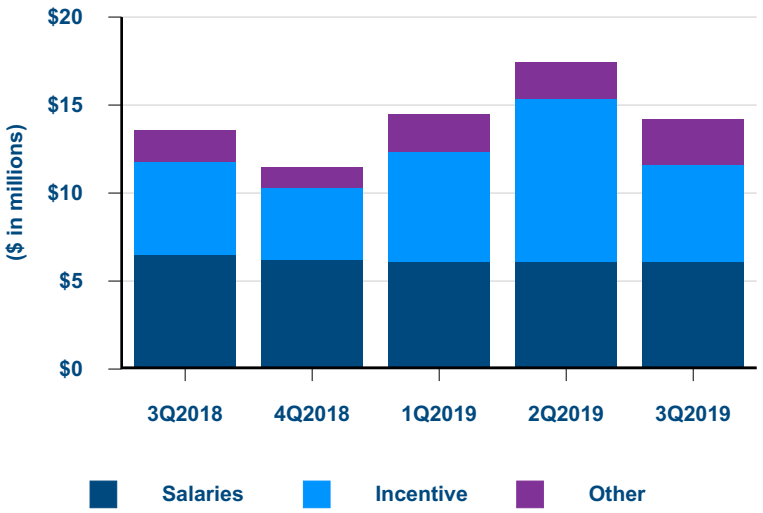
GROSS LOSS RESERVES BY CATEGORY[1]



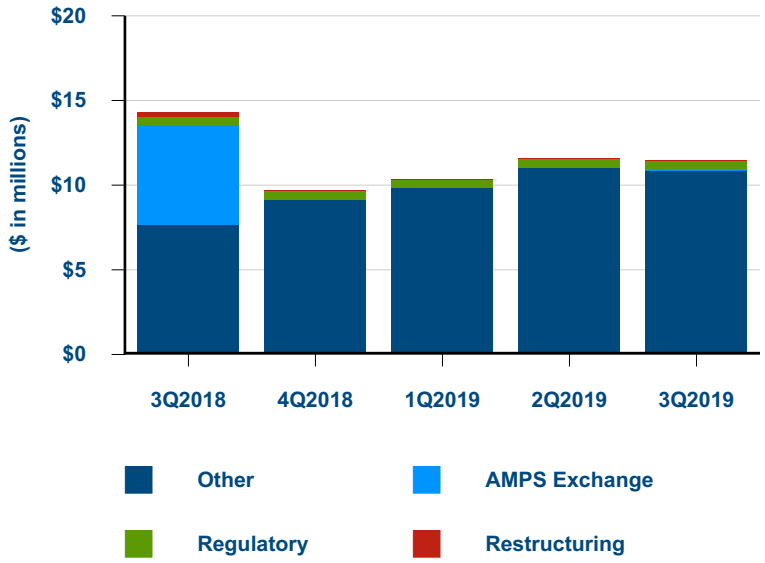
(1) Gross loss reserves are net of estimated R&W subrogation recoveries of $1.8 billion as of September 30, 2019 and June 30, 2019, and other subrogation recoveries of $0.7 billion as of September 30, 2019 and June 30, 2019

EXPENSE MANAGEMENT

Compensation Expense



Non-Compensation Expenses



- **Compensation expense decreased $3.3 million in 3Q2019 to $14.2 million from 2Q2019 primarily due to the inclusion, in 2Q19 of incentive compensation costs related to the Ballantyne commutation, partially offset by incremental severance expenses**
- **Non-compensation expenses were $11.5 million in 3Q2019 compared to $11.6 million in 2Q2019 driven by lower legal and advisory fees, partially offset by higher rent expense due to the extinguishment of lease reducing junior surplus notes, which previously lowered rent expense**

AMBAC CONSOLIDATED LIABILITY AND CAPITAL SUMMARY

Category	($ in millions) 9/30/19	Comments
Claim Liabilities	$1,939	• Before estimated subrogation recoveries, Unearned Premium Revenue ("UPR") and reinsurance
Secured Notes	$1,339	• Excludes $573 million of principal and interest held at AAC [(1)] • Includes $0.3 million of accrued and unpaid interest
5.1% Surplus Notes	$822	• Includes $291 million of accrued and unpaid interest
5.1% Junior Surplus Notes	$505	• Includes $140 million of accrued and unpaid interest
Tier 2 Note	$275	• Includes paid-in-kind interest of $35 million
Ambac UK Debt	$12	• Zero coupon note payable at maturity on May 2, 2036
Auction Market Preferred Shares (AMPS)	$138	• Liquidation Preference
Common Stock Market Cap[(2)]	$936	• 45,553,840 common shares • 4,877,783 warrants

(1) AAC pledged for the benefit of holders of Secured Notes (other than AAC) the proceeds of the Secured Notes held by AAC
(2) Common Stock Market Cap based on AMBC common shares outstanding on 11/4/2019 at the closing stock price of $20.55 on 11/4/2019

LOOKING AHEAD: EXPLORING GROWTH AND CAPITAL DEPLOYMENT OPPORTUNITIES

Materialization of key catalysts have improved Ambac's fundamentals, to allow for the deployment of capital in a tax efficient way to diversify the platform in a manner intended to enhance long-term shareholder value

AMBAC RESOURCES

- Public company platform
- Expertise in insurance, credit, risk management, public finance, structured finance asset management and financial services
- Experience managing regulated businesses
- Expertise in managing complex transactions
- Insurance licenses across the U.S. and UK

NEW BUSINESS FOCUS

ADJACENT SECTORS

- Specialty P&C Insurance and Reinsurance
- Credit and Asset origination businesses
- Asset Management and Fee based businesses
- Insurtech/Fintech related businesses

POTENTIAL TRANSACTIONS

- Acquisitions
- Strategic Investments
- Joint Ventures

AMBAC VALUE DRIVERS (as of September 30, 2019)

Liquidity and Improved Capital Structure

- $473 million of cash, investments and receivables at AFG
- Reduced outstanding debt through holistic restructuring in 1Q18 and partial redemptions in 2018 and 2019
- Reduced preferred stock at AAC through exchange offer in 2018

Litigation & Recovery

- Aggressively pursuing legal rights in the BofA/Countrywide, First Franklin and Nomura cases
- Asserting and protecting our rights in Puerto Rico-related litigation
- Received $142 million in 3Q19 from the Citigroup settlement with the SEC

Asset Management

- Generating a 5.0% GAAP yield on $2.7 billion book value of AAC & subsidiaries fixed income investment portfolio
- Ownership of $441 million of distressed Ambac insured bonds, including $154 million of Puerto Rico insured bonds

Improving fundamentals to create a stronger, leaner balance sheet

- Concluded Segregated Account Rehabilitation Exit and increased Book Value and Adjusted Book Value in 1Q18
- Executed AMPS exchange offer transaction, further de-leveraging the balance sheet in 3Q18
- Robust risk mitigation efforts strengthens the quality of Book Value and insured portfolio

NOLs

- $1.3 billion at AFG
- $2.1 billion at AAC
- $149 million of tolling payments accrued to AFG through September 30, 2019
  - $117 million paid
  - $32 million of payments pending

Competitive structure and tax advantages facilitate potential strategic opportunities

- Scalable, public company platform
- Sizeable NOLs and substantial deployable capital
- Expertise in credit, risk management, public finance, structured finance and financial services
- Experience managing regulated businesses and complex transactions

NON-GAAP RECONCILIATIONS



AMBAC NON-GAAP FINANCIAL DATA

Non-GAAP Financial Data

Included in this presentation, the Company reports two non-GAAP financial measures: Adjusted 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 GAAP. We are presenting these non-GAAP financial measures because they provide greater transparency and enhanced visibility into the underlying drivers of our business. Adjusted 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

Adjusted Earnings [(1) (2)]

The following table reconciles net income attributable to common stockholders to the non-GAAP measure, adjusted earnings, for the periods listed:

	3Q2019		2Q2019		1Q2019		4Q2018	
($ in millions, except per share amounts)	**$ Amount**	**P.D.S. [(1)]**	**$ Amount**	**P.D.S. [(1)]**	**$ Amount**	**P.D.S. (1)**	**$ Amount**	**P.D.S. [(1)]**
Net income (loss) attributable to common shareholders	**$ 66.1**	**$ 1.41**	**$ (128.4)**	**$ (2.79)**	**$ (43.2)**	**$ (0.94)**	**$ (20.5)**	**$ (0.45)**
Adjustments:								
Non-credit impairment fair value (gain) loss on credit derivatives	(0.4)	(0.01)	(0.2)	—	(0.4)	(0.01)	0.3	0.01
Insurance intangible amortization	17.4	0.37	226.2	4.92	36.3	0.79	29.0	0.63
Foreign exchange (gains) losses	(6.3)	(0.14)	(11.2)	(0.25)	(1.9)	(0.04)	2.0	0.05
Adjusted earnings (loss)	**$ 76.8**	**$ 1.63**	**$ 86.4**	**$ 1.88**	**$ (9.2)**	**$ (0.20)**	**$ 10.8**	**$ 0.24**

(1) Per diluted share ("P.D.S.")
(2) Numbers may not add due to rounding

AMBAC NON-GAAP FINANCIAL DATA (CONTINUED)

Adjusted Book Value [1]

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

	September 30, 2019		December 31, 2018	
($ in millions, except per share data)	**$ Amount**	**Per Share**	**$ Amount**	**Per Share**
Total Ambac Financial Group, Inc. Shareholders' Equity	**$ 1,568.7**	**$ 34.44**	**$ 1,592.0**	**$ 35.12**
Adjustments:				
Non-credit impairment fair value losses on credit derivatives	0.4	0.01	1.5	0.03
Insurance intangible asset	(433.5)	(9.52)	(718.9)	(15.87)
Net unearned premiums and fees in excess of expected losses	433.6	9.52	461.9	10.19
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income	(188.6)	(4.14)	(85.9)	(1.89)
Adjusted book value	**$ 1,380.6**	**$ 30.31**	**$ 1,250.6**	**$ 27.58**
Shares outstanding (in millions)		45.6		45.3

(1) Numbers may not add due to rounding

APPENDIX

Ambac

RISK ADVERSE CREDIT CLASSIFICATIONS

	Classification	Description
	Class I	• **Fully Performing – Meets Ambac Criteria with Remote Probability of Claim and includes:** ◦ Survey List - credits that may lack information or demonstrate a weakness but further deterioration is not expected ◦ Watch list - credits that demonstrate the potential for future material adverse development due to such factors as long-term uncertainty about a particular sector, a certain structural element related to the issuer or transaction or overall financial and economic sustainability
Adversely Classified Credits	Class IA	• **Potential Problem with Risks to be Dimensioned**
	Class II	• **Substandard Requiring Intervention**
	Class III	• **Doubtful with Clear Potential for Loss**
	Class IV	• **Imminent Default or Defaulted**
	Class V	• **Fully Reserved**

Forward Looking Statement

In this presentation, we have included statements that may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “estimate,” “project,” “plan,” “believe,” “anticipate,” “intend,” “planned,” “potential” and similar expressions, or future or conditional verbs such as “will,” “should,” “would,” “could,” and “may,” or the negative of those expressions or verbs, identify forward-looking statements. We caution readers that these statements are not guarantees of future performance. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, which may by their nature be inherently uncertain and some of which may be outside our control. These statements may relate to plans and objectives with respect to the future, among other things which may change. We are alerting you to the possibility that our actual results may differ, possibly materially, from the expected objectives or anticipated results that may be suggested, expressed or implied by these forward-looking statements. Important factors that could cause our results to differ, possibly materially, from those indicated in the forward-looking statements include, among others, those discussed under “Risk Factors” in our most recent SEC filed quarterly or annual report.

Any or all of management’s forward-looking statements here or in other publications may turn out to be incorrect and are based on management’s current belief or opinions. Ambac’s actual results may vary materially, and there are no guarantees about the performance of Ambac’s securities. Among events, risks, uncertainties or factors that could cause actual results to differ materially are: (1) the highly speculative nature of Ambac’s common stock and volatility in the price of Ambac’s common stock; (2) uncertainty concerning the Company’s ability to achieve value for holders of its securities, whether from Ambac Assurance Corporation ("Ambac Assurance") or from transactions or opportunities apart from Ambac Assurance; (3) changes in Ambac Assurance’s estimated representation and warranty recoveries or loss reserves over time; (4) failure to recover claims paid on Puerto Rico exposures or incurrence of losses in amounts higher than expected; (5) adverse effects on Ambac’s share price resulting from future offerings of debt or equity securities that rank senior to Ambac’s common stock; (6) potential of rehabilitation proceedings against Ambac Assurance; (7) dilution of current shareholder value or adverse effects on Ambac’s share price resulting from the issuance of additional shares of common stock; (8) inadequacy of reserves established for losses and loss expenses and possibility that changes in loss reserves may result in further volatility of earnings or financial results; (9) increased fiscal stress experienced by issuers of public finance obligations or an increased incidence of Chapter 9 filings or other restructuring proceedings by public finance issuers, including an increased risk of loss on revenue bonds of distressed public finance issuers due to a recent judicial decision adverse to revenue bond holders; (10) the Company's inability to realize the expected recoveries included in its financial statements; (11) insufficiency or unavailability of collateral to pay secured obligations; (12) credit risk throughout the Company’s business, including but not limited to credit risk related to residential mortgage-backed securities, student loan and other asset securitizations, public finance obligations (including obligations of the Commonwealth of Puerto Rico and its instrumentalities and agencies as well as obligations relating to privatized military housing projects) and exposures to reinsurers; (13) credit risks related to large single risks, risk concentrations and correlated risks; (14) the risk that the Company’s risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss; (15) risks associated with adverse selection as the Company’s insured portfolio runs off; (16) adverse effects on operating results or the Company’s financial position resulting from measures taken to reduce risks in its insured portfolio; (17) disagreements or disputes with Ambac Assurance's primary insurance regulator; (18) our inability to mitigate or remediate losses, commute or reduce insured exposures or achieve recoveries or investment objectives, or the failure of any transaction intended to accomplish one or more of these objectives to deliver anticipated results; (19) the Company’s substantial indebtedness could adversely affect its financial condition and operating flexibility; (20) the Company may not be able to obtain financing or raise capital on acceptable terms or at all due to its substantial indebtedness and financial condition; (21) the Company may not be able to generate the significant amount of cash needed to service its debt and financial obligations, and may not be able to refinance its indebtedness; (22) restrictive covenants in agreements and instruments may impair the Company’s ability to pursue or achieve its business strategies; (23) loss of control rights in transactions for which we provide insurance due to a finding that Ambac Assurance has defaulted; (24) the Company’s results of operation may be adversely affected by events or circumstances that result in the accelerated amortization of the Company’s insurance intangible asset; (25) adverse tax consequences or other costs resulting from the characterization of the Company’s surplus notes or other obligations as equity; (26) risks attendant to the change in composition of securities in the Company’s investment portfolio; (27) changes in tax law; (28) changes in prevailing interest rates; (29) the expected discontinuance of the London Inter-Bank Offered Rate; (30) factors that may influence the amount of installment premiums paid to the Company; (31) default by one or more of Ambac Assurance's portfolio investments, insured issuers or counterparties; (32) market risks impacting assets in the Company’s investment portfolio or the value of our assets posted as collateral in respect of interest rate swap transactions; (33) risks relating to determinations of amounts of impairments taken on investments; (34) 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 the Company’s business, operations, financial position, profitability or cash flows; (35) actions of stakeholders whose interests are not aligned with broader interests of the Company's stockholders; (36) the Company’s inability to realize value from Ambac UK or other subsidiaries of Ambac Assurance; (37) system security risks; (38) market spreads and pricing on interest rate derivatives insured or issued by the Company; (39) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting; (40) changes in accounting principles or practices that may impact the Company’s reported financial results; (41) legislative and regulatory developments, including intervention by regulatory authorities; (42) the economic impact of “Brexit”; (43) operational risks, including with respect to internal processes, risk and investment models, systems and employees, and failures in services or products provided by third parties; (44) the Company’s financial position that may prompt departures of key employees and may impact the Company’s ability to attract qualified executives and employees; (45) fluctuations in foreign currency exchange rates could adversely impact the insured portfolio in the event of loss reserves or claim payments denominated in a currency other than US dollars and the value of non-US dollar denominated securities in our investment portfolio; and (46) other risks and uncertainties that have not been identified at this time.

ABOUT AMBAC

Ambac Financial Group, Inc. ("Ambac" or "AFG"), headquartered in New York City, is a financial services holding company whose subsidiaries include Ambac Assurance Corporation, a guarantor of public finance and structured finance obligations in run-off. Ambac's common stock trades on the NASDAQ Global Select Market under the symbol "AMBC". The Amended and Restated Certificate of Incorporation of Ambac contains substantial restrictions on the ability to transfer Ambac's common stock. Subject to limited exceptions, any attempted transfer of common stock shall be prohibited and void to the extent that, as a result of such transfer (or any series of transfers of which such transfer is a part), any person or group of persons shall become a holder of 5% or more of Ambac's common stock or a holder of 5% or more of Ambac's common stock increases its ownership interest. Ambac is committed to providing timely and accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, we use our website to convey information about our businesses, including the anticipated release of quarterly financial results, quarterly financial, statistical and business-related information, and the posting of updates to the status of certain residential mortgage backed securities litigations. For more information, please go to www.ambac.com.

Contact:

Lisa A. Kampf
Managing Director, Investor Relations
(212) 208-3222
ir@ambac.com


Ambac