

Ambac



JPMorgan: 2008 Credit and Equity Insurance Conference

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Business Strategy: Re-affirm, Refocus, Reorganize, and Restore

- ▶ Triple A ratings re-affirmed by Moody's and S&P
- ▶ Business refocused to reduce volatility and improve transparency
- ▶ Risk management reorganized under Chief Risk Officer
- ▶ Aggressive efforts to restore market confidence in our 37-year old franchise

CAPITAL STRENGTH AND RATINGS UPGRADE

- ▶ RISK MANAGEMENT CHANGES
- ▶ BUSINESS STRATEGY
- ▶ TRANSPARENCY

Maintaining Single Company

- ▶ All policyholders treated equally
- ▶ Benefit from diversity: split would require higher capital enhancement:
- ▶ Maintain organizational and operational efficiencies
- ▶ Avoid regulatory complications of splitting policyholders
- ▶ Eliminate legal risk of split: "fraudulent conveyance"



Capital Raise

- ▶ Successfully raised \$1.5 billion (nearly 2x market cap) in a difficult equity market
- ▶ Offer received strong support from New York and Wisconsin insurance regulators
- ▶ Capital infusion reduced ratings uncertainty
- ▶ Strength of franchise affirmed by current and new shareholders

Successful Execution of Plan - Ratings Affirmed

▶ Ambac Assurance Corp's Triple-A Ratings Affirmed by S&P and Moody's

- Financial Strength Ratings removed from "Credit Watch with Negative Implications" by S&P and from "Review for Possible Downgrade" by Moody's; and affirmed at "AAA."
- Revised upward to "Negative Outlook" by both agencies

"the rating outlook could return to stable within the next six to twelve months."*

▶ Ambac's Rating also Affirmed by Fitch

- Ambac's Insurer Financial Strength Rating has been removed from "Rating Watch Negative" and is affirmed at "AA" by Fitch.
- Revised upward to "Negative Outlook"

* Per Moody's affirmation on March 13, 2008.

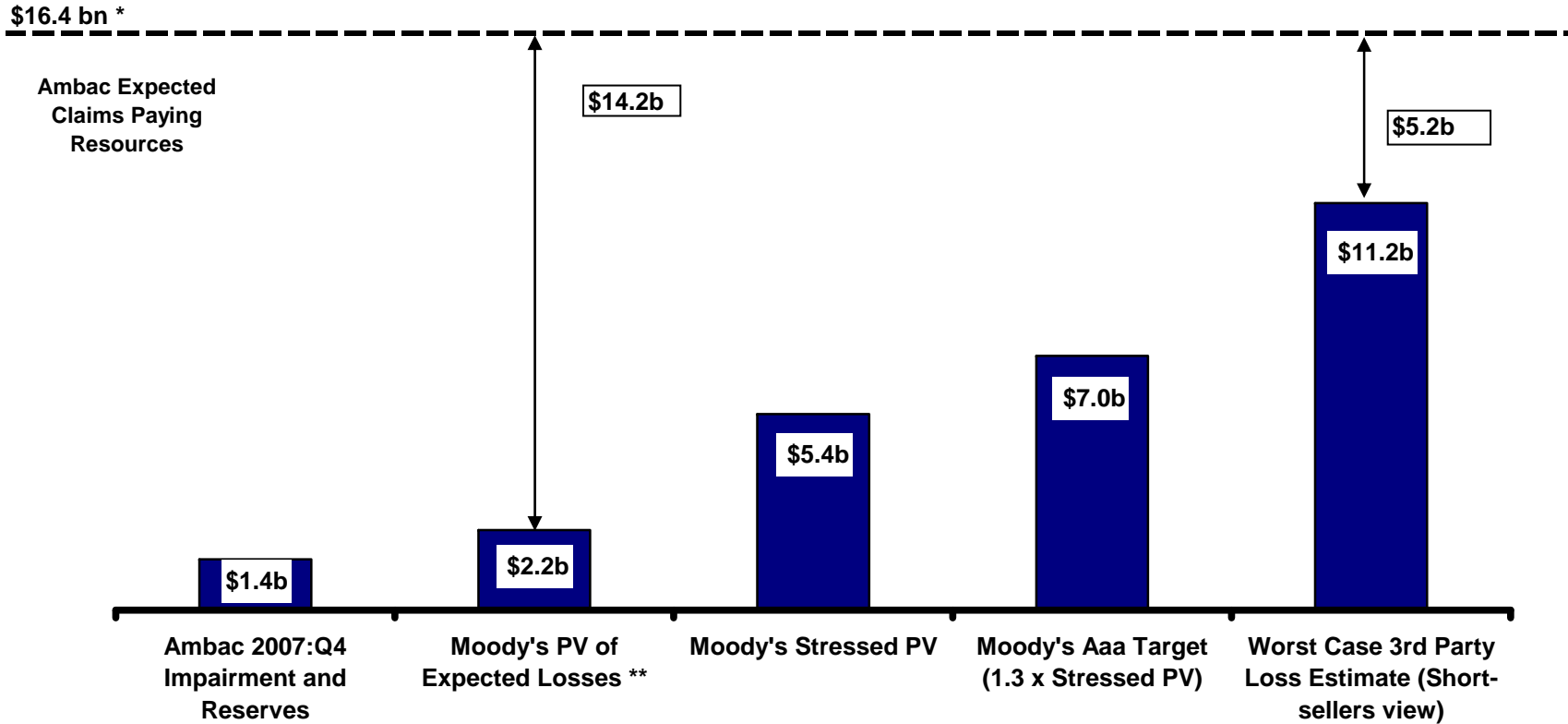
Rating Agency “Goal Posts” Finally Appear Grounded

- ▶ Goal posts for Triple-A financial strength ratings had been steadily moving over last several months
 - Moody's recent change: Aaa total capital target now requires 1.3x coverage of “stressed” 99.99% scenario vs 1.3x coverage of “base” 99.99% scenario

- ▶ Seeing reduced volatility in Rating Agency loss estimates
 - Stable assumptions for near to mid-term
 - Important for market confidence in rating analysis
 - High loss assumptions already imbedded

- ▶ Growing clarity around mortgage market performance
 - For certain amortizing mortgage pools, declining pool factors make widely reported 18-20% cumulative losses almost mathematically impossible
 - “Burnout” effect for investor properties and mortgage-related fraud

Range of Loss Estimates on Ambac's Mortgage-Related Portfolio

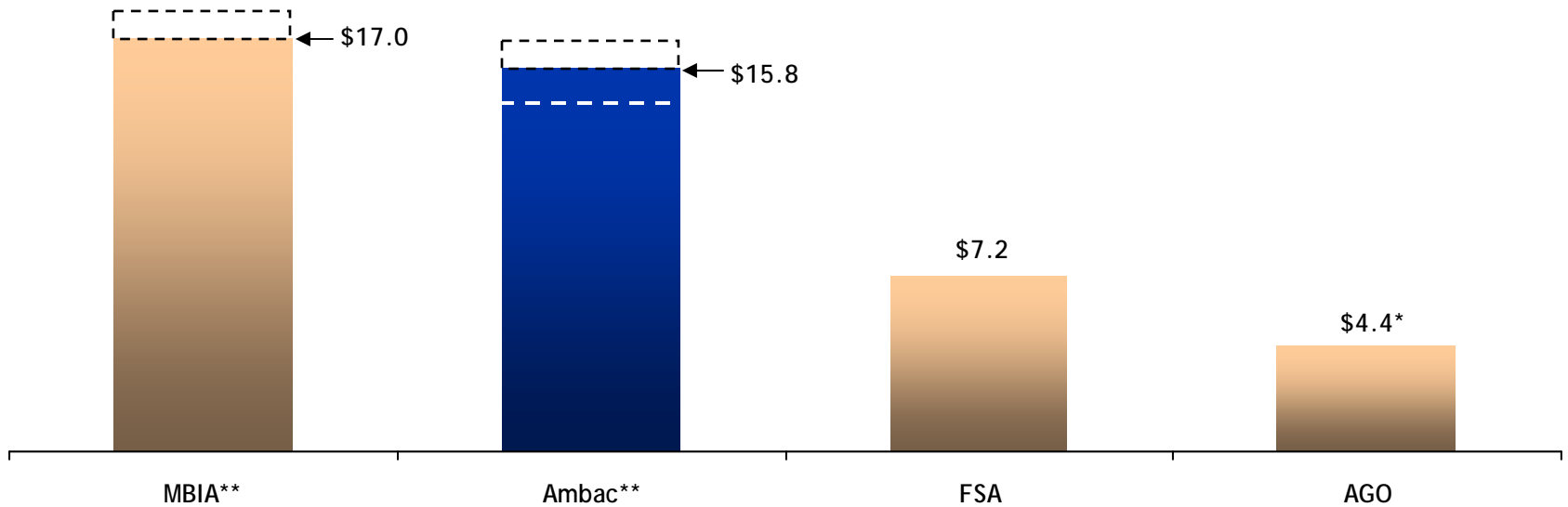


* Includes internal capital generation from six-month, structured finance moratorium.

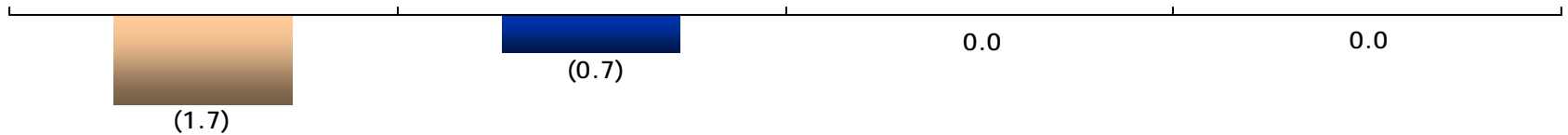
** Ambac's estimate.

Comparative Financial Guarantor Capital Resources

Company's Reported Claims-Paying Resources



Moody's Aaa Target 'Shortfall'



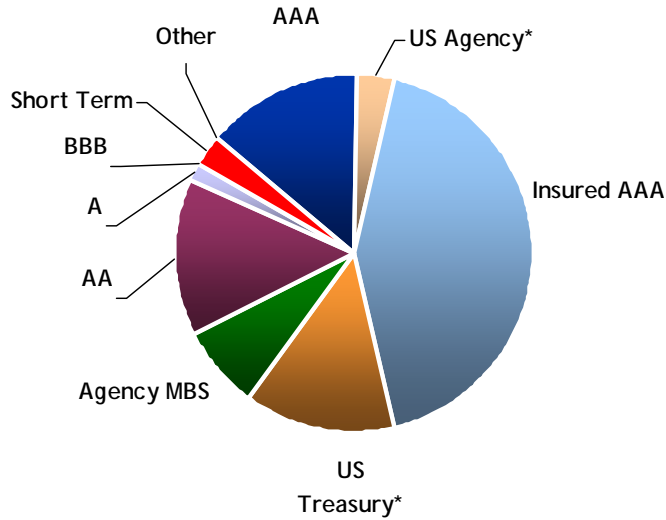
* Does not reflect recent investment and commitment from WL Ross & Co. LLC.

** Dotted box represents internally generated capital growth from six-month, structured finance moratorium.

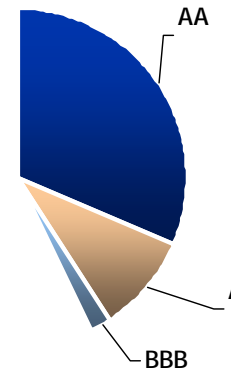
Strong Liquidity

- ▶ Guarantee scheduled principal and interest; claims spread over time
- ▶ \$12 billion, high-quality, liquid investment portfolio
- ▶ Purchased U.S. Treasury securities to meet anticipated claims
- ▶ Investment portfolio generates on average \$1 billion of cash in each of next four years
- ▶ Minimum \$400 million of installment premiums will be collected in each of the next three years
- ▶ \$100 million of capital proceeds retained at holding company
 - Two-years debt service accumulated at holdco by year-end
 - Common dividend reduced to \$0.04 per annum
- ▶ \$400 million bank revolving credit facility maturing July 2012
- ▶ Low operating expenses

Financial Guarantee Investment Portfolio Quality Breakdown



Insured Underlying



Insured AAA	42.8%
US Treasury*	13.4%
US Agency*	3.4%
Agency MBS	7.5%
AAA	14.2%
AA	14.2%
A	1.7%
BBB	0.1%
Short Term	2.6%
Other	0.1%

Source: Rating Agencies
*Includes Escrowed Municipals

- ▶ CAPITAL STRENGTH AND RATINGS UPGRADE

RISK MANAGEMENT CHANGES

- ▶ BUSINESS STRATEGY
- ▶ TRANSPARENCY

Strengthened Risk-Centric Organization

- ▶ Appointed Chief Risk Officer
- ▶ Increasing enterprise-level risk transparency through reports on portfolio performance, concentrations, correlations, severities and sensitivities
 - Periodic reviews of risks along many dimensions (e.g., obligor, sector, industry)
 - Rigorous stress testing
- ▶ Revised underwriting policies and procedures
 - Level of scrutiny aligned to size and complexity of each transaction
 - Transaction credit decisions validated by appropriate risk-adjusted return metrics

On-going Capital Management

- ▶ Maintain core municipal and targeted structured finance and international franchises
 - No credit issues related to many business lines that have been scaled back
- ▶ Focus on allocating capital efficiently
- ▶ Ensure future ratings stability by maintaining healthy capital cushion above Moody's and S&P's triple-A requirements

- ▶ CAPITAL STRENGTH AND RATINGS UPGRADE
- ▶ RISK MANAGEMENT CHANGES

BUSINESS STRATEGY

- ▶ TRANSPARENCY

Keys to Our Success

- ▶ AAA Strength
- ▶ Hard to replicate franchise
- ▶ Extensive client relationships
- ▶ Management depth and expertise
- ▶ Long operating history

Current Challenges

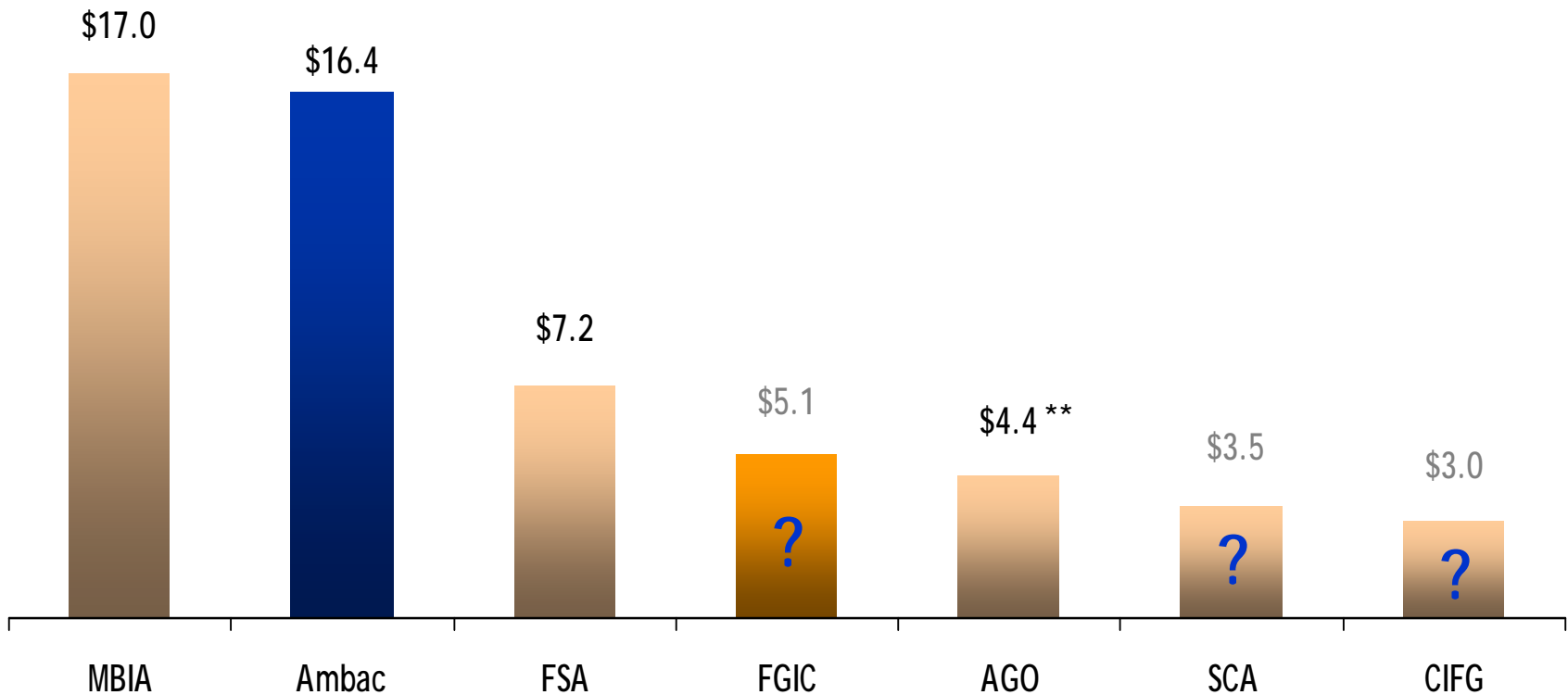
- ▶ Loss of confidence
- ▶ Mortgage losses / subprime crisis
- ▶ Selected transactions with high degree of complexity
- ▶ GAAP earnings volatility due to MTM
- ▶ Variable Rate Debt Disruption
- ▶ Moody's Corporate Equivalent Rating Scale

Our Future

- ▶ Restored confidence in our business
- ▶ Solid capital position
- ▶ Increased financial flexibility
- ▶ Strengthened risk management and underwriting
- ▶ Refocused business model
- ▶ Attractive risk-adjusted returns

Changing Competitive Landscape

Claims-Paying Resources*
(\$ billions)



* As announced: 2/08 (MBIA), 12/07 (CIFG); as reported: 12/07 + capital infusion/generation (Ambac, FSA); 12/07 (AGO), 9/07 (SCA, FGIC).
Source: The Bond Buyer/Thompson Financial, Company reports/announcements

** Does not reflect recent investment and commitment from WL Ross & Co. LLC

U.S. Public Finance Strategy

Market opportunity

- ▶ Credit spreads are much wider
 - ▶ Less competition, resulting in better pricing opportunities
 - ▶ Large market / diverse issuer base / significant retail investor base
 - ▶ Very attractive risk-adjusted return profile
-

Ambac's competitive advantage

- ▶ Leading franchise
 - ▶ Significant available capacity
 - ▶ Large existing portfolio
-

Strategy

- ▶ Focus on re-building trading value following capital raise
- ▶ Emphasize all sectors
- ▶ Utilize available capacity
- ▶ Target value-added transactions

U.S. Structured Finance Strategy

Market opportunity

- ▶ Few alternatives to monoline insurers in several structured finance business segments
- ▶ Limited capacity in the monoline industry
- ▶ Improved pricing

Ambac's competitive advantage

- ▶ Strong relationships with banks and issuers
- ▶ Ability to write new business based on institutional knowledge of product area
- ▶ Superior execution and ongoing surveillance support

Strategy

- ▶ Suspension of new structured finance deals globally for six months to create added capital cushion
- ▶ Discontinuation of selected high-risk structured finance businesses, e.g., CDOs and RMBS
- ▶ Limit per-deal capital and par exposure on a transaction basis
- ▶ Higher attachment levels and increase pricing across all sectors

Market Opportunity

- ▶ Markets still young; capital markets/monoline penetration low
 - ▶ Large/growing infrastructure needs, increased privatization
 - ▶ Limited risk appetite/analytical skill among fixed income investors
 - ▶ Improved pricing
-

Ambac's competitive advantage

- ▶ Leader in European Infrastructure and Australian utilities
 - ▶ Strong client relationships across all markets
 - ▶ Superior execution and ongoing surveillance support
 - ▶ 42% of capacity has exited the market
-

Strategy

- ▶ Smaller deal sizes and more "club" deals (increasing hit rate)
- ▶ Higher RaRoC hurdle rates, especially in utility sector
- ▶ Increase pricing across all sectors

- ▶ CAPITAL STRENGTH AND RATINGS UPGRADE
- ▶ RISK MANAGEMENT CHANGES
- ▶ BUSINESS STRATEGY

TRANSPARENCY

Strengthening Communication

Current

- ▶ Most transparent financial guarantor on mortgage-related exposures
 - Every mortgage-related exposure detailed on Ambac's web site

Going Forward

- ▶ Proactive outreach and ongoing communication with investors
- ▶ Enhance user-friendly delivery of information
- ▶ Regularly elicit feedback from investors

Next Steps to Restore Investor Confidence

- ▶ Target “stable” AAA ratings
 - Maintain capital position in excess of rating agency requirements
 - Efficiently allocate risk-adjusted capital to business segments

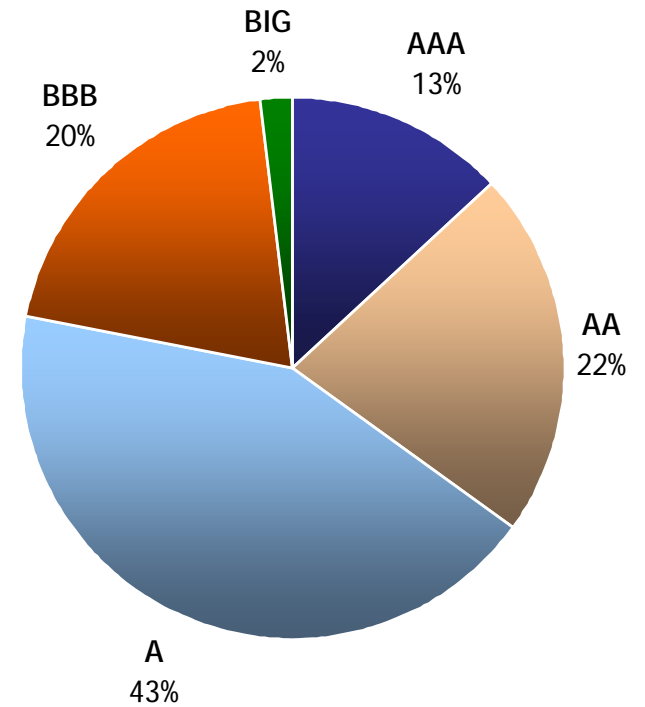
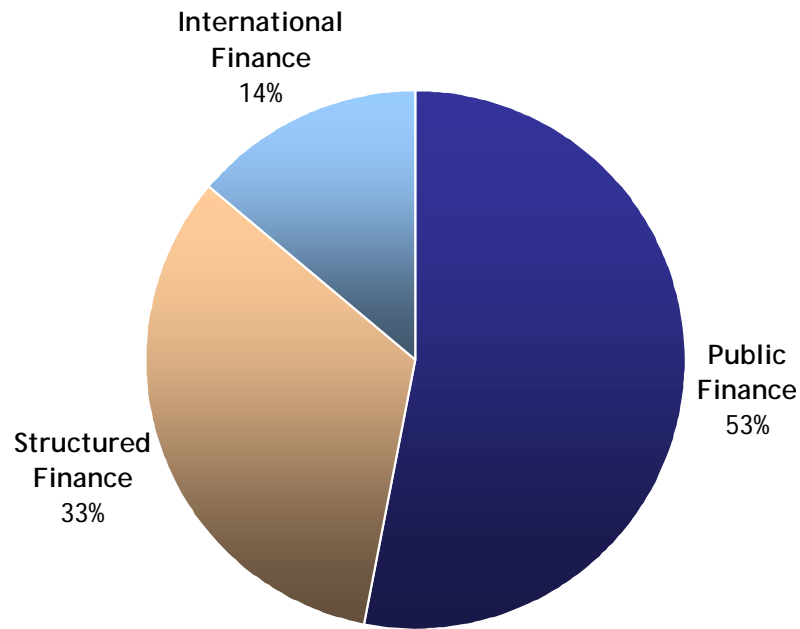
- ▶ Emphasize disciplined risk management and underwriting practices
 - Focus on areas of expertise
 - Reduce earnings volatility

- ▶ Communicate with marketplace

Appendix

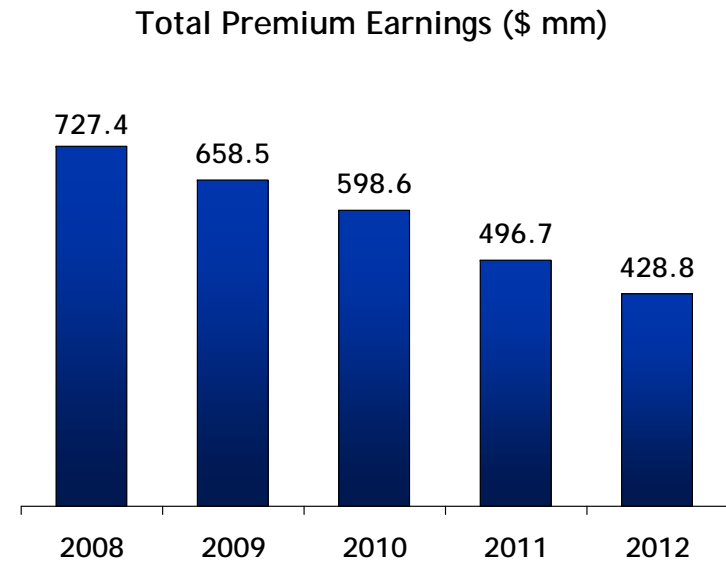
Strong Guaranteed Portfolio

\$524 billion net par outstanding



Substantial Embedded Earnings in Existing Portfolio

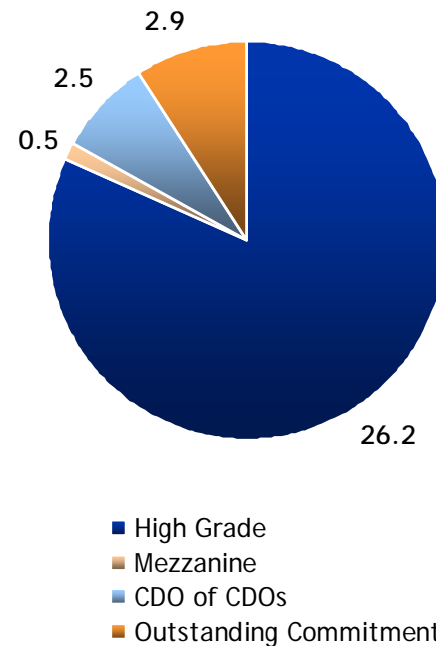
- ▶ Premium earnings based upon net unearned premium amortization and estimated future installment premiums due as per 12/31/07 Operating Supplement
- ▶ Investment income generates substantial additional earnings: \$465 million in 2007 based on \$10.5 billion Financial Guarantee investment portfolio as of 12/31/07
- ▶ Net proceeds from \$1.5 billion capital raise will generate additional investment earnings



Ambac's CDO of ABS Sub-Prime Exposure

- ▶ \$32 billion exposure*
- ▶ Impairment concentrated on three CDO² transactions and one CDO of mezzanine ABS totaling \$2.9 billion
- ▶ Continually update analysis of transactions

Ambac's CDO of Subprime Exposure (\$ Billions)

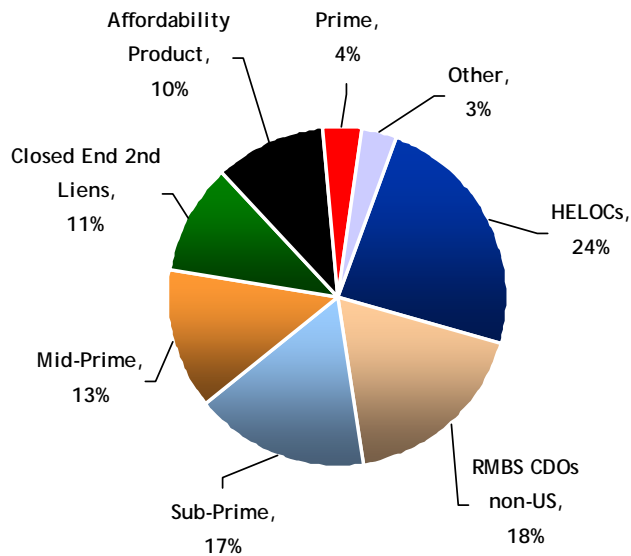


* Includes a \$2.9 billion outstanding commitment to provide financial guarantee on static pool of securities, primarily consisting of sub-prime and mid-prime residential mortgage-backed securitizations

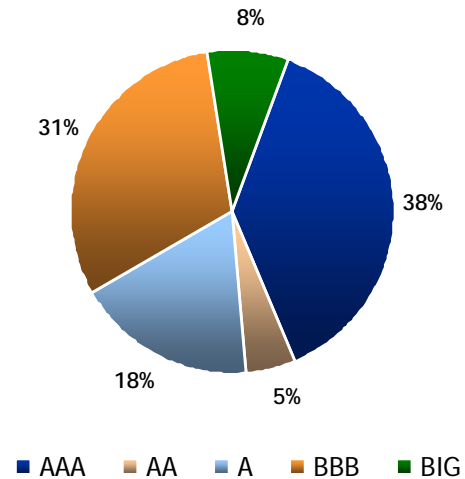
Ambac's Direct RMBS

RMBS exposure limited to <10% of insured portfolio

\$50.3 billion RMBS Exposure

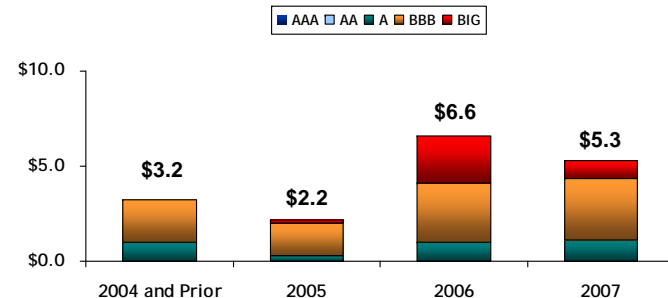


RMBS Portfolio Quality



- ▶ Focus on top originators and servicers
- ▶ Well diversified by vintage and rating
- ▶ Continued deterioration in select HELOC and closed-end second deals: took \$208.5 million loss provision in 4Q 07 related primarily to these asset classes

Closed-End Second and HELOC by Vintage (\$17.3b)



As of December 31, 2007

Excludes manufactured housing exposure of \$1.8bn.