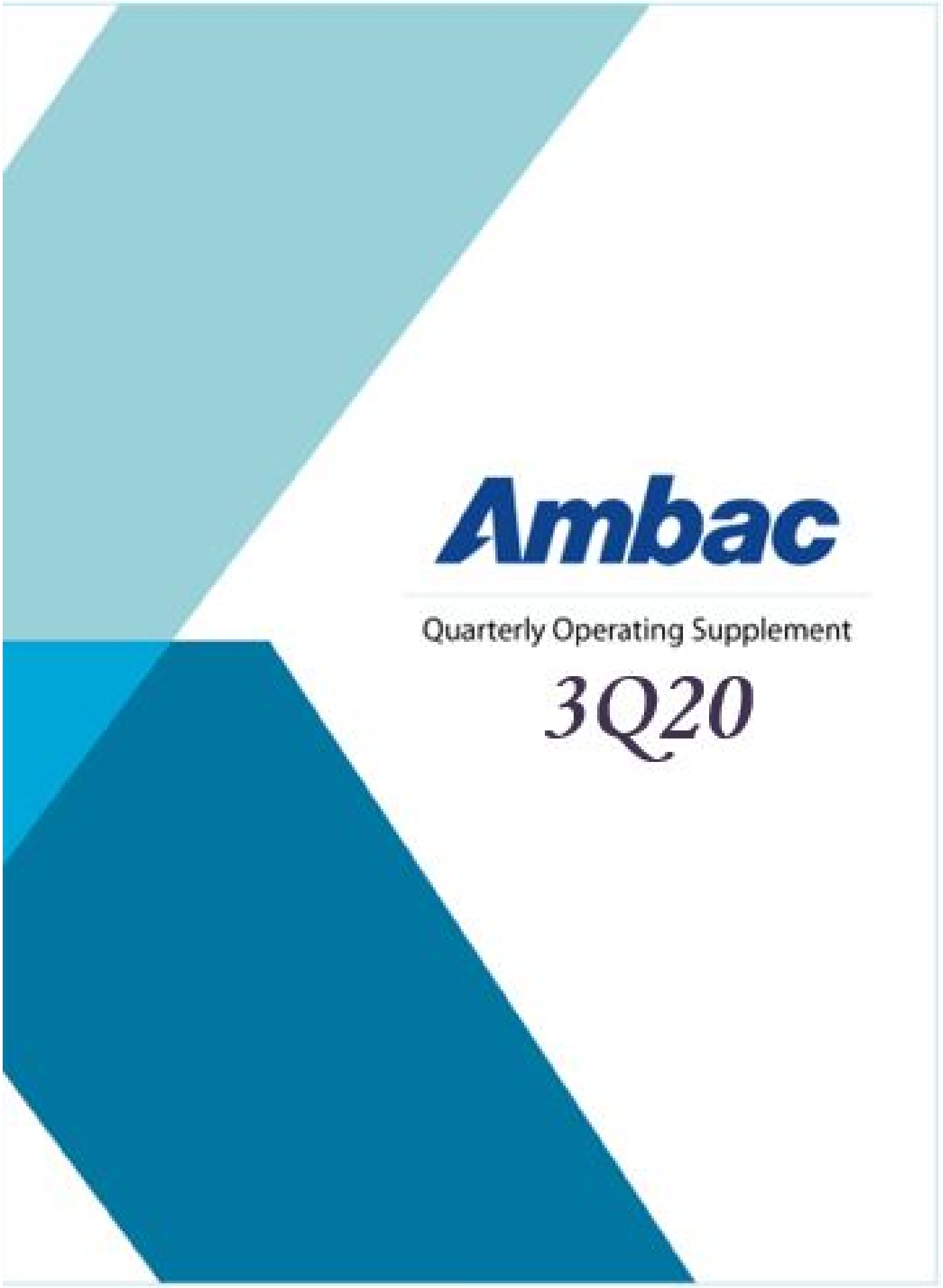

Ambac
Quarterly Operating Supplement
3Q20

## About Ambac

Ambac Financial Group, Inc. ("Ambac" or "AFG"), headquartered in New York City, is a financial services holding company whose principal subsidiaries, Ambac Assurance Corporation and Ambac Assurance UK Limited, are financial guarantors currently in runoff. Outstanding policies include financial guarantees of public finance and structured finance obligations in the public and private sectors globally. Ambac's common stock trades on the New York Stock Exchange 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.

## Company Information

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To obtain a copy of Ambac Financial Group, Inc.'s latest annual or quarterly report filed with the Securities and Exchange Commission or the most recent Annual Report to Stockholders, please visit our website at www.ambac.com.

# Ambac Financial Group, Inc.
# Quarterly Operating Supplement
# Third Quarter 2020

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**Notes:**

1) Internal credit ratings contained in this Supplement are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac. Ambac credit ratings are subject to revision at any time and do not constitute investment advice.
2) Information contained in this report is unaudited.
3) Numbers may not add due to rounding.

## Key Quarterly Financial Data

| ($ in millions, except share data) | 3Q 2020 | 2Q 2020 | 1Q 2020 | 4Q 2019 | 3Q 2019 |
|---|---|---|---|---|---|
| **Summary GAAP Financial Data:** | | | | | |
| **Statement of Total Comprehensive Income (Loss):** | | | | | |
| Net premiums earned | $ 15 | $ 11 | $ 10 | $ 20 | $ 10 |
| Net investment income (loss) | 37 | 52 | (21) | 42 | 45 |
| Net gains (losses) on derivative contracts | 7 | 2 | (70) | 12 | (10) |
| Other income (expense) [1] | 2 | — | — | 1 | 141 |
| Income (loss) on variable interest entities (VIEs) | — | — | 3 | 7 | 11 |
| Losses and loss expenses (benefit) | 83 | 16 | 117 | 97 | 37 |
| Insurance intangible amortization | 14 | 14 | 13 | 15 | 17 |
| Operating expenses | 23 | 21 | 24 | 23 | 26 |
| Interest expense | 50 | 58 | 63 | 66 | 67 |
| Net income (loss) attributable to common stockholders | (108) | (35) | (280) | (110) | 66 |
| Net income (loss) per diluted share attributable to common stockholders | $ (2.33) | $ (0.77) | $ (6.07) | $ (2.40) | $ 1.41 |
| Weighted average number of diluted shares outstanding | 46,178,730 | 46,166,666 | 46,060,324 | 46,001,270 | 47,020,058 |
| **Balance Sheets:** | | | | | |
| Total non-VIE investments | $ 3,551 | $ 3,466 | $ 3,400 | $ 3,792 | $ 3,939 |
| Premium receivables | 372 | 392 | 403 | 416 | 415 |
| Insurance intangible asset | 383 | 392 | 406 | 427 | 434 |
| Subrogation recoverable | 2,194 | 2,215 | 2,192 | 2,029 | 2,082 |
| Unearned premiums | 468 | 492 | 507 | 518 | 528 |
| Loss and loss expense reserves | 1,801 | 1,814 | 1,797 | 1,548 | 1,522 |
| Long-term debt [2] | 2,737 | 2,749 | 2,760 | 2,822 | 2,955 |
| Accrued interest payable | 499 | 474 | 457 | 441 | 424 |
| Ambac stockholders' equity | $ 1,035 | $ 1,069 | $ 1,002 | $ 1,477 | $ 1,569 |
| Number of shares outstanding (net of treasury shares) | 45,809,139 | 45,808,256 | 45,779,023 | 45,555,400 | 45,551,260 |
| Ambac Financial Group, Inc. book value per share | $ 22.59 | $ 23.34 | $ 21.88 | $ 32.41 | $ 34.44 |
| **Non-GAAP Measurements:** | | | | | |
| Adjusted earnings (loss) | $ (93) | $ (24) | $ (265) | $ (88) | $ 77 |
| Adjusted earnings (loss) per diluted share | $ (2.01) | $ (0.52) | $ (5.75) | $ (1.91) | $ 1.63 |
| Adjusted book value | $ 891 | $ 965 | $ 1,012 | $ 1,313 | $ 1,381 |
| Adjusted book value per share | $ 19.44 | $ 21.06 | $ 22.11 | $ 28.83 | $ 30.31 |
| **Summary Statutory Data of Ambac Assurance:** | | | | | |
| Invested assets | $ 2,467 | $ 2,424 | $ 2,498 | $ 2,757 | $ 2,893 |
| Loss and loss expense reserves [3] | 1,140 | 1,140 | 1,143 | 1,111 | 1,044 |
| Policyholders' Surplus | 933 | 987 | 930 | 1,088 | 1,249 |
| Qualified statutory capital | 1,477 | 1,527 | 1,465 | 1,618 | 1,773 |
| Total claims-paying resources, including Ambac UK [3] | $ 5,246 | $ 5,274 | $ 5,219 | $ 5,435 | $ 5,590 |

(1) Other income includes proceeds received in September 2019 from an SEC action against Citigroup Global Markets Inc. in the amount of $142.

(2) Long-term debt includes surplus notes issued and outstanding to third parties, and the Ambac Note and Tier 2 Notes issued on February 12, 2018, in connection with the Rehabilitation Exit Transactions. Long-term debt also includes debt issued by Ambac UK on June 18, 2019, in connection with the Ballantyne commutation. Long-term debt for all periods excludes the portion of long-term debt associated with VIEs consolidated as a result of Ambac's variable interest arising from the financial guarantees of its subsidiaries.

(3) Loss and loss expense reserves and total claims-paying resources present loss and loss expense reserves gross of the recorded statutory benefit for expected subrogation receipts.

## Key Yearly Financial Data

| ($ in millions, except share data) | YTD 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Summary GAAP Financial Data:** | | | | | |
| **Statement of Total Comprehensive Income:** | | | | | |
| Net premiums earned | $ 36 | $ 66 | $ 111 | $ 175 | $ 197 |
| Net investment income | 69 | 227 | 273 | 361 | 313 |
| Net gains (losses) on derivative contracts | (61) | (50) | 7 | 76 | (30) |
| Other income (expense) [1] | 2 | 134 | 5 | — | 18 |
| Income (loss) on variable interest entities (VIEs) | 3 | 38 | 3 | 20 | (14) |
| Losses and loss expenses (benefit) [2] | 216 | 13 | (224) | 513 | (11) |
| Insurance intangible amortization | 41 | 295 | 107 | 151 | 175 |
| Operating expenses | 67 | 103 | 112 | 122 | 114 |
| Interest expense | 172 | 269 | 242 | 120 | 124 |
| Net income (loss) | (423) | (216) | 267 | (329) | 74 |
| Net income (loss) attributable to common stockholders | (423) | (216) | 186 | (329) | 75 |
| Net income (loss) per diluted share attributable to common stockholders | $ (9.16) | $ (4.69) | $ 3.99 | $ (7.25) | $ 1.64 |
| Weighted average number of diluted shares outstanding | 46,135,399 | 45,954,908 | 46,559,835 | 45,367,932 | 45,723,524 |
| **Balance Sheets:** | | | | | |
| Total non-VIE investments | $ 3,551 | $ 3,792 | $ 3,937 | $ 5,741 | $ 6,500 |
| Premium receivables | 372 | 416 | 495 | 586 | 661 |
| Insurance intangible asset | 383 | 427 | 719 | 847 | 962 |
| Subrogation recoverable | 2,194 | 2,029 | 1,933 | 631 | 685 |
| Unearned premiums | 468 | 518 | 630 | 783 | 967 |
| Loss and loss expense reserves | 1,801 | 1,548 | 1,826 | 4,745 | 4,381 |
| Long-term debt [3] | 2,737 | 2,822 | 2,929 | 992 | 1,114 |
| Accrued interest payable | 499 | 441 | 376 | 437 | 422 |
| Ambac stockholders' equity | $ 1,035 | $ 1,477 | $ 1,592 | $ 1,381 | $ 1,714 |
| Number of shares outstanding (net of treasury shares) | 45,809,139 | 45,555,400 | 45,336,278 | 45,251,166 | 45,172,496 |
| Ambac Financial Group, Inc. book value per share | $ 22.59 | $ 32.41 | $ 35.12 | $ 30.52 | $ 37.94 |
| **Non-GAAP Measurements:** | | | | | |
| Adjusted earnings (loss) | $ (382) | $ 66 | $ 301 | $ (165) | $ 315 |
| Adjusted earnings (loss) per diluted share | $ (8.27) | $ 1.44 | $ 6.47 | $ (3.64) | $ 6.89 |
| Adjusted book value | $ 891 | $ 1,313 | $ 1,251 | $ 1,101 | $ 1,332 |
| Adjusted book value per share | $ 19.44 | $ 28.83 | $ 27.58 | $ 24.34 | $ 29.48 |
| **Summary Statutory Data of Ambac Assurance:** | | | | | |
| Invested assets | $ 2,467 | $ 2,757 | $ 3,017 | $ 5,427 | $ 5,415 |
| Loss and loss expense reserves [4] | 1,140 | 1,111 | 1,146 | 5,253 | 4,838 |
| Policyholders' Surplus | 933 | 1,088 | 1,152 | 700 | 976 |
| Qualified statutory capital | 1,477 | 1,618 | 1,648 | 1,157 | 1,369 |
| Total claims-paying resources, including Ambac UK [4] | $ 5,246 | $ 5,435 | $ 5,793 | $ 8,868 | $ 8,813 |

(1) Other income includes proceeds received in 2019, from an SEC action against Citigroup Global Markets Inc. in the amount of $142.

(2) Includes interest expense on Deferred Amounts of $21, $178 and $171, for the years ended December 31, 2018, 2017, and 2016, respectively. On February 12, 2018, the rehabilitation of the Segregated Account was concluded and all Deferred Amounts, including accrued interest, were settled. 2018 includes a benefit of $288 related to the discount on the Rehabilitation Exit Transactions. Refer to Ambac's 2018 Form 10-K for further details.

(3) Long-term debt includes surplus notes issued and outstanding to third parties, notes issued under a secured borrowing transaction (which was fully repaid during the second quarter of 2018), and the Ambac Note and Tier 2 Notes issued on February 12, 2018, in connection with the Rehabilitation Exit Transactions. Long-term debt also includes debt issued by Ambac UK on June 18, 2019, in connection with the Ballantyne commutation. Long-term debt for all years excludes the portion of long-term debt associated with VIEs consolidated as a result of Ambac's variable interest arising from the financial guarantees of its subsidiaries.

(4) Loss and loss expense reserves and total claims-paying resources present loss and loss expense reserves gross of the recorded statutory benefit for expected subrogation receipts.

## Non-GAAP Financial Measures [1]

**($ in millions, except share amounts)**

| Adjusted Earnings (Loss): | 3Q2020 $ | 3Q2020 P.D.S. [2] | 2Q2020 $ | 2Q2020 P.D.S. [2] | 1Q2020 $ | 1Q2020 P.D.S. [2] | 4Q2019 $ | 4Q2019 P.D.S. [2] | 3Q2019 $ | 3Q2019 P.D.S. [2] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net income (loss) attributable to common stockholders** | **$ (108)** | **$ (2.33)** | **$ (35)** | **$ (0.77)** | **$ (280)** | **$ (6.07)** | **$ (110)** | **$ (2.40)** | **$ 66** | **$ 1.41** |
| Adjustments: | | | | | | | | | | |
| Non-credit impairment fair value (gain) loss on credit derivatives | — | — | (1) | (0.01) | 2 | 0.03 | — | — | — | (0.01) |
| Insurance intangible amortization | 14 | 0.29 | 14 | 0.30 | 13 | 0.29 | 15 | 0.33 | 17 | 0.37 |
| Foreign exchange (gain) losses | 1 | 0.03 | (2) | (0.04) | — | — | 7 | 0.16 | (6) | (0.14) |
| **Adjusted earnings (loss)** | **$ (93)** | **$ (2.01)** | **$ (24)** | **$ (0.52)** | **$ (265)** | **$ (5.75)** | **$ (88)** | **$ (1.91)** | **$ 77** | **$ 1.63** |

| Adjusted Book Value: | September 30, 2020 $ | September 30, 2020 P.S. [2] | June 30, 2020 $ | June 30, 2020 P.S. [2] | March 31, 2020 $ | March 31, 2020 P.S. [2] | December 31, 2019 $ | December 31, 2019 P.S. [2] | September 30, 2019 $ | September 30, 2019 P.S. [2] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Ambac Financial Group, Inc. stockholders' equity** | **$ 1,035** | **$ 22.59** | **$ 1,069** | **$ 23.34** | **$ 1,002** | **$ 21.88** | **$ 1,477** | **$ 32.41** | **$ 1,569** | **$ 34.44** |
| Adjustments: | | | | | | | | | | |
| Non-credit impairment fair value losses on credit derivatives | 1 | 0.02 | 1 | 0.03 | 2 | 0.04 | — | 0.01 | — | 0.01 |
| Insurance intangible asset | (383) | (8.36) | (392) | (8.57) | (406) | (8.87) | (427) | (9.37) | (434) | (9.52) |
| Net unearned premiums and fees in excess of expected losses | 389 | 8.50 | 396 | 8.63 | 420 | 9.17 | 414 | 9.09 | 434 | 9.52 |
| Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income | (152) | (3.31) | (109) | (2.38) | (5) | (0.11) | (151) | (3.31) | (189) | (4.14) |
| **Adjusted book value** | **$ 891** | **$ 19.44** | **$ 965** | **$ 21.06** | **$ 1,012** | **$ 22.11** | **$ 1,313** | **$ 28.83** | **$ 1,381** | **$ 30.31** |

| Adjusted Book Value: | September 30, 2020 $ | September 30, 2020 P.S. [2] | December 31, 2019 $ | December 31, 2019 P.S. [2] | December 31, 2018 $ | December 31, 2018 P.S. [2] | December 31, 2017 $ | December 31, 2017 P.S. [2] | December 31, 2016 $ | December 31, 2016 P.S. [2] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Ambac Financial Group, Inc. stockholders' equity** | **$ 1,035** | **$ 22.59** | **$ 1,477** | **$ 32.41** | **$ 1,592** | **$ 35.12** | **$ 1,381** | **$ 30.52** | **$ 1,714** | **$ 37.94** |
| Adjustments: | | | | | | | | | | |
| Non-credit impairment fair value losses on credit derivatives | 1 | 0.02 | — | 0.01 | 1 | 0.03 | 1 | 0.01 | 11 | 0.25 |
| Insurance intangible asset | (383) | (8.36) | (427) | (9.37) | (719) | (15.87) | (847) | (18.71) | (962) | (21.30) |
| Ambac CVA on interest rate derivative liabilities | — | — | — | — | — | — | — | — | (45) | (0.99) |
| Net unearned premiums and fees in excess of expected losses | 389 | 8.50 | 414 | 9.09 | 462 | 10.19 | 597 | 13.20 | 732 | 16.21 |
| Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income | (152) | (3.31) | (151) | (3.31) | (86) | (1.89) | (31) | (0.68) | (119) | (2.63) |
| **Adjusted book value** | **$ 891** | **$ 19.44** | **$ 1,313** | **$ 28.83** | **$ 1,251** | **$ 27.58** | **$ 1,101** | **$ 24.34** | **$ 1,332** | **$ 29.48** |

(1) In addition to reporting Ambac's financial results in accordance with GAAP, Ambac 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 Ambac'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.

(2) Per diluted share ("P.D.S.") and per share outstanding at balance sheet date ("P.S.").

## Ambac Assurance — Claims-Paying Resources [1] and Statutory Financial Ratios

| ($ in millions, except ratios) | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Policyholders' surplus [2] | $ 933 | $ 1,088 |
| Contingency reserve | 544 | 530 |
| Qualified statutory capital | 1,477 | 1,618 |
| Unearned premiums | 159 | 175 |
| Loss and loss adjustment expenses [3] | 1,140 | 1,111 |
| Estimated impairment losses on subsidiary guarantees | 9 | — |
| Policyholders' reserves | 2,785 | 2,904 |
| Ambac Note [4] | 1,178 | 1,234 |
| Tier 2 Notes | 300 | 281 |
| Present value of future installment premiums [5] | 175 | 184 |
| **Ambac Assurance claims-paying resources** | **4,437** | **4,604** |
| Ambac UK claims-paying resources [6] | 809 | 832 |
| **Total claims-paying resources** | **$ 5,246** | **$ 5,435** |
| | | |
| Net financial guarantees in force [7] | | |
| Ambac Assurance | $ 37,897 | $ 42,142 |
| Ambac UK | 15,005 | 16,103 |
| **Total net financial guarantees in force** | **$ 52,902** | **$ 58,245** |
| | | |
| Claims-paying ratio [8] | | |
| Ambac Assurance | 9 : 1 | 9 : 1 |
| Ambac UK | 19 : 1 | 19 : 1 |
| **Total claims-paying ratio** | **10 : 1** | **11 : 1** |

(1) Total claims-paying resources quantifies total resources available to pay claims, including guarantees on subsidiary obligations.

(2) Surplus notes, including junior surplus notes, with an aggregate par value of $938 and $939 as of September 30, 2020 and December 31, 2019, respectively, are included in policyholders' surplus.

(3) Loss and loss expense reserves are presented gross of the recorded statutory benefit for expected subrogation receipts of $2,343 (R&W subrogation receipts of $1,680 and other subrogation receipts of $663) and $2,240 (R&W subrogation receipts of $1,639 and other subrogation receipts of $601) at September 30, 2020, and December 31, 2019, respectively.

(4) Ambac Note presented as principal and interest outstanding of $1,648 and $1,763, net of Secured Note principal and interest outstanding of $470 and $529 held by Ambac Assurance at September 30, 2020, and December 31, 2019, respectively.

(5) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts (excluding Ambac UK) and credit derivatives. Present value calculations are discounted at 5.1%.

(6) Ambac UK's claims paying resources will become available to Ambac Assurance to the extent Ambac UK receives approval from its regulator to dividend monies to Ambac Assurance. Components of Ambac UK's claims paying resources are discounted at Ambac UK's projected investment rate of return. Ambac UK's claims-paying resources includes the present value of future installment premiums of approximately $206 at September 30, 2020.

(7) Financial guarantees in force represents the amount of principal and interest outstanding on a guaranteed obligation.

(8) Claims-paying ratio is net financial guarantees in force divided by claims-paying resources.

## Summary of Insured Exposures With US GAAP Loss and Loss Expense Reserves [1]

As of September 30, 2020

| ($ in millions) | Total Net Par Outstanding | Total Loss and Loss Expense Reserves [1] |
|---|---|---|
| **Public Finance:** | | |
| Lease & tax backed | $ 1,257 | $ 712 |
| General obligation | 416 | (32) |
| Housing | 356 | 24 |
| Transportation revenue | 145 | 30 |
| Other | 848 | 15 |
| Total Public Finance | 3,021 | 748 |
| **Structured Finance:** | | |
| Mortgage-backed & home equity | 2,644 | (1,412) |
| Student loans | 362 | 213 |
| Other | 137 | 1 |
| Total Structured Finance | 3,143 | (1,199) |
| **International Finance:** | 728 | 22 |
| Total | **$ 6,893** | **$ (429)** |

(1) U.S. GAAP insurance loss and loss expense reserves, net of reinsurance. Mortgage-backed & home equity reserves include estimated representation and warranty subrogation recoverables of $1,731 ($1,757 gross of reinsurance) as of September 30, 2020.

## Net Insurance Premiums Earned (GAAP)

| ($ in millions) | 1Q | 2Q | 3Q | 4Q | Year-To-Date |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Public Finance | $ 5 | $ 5 | $ 5 | $ — | $ 15 |
| Structured Finance | 1 | 2 | 2 | — | 6 |
| International Finance | 4 | 3 | 3 | — | 9 |
| Total Normal Insurance Premiums Earned [1] | 10 | 10 | 10 | — | 30 |
| Accelerated Premiums Earned | — | 1 | 5 | — | 6 |
| **Total Premiums Earned** | **$ 10** | **$ 11** | **$ 15** | **$ —** | **$ 36** |

| ($ in millions) | 1Q | 2Q | 3Q | 4Q | Full Year |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Public Finance | $ 8 | $ 7 | $ 7 | $ 6 | $ 27 |
| Structured Finance | 3 | 3 | 2 | 3 | 10 |
| International Finance | 5 | 4 | — | 9 | 19 |
| Total Normal Insurance Premiums Earned [1] | 16 | 14 | 8 | 18 | 56 |
| Accelerated Premiums Earned | 12 | (6) | 2 | 2 | 10 |
| **Total Premiums Earned** | **$ 28** | **$ 8** | **$ 10** | **$ 20** | **$ 66** |

## Net Unearned Premium Amortization and Estimated Future Installment Premiums

| ($ in millions) | Net Unearned Premium Amortization (GAAP) [2] | Estimated Net Future Installments [3] | Consolidated VIE [4] |
|---|---|---|---|
| 2020 (three months) | $ 10 | $ 9 | $ 4 |
| 2021 | 35 | 32 | 12 |
| 2022 | 33 | 30 | 11 |
| 2023 | 30 | 29 | 10 |
| 2024 | 29 | 28 | 10 |
| 2025 | 27 | 27 | 9 |
| | | | |
| 2020 (three months) | $ 10 | $ 9 | $ 4 |
| 2021-2025 | 154 | 146 | 51 |
| 2026-2030 | 113 | 120 | 33 |
| 2031-2035 | 73 | 81 | 21 |
| 2036-2040 | 30 | 38 | 1 |
| After 2040 | 16 | 23 | — |
| Total | $ 395 | $ 417 | $ 109 |

(1) Reductions/(increases) to normal insurance premiums earned for changes in allowance for credit losses on premium receivables were $2, $2 and $2 for the first, second and third quarters of 2020, respectively, and $0, $1, $6 and ($5) for the first, second, third and fourth quarters of 2019, respectively.

(2) Represents unearned premium amounts for both upfront and installment paying policies, net of deferred ceded premiums, which is reported separately as an asset on Ambac's Consolidated Balance Sheet. Depicts amortization of existing guaranteed portfolio, assuming no advance refunding as of September 30, 2020. The unearned premium amortization disclosed in the above table considers the use of contractual lives for many bond types that do not have homogeneous pools of underlying collateral, which may result in different unearned premium balances and earned premiums than if expected lives were considered. Actual future installments, and therefore earned premiums, may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. If installment paying policies are retired early, premium earnings may be negative in the period of call or refinancing.

(3) Represents management's estimate of fees on credit derivative contracts and future installment premium collections, net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments exclude amounts eliminated as a result of consolidating variable interest entities ("Consolidated VIE") as required under the Consolidations Accounting Standard.

(4) Estimated net future installment amounts eliminated under the U.S. GAAP Consolidations Accounting Standard; not included in Estimated Net Future Installments.

## Investment Portfolio

As of September 30, 2020

| INCOME ANALYSIS BY TYPE OF SECURITY<br>Investment category ($ in millions) | U.S. GAAP Carrying Value | U. S. GAAP Book Value | Pre-tax Yield to Maturity [1] |
|---|---|---|---|
| **Ambac Assurance and Subsidiaries:** | | | |
| Fixed income securities: | | | |
| U.S. government and agency obligation | $ 74 | $ 73 | 1.77 % |
| Municipal obligations | 350 | 321 | 4.70 % |
| Corporate obligations [2] | 946 | 926 | 4.05 % |
| Mortgage and asset-backed securities | 669 | 592 | 6.18 % |
| Short-term investments | 331 | 331 | 0.19 % |
| Total fixed income securities | 2,369 | 2,244 | 4.06 % |
| Other investments: | | | |
| Hedge funds | 182 | 182 | |
| Private credit | 19 | 19 | |
| Equity market investments | 11 | 11 | |
| Private equity | 5 | 5 | |
| High yield and leveraged loans | 3 | 3 | |
| Total other investments | 221 | 221 | |
| **Total Ambac Assurance and Subsidiaries investments excluding Ambac UK** | **2,590** | **2,464** | **4.06 %** |
| **Ambac UK:** | | | |
| Fixed income securities: | | | |
| U.S. government and agency obligations | 38 | 36 | 1.61 % |
| Corporate obligations | 142 | 136 | 3.32 % |
| Foreign obligations | 77 | 76 | 0.35 % |
| Short-term investments | 119 | 119 | (0.06) % |
| Total fixed income securities | 376 | 367 | 1.44 % |
| Other investments: | | | |
| Investment grade floating rate income | 69 | 69 | |
| High yield and leveraged loans | 49 | 49 | |
| Private credit | 39 | 39 | |
| Equity market investments | 33 | 33 | |
| Emerging markets | 23 | 23 | |
| Real estate properties | 15 | 15 | |
| Insurance linked securities | 2 | 2 | |
| Total other investments | 230 | 230 | |
| **Total Ambac UK investments** | **607** | **597** | **1.44 %** |
| **Total Ambac Assurance and Subsidiaries investments** | **3,196** | **3,062** | **3.69 %** |
| **Ambac Financial Group, Inc.:** | | | |
| Corporate obligations | 3 | 3 | |
| Mortgage and asset-backed securities | 1 | 1 | |
| Short-term investments | 288 | 288 | |
| Other | 51 | 51 | |
| **Total Ambac Financial Group investments** | **344** | **344** | |
| **Everspan Insurance Company investments** | **11** | **10** | |
| **Total Investments** | **$ 3,551** | **$ 3,416** | |

| | |
|---|---|
| **Duration of Ambac Assurance and Subsidiaries fixed-income investment portfolio [3]** | **4.0** |

(1) Yield to maturity refers to the rate of interest to be earned over the remaining life of the fixed-income investments based on book value. For mortgage and other asset-backed securities remaining life is calculated using estimated future cash flows. For floating rate positions, yield to maturity is based on the current interest rate and not forward rates.

(2) Includes secured notes with a carrying value of $470 and amortized cost of $470 that were issued by Ambac LSNI, an unconsolidated special purpose entity, in connection with the Rehabilitation Exit Transactions.

(3) Excluded from the measure of duration are Ambac insured bonds that have underlying Ambac internal ratings of BIG or NR and Ambac Assurance holdings of the secured notes issued by Ambac LSNI in connection with the Rehabilitation Exit Transactions. These securities represent 39% of the fair value of Ambac Assurance and Subsidiaries' fixed income investment portfolio of $2,745 at September 30, 2020.

## Expenses Analysis (GAAP)

| ($ in millions) | 1Q | 2Q | 3Q | 4Q | Year-to Date |
|---|---|---|---|---|---|
| **2020:** | | | | | |
| **Compensation** | | | | | |
| Salaries | $ 6 | $ 6 | $ 6 | $ — | $ 17 |
| Incentive Compensation [1] | 7 | 5 | 6 | — | 18 |
| Other [2] | 1 | — | 1 | — | 2 |
| **Total Compensation** | **14** | **11** | **13** | **—** | **38** |
| **Non-Compensation** | | | | | |
| Legal, Consulting & Advisory Services | 6 | 5 | 5 | — | 16 |
| Premises | 1 | 1 | 1 | — | 3 |
| Audit | 1 | 1 | 1 | — | 2 |
| Regulator Advisory Costs | — | 1 | — | — | 2 |
| Other | 1 | 2 | 3 | — | 6 |
| **Total Non-Compensation** | **9** | **10** | **10** | **—** | **29** |
| **Total Gross Operating Expenses** | **24** | **20** | **23** | **—** | **67** |
| Ceding Commissions | — | — | — | — | — |
| **Total Operating Expenses** | **$ 24** | **$ 21** | **$ 23** | **$ —** | **$ 67** |

| ($ in millions) | 1Q | 2Q | 3Q | 4Q | Full Year |
|---|---|---|---|---|---|
| **2019:** | | | | | |
| **Compensation** | | | | | |
| Salaries | $ 6 | $ 6 | $ 6 | $ 6 | $ 24 |
| Incentive Compensation [1] | 6 | 9 | 5 | 6 | 27 |
| Other [2] | 2 | 2 | 3 | 1 | 7 |
| **Total Compensation** | **14** | **17** | **14** | **12** | **58** |
| **Non-Compensation** | | | | | |
| Legal, Consulting & Advisory Services | 5 | 7 | 5 | 5 | 22 |
| Premises | 1 | 1 | 2 | 2 | 6 |
| Audit | 1 | 1 | 1 | 1 | 3 |
| Regulator Advisory Costs | — | 1 | 1 | 1 | 2 |
| Other | 3 | 3 | 3 | 3 | 12 |
| **Total Non-Compensation** | **10** | **12** | **11** | **11** | **44** |
| **Total Gross Operating Expenses** | **25** | **29** | **26** | **23** | **103** |
| Ceding Commissions | — | — | — | — | — |
| **Total Operating Expenses** | **$ 25** | **$ 29** | **$ 26** | **$ 23** | **$ 103** |

(1) Incentive compensation includes short-term and long-term incentive cash and equity awards

(2) Other compensation includes severance, payroll taxes, medical and other benefits

## Historical Net Financial Guarantee Exposures Outstanding [1]

| ($ in millions net par value) | September 30, 2020 | 2019 | 2018 | December 31, 2017 |
|---|---|---|---|---|
| **Public Finance [2]:** | | | | |
| Housing revenue | $ 5,894 | $ 5,991 | $ 6,159 | $ 6,312 |
| Lease and tax-backed revenue | 4,490 | 5,102 | 7,565 | 11,893 |
| General obligation | 2,476 | 3,011 | 4,214 | 6,257 |
| Transportation revenue | 789 | 855 | 1,754 | 2,002 |
| Higher education | 765 | 885 | 1,168 | 1,642 |
| Utility revenue | 700 | 768 | 1,178 | 2,212 |
| Other | 927 | 1,041 | 1,404 | 1,770 |
| Total Public Finance | 16,041 | 17,653 | 23,442 | 32,088 |
| **Structured Finance:** | | | | |
| Mortgage-backed and home equity | 3,832 | 4,423 | 5,510 | 7,267 |
| Investor-owned utilities | 1,626 | 1,675 | 1,754 | 3,274 |
| Student loan | 664 | 769 | 934 | 1,238 |
| Structured Insurance | 337 | 395 | 1,365 | 1,420 |
| Asset-backed and other | 155 | 246 | 384 | 617 |
| Total Structured Finance | 6,614 | 7,508 | 9,947 | 13,816 |
| **International Finance [3]:** | | | | |
| Sovereign/sub-sovereign | 5,003 | 5,264 | 5,250 | 5,664 |
| Investor-owned and public utilities | 4,250 | 4,436 | 4,499 | 5,696 |
| Transportation | 1,515 | 1,532 | 1,613 | 1,777 |
| Asset-backed and other | 1,328 | 1,625 | 2,176 | 3,675 |
| Total International Finance | 12,096 | 12,857 | 13,538 | 16,812 |
| **Total** | **$ 34,751** | **$ 38,018** | **$ 46,927** | **$ 62,716** |
| **Percent of Total Net Par Outstanding** | | | | |
| Public Finance | 46 % | 46 % | 50 % | 51 % |
| Structured Finance | 19 % | 20 % | 21 % | 22 % |
| International Finance | 35 % | 34 % | 29 % | 27 % |
| Total Net Par Outstanding | 100 % | 100 % | 100 % | 100 % |

(1) Includes net par exposures insured by Ambac UK of $11,206, $11,862, $13,193 and $15,881 at September 30, 2020, December 31, 2019, December 31, 2018 and December 31, 2017, respectively.

(2) Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy as opposed to the current accreted value of the bonds.

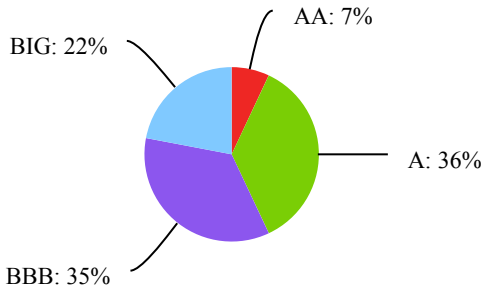
(3) International transactions include components of domestic exposure.

## Geographic Distribution of Net Financial Guarantee Exposures Outstanding

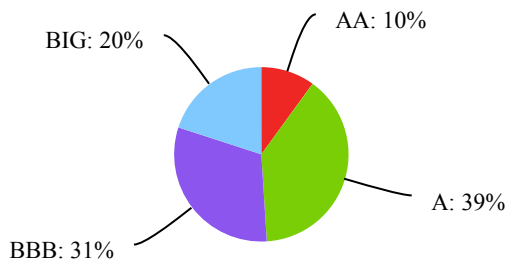
| ($ millions net par value) | September 30, 2020 | % | December 31, 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Domestic:** | | | | | |
| Colorado | $ 2,371 | 7 % | $ 2,396 | $ 2,430 | $ 2,537 |
| California | 2,259 | 7 % | 2,556 | 3,719 | 6,351 |
| New York | 1,904 | 5 % | 2,331 | 2,577 | 3,658 |
| New Jersey | 1,413 | 4 % | 1,487 | 2,051 | 3,237 |
| Texas | 1,247 | 4 % | 1,289 | 1,543 | 1,890 |
| Puerto Rico | 1,070 | 3 % | 1,123 | 1,880 | 1,968 |
| Pennsylvania | 902 | 3 % | 916 | 1,157 | 1,316 |
| Washington | 815 | 2 % | 833 | 879 | 1,186 |
| Florida | 683 | 2 % | 754 | 1,161 | 1,992 |
| Oregon | 627 | 2 % | 671 | 708 | 837 |
| Mortgage and asset-backed [1] | 3,850 | 11 % | 4,531 | 5,747 | 7,710 |
| Other domestic | 5,514 | 16 % | 6,274 | 9,537 | 13,222 |
| Total Domestic | 22,655 | 65 % | 25,161 | 33,389 | 45,904 |
| **International:** | | | | | |
| United Kingdom | 9,781 | 28 % | 10,593 | 10,965 | 13,554 |
| Italy | 786 | 2 % | 767 | 811 | 877 |
| Austria | 691 | 2 % | 674 | 712 | 770 |
| Australia | 390 | 1 % | 382 | 384 | 608 |
| France | 313 | 1 % | 303 | 312 | 329 |
| Other international [2] | 134 | — % | 138 | 354 | 674 |
| Total International Finance | 12,096 | 35 % | 12,857 | 13,538 | 16,812 |
| **Total** | **$ 34,751** | **100 %** | **$ 38,018** | **$ 46,927** | **$ 62,716** |

## Rating Distribution of Net Financial Guarantee Exposures Outstanding [3] [4]

**September 30, 2020**




**December 31, 2019**




(1) Mortgage and asset-backed obligations includes guarantees with multiple locations of risk within the United States and is primarily comprised of residential mortgage-backed securitizations.

(2) Other international may include components of U.S. exposure.

(3) Based upon internal Ambac ratings. See Note 1 on the Table of Contents page.

(4) AAA is less than 1% in both periods.

## Adversely Classified Credit Exposures Outstanding [1][2]

As of September 30, 2020

| ($ in millions) | Market Type | Net Par Outstanding | % of Total Net Par Outstanding |
|---|---|---|---|
| RMBS Exposures | Structured Finance | $ 2,931 | 8.4 % |
| Puerto Rico & Related Issuers | Public Finance | 1,070 | 3.1 % |
| Mitchells & Butlers Finance plc-UK Pub Securitisation [3] | International Finance | 950 | 2.7 % |
| Posillipo Finance II S.r.l [3] | International Finance | 728 | 2.1 % |
| Ostregion Investmentgesellschaft NR 1 SA [3][4] | International Finance | 691 | 2.0 % |
| Mets Queens Baseball Stadium Project, NY, Lease Revenue | Public Finance | 540 | 1.6 % |
| Student Loans Exposures | Structured Finance | 509 | 1.5 % |
| Military Housing | Public Finance | 526 | 1.5 % |
| Houston TX Hotel Occupancy Tax Revenue | Public Finance | 101 | 0.3 % |
| Chicago, IL Board of Education GO | Public Finance | 86 | 0.2 % |
| Other | | 444 | 1.3 % |
| **Total** | | **$ 8,576** | **24.7 %** |

(1) Adversely classified credits are assigned a rating of Class IA through Class V. Refer to Ambac's 2019 Form 10-K for descriptions of credit classifications.

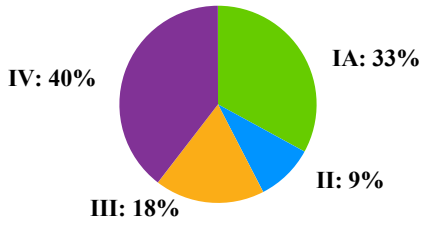
(2) Net Par includes capital appreciation bonds, which are reported at the par amount at the time of issuance of the insurance policy as opposed to the current accreted value of the bonds.

(3) Guaranteed by Ambac UK.

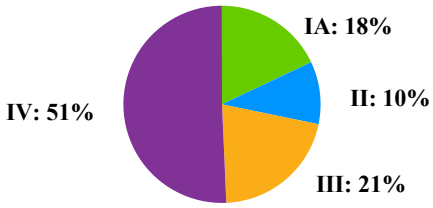
(4) Ambac Assurance has issued an insurance policy for a portion of this transaction that will only pay in the event that Ambac UK does not pay under its insurance policy.

## Adversely Classified Distribution of Exposures Outstanding[1]

**September 30, 2020**




**December 31, 2019**




(1) Credit Class V is less than 1% in both periods.

## 25 Largest Exposures Outstanding [1]

As of September 30, 2020

| | ($ in millions) | Ambac Rating | Net Par Outstanding | % of Total Net Par Outstanding |
|---|---|---|---|---|
| IF | Mitchells & Butlers Finance plc-UK Pub Securitisation | BBB | $ 950 | 2.7 % |
| IF | Capital Hospitals plc [2] | A- | 851 | 2.4 % |
| IF | Aspire Defence Finance plc | A- | 821 | 2.4 % |
| IF | Anglian Water | A- | 805 | 2.3 % |
| PF | New Jersey Transportation Trust Fund Authority - Transportation System | BBB- | 772 | 2.2 % |
| IF | National Grid Gas | A- | 743 | 2.1 % |
| IF | Posillipo Finance II S.r.l | BIG | 728 | 2.1 % |
| IF | Ostregion Investmentgesellschaft NR 1 SA [2] | BIG | 691 | 2.0 % |
| IF | RMPA Services plc | BBB+ | 542 | 1.6 % |
| PF | Mets Queens Baseball Stadium Project, NY, Lease Revenue | BIG | 540 | 1.6 % |
| IF | Catalyst Healthcare (Manchester) Financing plc [2] | BBB- | 504 | 1.5 % |
| IF | National Grid Electricity Transmission | A- | 499 | 1.4 % |
| PF | Hickam Community Housing LLC | BBB | 461 | 1.3 % |
| SF | Progress Energy Carolinas, Inc. | A- | 450 | 1.3 % |
| PF | Massachusetts Commonwealth - GO | AA | 431 | 1.2 % |
| PF | Bragg Communities, LLC | A- | 407 | 1.2 % |
| PF | Puerto Rico Infrastructure Financing Authority, Special Tax Revenue | BIG | 403 | 1.2 % |
| PF | Puerto Rico Highways & Transportation Authority, Transportation Revenue | BIG | 399 | 1.1 % |
| IF | Scottish Power UK plc | BBB+ | 387 | 1.1 % |
| SF | Wachovia Asset Securitization Issuance II, LLC 2007-HE2 | BBB | 337 | 1.0 % |
| SF | Timberlake Financial, LLC | BBB | 337 | 1.0 % |
| PF | Monterey Bay, CA - Military Housing | BBB+ | 318 | 0.9 % |
| PF | Fort Bliss/White Sand Missile Range Housing LP | BBB+ | 303 | 0.9 % |
| PF | Northeast Housing LLC | BBB- | 297 | 0.9 % |
| IF | FCC Surf | AA | 293 | 0.8 % |
| | **Total** | | **$ 13,269** | **38.2 %** |

***PF** = Public Finance, **SF** = Structured Finance and **IF** = International Finance*

(1) Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy as opposed to the current accreted value of the bonds.

(2) A portion of this transaction is insured by an insurance policy issued by Ambac Assurance. Ambac Assurance has issued policies for these transactions that will only pay in the event that Ambac UK does not pay under its insurance policy.

**Net Exposure Amortization** [1]
As of September 30, 2020

| ($ in millions) | Total Estimated Net Debt Service Amortization | Total Ending Net Financial Guarantees in Force |
|---|---|---|
| 2020 (three months) | $ 1,299 | $ 51,603 |
| 2021 | 4,107 | 47,496 |
| 2022 | 3,927 | 43,569 |
| 2023 | 2,843 | 40,726 |
| 2024 | 3,326 | 37,400 |
| 2025 | 2,692 | 34,708 |
| | | |
| 2020 (three months) | $ 1,299 | $ 51,603 |
| 2021-2025 | 16,895 | 34,708 |
| 2026-2030 | 12,039 | 22,669 |
| 2031-2035 | 9,905 | 12,764 |
| 2036-2040 | 7,616 | 5,148 |
| After 2040 | 5,148 | — |
| Total | $ 52,902 | |

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of September 30, 2020. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.