# Investor Presentation
# Quarterly Highlights

## First Quarter 2021

Ambac Financial Group
One World Trade Center, 41st Floor, New York, NY 10007
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# AMBAC - COMPANY OVERVIEW

**Ambac Financial Group, Inc., (AFG) is a financial services holding company whose common stock trades on the New York Stock Exchange under the symbol "AMBC"**

NYSE: AMBC
*$817 million market cap* [(1)]

***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 financial guarantee 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 46 million AMBC common shares outstanding at the closing stock price of $17.68 on May 6, 2021

# 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
- Focused growth in the specialty property and casualty program insurance, managing general agency/ underwriting and potentially other insurance and insurance related businesses to advance our goal of generating long-term shareholder value with attractive risk adjusted returns

# STRATEGIC PRIORITIES PROGRESS - 1Q21

## RISK MANAGEMENT - Active de-risking drove an 8% decline in adversely classified and watch list credits exposure in 1Q2021

- Reinsurance of public finance credits of approximately $0.8 billion ($0.2 billion relate to watch list and adversely classified credits)
- Refinance and quota share reinsurance of an adversely classified stadium transaction of $0.5 billion

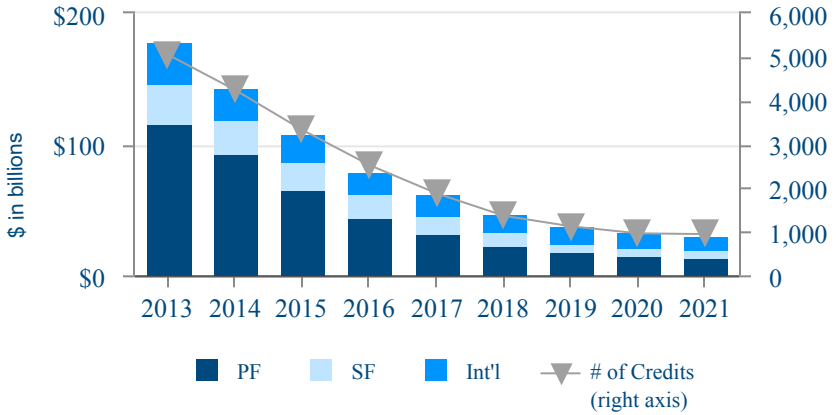
## CAPITAL AND LIABILITY STRUCTURE MANAGEMENT - Exchange transactions resulted in a reduction of debt and accrued interest of $76 million and net gains recognized of $37 million

- All junior surplus notes were canceled and Corolla Trust was collapsed in exchanges for senior surplus notes
- GAAP gains included net gain on extinguishment of debt of $33 million and investment realized gain of $4 million

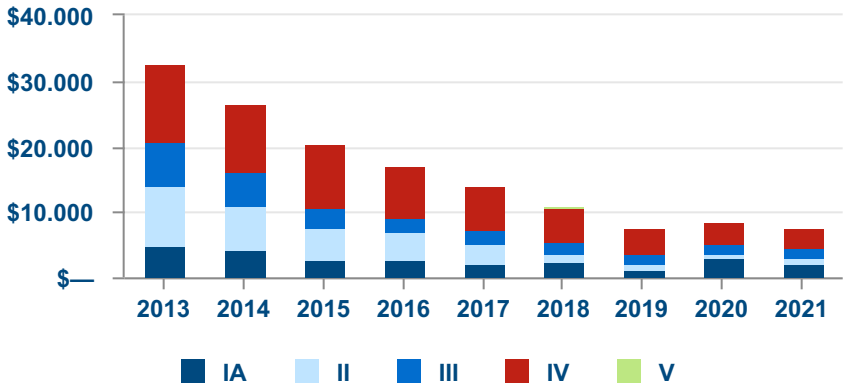
# STRATEGIC PRIORITIES PROGRESS – REDUCING INSURED LEGACY FINANCIAL GUARANTEE EXPOSURES

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

**Net Par Exposure Since 2013**

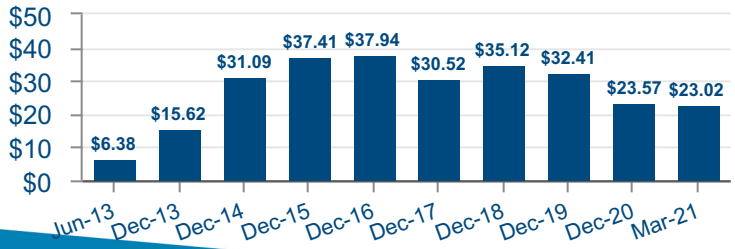



**Adversely Classified Credits - Net Par (definitions in Appendix)**

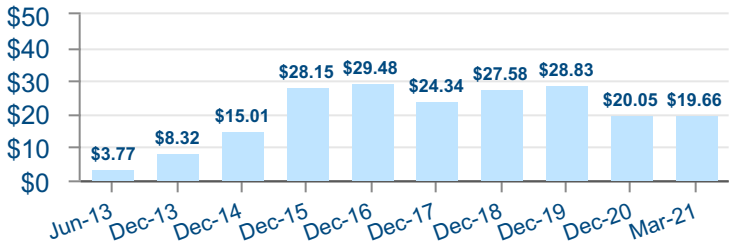



***…while book value and adjusted book value have improved***
***(see slide 20 for explanation of Non-GAAP financial data)***

**Book Value Per Share**
**Increased $16.64 since June 2013**




**Adjusted Book Value Per Share**
**Increased $15.89 since June 2013**




Ambac

# STRATEGIC PRIORITIES PROGRESS — 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 GAAP gross subrogation related to representation and warranty ("R&W") claims of $1.7 billion as of March 31, 2021
- **Countrywide**
  - Argued appeal of the dismissal of our fraud claim in April 2021
  - New judge assigned
  - 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
  - PRIFA / HTA / CCDA revenues
  - GO / PBA / HTA / PRIFA / CCDA underwriters

# STRATEGIC PRIORITIES PROGRESS - SPECIALTY P&C INSURANCE STRATEGY

- **Capital light**
- **Synergistic**
- **Recurring fee-based revenue stream**
- **NOL utilization**

| | | 1Q2021 Update |
|---|---|---|
| PILLAR I | **Specialty Program Property & Casualty Insurance**<br>Everspan | • Received an 'A-' AM Best Rating<br>• Class VIII AM Best designation, with over $100 million in capital and surplus<br>• A significant number of specialty program submissions under review; first specialty program launched in May 2021 |
| PILLAR II | **Managing General Agency / Managing General Underwriting**<br>XB EST. MMX | • Xchange acquisition was immediately accretive<br>• Xchange is exploring product diversification and expansion of carriers<br>• Ambac is actively exploring additional acquisition targets and establishment of de-novo MGA platforms |
| PILLAR III | **Insurance Services** | • Actively evaluating investment opportunities that would complement Pillar I and Pillar II |

For additional information on Ambac's Specialty P&C Insurance strategy see full presentation at the link:
https://s1.q4cdn.com/967481927/files/doc_presentations/2021/4Q20-Ambac-New-Business-Strategy.pdf

# 1Q21 FINANCIAL REVIEW



# 1Q2021 FINANCIAL OVERVIEW

- **Net income attributable to common stockholders for 1Q2021 was $17 million compared to a net loss of $14 million in 4Q2020**
- **Adjusted Earnings for 1Q2021 and 4Q2020 of $41 million and $4 million excludes insurance intangible asset amortization of $19 million and $16 million, respectively**

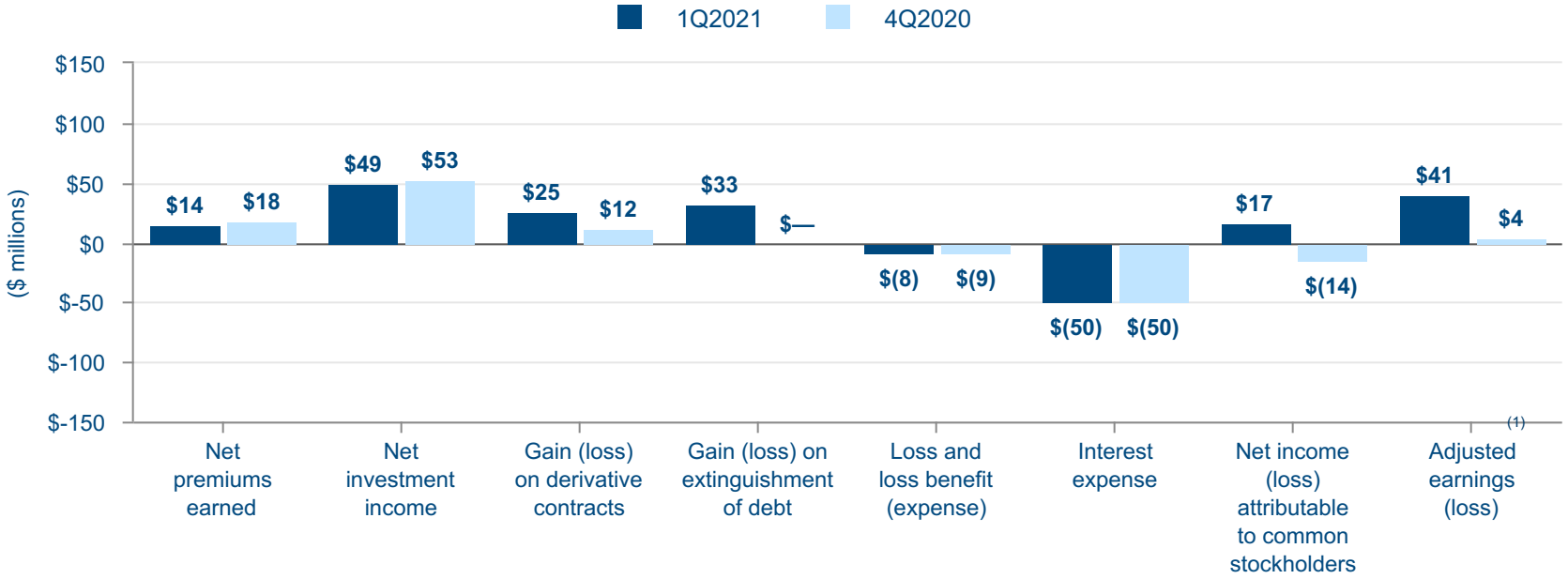
| *($ in millions, except per share amounts)* | 1Q2021 | 4Q2020 |
|---|---|---|
| Net income (loss) attributable to common stockholders | $ 17 | $ (14) |
| Net income (loss) per diluted share | $ 0.08 | $ (0.31) |
| Adjusted earnings (loss) [1] | $ 41 | $ 4 |
| Adjusted earnings (loss) per diluted share[2] | $ 0.59 | $ 0.08 |
| Total Ambac Financial Group Inc. stockholders' equity (Book value) | $ 1,063 | $ 1,080 |
| Book value per share | $ 23.02 | $ 23.57 |
| Adjusted book value [1] | $ 908 | $ 919 |
| Adjusted book value per share | $ 19.66 | $ 20.05 |

(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 1Q2021 Earnings Release included in Ambac's Current Report on Form 8-K filed with the SEC on May 10, 2021 and at the end of this document

(2) Per Diluted share in 1Q2021 includes the impact of adjusting the Xchange related noncontrolling interest to current redemption value

# 1Q2021 vs 4Q2020 - KEY FINANCIAL RESULTS

- **1Q2021 results were impacted by gains recognized from the junior surplus note exchange transactions and net gains on derivative contracts primarily from the impact of higher forward interest rates**
- **Results for 1Q2021 were also favorably impacted by the inclusion of Xchange's results for the first time**




(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 1Q2021 Earnings Release, included in Ambac's Current Report on Form 8-K filed with the SEC on May 10, 2021 and at the end of this document

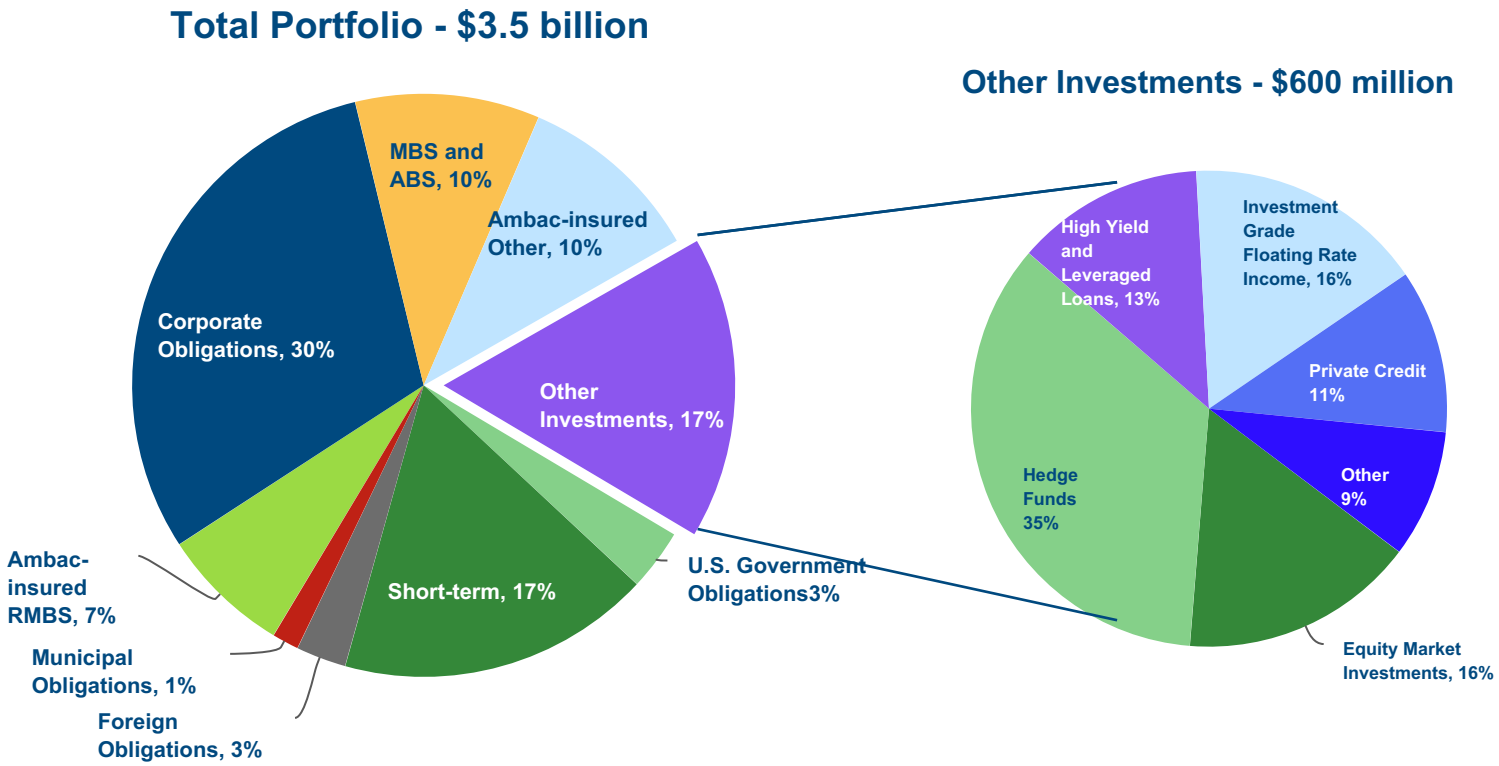
# NET INVESTMENT INCOME (LOSS)

**Net investment income in 1Q2021 was $49 million, compared to $53 million for 4Q2020 with returns remaining strong from both the Available-for-sale and Pooled funds investments**



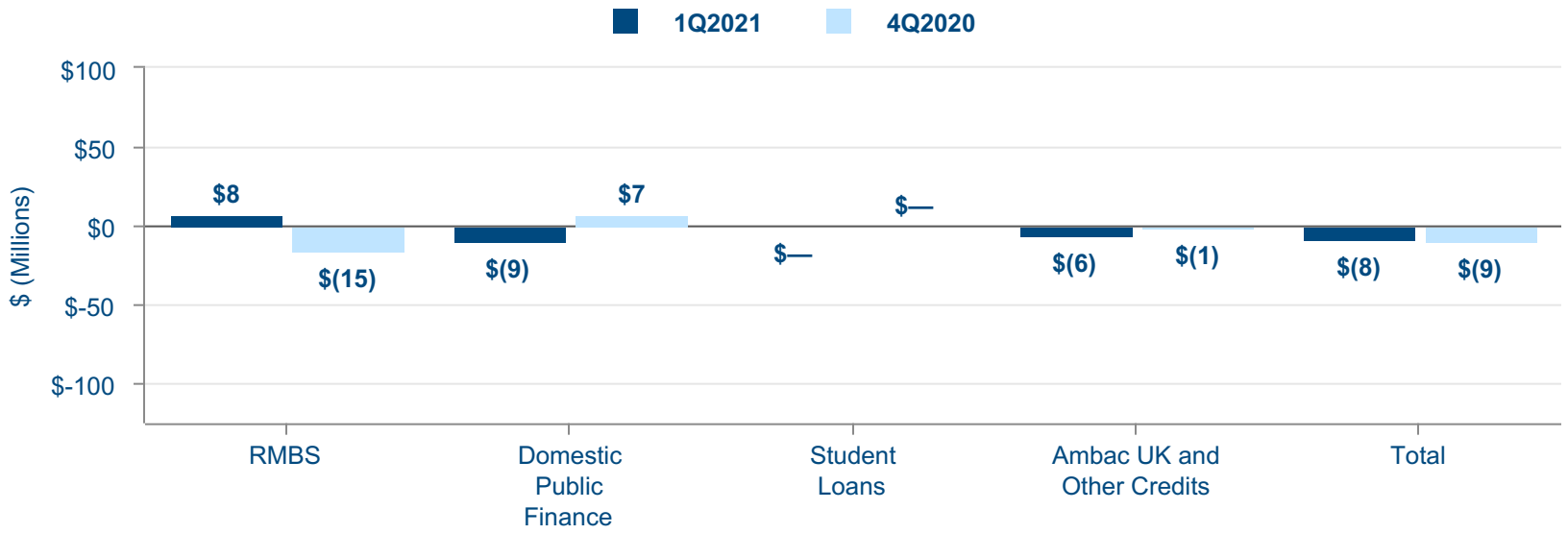
# INVESTMENT PORTFOLIO COMPONENTS - MARCH 31, 2021

**Gains on pooled and other equity investments represented $27 million of the $49 million of total net investment gains for 1Q2021, driven by strong performance in hedge funds and equity market investments**



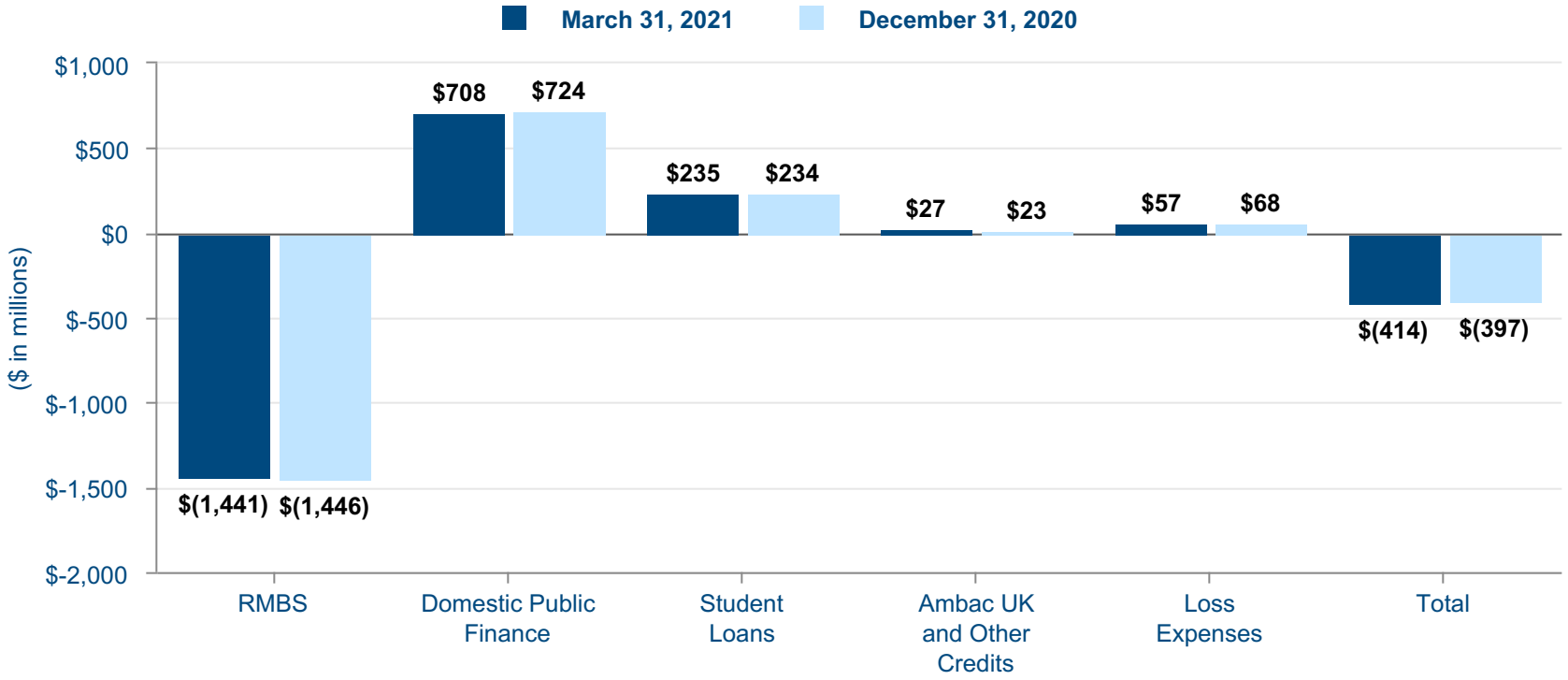
# INCURRED (LOSSES) BENEFIT BY CATEGORY[(1)] - 1Q2021 vs 4Q2020

- **RMBS benefit of $8 million in 1Q2021 was primarily due to the favorable impact of higher discount rates and credit improvements**
- **Domestic Public Finance losses of $9 million in 1Q2021 was primarily due to an increase in Puerto Rico reserves resulting from assumption changes partially offset by the favorable impact of higher discount rates**




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

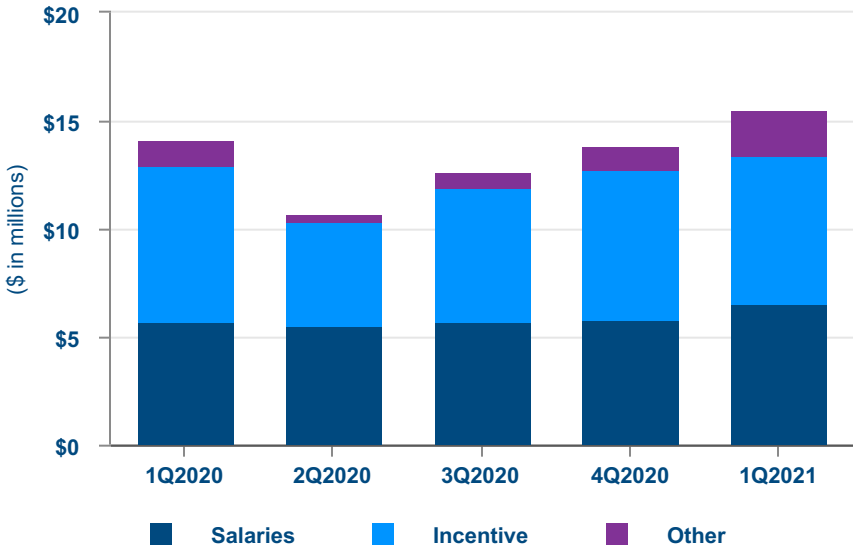
# GROSS LOSS RESERVES BY CATEGORY[1]



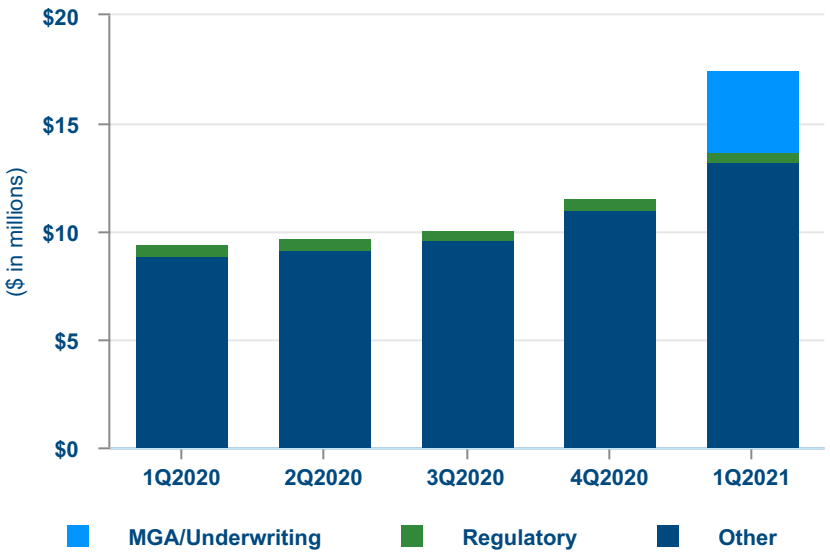

(1) Gross loss reserves are net of estimated R&W subrogation of $1.748 billion and $1.751 billion as of March 31, 2021 and December 31, 2020, respectively, and other subrogation of $530 million and $735 million as of March 31, 2021 and December 31, 2020, respectively

# EXPENSE MANAGEMENT

## Compensation Expense




## Non-Compensation Expenses




- **Compensation expense increased $2 million in 1Q2021 to $16 million from 4Q2020, mostly due to cyclical costs related to seasonal compensation costs**
- **Non-Compensation expenses increased $6 million in 1Q2021 to $17 million from 4Q2020 driven by the advancement of strategic priorities reflecting the inclusion of Xchange expenses, including commissions to sub-producers, and higher consulting fees related to the junior surplus note exchanges**

# AMBAC CONSOLIDATED LIABILITY AND CAPITAL SUMMARY

| Category | ($ in millions) 3/31/21 | Comments |
|---|---|---|
| **Claim Liabilities** | $1,929 | • Before estimated subrogation, Unearned Premium Revenue ("UPR") and reinsurance |
| **Secured Notes** | $1,163 | • Excludes $463 million of principal and interest held at AAC [(1)]<br>• Includes $0.2 million of accrued and unpaid interest |
| **5.1% Surplus Notes** | $1,286 | • Includes issuance of surplus notes for retirement of junior surplus notes in 1Q2021 ($240 million principal and $156 million of accrued interest)<br>• Includes $516 million of accrued and unpaid interest |
| **Tier 2 Notes** | $312 | • Includes paid-in-kind interest of $72 million |
| **Ambac UK Debt** | $14 | • Zero coupon note payable at maturity on May 2, 2036 |
| **Auction Market Preferred Shares (AMPS)** | $138 | • Liquidation Preference |
| **Common Stock Market Cap[(2)]** | $817 | • 46,197,103 common shares<br>• 4,877,693 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 May 6, 2021 at the closing stock price of $17.68 on May 6, 2021

# AMBAC VALUE DRIVERS (as of March 31, 2021)

## Proactive Liability Management

- Robust risk mitigation efforts strengthen the quality of Book Value and insured portfolio
- Ever-to-date early redemptions of Secured Note of $529 million
- Exchanges for junior surplus notes in 1Q2021, de-levered the balance sheet by $76 million of debt and accrued interest

## 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

## Strategic investments in capital light, fee based, growth oriented businesses

- Acquired Xchange on December 31, 2020 for $81 million
- Funded Everspan Group to over $100 million during 1Q2021

## Asset Management

- Generated a 0.7% total return on the consolidated investment portfolio in 1Q2021
- Ownership of $615 million of distressed Ambac insured bonds, including Puerto Rico and RMBS
- Alternative investments comprising 17% of consolidated invested assets at March 31, 2021

## Liquidity at AFG

- $274 million of net assets at AFG, excluding investments in subsidiaries
  - Cash and highly liquid assets of $156 million
  - Surplus notes and other assets of $114 million

## NOLs

- $1.5 billion allocated to AFG
- $2.2 billion allocated to AAC

# 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:*

| | 1Q2021 | | 4Q2020 | | 3Q2020 | | 2Q2020 | |
|---|---|---|---|---|---|---|---|---|
| **($ in millions, except per share amounts)** | **$ Amount** | **P.D.S. (1) (3)** | **$ Amount** | **P.D.S. (1)** | **$ Amount** | **P.D.S. (1)** | **$ Amount** | **P.D.S. (1)** |
| **Net income (loss) attributable to common shareholders** | **$ 17** | **$ 0.08** | **$ (14)** | **$ (0.31)** | **$ (108)** | **$ (2.33)** | **$ (35)** | **$ (0.77)** |
| Adjustments: | | | | | | | | |
| Non-credit impairment fair value (gain) loss on credit derivatives | — | — | (1) | (0.01) | — | — | (1) | (0.01) |
| Insurance intangible amortization | 19 | 0.40 | 16 | 0.34 | 14 | 0.29 | 14 | 0.30 |
| Foreign exchange (gains) losses | 5 | 0.11 | 3 | 0.06 | 1 | 0.03 | (2) | (0.04) |
| **Adjusted earnings (loss)** | **$ 41** | **$ 0.59** | **$ 4** | **$ 0.08** | **$ (93)** | **$ (2.01)** | **$ (24)** | **$ (0.52)** |

*(1) Per diluted share ("P.D.S.")*
*(2) Numbers may not add due to rounding*
*(3) Per Diluted share in 1Q2021 includes the impact of adjusting the Xchange related noncontrolling interest to current redemption value*

# 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:*

| | March 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| **($ in millions, except per share data)** | **$ Amount** | **Per Share** | **$ Amount** | **Per Share** |
| **Total Ambac Financial Group, Inc. Shareholders' Equity** | **$ 1,063** | **$ 23.02** | **$ 1,080** | **$ 23.57** |
| Adjustments: | | | | |
| Non-credit impairment fair value losses on credit derivatives | — | 0.01 | — | 0.01 |
| Insurance intangible asset | (356) | (7.71) | (373) | (8.14) |
| Net unearned premiums and fees in excess of expected losses | 343 | 7.42 | 378 | 8.24 |
| Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income | (142) | (3.08) | (166) | (3.63) |
| **Adjusted book value** | **$ 908** | **$ 19.66** | **$ 919** | **$ 20.05** |
| Shares outstanding (in millions) | | 46.2 | | 45.8 |

*(1) Numbers may not add due to rounding*

# APPENDIX

# RISK ADVERSE CREDIT CLASSIFICATIONS

| | Classification | Description |
|---|---|---|
| | Class I | • **Fully Performing – Meets Ambac Criteria with Remote Probability of Claim and includes:**<br>◦ Survey List - credits that may lack information or demonstrate a weakness but further deterioration is not expected<br>◦ 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 AFG’s common stock and volatility in the price of AFG’s common stock; (2) Ambac's inability to realize the expected recoveries, including RMBS litigation recoveries, included in its financial statements which would have a materially adverse effect on Ambac Assurance Corporation's ("AAC") financial condition and may lead to regulatory intervention; (3) failure to recover claims paid on Puerto Rico exposures or realization of losses in amounts higher than expected; (4) increases to loss and loss expense reserves; (5) 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; (6) uncertainty concerning the Company’s ability to achieve value for holders of its securities, whether from AAC and its subsidiaries or from transactions or opportunities apart from AAC and its subsidiaries, including new business initiatives relating to the specialty property and casualty program insurance business, the managing general agency/underwriting business, or related businesses; (7) potential of rehabilitation proceedings against AAC; (8) 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 judicial decisions adverse to revenue bond holders; (9) 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; (10) insufficiency or unavailability of collateral to pay secured obligations; (11) credit risk throughout Ambac’s business, including but not limited to credit risk related to residential mortgage-backed securities, student loan and other asset securitizations, public finance obligations and exposures to reinsurers; (12) the impact of catastrophic environmental or natural events, including catastrophic public health events like the COVID-19 pandemic, on significant portions of our insured and investment portfolios; (13) credit risks related to large single risks, risk concentrations and correlated risks; (14) the risk that Ambac’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 Ambac’s insured portfolio runs off; (16) Ambac’s substantial indebtedness could adversely affect its financial condition and operating flexibility; (17) Ambac may not be able to obtain financing or raise capital on acceptable terms or at all due to its substantial indebtedness and financial condition; (18) Ambac 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; (19) restrictive covenants in agreements and instruments may impair Ambac’s ability to pursue or achieve its business strategies; (20) adverse effects on operating results or the Company’s financial position resulting from measures taken to reduce risks in its insured portfolio; (21) disagreements or disputes with Ambac's insurance regulators; (22) default by one or more of Ambac's portfolio investments, insured issuers or counterparties; (23) loss of control rights in transactions for which we provide insurance due to a finding that Ambac has defaulted; (24) adverse tax consequences or other costs resulting from the characterization of the AAC’s surplus notes or other obligations as equity; (25) risks attendant to the change in composition of securities in the Ambac’s investment portfolio; (26) adverse impacts from changes in prevailing interest rates; (27) our results of operation may be adversely affected by events or circumstances that result in the impairment of our intangible assets and/or goodwill that was recorded in connection with Ambac’s acquisition of 80% of the membership interests of Xchange; (28) risks associated with the expected discontinuance of the London Inter-Bank Offered Rate; (29) factors that may negatively influence the amount of installment premiums paid to the Ambac; (30) market risks impacting assets in the Ambac’s investment portfolio or the value of our assets posted as collateral in respect of interest rate swap transactions; (31) risks relating to determinations of amounts of impairments taken on investments; (32) 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 Ambac’s business, operations, financial position, profitability or cash flows; (33) actions of stakeholders whose interests are not aligned with broader interests of the Ambac's stockholders; (34) system security risks, data protection breaches and cyber attacks; (35) changes in accounting principles or practices that may impact Ambac’s reported financial results; (36) regulatory oversight of Ambac Assurance UK Limited ("Ambac UK") and applicable regulatory restrictions may adversely affect our ability to realize value from Ambac UK or the amount of value we ultimately realize; (37) 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; (38) Ambac’s financial position that may prompt departures of key employees and may impact the its ability to attract qualified executives and employees; (39) 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; (40) disintermediation within the insurance industry that negatively impacts our managing general agency/underwriting business; (41) changes in law or in the functioning of the healthcare market that impair the business model of our accident and health managing general underwriter; and (42) 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. Ambac's subsidiaries include: Ambac Assurance Corporation and Ambac Assurance UK Limited, financial guarantee insurance companies currently in runoff; Everspan Indemnity Insurance Company and Everspan Insurance Company, specialty property & casualty program insurers; and Xchange Benefits, LLC and Xchange Affinity Underwriting Agency, LLC, property & casualty Managing General Underwriters. 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. For more information, please go to www.ambac.com.

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