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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2022

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1-10777

AMBAC FINANCIAL GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-3621676**
(State of incorporation)	**(I.R.S. employer identification no.)**
One World Trade Center New York NY	**10007**
(Address of principal executive offices)	**(Zip code)**

(212) 658-7470
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, par value $0.01 per share	AMBC	New York Stock Exchange
Warrants	AMBC WS	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company"and"emerging growth company" in Rule 12b-2 of the Exchange Act): (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of voting stock held by non-affiliates of the Registrant as of the close of business on June 30, 2022 was $510,068,047. As of February 24, 2023, there were 45,287,112 shares of Common Stock, par value $0.01 per share, were outstanding.

Documents Incorporated By Reference

Portions of the Registrant's Proxy Statement related to its annual meeting of stockholders are incorporated by reference in this Form 10-K in response to Part III Items 10, 11, 12, 13, and 14.

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In this Annual Report, 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 Part I, Item 1A in this Annual Report on Form 10-K.

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 Financial Group's ("AFG") and its subsidiaries' (collectively, "Ambac" or the "Company") 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 high degree of volatility in the price of AFG's common stock; (2) uncertainty concerning the Company's ability to achieve value for holders of its securities, whether from Ambac Assurance Corporation ("AAC") and its subsidiaries or from the specialty property and casualty insurance business, the insurance distribution business, or related businesses; (3) inadequacy of reserves established for losses and loss expenses and the possibility that changes in loss reserves may result in further volatility of earnings or financial results; (4) potential for rehabilitation proceedings or other regulatory intervention or restrictions against AAC; (5) credit risk throughout Ambac's business, including but not limited to credit risk related to insured residential mortgage-backed securities, student loan and other asset securitizations, public finance obligations (including risks associated with Chapter 9 and other restructuring proceedings), issuers of securities in our investment portfolios, and exposures to reinsurers; (6) our inability to effectively reduce insured financial guarantee exposures or achieve recoveries or investment objectives; (7) our inability to generate the significant amount of cash needed to service our debt and financial obligations, and our inability to refinance our indebtedness; (8) Ambac's substantial indebtedness could adversely affect its financial condition and operating flexibility; (9) 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; (10) greater than expected underwriting losses in the Company's specialty property and casualty insurance business; (11) failure of specialty insurance program partners to properly market, underwrite or administer policies; (12) inability to obtain reinsurance coverage on expected terms; (13) loss of key relationships for production of business in specialty property and casualty and insurance distribution businesses or the inability to secure such additional relationships to produce expected results; (14) the impact of catastrophic public health, environmental or natural events, or global or regional conflicts, on significant portions of our insured portfolio; (15) credit risks related to large single risks, risk concentrations and correlated risks; (16) risks associated with adverse selection as Ambac's financial guarantee insurance portfolio runs off; (17) the risk that Ambac's risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss; (18) restrictive covenants in agreements and instruments that impair Ambac's ability to pursue or achieve its business strategies; (19) adverse effects on operating results or the Company's financial position resulting from measures taken to reduce financial guarantee risks in its insured portfolio; (20) disagreements or disputes with Ambac's insurance regulators; (21) loss of control rights in transactions for which we provide financial guarantee insurance; (22) inability to realize expected recoveries of financial guarantee losses; (23) risks attendant to the change in composition of securities in the Ambac's investment portfolio; (24) adverse impacts from changes in prevailing interest rates; (25) events or circumstances that result in the impairment of our intangible assets and/or goodwill that was recorded in connection with Ambac's acquisitions; (26) risks associated with the expected discontinuance of the London Inter-Bank Offered Rate; (27) factors that may negatively influence the amount of installment premiums paid to Ambac; (28) the risk of litigation and regulatory inquiries or investigations, and the risk of adverse outcomes in connection therewith; (29) the Company's ability to adapt to the rapid pace of regulatory change; (30) actions of stakeholders whose interests are not aligned with broader interests of Ambac's stockholders; (31) system security risks, data protection breaches and cyber attacks; (32) 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; (33) failures in services or products provided by third parties; (34) political developments that disrupt the economies where the Company has insured exposures; (35) our inability to attract and retain qualified executives, senior managers and other employees, or the loss of such personnel; (36) fluctuations in foreign currency exchange rates; (37) failure to realize our business expansion plans or failure of such plans to create value; (38) greater competition for our specialty property and casualty insurance business and/or our insurance distribution business; (39) loss or lowering of the AM Best rating for our property and casualty insurance company subsidiaries; (40) disintermediation within the insurance industry or greater competition from technology-based insurance solutions; (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.

PART I

Item 1. Business

INTRODUCTION

Ambac Financial Group, Inc. ("AFG"), headquartered in New York City, is a financial services holding company incorporated in the State of Delaware on April 29, 1991. References to “Ambac,” the “Company,” “we,” “our,” and “us” are to AFG and its subsidiaries, as the context requires. Ambac operates three principal businesses:

- **Legacy Financial Guarantee ("LFG") Insurance** — Ambac's financial guarantee business includes the activities of Ambac Assurance Corporation ("AAC") and its wholly owned subsidiaries, including Ambac Assurance UK Limited (“Ambac UK”) and Ambac Financial Services LLC ("AFS"). Both AAC and Ambac UK are financial guarantee insurance companies that have been in run-off, having not underwritten any new business since 2008. AFS uses interest rate derivatives to hedge interest rate risk in AAC's insurance and investment portfolios.

- **Specialty Property and Casualty Insurance —** Ambac's Specialty Property and Casualty Insurance program business. Currently includes five admitted carriers and an excess and surplus lines (“E&S” or “nonadmitted”) insurer, Everspan Indemnity Insurance Company (all carriers collectively, “Everspan”). Three of the five admitted carriers were acquired in 2022. Everspan carriers have an AM Best rating of 'A-' (Excellent).

- **Insurance Distribution —** Ambac's specialty property and casualty ("P&C") insurance distribution business, which could include Managing General Agents and Underwriters (collectively "MGAs" or "MGA/Us"), insurance wholesalers, brokers and other distribution businesses, currently includes Xchange Benefits, LLC (“Xchange”) a P&C MGA specializing in accident and health products, All Trans Risk Solutions, LLC ("All Trans"), an MGA/U specializing in commercial automobile insurance for specific "for-hire" auto clauses, and Capacity Marine Corporation ("Capacity Marine"), a wholesale and retail brokerage and reinsurance intermediary specializing in marine and international risk. Refer to Note 4. Business Combination in this Annual Report on Form 10-K, for further information relating to these acquisitions.

Beginning in the first quarter of 2022, the Company began reporting these three business operations as segments; see *Note 3. Segment Information* for further information.

AFG, on a standalone basis, had $223 million in net assets (excluding its investment in subsidiaries) and net operating loss carry-forwards of $3,454 million ($1,824 million of which is allocated to AAC) at December 31, 2022. See Schedule II for more information on the holding company.

Strategies to Enhance Shareholder Value

The Company's primary goal is to maximize long-term shareholder value through the execution of key strategies for its (i) Specialty Property and Casualty Insurance and Insurance Distribution businesses and (ii) Legacy Financial Guarantee Insurance.

Specialty Property and Casualty Insurance and Insurance Distribution strategic priorities include:

- Growing a Specialty Property and Casualty Insurance business which generates underwriting profits and an attractive return on capital from a diversified portfolio of commercial and personal liability risks accessed through program administrators.
- Building an Insurance Distribution business based on deep domain knowledge in specialty and niche classes of risk which generate attractive margins at scale. This will be achieved through acquisitions, new business “de-novo” formation and incubation, and product expansion supported by a centralized technology led shared services offering.
- Making opportunistic investments that are strategic to both the Specialty Property and Casualty Insurance and Insurance Distribution businesses.

Legacy Financial Guarantee Insurance strategic priorities include:

- Actively managing, de-risking and mitigating insured portfolio risk, and pursuing recovery of previously paid losses.
- Improving operating efficiency and optimizing our asset and liability profile.
- Exploring strategic options to further maximize value for AFG.

DESCRIPTION OF THE BUSINESS

Legacy Financial Guarantee Insurance:

Financial guarantee insurance policies provide an unconditional and irrevocable guarantee which protects the holder of a debt obligation against non-payment when due of the principal and interest on the obligations guaranteed. Pursuant to such guarantees, AAC and Ambac UK make payments if the obligor responsible for making payments fails to do so when due. AAC and Ambac UK wrote the last insurance policy in 2008 and have been in run-off ever since.

Ambac's Financial Guarantee business strategy is to increase the residual value of AAC and Ambac UK with the ultimate goal of monetizing such value through (i) dividends and capital distributions while managing their active run-off; (ii) one or more reinsurance transactions or other de-risking transactions that will accelerate or enhance the ability of AAC and/or Ambac UK to pay dividends and make capital distributions; (iii) the sale of all or portions of AAC and/or Ambac UK, or (iv) other strategic transactions to accelerate and/or enhance the above-stated corporate strategy. AAC and Ambac UK have been reducing risk within their insured portfolios and focusing on exposures to financially stressed municipal entities and asset-

backed securities as well as large and concentrated exposures. Opportunities for remediating losses on poorly performing insured transactions depend on a number of factors including market conditions, the structure of the underlying risk and associated policy, as well as counterparty specific factors. AAC's ability to remediate risk and commute policies may be limited by available liquidity. Additionally, AAC and Ambac UK are actively managing their regulatory frameworks and seeking to optimize capital allocation in a complex insured portfolio that includes long duration obligations.

The execution of Ambac's strategy to increase and monetize the residual value of AAC is subject to significant risk as well as the restrictions set forth in the Settlement Agreement, dated as of June 7, 2010 (the "Settlement Agreement"), by and among AAC, Ambac Credit Products LLC ("ACP"), AFG and certain counterparties to credit default swaps with ACP that were guaranteed by AAC, as well as the Stipulation and Order among the Office of the Commissioner of Insurance for the State of Wisconsin ("OCI"), AFG and AAC that became effective on February 12, 2018, as amended (the "Stipulation and Order"), each of which requires OCI and, under certain circumstances, holders of the debt instruments benefiting from such restrictions, to approve certain actions taken by or in respect of AAC. In exercising its approval rights, OCI will act for the benefit of policyholders, and will not take into account the interests of AFG. See Note 1. Background and Business Description to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further information.

Financial guarantee revenues consist mostly of premiums earned from run-off insurance contracts, net of reinsurance, and income on investments held in AAC's and Ambac UK's investment portfolios. Financial guarantee expenses consist of: (i) loss and commutation payments; (ii) loss adjustment expenses; (iii) interest expense on debt, (iv) operating expenses and (v) insurance intangible amortization.

AAC has a significant amount of debt outstanding in the form of principal and accrued but unpaid interest on surplus notes. Surplus notes are treated as capital for regulatory purposes as the obligation to pay principal and interest on them is subordinated to the obligation to pay policyholder claims and such payments cannot be made without the explicit authorization of the OCI. OCI is developing a new capital framework ("OCI's Runoff Capital Framework") to assist OCI with making decisions related to AAC's capital and liquidity management. OCI's Runoff Capital Framework is not yet complete and therefore we are not able to predict the results of such and what it may mean for our Legacy Financial Guarantee strategy, particularly as it relates to deleveraging AAC and distributing capital to AFG.

AAC's ability to pay dividends to AFG has also been significantly restricted by the deterioration of AAC's financial condition and by regulatory, legal and contractual restrictions. Substantial uncertainty remains as to AAC's ability to pay dividends to AFG and the timing of any such dividends, which constrains AFG's liquidity. Refer to "Dividend Restrictions, Including Contractual Restrictions" below and to Note 9. Insurance Regulatory Restrictions to the Consolidated Financial Statements included in this Annual Report on Form 10-K, for more information on dividend payment restrictions.

Interest rate derivative transactions are executed through AFS, a wholly-owned subsidiary of AAC. Interest rate derivatives are used to partially hedge interest rate risk in the financial guarantee insurance and investment portfolios. Accordingly, interest rate derivatives are positioned to benefit from rising rates. AFS is required to post collateral in excess of the market value of interest rate derivatives when they are in a mark-to-market loss position. Early termination of AFS's derivatives could result in losses. AFS has borrowed cash and securities from AAC to help support its collateral and margin posting requirements, termination payments and other cash needs. Given the reduction in the size of the financial guarantee insured portfolio, recent interest rate increases and other considerations, the size of the interest rate derivatives portfolio was materially reduced in the fourth quarter of 2022 and may be further reduced or eliminated in the future. AFS also maintains a few interest rate derivatives with legacy financial guarantee customers, the exposure to which is fully hedged.

Ambac manages a variety of risks inherent in its businesses, including credit, market, liquidity, operational and legal. These risks are identified, measured, and monitored through a variety of control mechanisms, which are in place at different levels throughout the organization. See "Quantitative and Qualitative Disclosures About Market Risk" included in Part II, Item 7A in this Annual Report on Form 10-K for further information.

Risk Management

Ambac's financial guarantee insurance policies expose the Company to the direct credit risk of the assets and/or obligor supporting the guaranteed obligation. In addition, insured transactions expose Ambac to indirect risks that may increase our overall risk, such as credit risk separate from, but correlated with, our direct credit risk; market; model; economic, including the risk of economic recession; natural disaster; pandemic and mortality or other non-credit type risks. Please refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Guarantees in Force" section below for details on the financial guarantee insured portfolio.

The Risk Management Group ("RMG") is primarily responsible for the development, implementation and oversight of loss mitigation strategies, surveillance and remediation of the insured financial guarantee portfolio (including through the pursuit of recoveries in respect of paid claims and commutations of policies). Our ability to execute certain risk management activities may be limited by the restrictions set forth in the Settlement Agreement and the Stipulation and Order and other constraints, potentially including OCI's Runoff Capital Framework. See Note 1. Background and Business Description to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further information.

Ambac's RMG has an organizational structure designed around four primary areas of focus: Surveillance, Risk Remediation, Credit Risk Management and Loss Reserving and Analytics.

Surveillance

Surveillance is focused on the early identification of potential stress and/or credit deterioration and the related analysis of credit exposures in the insured portfolio. Additionally,

Surveillance evaluates the impact of changes in the economic, regulatory or political environment on the insured portfolio.

Analysts perform periodic credit reviews of insured exposures according to a schedule based on the risk profile of the guaranteed obligations or as necessitated by specific credit events or other macro-economic variables. Risk-adjusted surveillance strategies have been developed for each bond type with review periods and scope of review based upon each bond type's risk profile. The risk profile is assessed regularly in response to our own experience and judgments or external factors such as the economic environment and industry trends. The focus of a credit review is to assess performance, identify credit trends and recommend credit classifications, ratings and changes to a transaction or bond type's review period and surveillance requirements. Please refer to Note 2. Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion of the various credit classifications utilized by Ambac. If a problem is detected, the Surveillance group will then work with the Risk Remediation group on a loss mitigation plan, as necessary.

The insured portfolio contains exposures that are correlated and/or concentrated. RMG's surveillance activities include identifying these types of exposures and identifying the risks that would or could trigger credit deterioration across these related exposures. This is the case with student loans and residential mortgage-backed securities ("RMBS"), for example, which have several correlations including those associated with consumer lending, unemployment and home prices. In the future, Ambac's portfolio may be subject to similar credit deterioration arising from concentrated and/or correlated risks. Examples of other such risks that could impact our portfolio, and that our surveillance is designed to monitor include the impact of potential municipal bankruptcy contagion, the impact of tax reform on state and municipal bond issuers, the impact of large scale domestic military cutbacks on our privatized military housing portfolio and event risk such as pandemics (e.g., COVID-19), natural disasters or other regional stresses. Most such risks cannot be predicted and may materialize unexpectedly or develop rapidly. Although our surveillance allows us to connect the event and stress to the related exposures and assign an adverse credit classification and estimate losses across the affected credits, when necessary, we may not have adequate resources or contractual rights and remedies to mitigate loss arising from such risks.

Risk Remediation

Risk Remediation activities are centered on exposure reduction and loss mitigation related to the insured portfolio. In particular, the focus is on reducing exposure to credits that have negative developing trends, the potential for future adverse development or are already adversely classified by, among other things, exercising rights and remedies, which may help to mitigate losses in the event of further deterioration or events of default, or, as available, working with an issuer to refinance, defease or otherwise retire debt.

Loss mitigation focuses on the execution of commutation and related claims reduction or workout strategies for policies with potential future claims. For certain adversely classified, survey list and watch list credits (as described in Note 2. *Basis of Presentation and Significant Accounting Policies* to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K), risk remediation or loss mitigation plans are developed and implemented that may include actions such as working with the issuer, trustee, bond counsel, servicer and other interested parties in an attempt to remediate the problem and minimize AAC's exposure to potential loss. Other actions could include working with bond holders and other economic stakeholders to negotiate, structure and execute solutions, such as commutations. In addition, reinsurance is used as a remediation tool to reduce exposure to certain targeted policies and large concentrations.

Adversely classified, survey list and watch list credits are tracked closely as part of the risk remediation process and are discussed at regularly scheduled Credit Risk Management meetings (see discussion following in "Credit Risk Management"). In some cases, the RMG will engage restructuring or workout experts, attorneys and/or other consultants with appropriate expertise in the targeted loss mitigation area to assist in examining the underlying contracts or collateral, providing industry specific advice and/or executing strategies.

Credit Risk Management ("CRM")

The CRM function manages the decision process for all material matters that affect credit exposures within the insured portfolio. CRM provides a forum for credit assessment discussions and approvals and drives consistency and timeliness. The scope of credit matters under the purview of CRM includes material amendments, consents and waivers, credit review scheduling, credit classifications, rating designations, review of watch list or adversely classified credits, sector reviews and overall portfolio reviews and risk mitigation updates. Formal plans or transactions that relate to risk remediation, loss mitigation or restructuring may also require AAC Risk Committee approval, as described below in the section entitled, "Enterprise Risk Management."

Control Rights

In certain domestic and international structured finance transactions, structured public finance transactions, public-private partnerships and other transactions, AAC and Ambac UK may be the control party as a result of insuring a transaction's senior class or tranche of debt obligations. The control party may direct specified parties, usually the trustee, to take or not take certain actions following contractual defaults or trigger events. Control rights and the scope of direction and remedies vary considerably among our insured transactions. Because AAC and Ambac UK are party to and/or have certain rights in documents supporting transactions in the insured portfolio, they may receive requests for amendments, consents and waivers ("ACW"). Decisions to approve or reject ACWs are made by AAC's and Ambac UK's risk management groups based upon certain credit factors, such as the issuer's ability to repay the bonds and the bond's security features and structure.

Watch List and Adversely Classified Credits

Watch list and adversely classified credits are tracked closely by the RMG teams and discussed as part of the CRM process. The review schedule for adversely classified credits is tailored to the

remediation plan to track and prompt timely action and proper internal and external resourcing. A summary of developments regarding adversely classified credits and credit trends is also provided to AFG's, AAC's and Ambac UK's Boards of Directors no less than quarterly.

Ambac assigns internal credit ratings to individual exposures as part of the surveillance process. These internal credit ratings, which represent Ambac's independent judgments, are based upon underlying credit parameters consistent with the exposure type.

Loss Reserving and Analytics ("LRA")

The LRA function manages the quarterly loss reserving process for insured portfolio credits with projected policy claims. It also supports the development, operation and/or maintenance of various analytical models used in the loss reserving process as well as in other risk management functions.

P&C Industry Overview

We operate within the $800 billion U.S. P&C insurance market with a particular focus on the commercial MGA/U program market both on an Admitted and Excess & Surplus Lines ("E&S") basis.

Admitted and E&S Insurance

Insurance carriers sell commercial P&C products in the United States through one of two markets: the Admitted market and the E&S market.

The Admitted insurance market, which has highly regulated rates and policy forms, is more consistent in price and coverage. In the E&S market there is increased flexibility in pricing, terms, and conditions in response to evolving market dynamics, and E&S carriers can tailor insurance products to facilitate coverage that would not otherwise be attainable. This unique flexibility lends itself to providing specialist solutions for unique risks, which has driven meaningful growth within the E&S market over the last decade, which has exceeded the growth rate of the Admitted market.

According to data from AM Best, the E&S market generated approximately $83 billion of direct written premium in 2021 or 10% of the industry direct premium volume. The E&S market is more heavily focused in commercial lines and accounted for over 20% of total commercial direct written premium for the first time in 2021. For the period of 2011 through 2021 the E&S sector had a compound annual growth rate of 10% compared to 5% for the overall U.S. P&C sector.

Everspan presently has five admitted carriers, which are wholly-owned except as indicated below: Everspan Insurance Company; Greenwood Insurance Company; Consolidated National Insurance Company; 21st Century Auto Insurance Company of New Jersey; and Providence Washington Insurance Company, of which it owns 90.1%. Everspan Indemnity Insurance Company ("Everspan Indemnity"), an E&S carrier, which is eligible to write business in all U.S. states and territories, is also part of Everspan.

MGA/U Program Market

It is estimated that U.S. MGA/Us generate between $70 to $100 billion of direct premiums. We believe there are significant advantages to the MGA/U business model when it comes to capturing the opportunity in the E&S market and propelling profitable growth. MGA/Us are specialized types of insurance agents or brokers that are vested with underwriting authority from an insurer, administering programs and negotiating contracts on their behalf. This is a particularly useful vehicle for P&C insurers as MGA/Us tend to participate in the E&S market where specialized expertise is needed to underwrite policies. Additionally, MGA/Us are cost effective means for an insurer or reinsurer to access or grow a particular class of business they find attractive given the MGA/U already possesses product expertise and distribution capabilities.

The MGA/U sector is one of fastest growing segments of the U.S. P&C insurance market, doubling in size between 2011 and 2020, with loss ratios consistently lower than the P&C sector overall. In 2021, the U.S. market was estimated by a leading broker to have over 1,000 MGA/Us with 700 identified in statutory filings and another 350 estimated to fall below the filing threshold. We believe the growth in the MGA/U and program space is likely to continue as the industry continues its move towards increased specialization.

Specialty Property and Casualty Insurance

Everspan's strategy as a hybrid insurer is to generate sustainable and profitable, long-term specialty property and casualty program insurance business with a focus on diverse classes of commercial and personal liability risks across an expanding roster of MGA/U partners. As a hybrid insurer Everspan may retain a percentage of the business it underwrites. Everspan's management team has significant years of experience in the program insurance business and has long-standing and broad relationships with MGA/Us, reinsurers, brokers, producers and third-party claims administrators ("TPAs"). Everspan sources business through program administrators and managing general agents, reinsurers, brokers, producers and others. Everspan is developing long-term relationships with its distribution partners. Subject to Everspan's operational oversight, Everspan engages these third parties to market and administer policies and handle claims within defined authorities on Everspan's behalf.

Everspan is focused on generating strong underwriting results and program fee income from its participatory fronting business model. For the year ended December 31, 2022, Everspan issued insurance policies generating $146 million of gross written premium, of which Everspan retained approximately 20% with the balance ceded to quota share reinsurers.

The following table sets forth our largest lines of business for the year ended December 31, 2022:

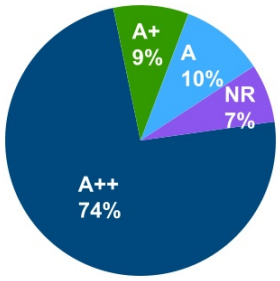
($ in millions) Year Ended December 31,	2022	2021
Gross written premiums by line of business:		
Commercial auto liability	$ 117.2	$ 12.6
Commercial auto physical damage	12.6	—
General liability	6.0	—
Excess liability	4.8	0.5
Surety	4.4	—
Other	1.3	—
Gross written premiums	**$ 146.4**	**$ 13.0**

Everspan may retain up to 30% of risk on each program and will reinsure the remainder to reinsurers and other providers of risk capital. These reinsurers may be domestic and foreign (re)insurers and institutional risk investors (capacity providers) that want access to specific lines of U.S. property and casualty insurance business that they may not have the required licenses and filings to otherwise insure.

Everspan purchases reinsurance to manage its net retention on individual risks and overall exposure to losses, while providing it with the ability to offer policies with sufficient limits to meet producer and policyholder needs. Generally, reinsurance contracts are specific to a program, are purchased on an annual basis, and are subject to renegotiation at renewal. The key contractual provisions include, but are not limited to, those relating to ceding commissions, fronting fees, required reports to reinsurers, responsibility for taxes, arbitration in the event of a dispute and Everspan's termination rights when, among other triggers, a reinsurer defaults (such as by failing to collateralize its obligations when required) or its financial strength falls below an agreed level. Everspan's ceded reinsurance contracts do not legally discharge Everspan from its primary liability for the full amount of the policies, and Everspan will be required to pay the loss and bear collection risk if a reinsurer fails to meet its obligations under the reinsurance agreement.

Everspan mitigates this credit risk by selecting well capitalized, highly rated, authorized capacity providers, or requiring that the capacity provider post collateral, typically in the form of letters of credit issued by NAIC-qualified financial institutions, to secure the reinsured risks.

The following graph shows our reinsurance carriers' AM Best rating based on share of ceded premium for the year ending December 31, 2022:



(1) NR represents reinsurance carriers not rated by AM Best. Generally, under the terms of reinsurance contracts with such carriers the reinsurer is required to post collateral to Everspan.

See *Note 8. Insurance Contracts* to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further information on reinsurance recoverables, including the evaluation for credit impairments.

Competitive Strengths:

Specialty Property and Casualty Insurance is a competitive industry. Everspan believes that it can successfully operate in this industry in part based upon the following competitive strengths.

- ***Experience*** — Everspan has an experienced leadership team across underwriting, pricing, claims, and business development with an average tenure of over 30 years in the insurance industry.
- ***Underwriting Focused Strategy*** — Everspan is driven by underwriting performance, which is achieved via comprehensive diligence and monitoring of MGA/U partners from our in-house pricing actuaries, claims executive, and program managers. This underwriting focus also aides in achieving and maintaining support from the reinsurance partners.
- ***Risk Appetite*** — Everspan may retain up to 30% of the risk it underwrites. This meaningful participation serves to align interests with our reinsurers.
- ***Commitment to Program Distribution*** — Everspan does not have any direct distribution capability as it is committed to the program market distributed through MGA/Us. As a result, Everspan does not have channel conflicts which would compete with programs partners in underwriting business.
- ***Nimble Platform*** — A simplified organizational structure which allows Everspan to be efficient and quick in responding to the needs of program partners as well as finding customized solutions. We believe this provides a competitive advantage to the more traditional competitors in the market.

- ***Aligned Ownership*** — Everspan has a stable ownership structure which is equally focused on long-term value creation based on strong underwriting performance. This alignment of interest and strategic vision allows Everspan to leverage resources across the Company and access capital for future initiatives.

Competition:

Everspan faces competition from program business market participants such as Accelerant Specialty, Accredited America, Benchmark Insurance Company, Clear Blue Insurance Group, Core Specialty, Falls Lake Insurance, Fortegra Insurance Group, Obsidian, Spinnaker, State National, Transverse Insurance Group, and Trisura. Most of these entities have both admitted and E&S carriers. Competition may take the form of lower ceding fees, broader coverages, greater product flexibility, higher coverage limits, greater customer service or higher financial strength ratings by independent rating agencies. Few barriers exist to prevent existing insurers from entering target markets within the property and casualty industry. Market conditions and capital capacity influence the degree of competition at any point in time. During periods of excess underwriting capacity, as defined by the availability of capital, competition can result in lower pricing and less favorable policy terms and conditions for insurers. During periods of reduced underwriting capacity, pricing and policy terms and conditions are generally more favorable for insurers. Historically, the performance of the property and casualty insurance industry has tended to fluctuate in cyclical periods of price competition and excess underwriting capacity, followed by periods of high premium rates and shortages of underwriting capacity. At any given time, Everspan's portfolio of insurance products could experience varying combinations of these characteristics. This cyclical market pattern can be more pronounced in the specialty insurance and reinsurance markets in which Everspan competes than in the standard insurance market. For the last several years the property and casualty industry has been in a period of high premium rates with a shortage of underwriting capacity. While not anticipated to end in the short-term, this cyclical period will eventually end, perhaps unexpectedly. The end of this favorable cycle could have negative consequences for Everspan's growth and profitability prospects.

Business Acquisition and Program Partner Selection:

With our focus on generating long-term underwriting profitability, we are selective in adding new program partners. We look for program partners that share our vision of underwriting performance and return expectations and consequently are selective about with whom we partner. In 2022 we reviewed over 180 submissions and agreed to contract with nine MGA/Us.

As noted above, most of Everspan’s programs are sourced either from MGA/Us or through other third parties, such as reinsurance brokers, that are seeking to provide customized insurance solutions that require a carrier with a high rating from AM Best. Everspan works with MGA/Us that leverage both data and technology to streamline or improve the underwriting process.

For each new opportunity that Everspan chooses to evaluate, an initial evaluation of the MGA/U is conducted, including an assessment of its underwriting approach, philosophy, size, quality of management, past performance, future performance targets and, above all, compatibility with Everspan’s operating model, risk appetite, and existing book of business. Everspan conducts substantial due diligence on all program partners led by the Underwriting Risk Committee which is chaired by Everspan’s Chief Underwriting Officer. As part of the diligence process, Everspan works closely with potential MGA/Us to design program underwriting guidelines, ongoing reporting and auditing requirements. Everspan also typically requires the producing partner to retain underwriting risk or otherwise align incentives with program underwriting performance.

Additionally, as part of the diligence process for each program, Everspan will perform a review of the claims management function, typically performed by a TPA, which in some cases are managed by the MGA/U or producing partner. Diligence focuses on claims handling and litigation management, compliance, finance, governance, staff and vendor management, data and IT.

After due diligence is completed and acceptable reinsurers are identified, each program is presented to the Underwriting Risk Committee for final approval. The Underwriting Risk Committee will consider recommendations made by the credit subcommittee regarding the financial strength of the MGA/Us and/or reinsurers.

Ongoing monitoring:

For active programs, Everspan authorizes MGA/Us to underwrite and bind coverages in accordance with approved underwriting guidelines and delegates authority to the TPA for claims adjustment and payment. Everspan closely monitors each MGA/U and TPA’s adherence to the agreed upon underwriting and claims guidelines. Everspan will conduct periodic reviews of loss experience, rate levels, reserves and the overall financial health of the MGA/U and TPA and hold monthly underwriting meetings with both the MGA/U and TPA. Underwriting and claims data is provided by the MGA/Us and TPAs monthly. Additionally, Everspan conducts underwriting, claims and accounting audits, generally on-site, at least once a year for MGA/U and TPA partners which administer a material amount of Everspan's business. Everspan maintains the right to terminate relationships with its MGA/Us and TPAs. Reasons to terminate a relationship include an inability to produce targeted underwriting results, writing exposures outside of agreed upon risk tolerances, delinquency in meeting reporting requirements, a change of strategic direction, or failure to meet collateral or other commitments to Everspan.

Ratings:

Everspan carriers have an AM Best FSR of 'A-' (Excellent) and Financial Strength Category of Class VIII. Risk is shared among the Everspan carriers via a reinsurance agreement and an intercompany pooling agreement (the "Everspan Pool"). We view this rating and financial size category as a competitive advantage in the marketplace. Ratings are an important factor in assessing Everspan’s competitive position, operation capabilities and risk management in the insurance industry.

Insurance Distribution

Ambac's Insurance Distribution business, Cirrata Group ("Cirrata"), has a strategy to build a diversified portfolio of MGA/Us covering various P&C products. Ambac plans to grow the Insurance Distribution business using several strategies, including (i) organic growth, (ii) additional acquisitions and/or partnerships, and (iii) hiring experienced underwriting teams to incubate start-up MGA/Us. Key criteria include a track record of profitability and a seasoned management team. Insurance underwritten through Ambac's MGA/Us may utilize Everspan as an insurance carrier, but will not be required to do so, depending on strategic and operational considerations. The Insurance Distribution business derives its revenues from commissions, fees, and other non-risk bearing means of compensation. For the years ended December 31, 2022 and 2021, Insurance Distribution generated gross commission revenue of $31 million and $26 million, respectively.

The following table sets forth our Premiums Placed by line of business:

($ in millions) Year ended December 31,	2022	2021
Premiums placed by line of business:		
Employee stop loss	$ 72	$ 71
Limited and Short-term medical	48	45
Commercial auto	11	—
Other	4	2
Premiums placed	**$ 135**	**$ 117**

Cirrata's portfolio at December 31, 2022 includes the following entities:

Xchange — On December 31, 2020, Ambac acquired a controlling interest in Xchange. Xchange operates through specialty producers in accident and health ("A&H") sectors across the U.S. which are typically not targeted by large direct writers and to whom Xchange can provide customized offerings. Xchange conducts business through approximately ten insurance carriers and dozens of agents and other distributors.

Xchange's main products for which it is delegated underwriting authority by insurance carriers include:

Employer Stop Loss ("ESL") **—** provides protection for self-insured employers by serving as a reimbursement mechanism for catastrophic claims, both specific and in aggregate exceeding pre-determined levels.

Limited Medical ("LM") **—** designed for those not covered by traditional Affordable Care Act medical programs and sold primarily through affinity groups, providing a variety of medically related benefits such as inpatient hospital stays, diagnostic services or physician visits.

Short-term Medical ("STM") — sold primarily through affinity groups, providing non Affordable Care Act comprehensive medical coverage for short durations (i.e. less than one year).

Xchange Re ("MGA/U") / Distribution Re ("Captive") — in January 2023, Xchange launched two new growth initiatives; Xchange Re an A&H reinsurance MGA/U and Distribution Re a protected cell captive insurance company domiciled in Tennessee which will mainly insure high deductible medical stop loss plans. Xchange does not intend to accept or retain any risk from Distribution Re.

All Trans — Effective November 1, 2022, Ambac acquired a controlling interest in All Trans. All Trans is a full service managing general underwriter with delegated underwriting authority in commercial automobile insurance for specific "for-hire" auto classes, specifically focused on the private school bus, motor coach, and livery operators. All Trans' track record of performance has allowed the company to maintain a consist panel of insurance carriers with several of the relationships going back over 25 years.

Capacity Marine — Effective November 1, 2022, Ambac acquired a controlling interest in Capacity Marine. Capacity Marine is a wholesale and retail brokerage and reinsurance intermediary specializing in more sophisticated marine and international risk in expsoures such as ports, terminals, and stevedores.

In addition to existing MGA/Us and acquisitions, de novo MGA/U formations will be a core element of the Insurance Distribution segment's growth strategy. In 2022, Cirrata hired two business leaders with plans to launch MGA/Us in 2023.

Cirrata's businesses are compensated for their services primarily by commissions paid by insurance carriers for underwriting, structuring and/or administering polices and, in some cases for managing claims under agency agreements. Commission revenues are usually based on a percentage of the premiums paid by the insured. The businesses are also eligible to receive profit sharing contingent commissions on certain programs based on the underwriting results of the policies they write, which may cause some variability in revenue and earnings recognition.

Gross Commission revenues in 2022 were predominantly from Xchange, whose programs are generally underwritten in January and July resulting in revenue and earnings concentrations in the first and third quarters each calendar year. Given the recent acquisitions and de novo launches, this seasonality is likely to become more muted over time.

Core expenses at Cirrata include commissions the businesses pay to their independent agents / producers and compensation for their management and staff. Commission expenses are a variable cost as we pay a percentage of premiums written to the agents / producers.

Commission revenue and expense growth will be driven by the businesses' continued expansion and diversification of its products across regions, products, and carriers.

Competitive Strengths:

- ***Deep specialty domain knowledge*** — Our Insurance Distribution businesses are anchored by a deep specialty domain knowledge in their respective classes of business. This knowledge is key to generating the underwriting results necessary to maintain long-standing carrier relationships.

- ***Long standing carrier relationships*** — Our MGA/Us strive towards long and durable carrier relationships supported by a focus on underwriting profitability. P&C insurance is a cyclical industry with opportunistic players entering and exiting the business. We believe that growing multi-year carrier relationships are evidence of the value created by our MGA/U, a value which we believe should sustain through routine market cycles.
- ***Strong distribution relationships*** — Distribution relationships provide value in several ways. First, carrier partners are looking for both underwriting expertise and distribution access when working with MGA/Us. In addition the quality of distribution relationships helps in allowing our MGA/Us access to higher quality risks from the wholesale and retail agents which we believe over time will help produce better underwriting results..

Competition:

The MGA/U insurance sector is highly competitive, and firms actively compete with Cirrata's businesses for customers and insurance carrier capacity.

- The ESL market is increasing in size as large companies continue to transition from fully insured to self-funded. As the market size increases, capital is flowing into the market, but prices and margins remain stable. Blue Cross, UnitedHealth, CIGNA and Aetna are the largest writers. Competition also comes from large direct writers such as Tokio Marine, HCC and Sun Life as well as smaller carriers such as Gerber Life writing through other MGA/U firms.
- For LM and STM, overall market conditions remain stable. The overall market is large as entrepreneurs and the unemployed seek options for individual insurance. Competition for Xchange's business comes from both direct carriers and other intermediaries and, depending on the product, may include Blue Cross, UnitedHealth, CIGNA, Aetna, Tokio Marine, Houston Casualty Company, Sun Life, United Health, Axis, Chubb, and National General.
- In the commercial auto "for-hire" classes All Trans competes with a variety of carriers both national and regional. Overall, carriers have been cutting back on their participation and or capacity in commercial auto due to poor underwriting performance, which has benefited All Trans which is focused on narrower niche classes of risk within the larger commercial auto sector. This competitive environment has allowed All Trans to price properly and provide strong underwriting results. All Trans competes with Lancer insurance, National Interstate, Utica, RLI and various other MGA/U companies.

ENTERPRISE RISK MANAGEMENT

The Company's policies and procedures relating to risk assessment and risk management are overseen by its Board of Directors. The Board of Directors takes an enterprise-wide approach to risk management oversight that is designed to support the Company's business plans at a level of risk considered by the Board to be reasonable. A fundamental part of risk assessment and risk management is not only understanding the risks the Company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the Company. The Board of Directors periodically reviews the Company's business plan, factoring risk management into account. It also approves the Company's risk appetite statements, which articulate the Company's tolerance for certain risks and describes the general types of risk that the Company accepts, within certain parameters, or attempts to avoid.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the Board also have responsibilities related to risk assessment and risk management, and management has responsibility for managing the risks to which the Company is exposed and reporting on such matters to the Board of Directors and applicable Board committees.

- The Audit Committee oversees the management of risks associated with the integrity of Ambac’s financial statements and its compliance with legal and regulatory requirements. In addition, the Audit Committee discusses policies with respect to risk assessment and risk management, including major financial risk exposures and the steps management has taken to monitor and control such exposures. The Audit Committee reviews with management, internal auditors and independent auditors Ambac's critical accounting policies, Ambac's system of internal controls over financial reporting and the quality and appropriateness of disclosure and content in the financial statements and other external financial communications.
- The Compensation Committee oversees the management of risk primarily associated with our ability to attract, motivate and retain quality talent (particularly executive talent) and with setting financial incentives that do not motivate undue risk-taking.
- The Governance and Nominating Committee oversees the management of risk primarily associated with Ambac’s ability to attract and retain quality directors, Ambac’s corporate governance programs and practices and our compliance therewith, including integration of ESG and sustainability policies, practices and goals into the Company's business strategy and decision making. Additionally, the Governance and Nominating Committee oversees the processes for evaluation of the performance of the Board of Directors and its committees each year and considers risk management effectiveness as part of its evaluation. This committee also reviews succession plans for Ambac's executive officers, including the Chief Executive Officer. The Governance and Nominating Committee also performs oversight of the business ethics and compliance program, and reviews compliance with Ambac’s Code of Business Conduct.
- The Strategy Committee oversees the management of risk and risk appetite primarily with respect to strategic plans and initiatives.

The Board of Directors receives quarterly updates from Board committees and the Board provides guidance to individual committee activities, as appropriate.

In order to assist the Board of Directors in overseeing Ambac's risk management, Ambac uses enterprise risk management, a company-wide process that involves the Board of Directors, management and other personnel in an integrated effort to identify, assess and manage a broad range of risks (e.g., credit, financial, legal, liquidity, market, model, operational, regulatory, reputational and strategic), that may affect the Company's ability to execute on its corporate strategy and fulfill its business objectives. The Enterprise Risk Committee ("ERC"), which is a management committee, is comprised of executive and senior level management responsible for assisting in the management of the Company's risks on an individual and aggregate basis. The ERC produces the relevant risk management information for executive and senior management and the Board of Directors.

Ambac management has established other management committees to assist in managing the risks throughout the enterprise. These committees will meet monthly or as needed on an ad hoc basis.

- The ***AAC Risk Committee's*** objective is to provide oversight of the key risk remediation issues impacting AAC. The purview of the committee is to review and approve risk remediation activities for the financial guarantee insured portfolio. Additionally, the Risk Committee will provide oversight and review new risk remediation structures or approaches in connection with risk remediation plans or anticipated transactions. Members of the Risk Committee include the CEO, Head of Risk Management, CFO and senior managers from throughout risk, corporate services, operations, legal and finance.
- The ***Disclosure Committee's*** objective is to assist the CEO and CFO in their responsibilities to design, establish, maintain and evaluate the effectiveness of disclosure controls and procedures. Members of the Disclosure Committee include the CEO, CFO, Chief Accounting Officer, General Counsel, Chief Operating Officer, Head of Risk Management and senior managers from finance and legal.
- The ***AAC Reserve Committee's*** objective is to provide oversight and review of the reserving process at AAC and AUK. The committee reviews and discusses, on at least a quarterly basis, reserve-related developments and key metrics and assumptions, including, but not limited to, credit, economic, interest rates, legal and regulatory. The committee gives approval to proceed with the development of loss estimates and related projections utilized in developing the consolidated quarterly reserves of the legacy financial guarantee business. Members of the Reserve Committee include the CEO, Head of Risk Management, CFO, General Counsel and senior managers throughout risk, legal and finance.
- Everspan established an ***Underwriting Risk Committee*** in 2021 to provide oversight of the active underwriting operations of Everspan, develop underwriting parameters, and assist the Boards of the Everspan companies in overseeing the integrity and effectiveness of Everspan's underwriting risk management framework. Members of the committee include the CEO, key members of Everspan management and other senior managers or advisors of Ambac. Additionally, a Reinsurance and Program Administrator Credit Risk sub-committee was established at the direction of the Underwriting Risk Committee to assist with the management of credit risk emanating from ceded reinsurance and program administrators.

AVAILABLE INFORMATION

Our Internet address is www.ambac.com. We make available through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission. Our Investor Relations Department can be contacted at Ambac Financial Group, Inc., One World Trade Center, 41st Floor, New York, New York 10007, Attn: Investor Relations, telephone: 212-208-3222 email: ir@ambac.com. The reference to our website address does not constitute inclusion or incorporation by reference of the information contained on our website in this Annual Report on Form 10-K or other filings with the SEC and the information contained on our website is not part of this document.

INSURANCE REGULATORY MATTERS AND OTHER RESTRICTIONS

Regulatory Matters

United States

AAC is domiciled in the state of Wisconsin and is therefore subject to the insurance laws and regulations of the State of Wisconsin and regulated by the Wisconsin Office of the Commissioner of Insurance ("OCI") as a domestic insurer. Everspan Indemnity and its wholly owned subsidiary, Everspan Insurance Company ("Everspan Insurance") are domiciled in the state of Arizona and are therefore subject to the insurance laws and regulations of the State of Arizona and regulated by the Arizona Department of Insurance and Financial Institutions as domestic insurers. The subsidiaries of Everspan Insurance are domiciled in various States and are therefore subject to the insurance laws and regulations of their respective domiciliary States and regulated by the insurance departments of those States as domestic insurers. AAC, Everspan Insurance and its subsidiaries are also subject to the insurance laws and regulations of the other jurisdictions in which they are licensed and operate as foreign insurers in such jurisdictions. See Note 9. Insurance Regulatory Restrictions to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further information on regulatory restrictions.

Pursuant to the terms of the Settlement Agreement and the Stipulation and Order, AAC must seek prior approval by OCI of certain corporate actions. The Settlement Agreement and Stipulation and Order include covenants which restrict the operations of AAC. The Settlement Agreement will remain in force until the surplus notes issued thereunder have been redeemed, repurchased or repaid in full. The Stipulation and Order will remain in force for so long as OCI determines it to be necessary. Certain of the restrictions in the Settlement

Agreement may be waived with the approval of the OCI and/or the requisite percentage of holders of AAC's surplus notes. OCI's Runoff Capital Framework is not yet complete and therefore we are not able to predict the results of such and what it may mean for our Legacy Financial Guarantee Strategy, particularly as it relates to deleveraging AAC and distributing capital to AFG.

The Insurance Distribution businesses, branded as Cirrata, like other MGA/Us, program administrators and brokers, may be subject to licensing requirements and regulation by insurance regulators in various states in which they conduct business.

Cybersecurity and Privacy Regulation

Ambac and its subsidiaries are subject to various U.S. Federal and state laws and regulations with respect to privacy, data protection and cybersecurity that require financial institutions, including insurance companies and agencies, to safeguard personal and other sensitive information, and may provide for notice of their practices relating to the collection, disclosure and processing of personal information, disclosure of cybersecurity risk management practices, reporting of cybersecurity incidents, and implementation of governance practices. For example, the National Association of Insurance Commissioners (“NAIC”) adopted the NAIC Insurance Data Security Model Law (#668) (“NAIC Model Law”) that creates rules for insurers and other covered entities addressing data security and the investigation and notification of cybersecurity events involving unauthorized access to, or the misuse of, certain nonpublic information. This includes maintaining an information security program based on ongoing risk assessment, overseeing third-party service providers, investigating data breaches and notifying regulators of a cybersecurity event. Legislation based on the NAIC Model Law has been enacted in several states and may be enacted in other states. Certain of our subsidiaries, as insurance companies and agencies licensed in the State of New York, are also required to comply with the New York Department of Financial Services (“NYDFS”) cybersecurity regulation, which establishes requirements for covered financial services institutions to implement a cybersecurity program designed to protect the confidentiality, integrity and availability of information systems of regulated entities, and information stored on those systems. The regulation imposes a governance framework for cybersecurity program, risk based minimum standards for technology systems for data protection, monitoring and testing, third-party service provider reviews, security incident response and reporting to NYDFS of certain security incidents, annual certifications of regulatory compliance to NYDFS, and other requirements. Amendments proposed to the NYDFS cybersecurity regulation will impose additional security requirements and new governance obligations.

The California Consumer Privacy Act, went into effect in January 2020, and provides additional privacy rights for California residents, and in November 2020, California further expanded privacy rights for California residents by enacting the California Privacy Rights Act, which became effective January 1, 2023. Colorado, Connecticut, Utah and Virginia have enacted similar privacy laws. We anticipate federal and state regulators to continue to enact legislation related to privacy and cybersecurity, which may require additional compliance investments and changes to policies, procedures and operations.

The federal Health Insurance Portability and Accountability Act of 1996 and its implementing regulations (“HIPAA”) impose minimum standards on covered entities, such as health insurers, for the privacy and security of protected health information (“PHI”). The Health Information Technology for Economic and Clinical Health Act, enacted in 2009 (“HITECH”) provides for the extension of certain privacy and security provisions of HIPAA to business associates of covered entities that handle electronic PHI. Xchange specializes in accident and health insurance and is a business associate of the health insurers carriers it partners with, making it subject to compliance with the provisions of HITECH and HIPAA applicable to business associates.

United Kingdom

The Prudential Regulatory Authority ("PRA") and Financial Conduct Authority ("FCA") (and their predecessor regulator the Financial Services Authority (“FSA”)) exercise significant oversight over Ambac UK. In 2009, the FSA limited Ambac UK’s license to undertaking only run-off related activity. As such, Ambac UK is authorized to run-off its insurance portfolio in the United Kingdom. See *Note 9. Insurance Regulatory Restrictions* to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further information on regulatory restrictions.

Regulation of Change in Control

Under applicable insurance law, any acquisition of control of AFG, or any other direct or indirect acquisition of control of AAC or one or more members of the Everspan, requires the prior approval (or non-disapproval) of the domiciliary regulator of the acquired company (or, in the case of AFG, the domiciliary regulators of AAC and each member of Everspan). “Control” is generally defined as the direct or indirect power to direct or cause the direction of the management and policies of a person. Any purchaser of 10% or more of the outstanding voting stock of a corporation is presumed to have acquired control of that corporation and its subsidiaries unless the applicable insurance regulator, upon application, determines otherwise. For purposes of this test, AFG believes that a holder of common stock having the right to cast 10% or more of the votes which may be cast by the holders of all shares of common stock of AFG would be presumably deemed to have control of AAC, Everspan Indemnity, Everspan Insurance and its subsidiaries within the meaning of applicable insurance laws and regulations, although insurance regulators may in their discretion deem control not to exist where, for example, control is disclaimed by a passive investor. The United Kingdom has similar requirements applicable in respect of AFG, as the ultimate holding company of Ambac UK.

Dividend Restrictions, Including Contractual Restrictions

Due to contractual and regulatory restrictions, AAC has been unable to pay ordinary dividends to AFG since 2008 and will be unable to pay ordinary dividends in 2023. AAC’s ability to pay dividends is restricted by the Settlement Agreement, the Stipulation and Order and the terms of its Auction Market Preferred Shares ("AMPS"), and may be affected by OCI's Runoff Capital Framework when implemented. See *Note 9. Insurance Regulatory Restrictions* to the Consolidated Financial

Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further information on dividends. As a result of these restrictions, substantial uncertainty remains as to AAC's ability to pay dividends to AFG and the timing of any such dividends.

Pursuant to the Settlement Agreement, AAC may not make any “Restricted Payment” (which includes dividends from AAC to AFG) in excess of $5 million in the aggregate per annum, other than Restricted Payments from AAC to AFG in an amount up to $7.5 million per annum solely to pay operating expenses of AFG. Concurrent with making any such Restricted Payment, a pro rata amount of AAC's surplus notes would also need to be redeemed at par.

The Stipulation and Order requires OCI approval for the payment of any dividend or distribution on the common stock of AAC.

Under the terms of AAC’s AMPS, dividends may not be paid on the common stock of AAC unless all accrued and unpaid dividends on the AMPS for the then current dividend period have been paid, provided that dividends on the common stock may be made at all times for the purpose of, and only in such amounts as are necessary for, enabling AFG (i) to service its indebtedness for borrowed money as such payments become due or (ii) to pay its operating expenses. If dividends are paid on the common stock as provided in the prior sentence, dividends on the AMPS become cumulative until the date that all accumulated and unpaid dividends have been paid on the AMPS.

While the UK insurance regulatory laws impose no statutory restrictions on an insurer’s ability to declare a dividend, the PRA’s and FCA’s rules governing capital extraction by insurance firms in run off require Ambac UK to consider its future capital requirements over a 3 to 5 year period in both base case and downside stress scenarios before declaring a dividend. This typically means that insurers are required to hold a buffer above regulatory capital requirements before dividends can be considered. Further, the FSA amended Ambac UK’s license in 2010 such that the PRA must specifically approve any transfer of value and/or assets from Ambac UK to AAC or any other Ambac group company, other than in respect of certain disclosed contracts between the two parties (such as in respect of a management services agreement between AAC and Ambac UK). As a result, Ambac UK is not expected to pay any dividends to AAC in the near future.

Everspan Indemnity, Everspan Insurance and its subsidiaries are also subject to regulatory restrictions on their ability to pay dividends. Everspan Indemnity and Everspan Insurance do not have sufficient earned surplus at this time to pay ordinary dividends under the insurance laws and regulations of Arizona. Furthermore, certain subsidiaries of Everspan Insurance are restricted from paying dividends to Everspan Insurance until 2025 or later, unless otherwise approved by the domestic regulator of the relevant subsidiary, pursuant to the regulatory orders approving the acquisition of those subsidiaries.

Ambac's MGA/U subsidiaries are not restricted from paying dividends to their owners, including Cirrata Group, LLC ("Cirrata"), which is 100% owned by AFG. Xchange Benefits has regularly made quarterly distributions to Cirrata. It is expected that All Trans and Capacity Marine will also make regular distributions to their owners, including Cirrata. Cirrata's newly formed MGA/Us are not expected to make regular distributions to their owners until they become profitable.

INVESTMENTS AND INVESTMENT POLICY

As of December 31, 2022, the consolidated non-VIE investments of Ambac had an aggregate fair value of approximately $2,593 million. Investments are primarily managed by third party investment management firms overseen by internal investment professionals. All investments are made in accordance with the general objectives, policies, and guidelines for investments approved by the Board of Directors of the applicable subsidiary. These policies and guidelines include liquidity, credit quality, diversification and duration objectives and are periodically reviewed and revised as appropriate. Additionally, senior credit personnel monitor the portfolio on a continuous basis.

As of December 31, 2022, the AAC and Everspan non-VIE investment portfolios had an aggregate fair value of approximately $1,816 million. The investment objective is to achieve the highest risk-adjusted after-tax return on a diversified investment portfolio consistent with the respective company's risk tolerance while employing active asset/liability management practices to satisfy all operating and strategic liquidity needs. In addition to internal investment policies and guidelines, the investment portfolio of each company is subject to limits on the types and quality of investments imposed by applicable insurance laws and regulations of the jurisdictions in which it is licensed. The Board of Directors of each respective subsidiary approves any changes to the respective investment policies. Within its guidelines, AAC opportunistically purchases and sells AAC and Ambac UK insured securities given their relative risk/reward characteristics. In certain instances, AAC may exceed its established credit rating or concentration limits with appropriate regulatory approval. Changes to AAC’s investment policies are subject to approval by OCI pursuant to covenants made by AAC in the Settlement Agreement and the Stipulation and Order, and may be affected by OCI's Runoff Capital Framework as discussed above in *Insurance Regulatory Matters and Other Restrictions*. See Note 1. Background and Business Description to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for more information. Such requirements could adversely impact the performance of the investment portfolio.

As of December 31, 2022, the non-VIE Ambac UK investment portfolio had an aggregate fair value of approximately $574 million. Ambac UK’s investment policy is designed with the primary objectives of ensuring a reasonable risk-adjusted return over the remaining runoff of the insured portfolio and that Ambac UK is able to meet its financial obligations as they fall due, in particular with respect to policy holder claims. Ambac UK’s investment portfolio is primarily diversified fixed maturity securities and pooled investment funds. The portfolio is subject to internal investment guidelines and may be subject to limits on types and quality of investments imposed by its regulator. The Board of Directors of Ambac UK approves any changes or exceptions to Ambac UK’s investment policy.

As of December 31, 2022, the non-VIE AFG (parent company only, excluding investments in subsidiaries) investment portfolio had an aggregate fair value of approximately $203 million. The primary investment objective is to preserve capital for strategic uses while maximizing income. The investment portfolio is subject to internal investment guidelines. Such guidelines set forth minimum credit rating requirements and credit risk concentration limits.

The following table provide certain information concerning the consolidated investments of Ambac:

	2022		2021	
Investment Category ($ in millions) December 31,	**Carrying Value [2]**	**Weighted Average Yield [1]**	**Carrying Value [2]**	**Weighted Average Yield[1]**
Municipal obligations	$ 43	4.6 %	$ 340	5.3 %
Corporate securities	598	2.6 %	613	2.2 %
Foreign obligations	76	1.5 %	87	0.5 %
U.S. government obligations	65	1.9 %	60	1.0 %
Residential mortgage-backed securities	238	8.3 %	252	7.3 %
Commercial mortgage-backed securities	15	5.5 %	—	— %
Asset-backed securities	361	7.0 %	393	5.0 %
Short-term investments	572	4.0 %	519	— %
Total fixed maturity-available-for-sale	1,966	4.4 %	2,265	2.9 %
Fixed maturity securities - trading [3]	59	— %	—	— %
Other investments [4]	568	— %	690	— %
Total	**$ 2,593**	**4.4 %**	**$ 2,955**	**2.9 %**

(1) Yields are stated on a pre-tax basis, based on average amortized cost for both long and short term fixed-maturity investments.

(2) Includes investments guaranteed by AAC and Ambac UK ("Ambac insured"). Refer to Note 5. Investments of the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further discussion of Ambac insured securities held in the investment portfolio.

(3) Fixed maturity securities held for trading are Puerto Rico municipal obligations received by AAC in connection with the PROMESA restructuring process as described further in Note 8. Insurance Contracts of the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K.

(4) Other investments consist primarily of interests in pooled investment funds that are either classified as trading securities or are reported under the equity method. Refer to Note 5. Investments of the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further information about Other investments.

EMPLOYEES

As of December 31, 2022, Ambac had 145 employees in the United States and 10 employees in the United Kingdom. Our 2022 voluntary turnover rate was approximately 7.1%. Ambac considers its employee relations to be satisfactory.

Ambac's focus has been on identifying and retaining key talent through individual development programs following skills assessments. Ambac's succession planning has identified internal candidates that could fill executive management and senior management positions as the need arises. The Company has established a senior advisory team to work with, and advise, executive management on key initiatives, and has invested in both personal and professional growth programs to identify and prepare individuals for promotion within the Company. The Company continues to rely on compensation components (such as salary, long-term incentive plan awards, deferred cash awards and short-term incentive plan awards) to support employee retention and discourage excessive risk taking. The Company incorporates performance metrics as part of the annual short-term incentive bonus offering with increased bonus potential for exceptional results. We utilize third-party benchmark data to establish market-based compensation levels. We believe that our current compensation and incentive levels reflect high performance expectations as part of our merit pay philosophy. The targeted use of long-term equity incentive plan awards for key talent is an important element of Ambac's long-term retention strategy.

Item 1A. Risk Factors ($ in millions)

Capitalized terms used but not defined in this section shall have the meanings ascribed thereto in Part I, Item 1 in this Annual Report on Form 10-K or in Note 1. Background and Business Description to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K unless otherwise indicated.

Our risk factors are organized in the following sections

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Risks Related to AFG Common Shares

The price per share of AFG's common stock may be subject to a high degree of volatility, including significant price declines.

Ambac's legacy financial guarantee business is in run-off and faces significant risks and uncertainties described elsewhere in Part I, Item 1A. Risk Factors. In addition, Ambac's Specialty Property and Casualty Insurance and Insurance Distribution businesses are new and relatively small and therefore are also subject to uncertainties described elsewhere in Part I, Item 1A. Risk Factors. Although AFG's common stock is listed on the New York Stock Exchange ("NYSE"), there can be no assurance as to the liquidity of the trading market or the price at which such shares can be sold. The price of the shares may decline substantially in response to a number of events or circumstances, including but not limited to:

- adverse developments in our financial condition or results of operations;
- changes in the actual or perceived risk within our Legacy Financial Guarantee ("LFG") insured portfolio;
- changes to regulatory status;
- changes in investors' or analysts' valuation measures for our stock;

- market perceptions of our success, or lack thereof, in pursuing and implementing our Specialty Property and Casualty Insurance and Insurance Distribution businesses and our new business strategy more generally;
- the impact or perceived impact of any acquisition, disposition or other strategic transaction, including entry into a new line of business, on the value or long-term prospects of the Company;
- adverse developments in the industries and markets in which we operate, including the property and casualty insurance, underwriting and brokerage industries and the fixed income and equity capital markets;
- adverse market and/or economic conditions, such as those caused by a recession or inflation, which increase our risk of loss on insurance polices and depress the value and/or liquidity of our investments and other assets; and
- results and actions of other participants in our industries.

The price of AFG's shares may also be affected by the risks described below, including risks associated with AAC's ability to deliver value to AFG. Investments in AFG's common stock may be subject to a high degree of volatility.

AFG may not be able to realize value from its LFG businesses.

The value of AFG's common stock is partially dependent upon realizing residual value from AAC by means of a full or partial sale and/or the receipt of dividends and the receipt of payments pursuant to the intercompany expense sharing and cost allocation agreement (the "Cost Allocation Agreement"). There can be no assurance that AFG will be able to realize residual value through a sale of or receipt of dividends from AAC, which is in run-off. AFG's ability to realize residual value from AAC will depend upon, amongst other considerations, AAC's ability to satisfy all of its obligations that are senior to AFG's equity interests, including obligations to policyholders, surplus note holders and preferred stock holders. AAC's ability to satisfy all of its obligations that are senior to AFG's equity depends on a number of considerations, including its ability to partially or fully recover losses previously paid; avoid material losses from litigation, mitigate losses from its insured portfolio, which is subject to significant risks and uncertainties, including as a result of varying potential perceptions of the value of AAC's guarantees and securities; realize material value from its investment in Ambac UK; and repay its indebtedness in a timely manner such that accruing interest costs are manageable. Payments of principal and interest on AAC's surplus notes are subject to the express approval of the Wisconsin OCI.

Increased loss development in the LFG insured portfolio or significant losses from litigation or other events or circumstances may prompt OCI to determine that it is in the best interests of policyholders to initiate rehabilitation proceedings with respect to AAC or to issue supervisory orders that impose restrictions on AAC, either preemptively or in response to any such event or circumstance.

If OCI were to decide to initiate rehabilitation proceedings with respect to AAC, adverse consequences may result, including, without limitation and absent enforceable protective injunctive relief, the assertion of damages by counterparties, the acceleration of losses based on early termination triggers, and the loss of control rights in insured transactions. Any such consequences may reduce or eliminate any residual value of AAC for AFG. Additionally, the rehabilitator would assume control of all of AAC's assets and management of AAC. In exercising control, the rehabilitator would act solely for the benefit of policyholders, which may result in material adverse consequences for our security holders. Similar risks would arise if Ambac UK were to become subject to a proceeding to protect the interests of its policyholders, in which case AAC's ability to realize value from Ambac UK (and consequently AFG's ability to realize value from AAC) would diminish. If OCI were to issue supervisory orders imposing restrictions on AAC, AAC's ability to satisfy its obligations to policyholders or creditors, or its ability to deliver value to AFG, may be significantly constrained.

Due to the above considerations, as well as applicable legal and contractual restrictions described elsewhere herein, substantial uncertainty remains as to AAC's ability to pay dividends to AFG and the timing of any such dividends. Furthermore, the payments to be made to AFG under the intercompany Cost Allocation Agreement are subject to, in certain instances, OCI approval, making the amount and timing of such payments uncertain.

Ambac is planning to further develop and expand its Specialty Property and Casualty Insurance and Insurance Distribution businesses; however, such plans may not be realized, or if realized, may not create value and may negatively impact our financial results.

The value of AFG's common stock depends in part upon the ability of Ambac to generate earnings apart from AAC. Ambac is planning to further develop and expand its Specialty Property and Casualty Insurance business and Insurance Distribution business. Such plans may involve additional acquisitions of assets or existing businesses and the development of businesses through new or existing subsidiaries. Currently, it is not possible to fully predict the future prospects or other characteristics of such businesses. While we expect to conduct business, financial and legal due diligence in connection with the evaluation of any future business or acquisition opportunities, there can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us. Efforts to pursue certain business opportunities may be unsuccessful or require significant financial or other resources, which could have a negative impact on our operating results and financial condition. To implement our growth strategy, we must be able to meet our capital needs, expand our systems and our internal controls effectively, allocate our human resources optimally, identify and hire qualified employees and effectively integrate any acquisitions we make in our effort to achieve growth. No assurance can be given that Ambac will successfully execute its plans for new business, generate any earnings or value from new businesses or be able to successfully integrate any such business into our current operating structure. The failure to manage our growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Our business performance and growth plans could be negatively affected if we are not able to gain internal efficiencies through

the application of technology across our businesses or effectively apply technology in facilitating integrated operations and driving value through innovation and technology-based solutions. Conversely, investments in internal systems or innovative product offerings may fail to yield sufficient return to cover their investments.

Our ability to successfully manage ongoing organizational changes could impact our business results, where the level of costs and/or disruption may be significant and change over time, and the benefits may be less than we originally expect.

Should changes in Ambac's circumstances or financial condition or in the political, economic and/or legal environment occur, there can be no assurance that all or any part of our strategy and/or initiatives will not be abandoned or amended to take account of such changes. Any such adjustment or abandonment may have a material adverse effect on our securities.

Risks Related to the Company's Business

Loss reserves for the LFG business may not be adequate to cover potential losses, and changes in loss reserves may result in further volatility of net income and comprehensive income.

LFG loss reserves are established when management has observed credit deterioration in its insured credits. Loss reserves established with respect to our LFG insurance policies issued to beneficiaries, including VIEs for which we do not consolidate the VIE, are based upon estimates and judgments by management, including estimates and judgments with respect to the probability of default; the severity of loss upon default; management's ability to execute policy commutations, restructurings and other loss mitigation strategies; and estimated subrogation and other loss recoveries. The objective of establishing loss reserve estimates is not to, and our loss reserves do not, reflect the worst possible outcomes. While our reserving scenarios reflect a wide range of possible outcomes (on a probability weighted basis), reflecting the significant uncertainty regarding future developments and outcomes, our loss reserves may change materially based on future developments. As a result of inherent uncertainties in the estimates and judgments made to determine loss reserves, there can be no assurance that either the actual losses in our financial guarantee insurance portfolio will not exceed such reserves or that our reserves will not materially change over time as circumstances, our assumptions, or our models change.

Catastrophic public health or environmental events, like the COVID-19 pandemic or those associated with natural disasters, that result in material disruption of economic activity, loss of human life or significant property damage, can have a materially negative impact on the financial performance of issuers of obligations insured by AAC and Ambac UK. Such stresses could result in liquidity claims or permanent losses.

Public health crises and/or natural disasters can cause economic and financial disruptions that may adversely affect, our business and results of operations. In particular, Ambac insures the obligations of a number of issuers that may be substantially affected by the prolonged economic effects of pandemics (such as COVID-19), other public health crises or environmental events, and natural disasters such as municipalities and securitizations, including those backed by consumer loans such as mortgages or student loans. Municipalities and their authorities, agencies and instrumentalities, especially those dependent on narrow revenue streams flowing from particular economic activities, such as sales taxes, may suffer disproportionately, from depressed revenues due to the lingering negative economic impact brought about by such events. Notably, in response to the COVID-19 pandemic, the U.S. Federal government and State governments and their agencies adopted policies or guidelines to provide emergency relief to consumers, such as limiting debt collection efforts, encouraging or requiring extensions, modifications or forbearance with respect to certain loans and fees, and establishing foreclosure and eviction moratoriums. This or similar types of emergency responses to future events may cause Ambac to experience higher losses in its insured portfolio.

Future environmental or other public health events and natural disasters can result in significant potential liabilities for issuers, that increase the potential for default on obligations insured by AAC and Ambac UK.

The ultimate impact of a catastrophic public health event or a catastrophic environmental event on issuers and their obligations, and the economy in general, is by its very nature uncertain, and will be determined by a number of factors including, but not limited to, the depth and duration of a particular crisis; the extent to which affected consumers, businesses, municipal entities and other debtors or sources of revenues recover from depressed economic circumstances, and the timelines for such recoveries; the level and efficacy of government intervention or support for municipal entities, consumers, businesses and the financial markets via emergency relief measures; the availability of insurance; the availability of cost-effective financing; management of public health crisis remediation efforts; the effectiveness of other public or private crisis management efforts, mitigation measures or support; and certain socio-economic variables, such as unemployment levels. Consequently, if issuers affected by such catastrophic events do not have sufficient resources or financial flexibility, receive adequate measures of support or realize the appropriate level of economic recovery, their ultimate ability to service the debt insured by AAC and Ambac UK could be materially impaired and AAC and Ambac UK could suffer material permanent losses and therefore may have an adverse effect on our results of operations and financial condition.

AAC and Ambac UK are subject to credit and other risks in their insured portfolios; we are also subject to risks associated with adverse selection as our insured portfolios run off.

Performance of our insured FG transactions, including (but not limited to) those backed by municipal, utility, sovereign/sub-sovereign, military housing and consumer risk, can be adversely affected by general economic conditions, such as recession, federal budget cuts, decisions of governmental authorities about utilizing assets or facilities, inflation, unemployment levels, underemployment, home price depreciation, increasing foreclosure rates, unavailability of consumer credit, mortgage product attributes, borrower and/or originator fraud or

misrepresentations, and asset servicer performance and financial health.

While deterioration in the performance of transactions insured by AAC and Ambac UK, including mortgage and student loan securitizations may occur, the timing, extent and duration of any future deterioration of the credit markets is unknown, as is the impact on potential claim payments and ultimate losses on the securities within our insured FG portfolio. In addition, there can be no assurance that any governmental or private sector initiatives designed to address such credit deterioration in the markets will be successful or inure to the benefit of the transactions we insure. For example, servicer settlements with governmental authorities regarding foreclosure or servicing irregularities are generally designed to protect borrowers and may increase losses on securities we insure. In particular, the student loan industry and, specifically, trusts with securities insured by AAC have been subject to heightened Consumer Finance Protection Bureau ("CFPB") scrutiny and enforcement action over servicing and collections practices and potential chain of title issues and, consequently, any settlements, orders or penalties resulting from CFPB actions, or any failure on the part of servicers or other parties asserting claims against delinquent borrowers to establish title to the loans, could lead to increased losses on securities we insure.

Issuers of public finance obligations insured by AAC have reported, or may report, budget shortfalls, significantly underfunded pensions or other fiscal stresses that imperil their ability to pay debt service or will require them to significantly raise taxes and/or cut spending in order to satisfy their obligations. Furthermore, over time, the consequences of poor public policy decisions by state and local governments or increases in tax burdens can impact demographic trends, such as out-migration from one state or municipality to another, that may negatively impact the creditworthiness of related issuers. Some issuers of obligations insured by AAC have declared payment moratoriums, defaulted or filed for bankruptcy or similar debt adjustment proceedings, raising concerns about their ultimate ability or willingness to service the debt insured by AAC and AAC's ability to recover claims paid in the future. If the issuers of the obligations in the public finance portfolio are unable to raise taxes, cut spending, or receive federal or state assistance, or if such issuers default or file for bankruptcy under Chapter 9 or for similar relief under other laws that allow for the adjustment of debts, AAC may experience liquidity claims and/or ultimate losses on those obligations, which could adversely affect the Company's business, financial condition and results of operations. Issuers in Chapter 9 or similar proceedings may obtain judicial rulings and orders that impair creditors' rights or their ability to collect on amounts owed. In certain cases, judicial decisions may be contrary to AAC's expectations or understanding of the law or its rights thereunder, which may lead to worse outcomes in Chapter 9 or similar proceedings than anticipated at the outset.

As the runoff of the insured portfolio continues, the proportion of exposures we rate as below investment grade relative to the aggregate insured portfolio is likely to increase, leaving the portfolio increasingly concentrated in higher risk exposures and heightening risks associated with large single risk exposures to particular issuers, losses caused by catastrophic events (including public health crises, terrorist acts and natural disasters), and losses in respect of different, but correlated, credit exposures.These risks may result in greater volatility or have adverse effects on the Company's results from operations and on our financial condition.

We may not be able to effectively reduce LFG insured exposures; measures taken to reduce risks may have an adverse effect on the Company's operating results or financial position.

In pursuing the objective of improving our financial position, we are seeking to terminate, commute, reinsure or otherwise reduce FG insured exposures. De-risking transactions may not be feasible or economically viable. We cannot provide any assurance that any such transaction will be consummated in the future, or if it is, as to the timing, terms or conditions of any such transaction. Even if we consummate one or more of such transactions, doing so may ultimately prove to be unsuccessful in creating value for any or all of our stakeholders and may negatively impact our operating results or financial position.

Our credit risk management policies and practices may not adequately identify significant risks.

As described in Part I, Item 1, “Risk Management” in this Annual Report on Form 10-K, we have established risk management policies and practices which seek to mitigate our exposure to credit risk in our legacy financial guarantee insured portfolio. Ongoing surveillance of credit risks in our legacy financial guarantee insured portfolio is an important component of our risk management process. These policies and practices in the past have not insulated us from risks that were unforeseen and which had unanticipated loss severity, and such policies and practices may not do so in the future. There can be no assurance that these policies and practices will be adequate to avoid future losses. If we are not able to identify significant risks, we may not be able to timely mitigate such risks, thereby increasing the amount of losses to which we are exposed. An inability to identify significant risks could also result in the failure to timely establish loss reserves that are sufficient in relation to such risks.

The Settlement Agreement, Stipulation and Order and potentially OCI's Runoff Capital Framework may impair AAC's ability to pursue its business strategies.

Pursuant to the terms of the Settlement Agreement and Stipulation and Order, AAC must seek prior approval by OCI of certain corporate actions. The Settlement Agreement and Stipulation and Order also include covenants that restrict the operations of AAC which (i) in the case of the Settlement Agreement, remain in force until the surplus notes that were issued pursuant to the Settlement Agreement have been redeemed, repurchased or repaid in full, and (ii) in the case of the Stipulation and Order, remain in place until the OCI decides to relax such restrictions. Certain of these restrictions may be waived with the approval of holders of surplus notes and/or OCI. If we are unable to obtain the required consents under the Settlement Agreement and/or the Stipulation and Order, AAC may not be able to execute its planned business strategies.

In addition, while OCI's Runoff Capital Framework is not complete and we cannot predict the results and implications thereof, it is possible that OCI's Runoff Capital Framework and

decisions based thereon may affect AAC's ability to reduce financial leverage at AAC or to pay dividends to AFG.

OCI has certain enforcement rights with respect to the Settlement Agreement and Stipulation and Order, and retains full discretion about the design of OCI's Runoff Capital Framework and the implications thereof. Disputes may arise over the interpretation of such agreements or instruments, the exercise or purported exercise of rights thereunder, the determinations made thereunder, or the performance of or failure or purported failure to adhere to the terms thereof. Any such dispute could have material adverse effects on AAC, and the Company more broadly, whether through litigation, administrative proceedings, supervisory orders, failure to execute transactions sought by management, interference with corporate strategies, objectives or prerogatives, inefficient decision-making or execution, forced realignment of resources, increased costs, distractions to management, strained working relationships or otherwise. Such effects would also increase the risk that OCI would seek to initiate rehabilitation proceedings or issue supervisory orders against AAC.

We use analytical models and tools to help project performance of our insured LFG obligations and our investment portfolio but actual results could differ materially from model and tool outputs and related analyses.

We rely on internally and externally developed complex financial models, including default models related to RMBS and a waterfall tool provided by a nationally recognized vendor for RMBS and student loan exposures, to project performance of our insured LFG obligations and similar securities in our investment portfolio. These models and tools assume various conditions, probability scenarios, facts and circumstances, and there can be no assurance that such models or tools accurately predict or measure the quantum of losses, loss reserves and timing of losses. Differences in the models and tools that we employ, uncertainties or flaws in these financial models and tools, or faulty assumptions inherent in these financial models and tools or those determined by management could lead to material changes in projected outcomes, and could include increased losses, loss reserves and/or credit impairments on the investment portfolio. Moreover, estimates of transaction performance depend in part on the interpretation of contracts and other bases of our legal rights. Such interpretations may prove to be incorrect or different interpretations may be employed by bond trustees and other transaction participants and, ultimately courts, which could lead to increased losses, loss reserves and/or investment impairments.

We are subject to the risk of litigation and the outcome of proceedings we are or may become involved in could have a material adverse effect on our business, operations, financial position, profitability or cash flows.

AAC is defending or otherwise involved in various lawsuits relating to its LFG business. Please see Note 20. Commitments and Contingencies to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for information on various proceedings.

It is not possible to predict the extent to which additional suits involving AFG, AAC or one or more other subsidiaries will be filed, and it is also not possible to predict the outcome of litigation. It is possible that there could be unfavorable outcomes in these or other proceedings. Management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes or of the expenses that will be incurred in connection with such lawsuits. Under some circumstances, adverse results in any such proceedings and/or the incurring of significant litigation or other expenses could be material to our business, operations, financial position, profitability or cash flows.

Everspan may be subject to disputes with policyholders regarding the scope and extent of coverage offered under Everspan's policies; be required to defend claimants in suits against its policyholders for covered liability claims; or enter into commercial disputes with its reinsurers, MGA/Us or TPAs regarding their respective contractual obligations and rights. Under some circumstances, the results of such disputes or suits may lead to liabilities beyond those which are anticipated or reserved.

Political developments may materially adversely affect our legacy financial guarantee insured portfolio.

Our insured financial guarantee exposures and our results of operations can be materially affected by political developments at the federal, state and/or local government levels. Government shutdowns, trade disputes, political turnover, judicial decisions, adverse changes in federal funding, or poor public policy decision making could disrupt the national and local economies where we have insured financial guarantee exposures. In addition, we are exposed to correlation risk as a result of the possibility that multiple credits may concurrently and/or consecutively experience losses or increased stress as a result of any such event or series of events.

We operate in in a highly regulated industry and our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in government laws and regulations or if government laws and regulations impair our business or increase our costs.

Our U.S. LFG and Specialty Property and Casualty Insurance subsidiaries are highly regulated as insurance carriers in the States of their domicile and the jurisdictions in which they are licensed. Our owned MGA/Us and insurance brokerage subsidiaries are also required to maintain certain entity-level licenses as well as licenses of individual officers or representatives that are essential to their ability to conduct business. Each of the foregoing must also comply with laws generally applicable to insurance entities, including those relating to governance, capital, and operational requirements.

Government laws and regulations applicable to our businesses develop and change rapidly in response to consumer demands and public policies. State legislatures and insurance departments place increasing burdens on insurance carriers and producers with respect to matters such as cybersecurity, data privacy, management of technology, corporate governance, environmental and social issues, and enterprise risk

management. Such laws and regulations require substantial resources to ensure that the Company has appropriate and effective compliance programs in place. If we are unable to keep pace with changes in applicable law and regulations, or if we otherwise fail in our compliance efforts, the Company may be subject to fines, sanctions, governmental orders or modifications to business practices that individually or collectively impair our business or increase our costs, possibly materially.

In addition, the Company from time to time receives various regulatory inquiries and requests for information, and its insurance carrier subsidiaries are subject to examination by regulatory authorities. It is not possible to predict the extent to which additional regulatory inquiries or requests for information will be made, nor the outcome of inquiries, requests for information or examination, which exposes the Company to potential fines, sanctions, governmental orders or modifications to business practices that individually or collectively impair our business or increase our costs, possibly materially.

Actions of the PRA and FCA could reduce the value of Ambac UK realizable by AAC, which would adversely affect our securityholders.

Ambac's international business is operated by Ambac UK, which is regulated by the Prudential Regulation Authority ("PRA") for prudential purposes and the Financial Conduct Authority ("FCA") for conduct purposes. The terms of Ambac UK's regulatory authority are now restricted and Ambac UK is in run-off. Among other things, Ambac UK may not write any new business, and, with respect to any entity within the Ambac group of affiliates, commute, vary or terminate any existing financial guaranty policy, transfer certain assets, or pay dividends, without the prior approval of the PRA and FCA. The PRA and FCA act generally in the interests of Ambac UK policyholders and will not take into account the interests of AAC or the securityholders of Ambac when considering whether to provide any such approval. Accordingly, determinations made by the PRA and FCA, in their capacity as Ambac UK's regulators, could potentially result in adverse consequences for our securityholders and also reduce the value realizable by AAC for Ambac UK.

Regulatory uncertainty in relation to Ambac UK's capital position could adversely affect the value of Ambac UK and affect our securityholders.

Ambac UK is required to meet certain minimum capital requirements under applicable regulatory capital rules ("Solvency II"). Ambac UK exceeded the required capital thresholds as of December 31, 2022.

However, there remains a risk that market movements impacting its investments or adverse credit developments impacting loss reserving requirements within its insured portfolio could result in the capital position becoming deficient once again.

The PRA supervisory statement SS7/15 "Supervision of firms in difficulty or run-off" notes that "there are many circumstances in which a run-off strategy is in the best interests of policyholders" and notes that the PRA will review such firms and that they "may be permitted to continue activities necessary to carry out existing contracts in a manner, and for so long as, the PRA considers necessary in order to afford an appropriate degree of protection to policyholders". If Ambac UK were to return to a capital deficit position then its run-off would become subject to the PRA taking no action in relation to that capital deficit and related Solvency II requirements. Alternative courses of action open to the PRA could adversely impact the anticipated run-off trajectory of Ambac UK and impact its value.

Everspan may not be successful in executing its business plans or may experience greater than expected insurance underwriting losses and/or reinsurance counterparty losses, which could result in losses material to Everspan's capital position, a downgrade of its AM Best rating and a loss of its franchise value. Such events could have a material adverse impact on the value of AFG's shares.

Everspan is in the early stage of the specialty insurance program business. Its business plan entails establishing programs with program administrators, managing general agents and managing general underwriters ("MGA/Us"), with claims handled by TPAs. The success of these programs is dependent upon the quality of insurance risk underwritten by the MGA/Us, the quality of underwriting and operational oversight of the MGA/Us and TPAs by Everspan, the quality and creditworthiness of reinsurance obtained with respect to the underlying risks, loss experience over time, premium levels, competition and other factors, some of which are outside Everspan's control. Should Everspan fail in executing its business plans or experience greater than expected losses due to operational issues, poor risk selection, default or failure to perform by reinsurers, failure to timely realize ultimate loss exposure or other factors, Everspan may suffer losses that are material to its capital position, a downgrade in its AM Best rating and/or a loss of its franchise value. Any such outcomes could have a material adverse impact on the value of AFG's shares.

A downgrade in the AM Best financial strength rating of Everspan may negatively affect our business.

The financial strength of Everspan is evaluated by AM Best, which issues a financial strength ratings ("FSR"), an important factor in establishing the competitive position of Everspan. The FSR reflects AM Best's opinion of Everspan's financial strength, operating performance, strategic position and ability to meet obligations to policyholders, and are not evaluations directed to investors. Everspan's FSR is subject to periodic review, and the criteria used in the rating methodologies are subject to change. All of the insurance companies that comprise Everspan Group are rated "A-" (Excellent). A downgrade in Everspan's FSR could make it more difficult to sell insurance policies and Everspan's distribution channels may cease to transact with them, which would adversely affect our business, financial condition and results of operations.

Failure of Everspan's Program Partners to properly market, underwrite or administer policies could adversely affect us.

The marketing, underwriting, claims administration and servicing of policies in our Specialty Property and Casualty Insurance business have been contracted to the MGA/Us with

which Everspan transacts. Any failure to properly handle these functions could result in liability to us. Even though the MGA/Us and TPAs with which Everspan transacts may be required to indemnify Everspan for any such liability or monetary losses, there are risks for which indemnity may be insufficient or entirely unavailable if, for example, the relevant program partner becomes insolvent or is otherwise unable to pay us. Furthermore, any failure to properly handle the marketing, underwriting, claims administration and servicing of policies in our Specialty Property and Casualty Insurance business could also create regulatory issues or harm our reputation, which could materially and adversely affect our business, financial condition and results of operations.

If in our Specialty Property and Casualty Insurance business we are unable to accurately underwrite risks and charge competitive yet profitable rates to our clients and policyholders, our business, financial condition and results of operations may be adversely affected.

In general, the premiums for our specialty property and casualty insurance policies are established at the time a policy is issued and, therefore, before all of our underlying costs are known. Like other property and casualty insurance companies, Everspan relies on estimates and assumptions in setting its premium rates. Establishing adequate premium rates is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses, acquisition costs and general and administrative expenses in order to earn a profit. If Everspan does not accurately assess the risks that it assumes, it may not charge adequate premiums to cover its losses and expenses, which would adversely affect our results of operations and our profitability. Alternatively, Everspan could set its premiums too high, which could reduce its competitiveness and lead to lower policyholder retention, resulting in lower revenues. Pricing is a highly complex exercise involving the acquisition and analysis of historical loss data and the projection of future trends, loss costs, expenses, and inflation trends, among other factors, for each of Everspan's products in multiple risk tiers and many different markets. Everspan seeks to implement its pricing accurately in accordance with its assumptions. Everspan's ability to undertake these efforts successfully and, as a result, to accurately price its policies, is subject to a number of risks and uncertainties, including insufficient or unreliable data; incorrect or incomplete analysis of available data; uncertainties generally inherent in estimates and assumptions; failure to implement appropriate actuarial projections and ratings formulas or other pricing methodologies; regulatory constraints on rate increases; failure to accurately estimate investment yields and the duration of liabilities for losses and loss adjustment expenses; disagreements with reinsurers or the MGA/Us with whom Everspan transacts as to the adequacy of pricing assumptions; and unanticipated court decisions, legislation or regulatory action.

If Everspan is unable to obtain reinsurance coverage at reasonable prices or on terms that adequately protect it, we may be required to bear increased risks or reduce the level of our underwriting commitments.

Everspan purchases reinsurance as part of its overall risk management strategy. While reinsurance does not discharge our insurance subsidiaries from their obligations to pay claims for losses insured under their insurance policies, it does make the reinsurer liable to them for the reinsured portion of the risk. At the inception of a new program, Everspan acts as an issuing carrier and reinsures a majority of such risk to third parties in contracts that are generally subject to term limitations or termination rights. Everspan may be unable to maintain its current reinsurance arrangements or to obtain other reinsurance in adequate amounts and at favorable rates, particularly if reinsurers become unwilling or unable to support our specialty property and casualty business in the future. Additionally, market conditions beyond our control may impact the availability and cost of reinsurance and could have an adverse effect on our business, financial condition and results of operations. A decline in the availability of reinsurance may increase the cost of reinsurance and materially and adversely affect our business prospects. Everspan may, at certain times, be forced to incur additional costs for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms or from reinsurers which satisfy Everspan's criteria as acceptable security. In the latter case, Everspan would have to accept an increase in exposure to risk, reduce the amount of business written by it or seek alternatives in line with Everspan's risk limits, all of which could adversely affect our business, financial condition and results of operations.

Our insurance carrier subsidiaries are subject to reinsurance counterparty credit risk. Their reinsurers may not pay on losses in a timely fashion, or at all.

Our insurance carrier subsidiaries purchase reinsurance to transfer part of the risk they have assumed to reinsurance companies in exchange for part of the premium they receive in connection with the risk. Although reinsurance makes reinsurers liable to our carriers for the risk transferred or ceded to the reinsurers, it does not relieve our insurance carrier subsidiaries of their liabilities to policyholders. Accordingly, our insurance carrier subsidiaries are exposed to credit risk with respect to their reinsurers, especially to the extent reinsurance receivables are not sufficiently secured by collateral or do not benefit from other credit enhancements. Our insurance carrier subsidiaries also bear the risk that they are unable to receive, or there is a substantial delay in receiving, the reinsurance recoverable for any reason, including that the terms of the reinsurance contract do not reflect the intent of the parties to the contract; there is a disagreement between the parties as to their intent; the terms of the contract cannot be legally enforced; the terms of the contract are interpreted by a court or arbitration panel differently than intended by our insurance carrier subsidiaries; the reinsurance transaction performs differently than our insurance carrier subsidiaries anticipated due to a flawed design of the reinsurance structure, terms or conditions; or changes in law and regulation, or in the interpretation of laws and regulations, affects a reinsurance transaction. These risks my be exacerbated to the extent that our insurance carrier subsidiaries' reinsurance recoverables are overly concentrated with one or a small subset of reinsurers.

The insolvency of one or more of our insurance carrier subsidiaries' reinsurers, or their inability or unwillingness to make timely payments if and when required under the terms of reinsurance contracts, could adversely affect our business, financial condition and results of operations.

If actual claims exceed claims and claim adjustment expense reserves for Everspan, or if changes in the estimated level of claims and claim adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal/ tort, regulatory and economic environments in which Everspan operates, our financial results could be materially and adversely affected.

Further elevated social inflation trends are likely to continue, which have been amplified by the COVID-19 crisis and civil unrest events in the US over the last 12-36 months. These risks, which include increased litigation, changes in social norms, and an erosion of the public sentiment towards insurers' interpretation of coverage levels and limits, may make it more difficult to estimate losses by Everspan from events, establish adequate product pricing, and maintain a strong competitive position with consumers.

Moreover, the impact of catastrophic events may not be adequately reflected in claims reserves and, accordingly, could adversely impact results. Catastrophic losses are caused by wind and hail, wildfires, tornadoes, hurricanes, tropical storms, earthquakes, severe freeze events, volcanic eruptions, terrorism, cyber attacks, civil unrest, and industrial accidents and other such events.

Our ability to grow Everspan will depend in part on the addition of new Program Partners, and our inability to effectively onboard such new Program Partners could have an adverse effect on our business, financial condition and results of operations.

Our ability to grow Everspan will depend in part on the addition of new MGAUs. If Everspan does not effectively and timely source, evaluate and onboard new MGA/Us, including assisting such MGA/Us to quickly resolve any post-onboarding matters and provide effective ongoing support, Everspan's ability to add new MGA/Us and its relationships with its existing Program Ppartners could be adversely affected. Additionally, Everspan's reputation with potential new MGA/Us could be damaged if it fails to effectively onboard MGA/Us with whom it has signed definitive legal agreements. Such reputational damage could make it more difficult for Everspan to attract new and retain existing program partners, which could have an adverse effect on our business, financial condition and results of operations.

We compete with a large number of companies in the property and casualty insurance industry for underwriting premium.

We compete with a large number of companies in the property and casualty insurance industry for underwriting premium. During periods of intense competition for premium, in particular, our specialty property and casualty insurance and insurance distribution businesses may be challenged to maintain competitiveness with other companies that may seek to write policies without the same regard for risk and profitability targeted by our specialty property and casualty insurance and insurance distribution businesses. During these times, it may be difficult for Everspan or our MGA/Us to grow or maintain premium volume without lowering underwriting standards, sacrificing income, or both.

In addition, our Specialty Property and Casualty Insurance and Insurance Distribution businesses face competition from a wide range of specialty insurance companies, underwriting agencies and intermediaries, as well as diversified financial services companies that are significantly larger than our specialty property and casualty insurance and insurance distribution businesses are and that have significantly larger financial, marketing, management and other resources. Some of these competitors also have longer standing and better established market recognition than Everspan does. The greater resources or market presence that these competitors possess may enable them to avoid or defray particular costs, employ greater pricing flexibility, have a higher tolerance for risk or loss, or exploit other advantages that may make it more difficult for us to compete. We may incur increased costs in competing for underwriting revenues in this environment. If we are unable to compete effectively in the markets in which our specialty property and casualty insurance and managing general agency/underwriting businesses operate or expand into, our underwriting revenues may decline, as well as overall business results.

Impairment of intangible assets and goodwill, resulting from acquisitions, could adversely affect our results of operations.

In connection with Ambac's acquisition of certain insurance carriers and insurance distribution businesses (MGA/U and brokers), Ambac recorded the fair value of identifiable intangible assets (primarily related to distribution relationships) and goodwill. The intangible assets will be amortized over their remaining useful lives. The Company will test intangible assets for impairment if certain events occur or circumstances change indicating that the carrying amount of the intangible asset may not be recoverable. Goodwill will be tested for impairment annually or whenever events occur or circumstances change that may indicate impairment. Intangible asset and goodwill impairments are driven by a variety of factors, which could include, among other things, declining future cash flows of the acquired business as addressed in other risk factors related to the Insurance Distribution Business. Any intangible asset or goodwill impairment could adversely affect the Company's operating results and financial condition.

Our Insurance Distribution businesses derive a significant portion of their commission revenues from a limited number of insurance companies, the loss of any of which could result in lower commissions or loss of business production.

The commissions of our MGA/Us and insurance broker were derived from insurance policies underwritten by a limited number of insurance companies. Should one or more of these insurance companies terminate its arrangements with our Insurance Distribution businesses or otherwise decrease the number of insurance policies underwritten for it, we may lose significant commission revenues or lose significant business production while seeking other insurance companies to underwrite the business.

Our Insurance Distribution businesses, results of operation, financial condition and liquidity may be

materially adversely affected by certain potential claims or proceedings.

Our owned MGA/Us and insurance brokerage operating subsidiaries are subject to various potential claims and other proceedings, including those relating to alleged errors and omissions in connection with the placement or servicing of insurance and/or the provision of services in the ordinary course of business, of which we cannot, and likely will not be able to, predict the outcome with certainty. Because our MGA/Us and insurance brokerage operating subsidiaries often assist customers with matters involving substantial amounts of money, including the placement of insurance and the handling of related claims that customers may assert, errors and omissions, claims against it may arise alleging potential liability for all or part of the amounts in question. Also, the failure of an insurer with whom our MGA/Us and insurance brokerage operating subsidiaries place business could result in errors and omissions claims against it by its customers, which could adversely affect Ambac's results of operations and financial condition. Claimants may seek large damage awards, and these claims may involve potentially significant legal costs and damages. In addition, regardless of monetary costs, these matters could have a material adverse effect on our reputation and cause harm to carrier, customer or employee relationships, or divert personnel and management resources.

The current market share of our Insurance Distribution businesses may decrease because of increased competition from insurance companies, technology companies and the financial services industry, as well as the shift away from traditional insurance markets.

The insurance distribution business is highly competitive and we actively compete with numerous firms for customers and insurance companies, many of which have relationships with insurance companies or have a significant presence in niche insurance markets that may give them an advantage. Other competitive concerns may include pricing, the entrance of technology companies into the insurance distribution business and the direct-to-consumer insurance carriers that do not utilize third party agents and brokers as production sources. Additionally, the insurance industry may experience consolidation, and therefore we may experience increased competition from insurance companies and the financial services industry, as a growing number of larger financial institutions increasingly, and aggressively, offer a wider variety of financial services, including insurance distribution services. While we collaborate and compete in these segments on a fee-for-service basis, we cannot be certain that such alternative markets will provide the same level of insurance coverage or profitability as traditional insurance markets.

Technological changes to the way insurance is distributed, underwritten, and administered also present competitive risks. For example, our competitive position could be impacted if we are unable to cost-effectively deploy technology, such as machine learning and artificial intelligence, which collects and analyzes large sets of data to make underwriting or other decisions, or if our competitors collect and use data which we do not have the ability to access or use. In addition, usage-based methods of determining premiums (e.g., telematics) can impact product pricing and design and are becoming an increasingly important competitive factor. The landscape of law and regulation governing these areas presents additional risk to the extent we are unable to timely adapt to ensure compliance.

Changes in law or in the functioning of the healthcare market could significantly impair Xchange's business and therefore negatively impact Ambac's financial condition and results of operation.

Adoption of a single payer healthcare system or a public health insurance option would likely adversely impact the entire healthcare industry. While Xchange has historically demonstrated an ability to adjust its products to major changes in the healthcare industry, given its focus on Accident and Health products, Xchange would likely be adversely impacted by such a material change in the U.S. healthcare system particularly if private health insurance is eliminated, materially limited, or is rendered noncompetitive. Material adverse developments to Xchange's business would have a negative impact on Ambac's financial condition and results of operations which could be material.

Our Insurance Distribution businesses and their results of operation and financial condition may be adversely affected by conditions that result in reduced insurer capacity.

Our Insurance Distribution business results of operations depend on the continued capacity of insurance carriers to underwrite risk and provide coverage, which depends in turn on those insurance companies' ability to procure reinsurance. Capacity among insurance carriers and reinsurers may diminish because of our performance or due to factors outside our control. For example, capacity could be reduced by insurance companies failing or withdrawing from writing certain coverages that our Insurance Distribution businesses offer to their customers. To the extent that reinsurance becomes less widely available or significantly more expensive, we may not be able to procure the amount or types of coverage that our customers desire and the coverage we are able to procure for our customers may be more expensive or limited.

Variations in commission income that results from the timing of policy renewals and the net effect of new and lost business production may have unexpected effects on our results of operation.

Commission income can vary quarterly or annually due to the timing of policy renewals and the net effect of new and lost business production. We do not control the factors that cause these variations. Specifically, customers' demand for insurance products can influence the timing of renewals, new business and lost business (which includes policies that are not renewed), and cancellations. Quarterly and annual fluctuations in revenues based upon increases and decreases associated with the timing of new business, policy renewals and payments from insurance companies may adversely affect our financial condition, results of operations and cash flows. Profit-sharing contingent commissions are paid by insurance companies based upon the profitability of the business placed with such companies. In the past these commissions have accounted for a significant amount of total commissions and fees. Due to, among other things, the inherent uncertainty of loss and changes in underwriting criteria

by insurance companies, there will be a level of uncertainty related to the payment of profit-sharing contingent commissions.

System security risks, data protection breaches and cyber-attacks could adversely affect our business and results of operations.

We and our vendors and contractual counterparties rely on our information technology systems for many enterprise-critical functions and a prolonged failure or interruption of these systems for any reason could cause significant disruption to our operations and have a material adverse effect on our business, financial condition and operating results. Our information technology and application systems, as well as those of our vendors and contractual counterparties, may be vulnerable to threats from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Computer hackers may be able to penetrate our network's system security, or the network's security system of a vendor or contractual counterparty, and misappropriate or compromise confidential information, create system disruptions or cause shutdowns. In addition to our own confidential information, we and our our vendors and contractual counterparties sometimes receive and are required to protect confidential information obtained from third parties (including us in the case of a vendor or contractual counterparty) and personally identifiable information of individuals. To the extent any disruption or security breach results in a loss or damage to our data (or the data of a vendor or contractual counterparty on which we rely), or inappropriate disclosure of our confidential information or that of others, or personally identifiable information of individuals, it could cause significant financial losses that are either not, or not fully, insured against, cause damage to our reputation, affect our relationships with third parties, lead to claims against us, result in regulatory action, or otherwise have a material adverse effect on our business or results of operations. In addition, we may be required to incur significant costs to mitigate the damage caused by any security breach, or to protect against future damage. Moreover, although we have incident response, disaster recovery and business continuity plans in place, we may not be able to adequately execute these plans in a timely fashion in the event of a disruption to our information technology and application systems.

We may be adversely affected by failures in services or products provided by third parties.

We outsource and may further outsource certain technology and business process functions, and rely upon third-party vendors and contractual counterparties for other essential services and information, such as the provision of data used in setting loss reserves. If we do not effectively develop, implement and monitor our vendor and contractual counterparty relationships, if third party providers do not perform as anticipated, if we experience technological or other problems with a transition, or if vendor or other contractual relationships relevant to our business process functions are terminated, we may not realize expected productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business**.** A material failure by an external service or information provider or a material defect in the products, services or information provided thereby could adversely affect our financial condition and results of operations. Our outsourcing of certain technology and business process functions to third parties may expose us to increased risk related to data security, service disruptions or the effectiveness of our control system. These risks could increase as vendors increasingly offer cloud-based software services rather than software services which can be run within our data centers or as we choose to move additional functions to the cloud.

Our ability to attract and retain qualified executives, senior managers and other employees or the loss of any of these personnel could negatively impact our business.

Our ability to execute on our business strategies depends on the retention and recruitment of qualified executives and other professionals. We rely substantially upon the services of our current executive and senior management teams. In addition to these officers, we rely on key staff with insurance, underwriting, business development, credit, risk management, structured finance, investment, accounting, finance, legal, technology and other technical and specialized skills. The market for qualified executives, senior managers and other employees has become very competitive. As a result of the run-off status of AAC and the early-stage status of AFG's other businesses, we may experience higher employee turnover and finding qualified replacements may be more difficult. The loss of the services of members of our executive and/or senior management teams or our inability to hire and retain other talented personnel could delay or prevent us from succeeding in executing our strategies, which could negatively impact our business.

Our business could be negatively affected by actions of stakeholders whose interests may not be aligned with the broader interests of our stockholders.

Ambac could be negatively affected as a result of actions by stakeholders whose interests may not be aligned with the broader interests of our stockholders, and responding to any such actions could be costly and time-consuming, disrupt operations and divert the attention of management and employees. Such activities could interfere with our ability to execute on our strategic plans.

Risks Related to Capital, Liquidity and Markets

AAC has substantial indebtedness, which could adversely affect our financial condition, operational flexibility and our ability to obtain financing in the future.

AAC is highly leveraged. AAC's ability to make payments on and/or refinance its surplus notes and to fund its operations will depend on its ability to generate substantial operating cash flow and on the performance of the LFG insured portfolio. AAC's cash flow generation will depend on receipt of premiums, investment returns, and receipts from subsidiaries, offset by policyholder claims, commutation payments, reinsurance premiums, costs and potential losses from litigation, operating and loss adjustment expenses, and interest expense, which will be subject to prevailing economic conditions and to financial, business and other factors, many of which are beyond our control and many of which are event-driven. There is substantial risk that AAC may not have the financial resources necessary to pay its surplus notes in full due to risks associated

with its cash flow, insured portfolio, and other liabilities, as discussed elsewhere in these Risk Factors.

If AAC cannot pay its obligations from operating cash flow, it will have to take actions such as selling assets, restructuring or refinancing its surplus notes or seeking additional capital. Any of these remedies may not, if necessary, be effected on commercially reasonable terms, or at all. The value of assets to be sold, will depend on market and economic conditions, the availability of buyers, the requirements and conditions of local law, including regulatory restrictions, and other factors that may result in AAC or a party enforcing rights against AAC to be unable to receive proceeds sufficient to discharge AAC's obligations. Furthermore, the ability of creditors or claimants to realize upon any assets, may also be subject to bankruptcy and insolvency law limitations or similar limitations applicable in insurance company rehabilitation or liquidation proceedings. Because of these and other factors beyond our control, AAC may be unable to pay or discharge the principal or interest on its surplus notes, which would impair AAC's value and the value of AFG.

Surplus note principal and interest payments are subject to the sole approval of the OCI, and OCI's determinations about whether and when to authorize surplus note payments could materially impact the Company's financial position. Ambac can provide no assurance as to when surplus note principal and interest payments will be made. If OCI does not approve payments on or the acquisition of surplus notes over time the ongoing accretion of interest on the notes may impair AAC's ability to extinguish the notes in full. Surplus notes are subordinated in right of payment to policyholder and other claims.

AAC's substantial indebtedness could have other significant consequences for our financial condition and operational flexibility. For example, it could:

- increase our vulnerability to general adverse economic, competitive and industry conditions;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes on satisfactory terms or at all;
- require AAC to dedicate a substantial portion of its cash flow from operations to the payment of surplus notes, thereby reducing the funds available for operations and to fund the execution of key strategies, including the return of capital to AFG;
- limit or restrict AFG from making strategic acquisitions or cause us to make non-strategic divestitures;
- limit AAC's ability, or increase the costs, to refinance surplus notes or repay surplus notes due to ongoing interest accretion; and
- limit our ability to attract and retain key employees.

Despite current indebtedness levels, we may incur additional debt. While restrictive covenants in certain of our contracts may limit the amount of additional indebtedness AAC may incur, we may obtain waivers of those restrictions and incur additional indebtedness in the future. In addition, if Ambac incurred indebtedness, its ability to make scheduled payments on, or refinance, any such indebtedness may depend on the ability of our subsidiaries to make distributions or pay dividends, which in turn will depend on their future operating performance and contractual, legal and regulatory restrictions on the payment of distributions or dividends to which they may be subject. There can be no assurance that any such dividends or distributions would be made. This could further exacerbate the risks associated with AAC's substantial leverage.

Our inability to realize the expected recoveries included in our financial statements could adversely impact our liquidity, financial condition and results of operations and the value of our securities.

We expect to recover material amounts of claims payments through remediation measures, as well as through cash flows in the securitization structures of transactions that AAC insures. Realization of such expected recoveries is subject to various risks and uncertainties, including the rights and defenses of other parties with interests that conflict with AAC’s interests, the performance of the collateral and assets backing the obligations that AAC insures, and the performance of servicers involved in securitizations in which AAC participates as insurer. Additionally, our ability to realize recoveries in insured transactions may be impaired if the continuing orders of the court that oversaw the rehabilitation of the Segregated Account of AAC are not effective.

Adverse developments with respect to any of the factors described above may cause our recoveries to fall below expectations, which could have a material adverse effect on our financial condition, including our capital and liquidity, and may result in adverse consequences such as impairing the ability of AAC to honor its financial obligations, particularly its surplus notes and preferred stock obligations; the initiation of rehabilitation proceedings against AAC; eliminating or reducing the possibility of AAC delivering value to AFG, through dividends or otherwise; and a significant drop in the value of securities issued or insured by AFG or AAC.

Revenues and cash flow will be adversely impacted by a decline in realization of installment premiums.

A significant percentage of our FG premium revenue is attributable to installment premiums. The amount of installment premiums we collect is declining along with the insured portfolio. The amount of installment premiums we actually realize could be further reduced due to factors such as early termination of insurance contracts, new reinsurance transactions, accelerated prepayments of underlying obligations or insufficiency of cash flows (by the premium paying entity). The reduction in installment premiums will result in lower revenues and cash flow in the future.

We may have future capital needs and may not be able to obtain third-party financing or raise additional third-party capital on acceptable terms, or at all.

An inability to obtain third-party debt financing or raise additional third-party capital, when required by us or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations. Our financial condition, the risks described

elsewhere in Part I, Item 1A in this Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as well as other factors, may constrain our financing abilities. Our ability to secure third-party financing will depend upon our future operating performance, regulatory conditions, the availability of credit generally, economic conditions and financial, business and other factors, many of which are beyond our control. The market conditions and the macroeconomic conditions that affect our business could have a material adverse effect on our ability to secure third-party financing on favorable terms, if at all.

If third-party financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities, respond to competitive pressures or effectively and efficiently manage our balance sheet, any of which could have a material adverse effect on our business, financial condition and results of operations.

The composition of the securities in our investment portfolio may expose us to greater risk than before we invested in alternative assets.

Each of AAC and Ambac UK maintains a portion of its investment portfolio in below investment grade securities, equities and/or alternative assets, such as hedge funds, with the objective to increase risk-adjusted portfolio returns. Investments in below investment grade securities, equities and alternative assets could expose AAC and/or Ambac UK to greater earnings volatility, increased losses and decreased liquidity in the investment portfolio.

Risks Related to the Financial and Credit Markets

Changes in prevailing interest rate levels and market conditions could adversely impact our business results and prospects.

Increases in prevailing interest rate levels can adversely affect the value of our investment portfolio and, therefore, our financial strength. In the event that investments must be sold in order to pay claims, to pay debt obligations, to meet collateral posting requirements or to meet other liquidity needs, such investments would likely be sold at discounted prices. Additionally, increasing interest rates would have an adverse impact on the legacy financial guarantee insured portfolio. For example, increasing interest rates could result in higher claim payments in respect of defaulted obligations that bear floating rates of interest. Higher interest rates can also lead to increased credit stress on consumer asset-backed transactions (as the securitized assets supporting a portion of these exposures are floating rate consumer obligations), slower prepayment speeds and resulting "extension risk" relative to such consumer asset-backed transactions in our insured and investment portfolios, and decreased refinancing activity.

Decreasing interest rates could result in early terminations of FG insurance policies in respect of which AAC and Ambac UK are paid on an installment basis and do not receive a termination premium, thus reducing premium earned for these transactions. Decreases in prevailing interest rates may also limit growth of, or reduce, investment income and may adversely impact interest rate swap values.

Our investment portfolio may also be adversely affected by credit rating downgrades, ABS and RMBS prepayment speeds, foreign exchange movements, spread volatility, and credit losses.

Our risk to changes in interest rates and market conditions could be magnified in the event that the US or UK were to enter into an economic recession. While interest rates may decline during a recession, credit and liquidity risks would be expected to increase which may cause us to experience losses in our investment portfolios and insured portfolios. These losses may have a material adverse affect on our results of operations and financial condition, particularly if any economic rescission were prolonged.

Uncertainties regarding the expected discontinuance of the London Inter-Bank Offered Rate or any other interest rate benchmark could have adverse consequences.

In 2017, the U.K. Financial Conduct Authority ("FCA"), which regulates the London Interbank Offered Rate ("LIBOR"), announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. On November 30, 2020, the ICE Benchmark Administration and the FCA announced that most tenors of U.S. Dollar ("USD") LIBOR are expected to be published only through June 2023. However, Non-USD LIBOR, certain less common tenors of USD-LIBOR and certain other indices which are utilized as benchmarks ceased to be published at the end of 2021. AAC and Ambac UK therefore no longer insure any obligations linked to Non-USD LIBOR. AAC and/or Ambac UK insure securities, own assets and are party to certain derivative contracts that reference USD LIBOR.

In 2021, New York State passed legislation addressing the cessation of USD LIBOR and specified a recommended benchmark replacement based on the Secured Overnight Financing Rate ("SOFR") for certain legacy transactions. Similar federal legislation was passed into law in March 2022 and the Federal Reserve's Board of Governors adopted the final rules for implementing this legislation in December 2022.

While regulators and market participants continue to promote the creation and functioning of post-LIBOR (primarily SOFR) indices, the ultimate impact of the discontinuance and replacement of LIBOR is uncertain. It is not currently possible to know with certainty what the effect of changes to benchmark rates may have on the financial markets for LIBOR-linked financial instruments for the periods preceding and following LIBOR's cessation. Differences in contractual provisions of certain legacy assets and liabilities and other factors may cause the consequences of the discontinuance of LIBOR to vary by instrument. While the enacted legislation is intended to address issues with respect to legacy LIBOR-linked assets and liabilities, it is unclear whether they will completely address the issues associated with legacy transactions.

Nevertheless, the value of our assets and derivatives; costs to operate our business; and the losses associated with our insured portfolio may be affected in a way that may ultimately materially adversely impact Ambac's results of operations and financial condition. In addition, Ambac may experience adverse

tax and accounting impacts, system and model disruption, and increased liquidity demands in connection with the transition away from LIBOR that may have adverse operational consequences resulting in further adverse impacts on Ambac's results of operations and financial condition. Ambac continues to actively monitor developments surrounding the transition from LIBOR-based indices and evaluate the potential impact. In addition to reviewing several hundred transactions involving various LIBOR-based indices, Ambac has made, and is in the process of making, adjustments to its reporting and analytical infrastructures to facilitate the transition from LIBOR.

Item 1B. Unresolved Staff Comments — No matters require disclosure.

Item 2. Properties

The executive office of Ambac is located at One World Trade Center, New York, New York 10007, and consists of 46,927 square feet of office space, under a sublease agreement that expires in January 2030. Ambac continues to hold a lease at One State Street Plaza, New York that expires in December 2029 (25,871 square feet) that has been sublet through its expiration date.

Ambac maintains a disaster recovery site ("DR Site") in Kingston, New York, County of Ulster which consists of 12,374 square feet. During a disaster event, the site would allow employees an alternative office location. In June 2022, the Ulster County Controller reported that the owner of the property where the DR Site is located was delinquent in payment of taxes, interest and penalties, and recommended that the county move forward with foreclosure on the property. The County of Ulster foreclosed on the property in November 2022 and acquired title to the property in January 2023. Ambac has begun discussions with the County of Ulster on continued occupancy of the DR Site located at the property, and is also evaluating alternative locations for the DR Site. The lease signed by Ambac prior to the foreclosure had a stated expiration of March 2024.

Operations of each of our segments are carried out either in our executive office at One World Trade Center or in other leased offices under operating leases in New Jersey, New York, Indiana and London England. The lease terms typically do not exceed ten years in length.

In the opinion of the Company's management, the Company's properties are adequate and suitable for its business as presently conducted and are adequately maintained.

Item 3. Legal Proceedings

Refer to Notes to the Consolidated Financial Statements—Note 20. Commitments and Contingencies included in Part II, Item 8 in this Annual Report on Form 10-K for a discussion on legal proceedings against Ambac.

Item 4. Mine Safety Disclosures — Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Since February 3, 2020, the Company 's common stock and warrants have been trading on the NYSE under the symbols "AMBC" and "AMBC WS", respectively. Prior to being listed on the NYSE, the Company's common stock and warrants were listed on NASDAQ under the symbols "AMBC" and "AMBCW," respectively.

Holders

On February 24, 2023, there were 16 stockholders of record of AFG's common stock and 50 holders of record of AFG's warrants.

Dividends

The Company did not pay cash dividends on its common stock during 2022 and 2021. Information concerning restrictions on the payment of dividends from Ambac's insurance subsidiaries is set forth in Item 1 above under the caption "Dividend Restrictions, Including Contractual Restrictions" and in Note 9. Insurance Regulatory Restrictions to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K.

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table summarized Ambac's share purchases during the fourth quarter of 2022. When restricted stock unit awards issued by Ambac vest or settle, they become taxable compensation to employees. For certain awards, shares may be withheld to cover the employee's portion of withholding taxes. In the fourth quarter of 2022, Ambac purchased shares from employees that settled restricted stock units to meet employee tax withholdings.

On March 29, 2022, our Board of Directors approved a share repurchase program authorizing up to $20 million in share repurchases, with an expiration date of March 31, 2024, which may be terminated at any time. From April 1, 2022, through December 31, 2022, AFG repurchased 1,605,316 shares for $14.2 million at an average purchase price of $8.86 per share. On May 5, 2022, the Board of Directors authorized an additional $15 million share repurchase bringing the total unused authorized amount to $20.8 million. Shares purchased from employees to satisfy withholding taxes, as described above, do not count towards utilization under the Company's share repurchase program.

	October 2022	November 2022	December 2022	Fourth Quarter 2022
Total Shares Purchased [1]	—	1,425	—	1,425
Average Price Paid Per Share	$ —	$ 13.56	$ —	$ 13.56
Total Number of Shares Purchased as Part of Publicly Announced Plan	—	—	—	—
Maximum Dollar Value That may Yet be Purchased Under the Plan	$ 21	$ 21	$ 21	$ 21

(1) There were no other repurchase of equity securities made during the three months ended December 31, 2022.

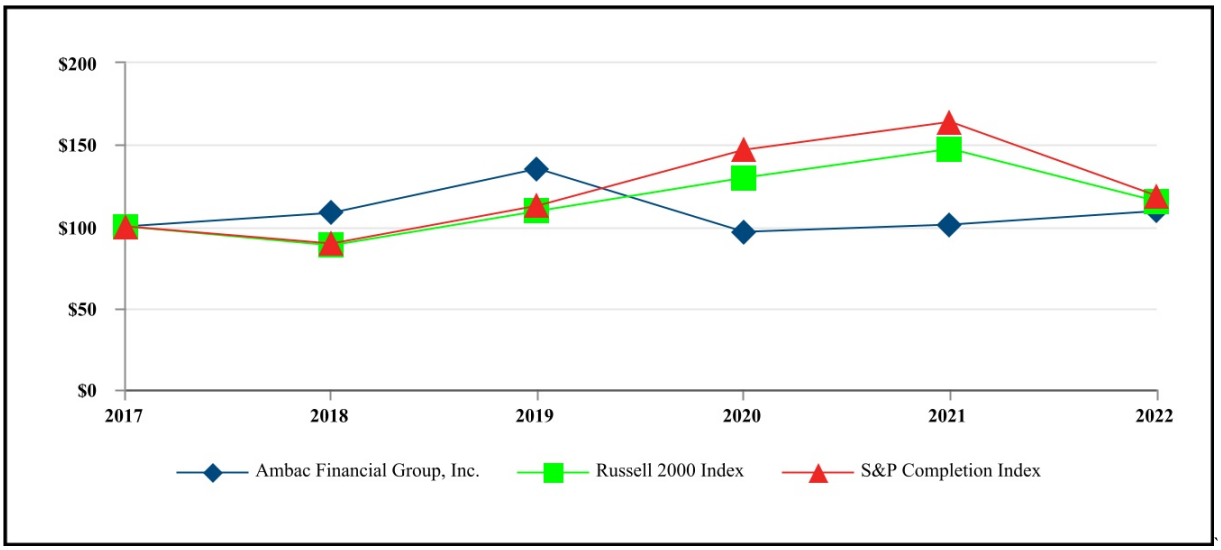
Warrants

Ambac has 4,877,617 warrants outstanding. Each warrant represents the right to purchase one share of AFG common stock. The warrants are exercisable at any time on or prior to April 30, 2023, at an exercise price of $16.67 per share. The warrants may be exercised for cash or net share settled.

On June 30, 2015, the Board of Directors of AFG authorized the establishment of a warrant repurchase program that permits the repurchase of up to $10 million of warrants. On November 3, 2016, the Board of Directors of AFG authorized an additional $10 million to the warrant repurchase program. The remaining aggregate authorization at December 31, 2022, is $11.9 million.

Stock Performance Graph

The following graph compares the performance of an investment in our common stock from the close of business on December 29, 2017, through December 31, 2022, with the Russell 2000 Index and S&P Completion Index. The graph assumes $100 was invested on December 29, 2017, in our common stock at the closing price of $15.98 per share and at the closing price for the Russell 2000 Index and S&P Completion Index. It also assumes that dividends (if any) were reinvested on the date of payment without payment of any commissions. The performance shown in the graph represents past performance and should not be considered an indication of future performance.



	December 31,					
	2017	2018	2019	2020	2021	2022
Ambac Financial Group, Inc.	$100	$108	$135	$96	$101	**$109**
Russell 2000 Index	$100	$88	$109	$129	$147	**$115**
S&P Completion Index	$100	$89	$112	$147	$164	**$119**

Item 6. Selected Financial Data — Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The objectives of our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") are to provide users of our consolidated financial statements with the following:

- A narrative explanation from the perspective of management of our financial condition, results of operations, cash flows, liquidity and certain other factors that may affect future results;
- Context to the consolidated financial statements; and
- Information that allows assessment of the likelihood that past performance is indicative of future performance.

The following discussion should be read in conjunction with our consolidated financial statements in Item 8 of this Report and the matters described under Item 1A. Risk Factors in this Annual Report on Form 10-K for the year ended December 31, 2022. Refer to Item 1. Description of the Business and Note 1. Background and Business Description for a description of our business and our key strategies to achieve our primary goal to maximize shareholder value.

Organization of Information

MD&A includes the following sections:

	Page
Executive Summary	27
Critical Accounting Estimates	30
Financial Guarantees in Force	32
Results of Operations	38
Liquidity and Capital Resources	44
Balance Sheet	46
Accounting Standards	52
Ambac Assurance Statutory Basis Financial Results	52
Ambac UK Financial Results under UK Accounting Principles	54
Non-GAAP Financial Measures	54

EXECUTIVE SUMMARY ($ in millions)

AFG Net Assets:

AFG has the following net assets to support its goals and strategies, including the development and growth of its Specialty Property and Casualty Insurance and Insurance Distribution businesses, acquisitions and capital management. AFG does not have any commitment or other obligation to provide capital or liquidity to AAC, whose financial guarantee business has been in run-off since 2008. As of December 31, 2022, AFG's stand alone net assets, excluding its equity investments in subsidiaries, were $223.

($ in millions)		
Cash and short-term investments	$	178
Other investments [1]		28
Other net assets		17
Total	$	223

(1) Includes strategic minority investments in insurance services businesses of $24, including investments of $5 made during 2022.

From April 1, 2022, through December 31, 2022, AFG repurchased 1,605,316 shares for $14 at an average purchase price of $8.86 per share.

AFG's subsidiaries/businesses are divided into three segments, the key value metrics of which are summarized below along with other recent developments.

Specialty Property and Casualty Insurance Segment

The key value metrics for the Specialty Property and Casualty Insurance segment for the years ended December 31, 2022 and 2021 were as follows:

Year ended December 31,	**2022**	**2021**
Gross premiums written	$ 146	$ 13
Net premiums written	29	3
Pretax income (loss)	$ (6)	$ (8)
Earnings before interest, taxes, depreciation and amortization	(6)	(8)
Loss ratio	65.4 %	71.4 %
Stockholders Equity [1]	$ 110	$ 109

(1) Represents Ambac's stockholders equity in the Specialty Property and Casualty Insurance segment, including intercompany eliminations.

To support expansion of the admitted insurance component of its business, on January 3, 2022, Everspan (rated 'A-' (Excellent) by AM Best) completed the acquisition of three admitted carriers (the "21st Century Companies") from a national insurance group that has a Financial Strength Rating of "A" (Excellent) from AM Best. The 21st Century Companies collectively possess certificates of authority in thirty-nine states. All legacy liabilities remain with affiliates of the sellers through reinsurance and contractual indemnities. Such acquisitions enhanced Everspan's capabilities to launch new admitted programs, develop innovative products and provide enhanced flexibility to foster strategic relationships with prospective program partners.

For additional information on the Specialty Property and Casualty Insurance Segment see the Results of Operations section below in this Management Discussion and Analysis.

Insurance Distribution Segment

The key value metrics for the Insurance Distribution segment for the years ended December 31, 2022 and 2021 were as follows:

Year ended December 31,	2022	2021
Premiums placed	$ 135	$ 117
Commission income	31	26
Sub-producer commission expense	18	15
Net commissions	13	12
Pretax income (loss)	$ 5	$ 4
Earnings before interest, taxes, depreciation and amortization	6	5
Stockholders Equity [1]	$ 93	$ 66

(1) Represents Ambac's stockholders equity in the Insurance Distribution segment, including intercompany eliminations.

Effective November 1, 2022, Ambac acquired controlling interests in All Trans Risk Solutions, LLC ("All Trans") and Capacity Marine Corporation ("Capacity Marine"), adding approximately $60 of annual premiums placed to the Insurance Distribution segment, for a collective purchase price of $26. Refer to Note 4. Business Combination to the Consolidated Financial Statements, included in Part II, Item 8 in this Annual Report on Form 10-K for further details on these acquisitions.

For additional information about the Insurance Distribution Segment see the Results of Operations section below in this Management Discussion and Analysis.

Legacy Financial Guarantee Insurance Segment

The key value metrics for the Legacy Financial Guarantee Insurance segment for the years ended December 31, 2022 and 2021 were as follows:

Year ended December 31,	2022	2021
Net premiums earned	$ 42	$ 46
Net investment income	12	138
Net gains on derivative contracts	128	22
Net realized gains on extinguishment of debt	81	33
Litigation recoveries	126	—
Loss and lossadjustment expenses (benefit)	(406)	(89)
General and administrative expenses	102	77
Interest expense	168	187
Pretax income (loss)	$ 540	$ 20
Stockholders Equity [1]	$ 826	$ 684
Adversely Classified Credit Net Par Outstanding	$ 4,735	$ 6,361

(1) Represents Ambac's stockholders equity in the Legacy Financial Guarantee Insurance segment, including intercompany eliminations and insurance intangible assets of $266.

A key strategy for Ambac is to increase the value of its investment in AAC by actively managing its assets and liabilities. Asset management primarily entails maximizing the risk-adjusted return on non-VIE invested assets and managing liquidity to help ensure resources are available to meet operational and strategic cash needs. These strategic cash needs include activities associated with Ambac's liability management and loss mitigation programs.

Settlement of RMBS Litigations and Redemption of Secured Notes:

In October 2022, AAC entered into a Settlement Agreement and Release (the "BOA Settlement Agreement") with Bank of America Corporation and certain affiliates thereof (together, the "BOA Parties") whereby the BOA Parties paid AAC the sum of $1,840 (the "BOA Settlement Payment"). In connection with the Settlement Payment, as required under the terms of AAC's secured debt, AAC utilized $1,431 of the BOA Settlement Payment to redeem a majority of the principal and accrued interest of its secured debt.

On December 29, 2022, AAC entered into a Settlement Agreement and Release (the "Nomura Settlement Agreement") with Nomura Credit & Capital, Inc. ("Nomura") to settle its RMBS litigation against Nomura. As a result, Nomura paid AAC $140 million (the "Nomura Settlement Payment") in January 2023. AAC used all proceeds of the Nomura Settlement Payment plus cash on hand to repay the remaining outstanding balance of Tier 2 Notes (as described in *Note 13. Long-Term Debt* to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K).

The settlements with the BOA Parties and Nomura brought to closure all of AAC's legacy litigation against RMBS sponsors.

These settlement receipts materially exceeded the amount of subrogation recovery recorded on Ambac's consolidated GAAP financial statements. Refer to Note 1. Background and Business Description in Part II, Item 8 in this Annual Report on Form 10-K for further details of the BOA Settlement Agreement and the Nomura Settlement Agreement and related impacts on Ambac's Statement of Comprehensive Income.

Asset Management

Investment portfolios are subject to internal investment guidelines as well as restrictions imposed by insurance laws and regulations which limit the types and quality of investments a carrier may acquire. In the case of AAC, the Wisconsin Office of the Commissioner of Insurance ("OCI") has the right to approve changes to the investment guidelines pursuant to the Settlement Agreement, dated as of June 7, 2010 (the "Settlement Agreement"), by and among AAC, Ambac Credit Products LLC ("ACP"), AFG and certain counterparties to credit default swaps with ACP that were guaranteed by AAC. The investment portfolios of AAC and Ambac UK hold fixed maturity securities and various pooled investment funds. Refer to *Note 5. Investments* to the Consolidated Financial Statements, included in Part II, Item 8 in this Annual Report on Form 10-K for further details of fixed maturity investments by asset category and pooled investment funds by investment type.

At December 31, 2022 and 2021, Ambac and its subsidiaries owned $286 and $609, respectively, of distressed AAC and Ambac UK-insured bonds, including significant concentrations of insured RMBS bonds and, in 2021, insured Puerto Rico bonds. As a result of the Puerto Rico restructurings discussed under "Liability and Insured Exposure Management" below,

there are no AAC-insured Puerto Rico bonds held in the investment portfolio as of December 31, 2022.

Subject to internal and regulatory guidelines, market conditions and other constraints, Ambac may continue to opportunistically purchase or sell AAC and Ambac UK-insured securities, surplus notes and/or other AAC issued securities, and may consider opportunities to exchange securities issued by AAC for other securities issued by AFG or AAC.

Liability and Insured Exposure Management

AAC's Risk Management Group focuses on the implementation and execution of risk reduction, defeasance and loss recovery strategies. Analysts evaluate the estimated timing and severity of projected policy claims as well as the potential impact of loss mitigation or remediation strategies in order to target and prioritize policies, or portions thereof, for commutation, reinsurance, refinancing, restructuring or other risk reduction strategies. For targeted policies, analysts will engage with issuers, bondholders and other economic stakeholders to negotiate, structure and execute such strategies. During 2022, Ambac completed risk reduction transactions consisting of refinancings and commutations of $2,707, of which, $806 related to Puerto Rico. Refer below to the Financial Guarantees In Force section of the Management Discussion and Analysis for Results of Operations, Financial Guarantees in Force for additional details of the Puerto Rico restructuring.

The following table provides a comparison of total, adversely classified ("ACC") and watch list (as described in Note 2. *Basis of Presentation and Significant Accounting Policies* to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K) credit net par outstanding in the insured portfolio at December 31, 2022 and 2021. Net par exposure within the U.S. public finance market 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.

($ in billions) December 31,	2022	2021	Variance	
Total	$ 22,613	$ 28,020	$ (5,407)	(19)%
ACC	$ 4,735	$ 6,361	$ (1,626)	(26)%
Watch List	$ 3,044	$ 3,824	$ (780)	(20)%

The decrease in total, ACC and watch list credit net par outstanding resulted from active de-risking (including AAC's exposures to Puerto Rico), and strengthening of the USD versus the GBP and EURO, as well as scheduled maturities, amortizations, refundings and calls.

Russia and Ukraine Conflict

The current conflict between Russia and Ukraine and the related sanctions and other penalties imposed by countries across the globe against Russia are creating substantial uncertainty in the global economy. We do not have operations in Russia or Ukraine or any insured exposures in those countries. Ambac's investment portfolio exposure to Russian issuers is not meaningful. Given our insignificant exposure, we have not experienced, and do not expect this conflict to have, a material adverse impact on our results of operations, financial condition or cash flows. However, as the conflict continues and if it were to escalate, the global economy and capital markets may be adversely impacted in ways that we cannot predict and therefore we are unable to estimate the ultimate impact that this conflict may have on our future financial condition, results of operations, and cash flows.

Financial Statement Impact of Foreign Currency

The impact of foreign currency as reported in Ambac's Consolidated Statement of Total Comprehensive Income (Loss) for the years ended December 31, 2022 and 2021 included the following:

($ in millions) December 31,	2022	2021
Net income [1]	$ 11	$ (7)
Gain (losses) on foreign currency translation (net of tax)	(85)	(8)
Unrealized gains (losses) on non-functional currency available-for-sale securities (net of tax)	11	3
Impact on total comprehensive income (loss)	$ (63)	$ (12)

(1) A portion of Ambac UK's, and to a lesser extent AAC's, assets and liabilities are denominated in currencies other than its functional currency and accordingly, we recognized net foreign currency transaction gains/(losses) as a result of changes to foreign currency rates through our Consolidated Statement of Total Comprehensive Income (Loss). Refer to Note 2. Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report in Form 10-K for further details on transaction gains and losses.

Future changes to currency rates, may adversely affect our financial results. Refer to Part II, Item 7A "Quantitative and Qualitative Disclosures about Market Risk" for further information on the impact of future currency rate changes on Ambac's financial instruments.

LIBOR Sunset

Ambac continuously monitors regulatory and industry developments related to the transition from LIBOR to alternative reference rates. In 2021, New York State passed legislation addressing the cessation of U.S. Dollar ("USD") LIBOR and specified a recommended benchmark replacement based on the Secured Overnight Financing Rate ("SOFR") for certain legacy transactions. Similar federal legislation was passed into law in March 2022 and the Federal Reserve's Board of Governors adopted the final rules for implementing this legislation in December 2022. While Ambac believes the LIBOR law is a positive step, there remains some uncertainty about how it will be interpreted or challenged as well as about other aspects of the discontinuance of LIBOR. At the same time, regulatory and governmental authorities continue to promote the creation and functioning of post-LIBOR indices, SOFR in particular. See the Risk Factor entitled "Uncertainties regarding the expected discontinuance of the London Inter-Bank Offered Rate or any other interest rate benchmark could have adverse consequences" found in Part I, Item 1A of this Annual Report on Form 10-K.

SEC Proposed Rules on Climate Related Information

On March 21, 2022, the Securities and Exchange Commission (“SEC”) proposed rule amendments that would require public

companies to include certain climate-related information in their periodic reports and registration statements, including oversight and governance, material impacts (operational and financial), risk identification and management, and Scope 1, 2 and 3 emissions (the “Proposed Rule”). For accelerated filers, such as Ambac, the Scope 1 and 2 emissions disclosures would require attestation from a third party. These new requirements, if adopted, would at the earliest take effect in fiscal year 2024 and begin to apply to SEC filings in 2025. Ambac is reviewing the Proposed Rule and assessing related compliance obligations and other effects on our operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Ambac's Consolidated Financial Statements have been prepared in accordance with GAAP. This section highlights accounting estimates management views as critical because they are most important to the portrayal of the Company's financial condition; and require management to make difficult and subjective judgments regarding matters that are inherently uncertain and subject to change. These estimates are evaluated on an on-going basis considering historical developments, political events, market conditions, industry trends and other information. There can be no assurance that actual results will conform to estimates and that reported results of operations will not be materially adversely affected by the need to make future accounting adjustments to reflect changes in these estimates from time to time.

Management has identified the following critical accounting policies and estimates: (i) valuation of financial guarantee loss and loss adjustment expense reserves, (ii) valuation of certain financial instruments and (iii) valuation of deferred tax assets. Management has discussed each of these critical accounting policies and estimates with the Audit Committee, including the reasons why they are considered critical and how current and anticipated future events impact those determinations. Additional information about these policies can be found in Note 2. Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements included in Part II, Item 8 in this Form 10-K.

Valuation of Financial Guarantee Losses and Loss Expense Reserves (including Subrogation Recoverables)

The loss and loss adjustment expense reserves and subrogation recoverable assets (collectively defined as "loss reserves") discussed in this section relate only to Ambac’s non-derivative financial guarantee insurance policies issued to beneficiaries, including unconsolidated VIEs. A loss reserve is recorded on the balance sheet on a policy-by-policy basis at the present value ("PV") of expected net claim cash outflows or expected net recovery cash inflows, discounted at risk-free rates. The estimate for future net cash flows consider the likelihood of all possible outcomes that may occur from missed principal and/or interest payments on the insured obligation. This estimate also considers future recoveries related to remediation strategies and other contractual or subrogation-related cash flows.

The evaluation process for expected future net cash flows is subject to certain estimates and judgments regarding the probability of default by the issuer of the insured security, probability of negotiation or settlement outcomes (which may include commutation, litigation and other settlements, and/or a refinancing), probability of a restructuring outcome (which may include payment moratoriums, debt haircuts and/or subsequent recoveries) and the expected loss severity of credits for each insurance contract.

As the probability of default for an individual credit increases and/or the severity of loss given a default increases, our loss reserve for that insured obligation will also increase. Political, economic, credit or other unforeseen events could have an adverse impact on default probabilities and loss severities. The loss reserves for many transactions are derived from the issuer’s creditworthiness. For public finance issuers, loss reserves will consider not only creditworthiness but also political dynamics and economic status and prospects. The loss reserves for transactions which have no direct issuer support, such as most structured finance exposures, including RMBS and student loan exposures, are derived from the default activity and the estimated loss given default of the underlying collateral supporting the transactions. In addition, many transactions have a combination of issuer/entity and collateral support. Loss reserves reflect our assessment of the transaction’s overall structure, support and expected performance. Loss reserve volatility will be a direct result of the credit performance of our insured portfolio, including the number, size, bond types and quality of credits included in our loss reserves; our ability to execute workout strategies and commutations; economic and market conditions; and management's judgments with regards to the current performance and future developments within the insured portfolio. The number and severity of credits included in our loss reserves depend to a large extent on transaction specific attributes, but will generally increase during periods of economic stress and decline during periods of economic prosperity. Reinsurance contracts mitigate our loss reserves but since Ambac currently has minimal exposure ceded to reinsurers on financial guarantee credits with loss reserves, the existing reinsurance contracts are unlikely to have a significant effect on loss reserve volatility. Loss reserve volatility will also be materially impacted by changes in interest rates from period to period.

The table below indicates the gross par outstanding and gross loss reserves (including loss expenses) related to policies in Ambac's Financial Guarantee loss and loss adjustment expense reserves at December 31, 2022 and 2021:

	Gross Par Outstanding (1)(2)	Gross Loss and Loss Adjustment Expense Reserves (1)(3)(4)
December 31, 2022		
Structured Finance	$ 2,050	$ 358
Domestic Public Finance	1,215	75
Other	782	3
Loss expenses	—	8
Totals	$ 4,047	**444**
December 31, 2021		
Structured Finance	$ 2,371	(1,178)
Domestic Public Finance	2,742	562
Other	1,189	17
Loss expenses	—	45
Totals	$ 6,302	**(554)**

(1) Ceded par outstanding on policies with loss reserves and ceded loss and loss adjustment expense reserves are $472 and $33 respectively, at December 31, 2022, and $784 and $24, respectively at December 31, 2021. Ceded loss and loss adjustment expense reserves are included in Reinsurance recoverable on paid and unpaid losses.

(2) Gross Par Outstanding 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 bond.

(3) Loss and Loss Adjustment Expense reserves at December 31, 2022, of $444 are included in the balance sheet in the following line items: Loss and loss adjustment expense reserves: $715 and Subrogation recoverable: $(271). Loss and Loss Adjustment Expense reserves at December 31, 2021, of $(554) are included in the balance sheet in the following line items: Loss and loss adjustment expense reserves: $1,538 and Subrogation recoverable: $(2,092).

(4) Ambac records as a component of its loss and loss adjustment expense reserves, estimated recoveries related to securitized loans in RMBS transactions that breached certain representations and warranties. Ambac has recorded gross estimated recoveries of $140 and $1,730 at December 31, 2022 and 2021, respectively.

See the Balance Sheet section of this Management's Discussion and Analysis of Financial Condition and Results of Operations below for a discussion on the reasons for changes to Gross Loss and Loss Adjustment Expense Reserves during 2022.

See Note 2. Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements, included in Part II, Item 8 in this Annual Report on Form 10-K for a description of the cash flow and statistical methodologies used to develop loss reserves. The majority of our large loss reserves utilize the cash flow method of reserving. Various cash flow scenarios are developed to represent the range of possible outcomes and resultant future claim payments and timing. Scenarios and probabilities of each are adjusted regularly to reflect changes in status, outlook and our analysis and views. Significant judgment is used to develop the cash flow assumptions and related probabilities, and there can be no certainty that the scenarios or probabilities will not deviate materially from ultimate outcomes.

- In some cases, such as RMBS and student loans, cash flow projections include the modeling of a securitization's cash flows to determine the resources available to pay debt service on our insured obligations. Key assumptions impacting RMBS cash flow models include borrower credit characteristics, projected home price appreciation, interest rates and mortgage loan modification activity. Key assumptions impacting student loan cash flow models include projected loan defaults, recoveries and interest rates.
- In other cases, such as many public finance exposures, we consider the issuer's overall ability and willingness to pay as it relates to the existing fiscal, economic, legal, restructuring and/or political framework relevant to a particular exposure or group of exposures. We then develop multiple scenarios where issuer debt service is paid, missed and/or haircut with claims paid then factor in any projected recovery amount (and potential variability of the recovery amount) and the timing thereof. There is no certainty our assumptions as to scenarios or probabilities will not be subject to material changes as developments occur.
- In estimating loss reserves, we may also incorporate scenarios which represent the potential outcome of remediation strategies. Remediation scenarios could include (i) a potential refinancing of the transaction by the issuer; (ii) the issuer's ability to redeem outstanding securities at a discount, thereby increasing the structure's ability to absorb future losses; and (iii) our ability to terminate, restructure or commute the policy in whole or in part. The remediation scenarios and the related probabilities of occurrence vary by policy depending on ongoing and expected discussions and negotiations with issuers and/or investors. In addition to commutation negotiations that are underway with various counterparties in various forms, our reserve estimates may also include scenarios which incorporate our ability and/or expectation to commute additional exposure with other counterparties.

Valuation of Certain Financial Instruments

The Fair Value Measurement Topic of the ASC requires financial instruments to be classified within a three-level fair value hierarchy. The fair value hierarchy, the financial instruments classified within each level, our valuation methods, inputs, assumptions and the review and validation procedures over quoted and modeled pricing are further detailed in Note 6. Fair Value Measurements to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K.

The level of judgment in estimating fair value is largely dependent on the amount of observable market information available to fair value a financial instrument, which is also determinative of where the financial instrument is classified in the fair value hierarchy. Level 3 instruments are valued using models which use one or more significant inputs or value drivers that are unobservable and therefore require significant judgment. Level 3 financial instruments which are material include certain

invested assets, uncollateralized interest rate swaps and investments and loan receivables of consolidated VIEs. Model-derived valuations of Level 3 financial instruments incorporate estimates of the effects of Ambac's own credit risk and/or counterparty credit risk, which can be complex and judgmental. Furthermore, Level 3 investments and loan receivables of consolidated VIEs incorporate estimates of Ambac's financial guarantee cash flows, including future premiums and losses. Such cash flow estimates require judgments regarding prepayments of VIE debt, loss probabilities and loss severities, all of which are inherently uncertain.

All models and related assumptions are continuously re-evaluated by management and enhanced, as appropriate, based on improvements in information and modeling techniques. The re-evaluation process includes a quarterly meeting of senior Finance personnel to review and approve changes to models and key assumptions.

As a result of the significant judgment for the above-described instruments, the actual trade value of the financial instrument in the market, or exit value of the financial instrument owned by Ambac, may be significantly different from its recorded fair value.

Valuation of Deferred Tax Assets

Our provision for taxes is based on our income, statutory tax rates and tax planning opportunities available to us in the jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions. We review our tax positions quarterly and adjust the balances as new information becomes available. Deferred tax assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss ("NOL"). More specifically, deferred tax assets represent a future tax benefit that results from losses recorded under GAAP in a current period which are only deductible for tax purposes in future periods and NOL carry forwards.

Valuation allowances are established to reduce deferred tax assets to an amount that “more likely than not” will be realized. Management considers all available evidence, both positive and negative, when determining whether to establish and/or maintain a valuation allowance against deferred tax assets, with significant weight given to evidence that can be objectively verified. Positive evidence includes reduced potential for material loss as a result of settling RMBS representation and warranty litigation and resolving exposure to Puerto Rico, Everspan's receipt of an 'A-" Financial Strength Rating from AM Best, the launch of a specialty program property and casualty insurance business, AFG's acquisition of majority interests in MGA/U businesses and AAC's reduction of material amounts of debt. Negative evidence includes the potential for unrecognized future insurance tax losses; cumulative pre-tax losses, adjusted for nonrecurring one-time events, for the last three years; the legacy financial guarantee business remains in run-off; and material amounts of debt remain at AAC.

The level of deferred tax asset recognition is influenced by management’s assessment of future expected taxable income, which depends on the existence of sufficient taxable income within the carry forward periods available under the tax law. As a result of the above-described risks and uncertainties associated with future operating results, management believes it is more likely than not that the Company will not generate sufficient taxable income to recover part or all the U.S. federal deferred tax asset and therefore has a full valuation allowance. To the extent such risks and uncertainties are resolved, Ambac may have the ability to establish a history of making reliable estimates of future income which could ultimately result in a reduction to the deferred tax asset valuation allowance. See Note 17. Income Taxes to the Consolidated Financial Statements, included in Part II, Item 8 in this Annual Report on Form 10-K for additional information on the Company's deferred income taxes.

FINANCIAL GUARANTEES IN FORCE ($ in millions)

Financial guarantee products were sold in three principal markets: U.S. public finance, U.S. structured finance and international finance. The following table provides a breakdown of guaranteed net par outstanding by market at December 31, 2022 and 2021. 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. Guaranteed net par outstanding includes the exposures of policies insuring variable interest entities (“VIEs”) consolidated in accordance with the Consolidation Topic of the ASC. Guaranteed net par outstanding excludes the exposures of policies that insure bonds which have been refunded or pre-refunded and for 2021 excludes exposure of the policy insuring the Sitka Senior Secured Notes as defined in *Note 1. Background and Business Description* to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K.

December 31,	2022	2021
Public Finance [1] [2]	$ 10,547	$ 12,360
Structured Finance	3,612	4,904
International Finance	8,454	10,756
Total net par outstanding	**$ 22,613**	**$ 28,020**

(1) Includes $5,400 and $5,490 of Military Housing net par outstanding at December 31, 2022 and 2021, respectively.

(2) Includes $244 and $1,054 of Puerto Rico net par outstanding at December 31, 2022 and 2021, respectively.

Below we will discuss the significant exposures in our insured portfolio relating to each of the three markets. See Note 7. Financial Guarantees in Force to the Consolidated Financial Statements, included in Part II, Item 8 in this Annual Report on Form 10-K for exposures by bond type.

U.S. Public Finance Insured Portfolio

AAC’s portfolio of U.S. public finance exposures totaled $10,547 in net par outstanding, representing 47% of Ambac’s net par outstanding as of December 31, 2022, and a 15% reduction from the amount outstanding at December 31, 2021.

This reduction in exposure was due to the Puerto Rico restructuring transactions, other active de-riskings, scheduled paydowns, and early terminations (calls, refundings and pre-refundings). Ambac's U.S. public finance portfolio consists of municipal bonds such as general obligation, revenue, and lease and tax-backed obligations of state and local government entities, and also includes several non-municipal types of bonds, such as financings with public and private elements, which generally finance infrastructure, housing and other public interests, the largest sector of which is U.S. military housing which accounts for approximately 51% of AAC's U.S. Public Finance Insured Portfolio.

Municipal Bonds

Municipal bonds are generally supported directly or indirectly by the issuer's taxing authority or by public sector fees and assessments which may or may not be specifically pledged. Risk factors in these transactions derive from the municipal issuer, including its fiscal management, politics, and economic position, as well as its ability and willingness to continue to pay its debt service. Municipal bankruptcies and similar proceedings, while still relatively uncommon, have occurred, exposing Ambac to the risk of liquidity claims and ultimate losses if issuers cannot successfully adjust their liabilities without impairing creditors.

Non-Municipal Bonds

Public/private transactions are generally structured to achieve their targeted public interest objective without direct support from the public sector. Some examples of this type of financing include affordable housing, private education, and privatized military housing. Protections within these financings provided to Ambac usually include the strength of the financed asset's essentiality and public purpose and may include financial covenants, collateral and control rights. Risk factors include financial underperformance, event risk and a shift in the asset's mission or essentiality.

Military Housing Bonds

AAC's largest concentration of non-municipal bonds is U.S. military housing. Ambac insures $5,400 net par of privatized military housing debt. The debt was issued to finance the construction and/or renovation of housing units for military personnel and their families on domestic U.S. military bases. Debt service is not directly paid or guaranteed by the U.S. Government. Rather, the bonds are serviced from the cash flow generated in most cases by rental payments deposited by the military directly into lockbox accounts as part of each service personnel's Basic Allowance for Housing (BAH). In typically small percentages, rental payments can also come from civilians, including retired service personnel and US Department of Defense contractors living on a particular base. Collateral for these transactions includes the BAH payments as well as an interest in the ground lease. Risk factors affecting these transactions include ongoing base essentiality, military deployments, the U.S. government's commitment to fund the BAH, marketability/attractiveness of the on-base housing units versus off-base housing, construction completion, environmental remediation, natural disasters, excessive utility and other operating costs and housing management. Ambac's exposure to privatized military housing debt is a growing concentration given the long-dated maturity profile of the exposure relative to other parts of Ambac's insured portfolio. As of December 31, 2022, privatized military housing represented approximately 24% of net par outstanding as compared to 19.6% as of December 31, 2021.

U.S. Structured Finance Portfolio

Ambac's portfolio of U.S. structured finance exposures is $3,612 in net par outstanding, representing 16% of Ambac's net par outstanding as of December 31, 2022, and a 26% reduction from the amount outstanding at December 31, 2021. This reduction in exposure was primarily related to (i) RMBS policies, which continued to prepay as well as incur claims, (ii) de-risking activity and (iii) scheduled paydowns.

Current insured exposures primarily include securitizations of mortgage loans, home equity loans and student loans, in each case where the majority of the underlying collateral risk is situated in the United States. At December 31, 2022, RMBS represented approximately 9% of net par outstanding.

Structured finance securitization exposures generally entail three forms of risk: (i) asset risk, which relates to the amount and quality of the underlying assets; (ii) structural risk, which relates to the extent to which the transaction's legal structure and credit support provide protection from loss; and (iii) servicer risk, which is the risk that poor performance at the servicer or manager level contributes to a decline in cash flow available to the transaction. AAC seeks to mitigate and manage these risks through its risk management practices.

International Finance Insured Portfolio

Ambac's portfolio of international finance insured exposures is $8,454 in net par outstanding, representing 37% of Ambac's net par outstanding as of December 31, 2022, and a 21% reduction from the amount outstanding at December 31, 2021. This reduction in exposure was primarily the result of commutations and a strengthening of the US dollar versus the British pound and the Euro. Ambac's international finance insured exposures include a wide array of obligations in the international markets, including infrastructure financings, utility obligations, whole business securitizations (e.g., securitizations of substantially all of the operating assets of a corporation) and sub-sovereign credits. At December 31, 2022, sub-sovereign and investor-owned and public utilities represented approximately 18% and 11% of net par outstanding, respectively. Ambac has no insured exposure related to emerging markets.

When underwriting transactions in the international markets, Ambac considered the specific risks related to the particular country and region that could impact the credit of the issuer. These risks include the legal and political environment, capital markets dynamics, foreign exchange issues and the degree of governmental support. Ambac continues to assess these risks through its ongoing risk management.

Ambac UK, which is regulated in the United Kingdom ("UK"), was AAC's primary vehicle for directly issuing financial guarantee policies in the UK and the European Union with $8,194 net par outstanding at December 31, 2022. The portfolio of insured exposures underwritten by Ambac UK is financially supported exclusively by the assets of Ambac UK and no capital support arrangements are in place with any other Ambac affiliate.

Ambac's international net par exposures are principally in the United Kingdom ($7,223); however, we also have exposures with credit risk based in various EU member states, including Austria, France, Germany and Italy ($971). Ambac does not guarantee any sovereign bonds of the above EU countries.

Largest Insured Exposures:

The table below shows Ambac's ten largest exposures, by repayment source, as a percentage of total financial guarantee net par outstanding at December 31, 2022 (in millions):

Sector	Co.	Bond Kind	Country-Bond Type	Ambac Ratings [1]	Ultimate Maturity Year	Net Par Outstanding	% of Total Net Par Outstanding
IF	AUK	Investor Owned Utility Gas - unsecured	UK-Utility	BBB+	2037	$ 805	3.6 %
IF	AUK	Other Asset Securitizations	UK-Asset Securitizations	BBB	2033	744	3.3 %
IF	AUK	PFI - Accommodation	UK-Infrastructure	A-	2040	723	3.2 %
IF	AUK	PFI - Hospitals	UK-Infrastructure	A-	2046	688	3.0 %
IF	AUK	Investor Owned Utility Other - unsecured	UK-Utility	A-	2035	598	2.6 %
IF	AUK	Sub-Sovereign	Italy-Sub-Sovereign	BIG	2035	591	2.6 %
IF	AUK	Investor Owned Utility Electric - unsecured	UK-Utility	BBB+	2036	556	2.5 %
PF	AAC	US State Lease/Appropriation	US-Lease and Tax-backed Revenue	BBB-	2036	489	2.2 %
IF	AUK	PFI - Accommodation	UK-Infrastructure	BBB+	2038	472	2.1 %
PF	AAC	Military Housing	US-Housing Revenue	BBB-	2052	450	2.0 %
Total						$ 6,116	27.1 %

PF = Public Finance, SF = Structured Finance, IF = International Finance
AAC = Ambac Assurance, AUK = Ambac UK

(1) Internal credit ratings are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac. In cases where Ambac has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at any time and do not constitute investment advice. BIG denotes credits deemed below investment grade.

Net par related to the top ten exposures reduced $1,209 from December 31, 2021. Exposures are impacted by commutations, changes in foreign exchange rates ($575 reduction during 2022), certain indexation rates linked to inflation measures in the United Kingdom (RPI) and Australia (CPI), and scheduled and unscheduled paydowns. As a result of recent increases in inflation, such indexation-linked exposures have increased at a faster pace than they have historically.

The concentration of net par amongst the top ten (as a percentage of net par outstanding) increased slightly to 27.1% at December 31, 2022, from 26.2% at December 31, 2021. Excluding the top ten exposures, the remaining insured portfolio of financial guarantees has an average net par outstanding of $30 per single risk, with insured exposures ranging up to $386 and a median net par outstanding of $5.

Given that Ambac has not written any new insurance policies since 2008, the risk exists that the insured portfolio becomes increasingly concentrated to large and/or below investment grade exposures.

Puerto Rico

Our exposure to Puerto Rico (the "Commonwealth") consisted of several different issuing entities (all below investment grade and whereby AAC has paid substantial claims since 2016) that have been part of the debt restructuring process under the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), a U.S. federal law enacted in 2016 that, among other things, established a financial oversight board (the "FOMB") and provided for a process for restructuring debt that roughly follows U.S. Bankruptcy laws. As of December 6, 2022, all AAC-insured Puerto Rico obligations have been restructured under PROMESA via court-approved plans of adjustment or qualifying modifications. The following table outlines Ambac's insured net par outstanding to each Commonwealth of Puerto Rico issuer.

Net Par Outstanding ($ in millions)	December 31, 2022	December 31, 2021
PR Highways and Transportation Authority (1998 Resolution - Senior Lien Transportation Revenue) [1]	$ 178	$ 394
PR Sales Tax Financing Corporation - Senior Sales Tax Revenue (COFINA)	66	73
PR Highways and Transportation Authority (1968 Resolution - Highway Revenue)	—	4
PR Infrastructure Financing Authority (Special Tax Revenue)	—	403
PR Convention Center District Authority (Hotel Occupancy Tax	—	86
Commonwealth of Puerto Rico - General Obligation Bonds	—	11
PR Public Buildings Authority - Guaranteed by the Commonwealth of Puerto Rico	—	83
Total Net Exposure to The Commonwealth of Puerto Rico and Related Entities	**$ 244**	**$ 1,054**
Total Net P&I Exposure to The Commonwealth of Puerto Rico and Related Entities	**$ 884**	**$ 2,423**

(1) As of February 16, 2023, net par of $136 has been reduced through acceleration and redemption payments consistent with AAC's plan to further de-risk its exposure to Puerto Rico.

Commonwealth Plan of Adjustment (Title III Case)

On January 18, 2022, Judge Laura Taylor Swain, U.S. District Court for the District of Puerto Rico, entered an order confirming the Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. ("Eighth Amended POA") together with the Qualifying Modifications for PRIFA and CCDA ("PRIFA QM" and "CCDA QM", respectively). On March 15, 2022, the Eighth Amended POA, the PRIFA QM and CCDA QM became effective, restructuring approximately $33,000 of debt across various Commonwealth instrumentalities, including obligations insured by AAC, and approximately $50,000 in pension obligations. The Eighth Amended POA, among other things, incorporated the settlement reflected in the PRIFA Related Plan Support Agreement ("PRIFA PSA") that was signed on July 27, 2021, by the FOMB, as representative of the Commonwealth of Puerto Rico, AAC, FGIC, and other holders of bonds issued by PRIFA. The Eighth Amended POA also incorporated the settlements reflected in the PRHTA/CCDA Related Plan Support Agreement ("PRHTA/CCDA PSA") dated May 5, 2021, and the Amended and Restated Plan Support Agreement with the FOMB, as representative of the Commonwealth of Puerto Rico, PBA, and the Employee Retirement System of the Government of the Commonwealth of Puerto Rico ("Amended and Restated GO / PBA PSA") dated as of July 12, 2021.

AAC-Insured Bond Effective Date Transactions

GO / PBA

On the Eight Amended POA effective date, AAC-insured GO and PBA bondholders who elected commutation of their insurance received: i) their respective shares of GO/PBA plan consideration available under the Eighth Amended POA, and ii) cash from Ambac. Ambac's obligations to the bondholders under the Ambac insurance policies who elected this option were deemed to be fully satisfied. On the plan effective date, about 50% and 27% of the outstanding par of the Ambac-insured GO and PBA bonds, respectively, totaling about $28 of insured par was commuted. The AAC-insured GO and PBA bondholders who failed to elect commutation received payment, in cash, of the outstanding principal amount of the bondholders' insured bonds plus the accrued and unpaid interest thereon as of the effective date (the "Ambac Acceleration Price."). Pursuant to this option, bondholders received the Ambac Acceleration Price in full and final discharge of Ambac's obligations under the Ambac insurance policies. As of the effective date, all the remaining outstanding AAC-insured GO and PBA bonds were satisfied and eliminated via commutation or acceleration.

PRIFA / CCDA

On the Eight Amended POA effective date, AAC-insured PRIFA and CCDA bondholders who elected commutation of their insurance received: 1) their respective shares of PRIFA or CCDA plan consideration available under the Eighth Amended POA and the PRIFA QM, or CCDA QM, as applicable, and 2) cash from Ambac. Ambac's obligations to the bondholders under the Ambac insurance policies who elected this option were deemed to be fully satisfied. The AAC-insured PRIFA and CCDA bondholders who failed to elect commutation had their bondholders' respective shares of consideration available under the Commonwealth Plan and the PRIFA QM, or CCDA QM, as applicable, deposited into a trust. On the plan effective date, about 39% and 19% of the outstanding par of the AAC-insured PRIFA and CCDA bonds, respectively, totaling about $172 of insured par was commuted with the remainder totaling about $317 of insured par deposited into the trusts. During the second quarter of 2022, the remainder of those PRIFA and CCDA bonds belonging to bondholders who elected not to commute their AAC Insurance Policies and were deposited into trusts together with such policies were all accelerated, satisfying and eliminating all of the AAC-insured PRIFA and CCDA bonds.

PRHTA Plan of Adjustment (Title III Case)

On October 12, 2022, Judge Swain entered an order confirming the Fifth Amended Title III Plan of Adjustment of The Puerto Rico Highways and Transportation Authority (" PRHTA POA"). On December 6, 2022, the PRHTA POA became effective, restructuring approximately $6,400 of PRHTA claims, including obligations insured by AAC. The PRHTA POA, among other things incorporated the settlement reflected in the PRHTA/CCDA PSA.

PRHTA / CCDA PSA

AAC signed a joinder to the PRHTA/CCDA PSA on July 15, 2021. The PRHTA/CCDA PSA, originally executed on May 5, 2021, provided for certain consideration for holders of bonds issued by certain Commonwealth instrumentalities, PRHTA and CCDA on account of their claims against the Commonwealth arising from such bonds ("Clawback" claims). Under the PRHTA/ CCDA PSA, PRHTA creditors shared $389 of cash proceeds that was paid on July 8, 2022, once the PRHTA distribution condition was met pursuant to the Eighth Amended POA (the "Interim Distribution"). In addition, PRHTA creditors received an approximately 69% share of the Clawback contingent value instrument ("CVI"), subject to a lifetime nominal cap of about $3,698, which was also paid as part of the Interim Distribution. The PRHTA Clawback CVI is subject to a PRHTA-specific waterfall: holders of PRHTA '68 bonds will receive the first dollars of Clawback CVI, followed by holders of PRHTA '98 bonds PRHTA bondholders also received new PRHTA bonds with a face amount of $1,245. Of the $1,245 in new bonds, approximately $646.4 was allocated to holders of PRHTA '68 bonds and approximately $598.6 was allocated to holders of PRHTA '98 bonds. In addition, AAC and other PRHTA creditors received restriction fees and consummation costs that were payable at the effective date of the PRHTA POA.

PRHTA Interim Distribution

On July 8, 2022, following satisfaction of the PRHTA distribution condition, AAC received its share of the Interim Distribution of cash and Clawback CVI related to the Ambac insured PRHTA '68 and '98 bonds in satisfaction of the Clawback claims against the Commonwealth under the Eighth Amended POA. The Interim Distribution to AAC totaled approximately $19 of cash and $295 maximum notional value of Clawback CVI, which had been recorded as cash and fixed maturity securities - trading (at fair value), respectively, on the Consolidated Balance Sheet. On the PRHTA POA effective date, a portion of the cash and Clawback CVI were: (i)

distributed to PRHTA '98 commuting bondholders together with the new PRHTA bonds in connection with the PRHTA POA and a commutation payment from AAC in full satisfaction of and in full and final discharge of Ambac's obligations under the Ambac insurance policies or (ii) deposited into a trust, as described below, together with the new PRHTA bonds or in connection with the PRHTA POA.

PRHTA Effective Date Transactions

On the PRHTA effective date, 1) all remaining outstanding AAC-insured PRHTA '68 bonds were fully satisfied and eliminated via acceleration, and 2), pursuant to bondholder election, AAC-insured PRHTA '98 bondholders who elected commutation of their insurance received (i) their share of PRHTA plan consideration under the PRHTA POA and the interim distribution under the Eighth Amended POA, and (ii) cash from AAC. AAC's obligations to the bondholders under the Ambac insurance policies who elected this option were deemed to be fully satisfied and eliminated. The AAC-insured PRHTA '98 bondholders who failed to elect commutation had their bondholders' share of plan consideration under the PRHTA POA and the interim distribution under the Eighth Amended POA deposited into a trust. On the plan effective date, about 21% of the outstanding par of the AAC-insured PRHTA 98 bonds, totaling about $83 of net par outstanding was commuted with the remainder totaling about $312 of net par outstanding being deposited into the trusts. Following the effective date, subsequent redemptions of trust units via the pass through of plan consideration proceeds and AAC acceleration payments further reduced AAC-insured PRHTA '98 net par exposure to $178 as of December 31, 2022. Since year-end, AAC-insured PRHTA exposure has been further reduced through redemptions of trusts units via the pass through of plan consideration proceeds, interest on plan consideration, and AAC acceleration payments.

Additional Insured Portfolio Information

Average Life of Insured Portfolio

Ambac estimates that the average life of its guarantees on par in force at December 31, 2022, is approximately 10 years. The average life is determined by applying a weighted average calculation, using the remaining years to expected maturity of each guaranteed bond, and weighting them on the basis of the remaining net par guaranteed. Except for RMBS policies, no assumptions are made for non-contractual reductions, refundings or terminations of insured issues. RMBS policies incorporate assumptions on expected prepayments over the remaining life of the insured obligation.

The following table depicts amortization of existing guaranteed net par outstanding:

Net Par Outstanding Amortization [1] ($ in millions)		Estimated Net Amortization
2023	$	1,251
2024		1,505
2025		1,252
2026		1,208
2027		1,014
2023 - 2027	$	6,230
2028 - 2032		5,172
2033 - 2037		6,597
2038 - 2042		2,040
After 2042		2,574
Total	$	22,613

(1) Depicts amortization of existing guaranteed portfolio, assuming no advance refundings, as of December 31, 2022. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.

Exposure Currency

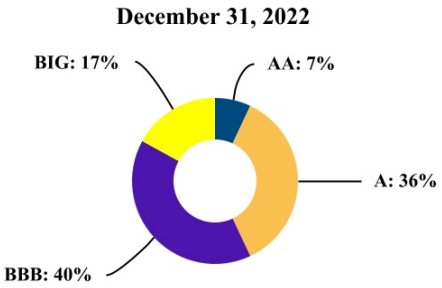
The table below shows the distribution by currency of Ambac's existing guaranteed net par outstanding as of December 31, 2022:

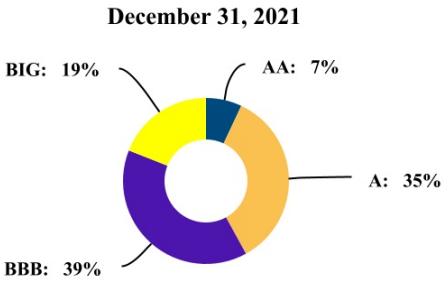
Currency ($ in millions)		Net Par Amount Outstanding in Base Currency		Net Par Amount Outstanding in U.S. Dollars	Percentage of Net Par Amount Outstanding
U.S. Dollars	$	14,350	$	14,350	63 %
British Pounds	£	5,842		7,048	31 %
Euros	€	894		956	4 %
Australian Dollars	A$	380		259	1 %
Total			$	22,613	100 %

See Note 7. Financial Guarantees in Force to the Consolidated Financial Statements, included in Part II, Item 8 included in this Annual Report on Form 10-K, for geographic detail by location of risk as of December 31, 2022.

Ratings Distribution

The following charts provide a rating distribution of existing net par outstanding based upon internal Ambac credit ratings at December 31, 2022 and 2021, and a distribution of Ambac's below investment grade ("BIG") net par exposures at December 31, 2022 and 2021. BIG is defined as those exposures with an internal credit rating below BBB-:





Note: AAA is less than 1% in both periods.

(1) Internal credit ratings are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac. In cases where Ambac has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at any time and do not constitute investment advice.

Summary of Below Investment Grade Exposure:

Bond Type	Net Par Outstanding	
December 31,	2022	2021
Public Finance:		
Military Housing	$ 366	$ 370
Puerto Rico	244	1,054
Other	213	317
Total Public Finance	823	1,741
Structured Finance:		
RMBS	1,841	2,170
Student loans	275	302
Total Structured Finance	2,117	2,472
International Finance:		
Sovereign/sub-sovereign	701	774
Transportation	310	389
Other	2	62
Total International Finance	1,013	1,225
Total	$ 3,953	$ 5,438

The net decline in below investment grade exposures is primarily due to de-risking activities, including the Puerto Rico restructuring, and foreign exchange rates of $71.

Below investment grade exposures could increase as a relative proportion of the guarantee portfolio given that stressed borrowers generally have less ability to prepay or refinance their debt. Accordingly, due to these and other factors, it is not unreasonable to expect the proportion of below investment grade exposure in the guarantee portfolio to continue to increase in the future.

Ceded Reinsurance

AAC has reinsurance in place pursuant to surplus share treaties and facultative agreements. As a primary financial guarantor, AAC is required to honor its obligations to its policyholders whether or not its reinsurers perform their obligations under these reinsurance agreements. AAC's reinsurers all have applicable ratings of A of better. As of December 31, 2022, the aggregate amount of insured par ceded by AAC to reinsurers under reinsurance agreements was $4,938, with the largest reinsurer accounting for $2,187 or 7.9% of gross par outstanding at December 31, 2022.

The following table shows the distribution, by bond type, of AAC's ceded guaranteed portfolio at December 31, 2022:

Bond Type	Ceded Par Amount Outstanding	
December 31,	**2022**	**2021**
Public Finance:		
General obligation	$ 1,265	$ 1,458
Lease and tax-backed revenue	1,169	1,618
Housing revenue	910	922
Transportation revenue	699	749
Other	555	612
Total Public Finance	4,598	5,359
Structured Finance:		
Investor-owned utilities	174	222
Structured insurance	—	313
Other	136	185
Total Structured Finance	310	720
Total Domestic	4,908	6,079
International Finance:		
Total International Finance	30	23
Total	**$ 4,938**	**$ 6,102**
Percentage of Gross Par Ceded	18 %	18 %

RESULTS OF OPERATIONS ($ in millions)

The following discussion should be read along with the financial statements included in this Annual Report on Form 10-K, as well as Part II, "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K for the year ended December 31, 2021, which provides additional information on comparisons of years 2021 and 2020.

Net income attributable to common stockholders for the year ended December 31, 2022, was $522 compared to a net loss attributable to common stockholders of $17 for the year ended December 31, 2021. The net income variance was primarily driven by: (i) a higher benefit through loss and loss adjustment expenses, (ii) a litigation recovery, (iii) higher gains on derivative contracts, (iv) higher net gains on extinguishment of debt, and (v) lower interest expense, partially offset by lower returns from the investment portfolio.

A summary of our financial results is shown below:

Year Ended December 31,	2022	2021	2020
Revenues:			
Net premiums earned	$ 56	$ 47	$ 54
Commission income	31	26	—
Program fees	3	—	—
Net investment income	17	139	122
Net investment gains (losses), including impairments	31	7	22
Net gains (losses) on derivative contracts	129	22	(50)
Net realized gains on extinguishment of debt	81	33	—
Income (loss) on variable interest entities	21	7	5
Other income	10	1	3
Litigation recoveries	126	—	—
Expenses:			
Losses and loss adjustment expenses (benefit)	(396)	(88)	225
Amortization of deferred acquisition costs, net	3	1	—
Commission expense	18	15	—
General and administrative expenses	141	111	92
Intangible amortization	47	55	57
Interest expense	168	187	222
Provision (benefit) for income taxes	2	18	(3)
Net income (loss)	522	(16)	(437)
Less: net (gain) loss attributable to noncontrolling interest	(1)	(1)	—
Net income (loss) attributable to common stockholders	**$ 522**	**$ (17)**	**$ (437)**

Ambac's results for the year ended December 31, 2022 were significantly impacted by the following:

- As of December 6, 2022, all AAC-insured Puerto Rico obligations were restructured under PROMESA via court-approved plans of adjustment or qualifying modifications. As a result of these successful restructurings, Ambac's 2022 consolidated financial results included a net benefit of $180 in losses and gains of $37 on the consolidation of newly established variable interest entities; partially offset by net losses of $23 from sales and changes to the fair value of securities received by AAC in the restructurings, losses of $17 on the VIEs after initial consolidation and accelerated amortization of the insurance intangible asset.

- On October 6, 2022, AAC entered into a Settlement Agreement and Release with Bank of America Corporation and certain affiliates thereof (the "BOA Parties") whereby the parties settled all RMBS litigation brought by AAC against the BOA Parties and AAC received $1,840. On December 29, 2022, AAC entered into a Settlement Agreement and Release with Nomura Credit & Capital, Inc. whereby the parties settled all RMBS litigation brought by AAC against Nomura and AAC received $140 on January 3, 2023. AAC used the proceeds from these settlements (net of reinsurance) plus approximately $6 of cash on hand to fully redeem all debt obligations secured by the net proceeds of litigations brought by AAC against RMBS sponsors. The settlements with the BOA Parties and Nomura brought to closure all of AAC's legacy litigation against RMBS sponsors. See Note 1. Background and Business Description in Part II, Item 8 in this Annual Report on Form 10-K for further information. During 2022, AAC recorded a gain of $123 million in loss and loss adjustment expenses and litigation recoveries of $126, offset by net realized losses on extinguishment of debt of $53 related to the above-mentioned settlement agreements.

The following paragraphs describe the consolidated results of operations of Ambac and its subsidiaries for 2022 and 2021.

Gross Premiums Written. Gross premiums written increased $125 for the year ended December 31, 2022, compared to the same periods in the prior year, as shown by segment below.

Year Ended December 31,	2022	2021	2020
Legacy Financial Guaranty Insurance	$ (20)	$ (11)	$ (1)
Specialty Property & Casualty Insurance	146	13	—
Total	$ 127	$ 2	$ (1)

Legacy Financial Guarantee Insurance gross written premiums were negative from de-riskings, pre-payments and other changes in expected cash flows of insured transactions.

See gross premiums written by line of business for the Specialty Property & Casualty Insurance business located in the Business section of Part I, Item 1 in this Annual Report on Form 10-K.

Net Premiums Earned. Net premiums earned for the year ended December 31, 2022 increased by $9 or 20% as compared to net premiums earned for the year ended December 31, 2021, as shown below.

Year Ended December 31,	2022	2021	2020
Legacy Financial Guaranty Insurance	$ 42	$ 46	$ 54
Specialty Property and Casualty Insurance	14	1	—
Total	56	47	54

The reduction in Legacy Financial Guarantee Insurance segment net premiums earned was primarily due to de-risking activities, run-off of the insured portfolio, and the impact from the strengthening of the US dollar relative to the British Pound Sterling. The increase in Specialty Property & Casualty Insurance net premiums earned was driven by the growth in net premiums written.

Commission Income. Commission income was $31 compared to $26, for the years ended December 31, 2022 and 2021. Commissions include both base and profit sharing commissions of the Insurance Distribution segment. The increase was driven by greater premiums placed by Xchange Benefits as well as premiums placed by All Trans and Capacity Marine since their acquisition in November 2022. Commission expense will largely track changes in gross commission. For the year ended December 31, 2022 commissions expenses were $18 compared to $15 for the year ended December 31, 2021, representing approximately 58% of commission income in both periods.

Program Fees. Program fee revenues were $3 compared to less than $1 for the years December 31, 2022 and 2021, respectively. Program fee revenues represent the recognition of ceding commissions in excess of direct acquisition costs received from reinsurers and minimum fees received from MGA/Us until the related program reaches a certain level of premium. Program fees are typically charged as a percentage of premiums ceded to reinsurers as a component of total ceding commissions.

Net Investment Income. Net investment income primarily consists of interest and net discount accretion on fixed maturity securities classified as available-for-sale, interest and changes in fair value of fixed maturity securities classified as trading, and net gains (losses) on pooled investment funds which include changes in fair value of the funds' net assets. Fixed maturity securities include investments in Ambac-insured securities that are made opportunistically based on their risk/reward and asset-liability management characteristics. Investments in pooled investment funds and certain other investments are either classified as trading securities with changes in fair value recognized in earnings or are reported under the equity method. These funds and other investments are reported in Other investments on the Consolidated Balance Sheets. For further information about investment funds held, refer to Note 5. Investments to the Consolidated Financial Statements, included in Part II, Item 8 in this Annual Report on Form 10-K. Net investment income for the periods presented were driven by the Legacy Financial Guarantee Insurance segment, other segments' results were not significant.

Net investment income from Ambac-insured securities, available-for-sale securities other than Ambac-insured and Other investments is summarized in the table below:

Year Ended December 31,	2022	2021	2020
Securities available-for-sale: Ambac-insured (including secured notes)	$ 24	$ 45	$ 62
Securities available-for-sale and short-term other than Ambac-insured	42	29	41
Other investments (includes trading securities)	(49)	66	19
Net investment income	**$ 17**	**$ 139**	**$ 122**

Net investment income decreased $123 for the year ended December 31, 2022, compared to 2021. As described further below, the variance was primarily driven by 2022 fair value losses within fund investments and on fixed maturity investments classified as trading, and the impact of the LSNI Secured Note redemption in July 2021.

- Other investments results decreased $115 in 2022, compared to the prior year, including losses of $23 on securities received in the Puerto Rico restructurings which are classified as trading. Pooled fund investments produced a net loss of $26 in 2022, a decrease of $92 compared to 2021. The decrease was driven by net losses in most fund categories compared to generally strong performance in 2021, with the largest declines being in hedge funds, equities, high-yield and leveraged loan funds and real estate. Investments in pooled funds may be volatile, but are generally expected to produce higher returns than traditional fixed maturity investments.
- Investment income from Ambac-insured securities decreased $21 in 2022, compared to 2021, due primarily to lower levels of secured note holdings, the impact of the March 15, 2022 and December 6, 2022 Puerto Rico restructurings and continued runoff of AAC-insured RMBS.
- Net investment income from available-for-sales securities other than Ambac-insured securities increased $13 in 2022, compared to the prior year, due to higher portfolio yields.

Net Investment Gains (Losses), including Impairments. The following table provides a breakdown of net investment gains, for the periods presented:

Year Ended December 31,	2022	2021	2020
Net realized gains on securities sold or called	$ 18	$ 11	$ 26
Net foreign exchange gains (losses)	14	(5)	(4)
Credit impairment	—	—	—
Intent / requirement to sell impairments	—	—	—
Total net investment gains, including impairments	**$ 32**	**$ 7**	**$ 22**

Net investment gains on securities sold or called during the year ended December 31, 2022, included a recovery of $9 from a class-action settlement relating to certain RMBS securities previously held in the investment portfolio, $4 from the distribution of residual assets of a legacy financial guarantee student loan restructuring vehicle and $5 from the mandatory redemption of Sitka Senior Secured Notes over their amortized cost value. Realized gains in 2021 included $4 on the sale of AFG's equity interest in the Corolla Trust in connection with the Corolla Note Exchange (as such terms are defined in *Note 1. Background and Business Information* to the Consolidated Financial Statements included in this Annual Report). Other net realized gains on securities sold or called in 2022 and 2021 are primarily from sales in connection with routine portfolio management.

Credit impairments are recorded as an allowance for credit losses with changes in the allowance recorded through earnings.

Any non-credit related impairment amounts on the securities are recorded in other comprehensive income. If management either: (i) has the intent to sell its investment in a debt security or (ii) determines that the Company is more likely than not will be required to sell the debt security before its anticipated recovery, then the amortized cost of the security is written-down to fair value with a corresponding impairment charge recognized in earnings.

Net Gains (Losses) on Derivative Contracts. Net gains (losses) on derivative contracts are primarily from the Company's interest rate derivatives portfolio, which is positioned to benefit from rising rates as a partial economic hedge against interest rate exposure in the financial guarantee insurance and investment portfolios. Net gains (losses) on interest rate derivatives generally reflect mark-to-market gains (losses) in the portfolio caused by increases (declines) in forward interest rates during the periods, the carrying cost of the portfolio, and the impact of counterparty credit adjustments as discussed below. Results from other non-VIE derivatives were not significant to the periods presented.

Net gains on interest rate derivatives for the year ended December 31, 2022, were $128, compared to a net losses of $22 for the year ended December 31, 2021. The net gain for the year ended December 31, 2022, reflects changes in fair value from increases in forward interest rates and lower counterparty credit adjustments on certain derivative assets, partially offset by portfolio carrying costs. The improved results for the year ended December 31, 2022, resulted from significant interest rate increases combined with favorable portfolio positioning and the impact of credit spreads in derivative assets as described further below.

Counterparty credit adjustments are generally applicable for uncollateralized derivative assets that may not be offset by derivative liabilities under a master netting agreement. In periods when credit spreads are stable, counterparty credit adjustments will generally have a proportionate offsetting impact to gains or losses on derivative assets, relative to fully collateralized assets. In addition to the impact of interest rates on the underlying derivative asset values, the changes in counterparty credit adjustments are driven by movement of credit spreads. Generally, narrowing (widening) of credit spreads will increase (decrease) derivative gains relative to a period of stable credit spreads. Inclusion of counterparty credit adjustments in the valuation of interest rate derivatives resulted in gains (losses) within Net gains (losses) on derivative contracts of $8 and $5 for the years ended December 31, 2022 and 2021, respectively. The lower counterparty credit adjustments for both periods reflected lower underlying asset values with the further impact of credit spread widening in 2022 and narrowing in 2021.

Net Realized Gains on Extinguishment of Debt. Net realized gains on extinguishment of debt was $81 for year ended December 31, 2022. Gains were recognized due to repurchases of surplus notes below their carrying values, partially offset with losses recognized on the redemption of the Sitka AAC Note (as defined in *Note 1. Background and Business Description* to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K) above its carrying value.

AAC repurchased $266 million current par of surplus notes from third party holders between the second and fourth quarters of 2022. Net realized gains on extinguishment of debt was $33 for the year ended December 31, 2021, resulting from the 2021 exchanges of junior surplus notes below their carrying values. Refer to *Note 1. Background and Business Description* in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for further discussion of the 2021 Surplus Notes Exchanges. Subject to internal and regulatory guidelines, market conditions and other constraints, Ambac may continue to opportunistically purchase surplus notes and may consider opportunities to exchange securities issued by it from time to time for other securities issued by it.

Income (Loss) on Variable Interest Entities. Included within Income (loss) on variable interest entities are income statement amounts relating to FG-VIEs consolidated under the Consolidation Topic of the ASC as a result of Ambac's variable interest arising from financial guarantees written by Ambac's subsidiaries, including gains or losses attributable to consolidating or deconsolidating FG-VIEs during the periods reported. Generally, the Company's consolidated VIEs are entities for which Ambac has provided financial guarantees on all of or a portion of its assets or liabilities. In consolidation, assets and liabilities of the FG-VIEs are initially reported at fair value and the related insurance assets and liabilities are eliminated. However, the amount of FG-VIE net assets (liabilities) that remain in consolidation generally result from the net positive (negative) projected cash flows from (to) the VIEs which are attributable to Ambac's insurance subsidiaries in the form of financial guarantee insurance premiums, fees and losses. In the case of VIEs with net negative projected cash flows, the net liability is generally to be funded by Ambac's insurance subsidiaries through insurance claim payments. Differences between the net carrying value of the insurance accounts under the Financial Services—Insurance Topic of the ASC and the carrying value of the consolidated FG-VIE's net assets or liabilities are recorded through income at the time of consolidation. Additionally, terminations or other changes to Ambac's financial guarantee insurance policies that impact projected cash flows between a consolidated FG-VIE and Ambac could result in gains or losses, even if such policy changes do not result in deconsolidation of the FG-VIE.

Income (loss) on variable interest entities was $21 and $7 for the years ended December 31, 2022 and 2021, respectively. Results for the year ended December 31, 2022, related primarily to three VIE trusts created in connection with the Puerto Rico restructurings in 2022. The year ended December 31, 2022, included the initial $37 gain upon consolidation, losses of $9 from changes to fair value of these VIEs' assets, and losses of $7 from these VIEs driven by interest costs. Results for the year ended December 31, 2021, were due primarily to gains on higher valuation of net assets of VIEs, together with realized gains of $2 on sales of assets from the COFINA Trust. Refer to Note 12. Variable Interest Entities to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further information on the accounting for VIEs.

Litigation Recoveries. In connection with the settlement agreement with Bank of America Corporation and certain affiliates, the BOA Settlement Payment included recoveries from litigations for alleged breaches of contractual obligations and fraud by the BOA Parties. Management allocated the BOA Settlement Payment to each of the litigations based on previously developed valuations of each individual litigation. The portion of the BOA Settlement Payment allocated to fraud litigation recoveries has been recorded as a litigation recovery in the Statement of Comprehensive Income (Loss).

Losses and Loss Adjustment Expenses (Benefit). Losses and loss adjustment expenses include the financial guarantee and specialty property and casualty businesses.

Loss and loss adjustment expenses decreased $308 for the year ended December 31, 2022, compared to the prior year. Legacy financial guarantee loss and loss adjustment expenses (benefit) were $(406) and $(89) for the years ended December 31, 2022 and 2021, respectively. Specialty Property and Casualty Insurance loss and loss adjustment expenses were $9 and $— for the years ended December 31, 2022 and 2021, respectively

LFG Losses and loss expenses (benefit) for 2022, were driven by favorable RMBS development due to the impact of the settlement agreements with Bank of America Corporation and certain affiliates thereof and Nomura Credit and Capital, Inc.of $123 and the positive impact of discount rates, and favorable loss development in domestic public finance (primarily due to the Puerto Rico restructurings of $180).

LFG Losses and loss expenses for 2021 were largely driven by favorable loss development in domestic public finance, primarily related to Puerto Rico, and structured finance, primarily related to improved credit in RMBS, partially offset by the negative impact of discount rates, and loss expenses incurred.

General and Administrative Expenses ("G&A"). The following table provides a summary of G&A expenses for the periods presented:

($ in millions) Year Ended December 31,	2022	2021	2020
Compensation	$ 66	$ 62	$ 51
Non-compensation	75	49	41
Total	141	111	92

G&A expenses for the year ended December 31, 2022 are $141, an increase of $30 from G&A expenses for the year ended December 31, 2021. The increase was primarily due to the following:

- Higher compensation costs primarily due to a net increase in staffing from additions in the Specialty Property and Casualty Insurance and Insurance Distribution segments, partially offset by reductions in staffing in the Legacy Financial Guaranty segment, and the impact of performance factor adjustments on incentive compensation expense.
- Higher non-compensation costs primarily related to Legacy Financial Guarantee Insurance segment defensive litigation expenses of $26 and Specialty Property and Casualty Insurance segment costs associated with growth of the business. These items were partially offset by a reduction in advisory fees associated with Legacy Financial

Guarantee Insurance stemming from the 2021 secured note refinancing.

Intangible Amortization. Insurance intangible amortization was $44 and $52 for the years ended December 31, 2022 and 2021, respectively. The decrease in amortization for the year ended December 31, 2022, compared to 2021, is primarily due to run-off of the insured portfolio and de-risking activity. Other intangible amortization was $3 and $3 for the years ended December 31, 2022 and 2021 relating to the acquisitions within the Insurance Distribution segment.

Interest Expense. Interest expense includes accrued interest on the LSNI Ambac Note (as defined in *Note 1. Background and Business Description* to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K), Sitka AAC Note, Tier 2 Notes, surplus notes and other debt obligations. Additionally, interest expense includes discount accretion when the debt instrument carrying value is at a discount to par. The following table provides details by type of obligation for the periods presented:

Year Ended December 31,	2022	2021	2020
Surplus Notes [1]	$ 78	$ 77	$ 85
LSNI Ambac Note	—	50	107
Sitka AAC Note	63	32	—
Tier 2 Notes	26	27	28
Other	1	1	1
Total interest expense	**$ 168**	**$ 187**	**$ 222**

(1) Includes interest on Junior Surplus Notes that were acquired and retired in 2021.

The decrease in interest expense for the year ended December 31, 2022, compared to the year ended December 31, 2021, reflects the impact of the 2021 refinancing and 2022 redemption of secured notes as described further under "Secured Note Refinancing" and "Redemption of Notes" in Note 1. Background and Business Description to the Consolidated Financial Statements, included in this Annual Report on Form 10-K. These transactions resulted in lower debt outstanding and a lower coupon interest rate on the Sitka AAC Note relative to the LSNI Ambac Note. Interest expense for 2022 also declined as a result of purchases of surplus notes throughout the year. These benefits were partially offset by the effects of interest compounding on surplus notes and the Tier 2 Notes.

Surplus note principal and interest payments require the approval of OCI. In May 2022, OCI declined the request of AAC to pay the principal amount of the surplus notes, plus all accrued and unpaid interest thereon, on the then next scheduled payment date of June 7, 2022. As a result, the scheduled payment date for interest, and the scheduled maturity date for payment of principal of the surplus notes, was extended until OCI grants approval to make the payment. Interest will accrue, compounded on each anniversary of the original scheduled payment date or scheduled maturity date, on any unpaid principal or interest through the actual date of payment, at 5.1% per annum. Holders of surplus notes will have no rights to enforce the payment of the principal of, or interest on, surplus notes in the absence of OCI approval to pay such amount. The interest on the outstanding surplus notes were accrued for and AAC is accruing interest on the interest amounts following each scheduled payment date. Total accrued and unpaid interest for surplus notes outstanding to third parties was $427 at December 31, 2022. Since the issuance of the surplus notes in 2010, OCI has declined to approve regular payments of interest on surplus notes, although the OCI has permitted two exceptional payments.

Provision for Income Taxes. The provision for income taxes for the year ended December 31, 2022 and 2021, was a expense of $2 and $18, respectively. Income taxes for the year ended December 31, 2022 and 2021, includes provisions for income tax due in respect of Ambac UK of $3 and $16, respectively.

At December 31, 2022, the Company had approximately $3,454 of U.S. Federal net ordinary operating loss carryforwards, including approximately $1,630 at AFG and $1,824 at AAC.

Results of Operations by Segment

Legacy Financial Guarantee Insurance

Year Ended December 31,	2022	2021
Revenues:		
Net premiums earned	$ 42	$ 46
Net investment income	12	138
Net investment gains (losses), including impairments	32	3
Net gains (losses) on derivative contracts	128	22
Net realized gains on extinguishment of debt	81	33
Other income	30	8
Litigation recoveries	126	—
Total	451	250
Expenses:		
Losses and loss adjustment expenses (benefit)	(406)	(89)
General and administrative expenses	102	77
Total	(303)	(12)
Earnings before interest, taxes, depreciation and amortization [1]	754	262
Interest expense	168	187
Depreciation	2	2
Intangible amortization	44	52
Pretax income (loss)	$ 540	$ 20
Stockholders equity [2]	$ 826	$ 684

(1) Abbreviated as "EBITDA" in future references

(2) Represents the share of Ambac stockholders equity for each subsidiary within the Legacy Financial Guarantee Insurance segment, including intercompany eliminations.

The Legacy Financial Guarantee Insurance segment is in active runoff. This will generally result in lower premium earned, investment income, operating expenses and intangible amortization. The variability in the financial results are primarily driven by changes in loss and loss adjustment expenses resulting from, amongst other items, litigation settlements, credit developments and de-risking transactions. Additionally, the segment results are impacted by changes in interest rates as they impact net gains on derivative contracts and

interest expense on the floating rate Sitka AAC Note (prior to its redemption in 2022). Key variances not discussed above in the Consolidated Results section are as follows:

Net premiums earned. Net premiums earned decreased $4 for the year ended December 31, 2022, compared to the same period in the prior year. Net premiums earned were impacted by the organic and active runoff of the financial guarantee insured portfolio resulting in a reduction to current and future normal net premiums earned and the following:

- Changes to the allowance for credit losses on the premium receivable asset. The positive impact on net premiums earned related to credit losses amounted to $4 and $8 for the years ended December 31, 2022 and 2021, respectively.
- Accelerated financial guarantee premiums earned as a result of calls and other accelerations on insured obligations, largely due to active de-risking of the insured portfolio, were $8 and $1 for the years ended December 31, 2022 and 2021, respectively.

Losses and Loss Adjustment Expenses (Benefit). Losses and loss adjustment expenses are based upon estimates of the aggregate losses inherent in the non-derivative portfolio for insurance policies issued to beneficiaries, excluding consolidated VIEs.

Ambac recorded as a component of its loss reserve estimate subrogation recoverables related to securitized loans in RMBS transactions with respect to which AAC pursued claims for breaches of representations and warranties. Ambac has recorded representation and warranty ("R&W") subrogation recoverables, net of reinsurance, of $140 and $1,704 at December 31, 2022 and 2021, respectively. The decrease in these recoverables was primarily attributable to the settlement agreement with Bank of America Corporation and certain affiliates. On December 29, 2022, AAC entered into a Settlement Agreement and Release with Nomura Credit & Capital, Inc. whereby the parties settled all RMBS litigation brought by AAC against Nomura and AAC received $140 on January 3, 2023 bringing to a close all of AAC's legacy litigation against RMBS sponsor.

The following provides details for losses and loss expenses (benefit) incurred for the periods presented:

Year Ended December 31,	2022	2021
Structured Finance	$ (207)	$ (20)
Domestic Public Finance	(192)	(73)
Other	(6)	4
Totals [1]	**$ (406)**	**$ (89)**

(1) Includes loss expenses incurred of $29, $55 and $103 for the year ended December 31, 2022, 2021 and 2020, respectively.

Losses and loss expenses (benefit) for 2022, were driven by favorable RMBS development due to the impact of the settlement agreements with Bank of America Corporation and certain affiliates thereof and Nomura Credit and Capital, Inc. of $123 and the positive impact of discount rates, and favorable loss development in domestic public finance (primarily due to the Puerto Rico restructurings of $180).

Legacy financial guarantee losses and loss expenses for 2021 were largely driven by favorable loss development in domestic public finance, primarily related to Puerto Rico, and structured finance, primarily related to improved credit in RMBS, partially offset by the negative impact of discount rates, and loss expenses incurred.

G&A Expenses. The increase in operating expenses during the year ended December 31, 2022, as compared to the year ended December 31, 2021, is driven primarily by additional costs related to defensive litigation of $26. Compensation cost benefits relative to 2021 from headcount reductions in the segment were more than offset by the impact of incentive compensation performance factor adjustments and severance charges.

Specialty Property and Casualty Insurance

Year Ended December 31,	2022	2021
Gross premiums written	$ 146	$ 13
Net premiums written	29	3
Revenues:		
Net premiums earned	$ 14	$ 1
Net investment income	2	1
Net investment gains (losses), including impairments	—	—
Program fees	3	—
Total	18	2
Expenses:		
Losses and loss adjustment expenses (benefit)	9	—
Amortization of deferred acquisition costs, net	3	—
General and administrative expenses	13	9
Net (gain) loss attributable to noncontrolling interest	—	—
EBITDA	(6)	$ (8)
Pretax income (loss)	$ (6)	$ (8)
Loss and LAE Ratio	65.4 %	NM
Combined Ratio	158.1 %	NM
Ambac's stockholders equity [1]	$ 110	$ 109

(1) Represents Ambac stockholders equity in the Specialty Property and Casualty Insurance segment, including intercompany eliminations.

The Specialty Property and Casualty Insurance segment has grown significantly since underwriting its first program in May 2021. Fourteen programs were authorized to issue policies as of December 31, 2022. The growth in both the number and size of these programs has contributed to the increase in gross and net premiums written, net premiums earned and net loss and loss adjustment expenses incurred.

Loss and loss adjustment expenses incurred may be adversely impacted by increasing economic and social inflation, particularly within the commercial auto business. The impact of inflation on ultimate loss reserves is difficult to estimate, particularly in light of recent disruptions to the judicial system, supply chain and labor markets. Going forward, we may not be able to offset the impact of inflation on our loss costs with sufficient price increases. The estimation of loss reserves may also be more difficult during extreme events, such as a

pandemic, or during the persistence of volatile or uncertain economic conditions, due to, amongst other reasons, unexpected changes in behavior of claimants and policyholders, including an increase in fraudulent reporting of exposures and/or losses. Due to the inherent uncertainty underlying loss reserve estimates, the final resolution of the estimated liability for loss and loss adjustment expenses will likely be higher or lower than the related loss reserves at the reporting date. In addition, our estimate of losses and loss expenses may change. These additional liabilities or increases in estimates, or a range of either, could vary significantly from period to period.

On September 28, 2022, Hurricane Ian reached landfall resulting in significant damage primarily in the states of Florida and South Carolina. Everspan's estimate of losses and loss expenses from this event is not material.

Segment pre-tax net income was favorably impacted by underwriting income driven by growth in earned premium and program fees relative to loss and loss adjustment expenses for the year ended December 31, 2022, compared to the year ended December 31, 2021. General and Administrative expenses for the year ended December 31, 2022 increased as compared to the year ended December 31, 2021 primarily driven by costs associated with the increase in Everspan's operations including changes in staffing. Costs associated with the acquisition of additional shell insurance companies, as we continued to ramp up Everspan's operations, impacted pre-tax income for the year ended December 31, 2022 by approximately $1, relative to the year ended December 31, 2021.

Insurance Distribution

Year Ended December 31,	2022	2021
Premiums placed	$ 135	$ 117
Commission income	$ 31	$ 26
Commission expense	18	15
Net commissions	13	12
Expenses:		
General and administrative expenses	6	5
Net (gain) attributable to noncontrolling interest	**(1)**	**(1)**
EBITDA	**6**	**5**
Depreciation [1]	—	—
Intangible amortization	3	3
Pretax income (loss)	$ 5	$ 4
Ambac's stockholders equity [2]	**$ 93**	$ 66

(1) The Consolidated Statements of Comprehensive Income includes this in General and Administrative Expenses.

(2) Represents the share of Ambac stockholders equity for each subsidiary within the Insurance Distribution segment, including intercompany eliminations.

Ambac's Insurance Distribution segment, Cirrata Group "Cirrata", currently includes Xchange Benefits, a P&C MGA specializing in accident and health products; All Trans, a full service managing general underwriter with delegated underwriting authority in commercial automobile insurance for specific "for-hire" auto classes; and Capacity Marine, a wholesale and retail brokerage and reinsurance intermediary specializing in marine and international risk. The Insurance Distribution business is typically compensated for its services primarily by commissions paid by insurance carriers for underwriting, structuring and/or administering polices and, in some cases, the managing of claims under an agency agreement. Commission revenues are usually based on a percentage of the premiums placed. Cirrata is also eligible to receive profit sharing contingent commissions on certain of its programs based on the underwriting results of the policies it places with the carrier, which may cause some variability in revenue and earnings.

Cirrata business placed premiums for its carriers of approximately $135 for the year ended December 31, 2022, up $18 or 15% as compared to the year ended December 31, 2021. The growth was primarily driven by premiums placed by All Trans and Capacity Marine since their acquisition in November 2022.

Employer Stop Loss business underwritten by Xchange has seasonality in January and July, which result in revenue and earnings concentrations in the first and third quarters each calendar year, however, we expect this to become less pronounced over time as Cirrata continues to grow and diversify into other classes of business.

G&A Expenses. General and Administrative expenses for the year ended December 31, 2022 increased slightly as compared to the year ended December 31, 2021 as a result of employees hired to support the ESL renewal rights acquisition that occurred on April 29, 2022 and operating costs at All Trans and Capacity Marine since their acquisition in November 2022.

LIQUIDITY AND CAPITAL RESOURCES
($ in millions)

Holding Company Liquidity

AFG is organized as a legal entity separate and distinct from its operating subsidiaries. AFG is a holding company with no outstanding debt. AFG's liquidity is primarily dependent on its net assets, excluding the operating subsidiaries that it owns, totaling $223 as of December 31, 2022, and secondarily on distributions and expense sharing payments from its operating subsidiaries.

- Under an inter-company cost allocation agreement, AFG is reimbursed by AAC for a portion of certain operating costs and expenses and, if approved by OCI, entitled to an additional payment of up to $4 per year to cover expenses not otherwise reimbursed. The $4 reimbursement for 2021 expenses was approved by OCI and paid to AFG in April 2022.
- Substantial uncertainty remains as to AAC's ability to pay dividends to AFG and the timing of any such dividends.
- Everspan's ability to make future dividend payments will mostly depend on its future profitability relative to its capital needs to support growth. Everspan is not expected to pay dividends in the near term.

- Cirrata does not have any regulatory restrictions on its ability to make distributions. AFG received distributions from Cirrata of $6 and $6 during the years ended December 31, 2022 and 2021.

AFG's principal uses of liquidity are: (i) the payment of operating expenses, including costs to explore opportunities to grow and diversify Ambac, (ii) the making of strategic investments, which may include illiquid investments and (iii) making capital investments to acquire, grow and/or capitalize new and/or existing businesses; such capital investments include investments in technology to support the efficient operation of our Specialty Property and Casualty and Insurance Distribution businesses. AFG may also provide short-term financial support, primarily in the form of loans, to its operating subsidiaries to support their operating requirements. AFG supported the development of the Specialty Property and Casualty Insurance business, and its acquisitions, with cash contributions of $15 and $92 to the Everspan group of companies during the years ended December 31, 2022 and 2021, respectively.

In the opinion of the Company's management the net assets of AFG are sufficient to meet AFG's current liquidity requirements. However, events, opportunities or circumstances could arise that may cause AFG to seek additional capital (e.g. through the issuance of debt, equity or hybrid securities).

Operating Companies' Liquidity

Insurance:

Sources of liquidity for the Company's insurance subsidiaries are through funds generated from premiums, recoveries of prior claim payments, reinsurance recoveries, fees, investment income and maturities and sales of investments.

- See Note 8. Insurance Contracts to the Consolidated Financial Statements included in Part II, Item 8, in this Annual Report on Form 10-K for a summary of future gross financial guarantee premiums to be collected by AAC and Ambac UK. Termination of financial guarantee policies on an accelerated basis may adversely impact AAC's liquidity.

Cash provided from these sources is used primarily for claim payments and commutations, loss expenses, acquisition costs (Specialty Property and Casualty Insurance segment only), debt service (Legacy Financial Guarantee segment only), operating expenses, reinsurance payments and purchases of securities and other investments.

- Interest and principal payments on surplus notes are subject to the approval of OCI, which has full discretion over payments regardless of the liquidity position of AAC. As discussed more fully in "Results of Operations" above in this Management's Discussion and Analysis, OCI declined AAC's request to pay the principal amount of the surplus notes, plus all accrued and unpaid interest thereon, on June 7, 2022.
- As further described in Note 1. Background and Business Description to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K: (i) effective October 29, 2022, AAC wholly redeemed the Sitka AAC Note and partially redeemed Tier 2 Notes and (ii) effective January 15, 2023, AAC fully redeemed the remaining Tier 2 Notes. Additionally, in the second and fourth quarters of 2022, AAC repurchased $334 current par of surplus notes (including $67 from AFG). Following these redemptions and repurchases, current principal outstanding on AAC's long-term debt consisted of $519 of surplus notes. AAC's future interest obligations on long-term debt after giving effect to these redemptions include $447 of accrued and unpaid interest that would be payable on surplus notes if approved by OCI on the next scheduled payment date of June 7, 2023.
- Ambac Financial Services ("AFS") uses interest rate derivatives (primarily interest rate swaps and US Treasury futures) as a partial economic hedge against the effects of rising interest rates elsewhere in the Legacy Financial Guarantee segment. AFS's derivatives also include interest rate swaps previously provided to asset-backed issuers and other entities in connection with their financings. AAC lends AFS cash and securities as needed to fund payments under these derivative contracts, collateral posting requirements and operating expenses. Intercompany loans are governed by an established lending agreement with defined borrowing limits that has received non-disapproval from OCI.

Insurance subsidiaries manage their liquidity risk by maintaining comprehensive analyses of projected cash flows and maintaining specified levels of cash and short-term investments at all times. It is the opinion of the Company's management that the insurance subsidiaries' near term liquidity needs will be adequately met from the sources described above.

Insurance Distribution:

The liquidity requirements of our Insurance Distribution subsidiaries are met primarily by funds generated from commission receipts (both base and profit commissions). Base commissions are generally received monthly, whereas profit commissions are received only if the business underwritten is profitable. Cash provided from these sources is used primarily for commissions paid to sub-producers, operating expenses and distributions to AFG and other members.

Consolidated Cash Flow Statement Discussion

The following table summarizes the net cash flows for the periods presented.

Year Ended December 31,	2022	2021	2020
Cash provided by (used in):			
Operating activities	$ 1,335	$ (131)	$ (175)
Investing activities	866	776	432
Financing activities [1]	(2,163)	(657)	(303)
Effect of foreign exchange on cash and cash equivalents	(1)	—	—
Net cash flow	**$ 38**	**$ (12)**	**$ (46)**

(1) During the 2022, AAC made payments of $476 to accelerate AAC-insured PRIFA, CCDA and HTA bonds that were not commuted and were deposited into trusts established under the Puerto Rico restructurings. Also during 2022, AAC received $165 for redemption of PRIFA trust units held in its investment portfolio. Because these trusts are consolidated VIEs, this net cash activity of

$311 is reflected as payments of VIE liabilities in financing activities for the year ended December 31, 2022.

Operating activities

The following represents the significant cash operating activities during the years ended December 31, 2022 and 2021:

- Cash provided by (i) gross premiums (net of commissions paid) were $139 and $38 for the years ended December 31, 2022 and 2021, respectively; (ii) non-VIE interest rate derivatives were $84 and $(1) for the years ended December 31, 2022 and 2021, respectively; (iii) VIE derivative payments were $(326) and $(24) for the years ended December 31, 2022 and 2021, respectively; (iv) non-VIE investment portfolio income was $82 and $80 for the years ended December 31, 2022 and 2021, respectively; and (v) cash settlements from the Puerto Rico restructuring transactions to the consolidated trusts were $47 for the year ended December 31, 2022.
- Payments for non VIE debt service and accreted interest on redemptions and debt repurchases of the Sitka AAC Note, Tier 2 Notes and Surplus Notes were $59, $70 and $154, respectively, for the year ended December 31, 2022. Debt service payments on the LSNI Ambac Note and Sitka AAC Note were $51 and $30, respectively, for the year ended December 31, 2021.
- Payments related to (i) operating expenses were $94 and $83 for the years ended December 31, 2022 and 2021, respectively; and (ii) reinsurance premiums paid were $66 and $26 for the years ended December 31, 2022 and 2021, respectively
- Net Legacy Financial Guarantee Insurance loss and loss adjustment expenses paid (recovered), including commutation payments, during the years ended December 31, 2022 and 2021 are detailed below:

Year Ended December 31,	2022	2021
Net loss and loss adjustment expenses paid (recovered):		
Net losses paid	$ 298	$ 103
Net subrogation received [(1)]	(1,951)	(121)
Net loss expenses paid	48	77
Net cash flow	$ (1,605)	$ 59

(1) Includes the majority of the recoveries from the BOA Settlement Payment except for the portion allocated to fraud litigation recoveries. The fraud litigation recoveries were $126 and are also included in cash flows from operations.

Future operating cash flows will primarily be impacted by net premium collections, investment coupon receipts, fee and net commission revenues, operating expenses, net claim and loss expense payments and debt interest payments.

Financing Activities

Financing activities for the year ended December 31, 2022, included payments for repurchase of surplus notes of $191, redemption of Sitka AAC Note of $1,210, partial redemption of Tier 2 Notes of $143, share repurchases of $14, repurchases of auction market preferred shares of $8 and paydowns and maturities of VIE debt obligations of $591 (including payments for the accelerations of the VIE trusts created from the Puerto Rico restructuring).

Financing activities for the year ended December 31, 2021, include paydowns of the LSNI Ambac Note of $1,641 and paydowns and maturities of VIE debt obligations of $170. Net cash used in financing activities was partially offset by net proceeds from issuance of the Sitka AAC Note of $1,163.

Future financing activities will include additional accelerations and redemptions of the VIE trusts created from the Puerto Rico restructuring, including $136 through February 16, 2023.

Collateral

AFS hedges a portion of the interest rate risk in the Legacy Financial Guarantee Insurance segment and investment portfolios, along with legacy customer interest rate swaps, with standardized derivative contracts, including financial futures contracts, which contain collateral or margin requirements. Under these hedge agreements, AFS is required to post collateral or margin to its counterparties and futures commission merchants to cover unrealized losses. In addition, AFS is required to post collateral or margin in excess of the amounts needed to cover unrealized losses. All AFS derivative contracts containing ratings-based downgrade triggers that could result in collateral or margin posting or a termination have been triggered. If terminations were to occur, AFS would be required to make termination payments but would also receive a return of collateral or margin in the form of cash or U.S. Treasury obligations with market values equal to or in excess of market values of the swaps and futures contracts. AFS may look to re-establish hedge positions that are terminated early, resulting in additional collateral or margin obligations. The amount of additional collateral or margin posted on derivatives contracts will depend on several variables including the degree to which counterparties exercise their termination rights (or agreements terminate automatically) and the terms on which hedges can be replaced. All collateral and margin obligations are currently met. Collateral and margin posted by AFS totaled $70 (cash and securities, at fair value, of $6 and $64 respectively), including independent amounts, under these contracts at December 31, 2022.

BALANCE SHEET ($ in millions)

Total assets decreased by approximately $4,330 from December 31, 2021 to $7,973 at December 31, 2022, primarily due to the reduction in asset values of VIEs of $2,162 and subrogation recoverables of $1,821. The decline in VIEs was driven by increases in interest rates, the strengthening of the US dollar against the British Pound Sterling and assets used to fund VIE obligation repayments. The decline in subrogation recoverables was largely due to receipts under the settlement agreement with Bank of America Corporation and certain affiliates. Additional declines in total assets were the result of (i) the payment of loss and loss adjustment expenses, interest and operating expenses, (ii) declines in invested asset values, (iii) lower derivative assets caused by rising interest rates, (iv) repurchases of Ambac common stock and AAC surplus notes and (v) lower premium receivables and intangible assets from

the continued runoff of the financial guarantee insurance portfolio.

Total liabilities decreased by approximately $4,540 from December 31, 2021, to $6,647 as of December 31, 2022, primarily due to reductions in the value of VIEs liabilities of $1,996 based on consistent factors as noted above in assets. Additional liability declines driven by (i) the significant reduction in gross loss reserves from the Puerto Rico restructuring; (ii) the impacts of the redemption of secured notes of $1,352 described in Note 1. Background and Business Description in this Annual Report on Form 10-K located in Part II. Item 8, (iii) repurchases of AAC surplus notes during 2022 with a carrying value of principal and interest of $461 at December 31, 2021, and (iv) lower derivative liabilities caused by rising interest rates.

As of December 31, 2022, total stockholders' equity was $1,305, compared with total stockholders' equity of $1,098 at December 31, 2021. This increase was primarily due to a Total Comprehensive Income during 2022 primarily driven by the net income attributable to common stockholders for the year ended December 31, 2022, of $522, partially offset by unrealized losses on investments of $225 and translation losses on the consolidation of AFG's foreign subsidiaries.of $85.

Ambac's investment portfolio is managed under established guidelines designed to meet the investment objectives of AAC, Everspan, Ambac UK and AFG. Refer to "Description of the Business — Investments and Investment Policy" in this Annual Report on Form 10-K located in Part I. Item 1, for further description of Ambac's investment policies and applicable regulations.

Refer to Note 5. Investments to the Consolidated Financial Statements in this Annual Report on Form 10-K located in Part II. Item 8 for information about Ambac's consolidated investment portfolio. Ambac's investment polices and objectives do not apply to the assets of VIEs consolidated as a result of financial guarantees written by its insurance subsidiaries.

Investment Portfolio

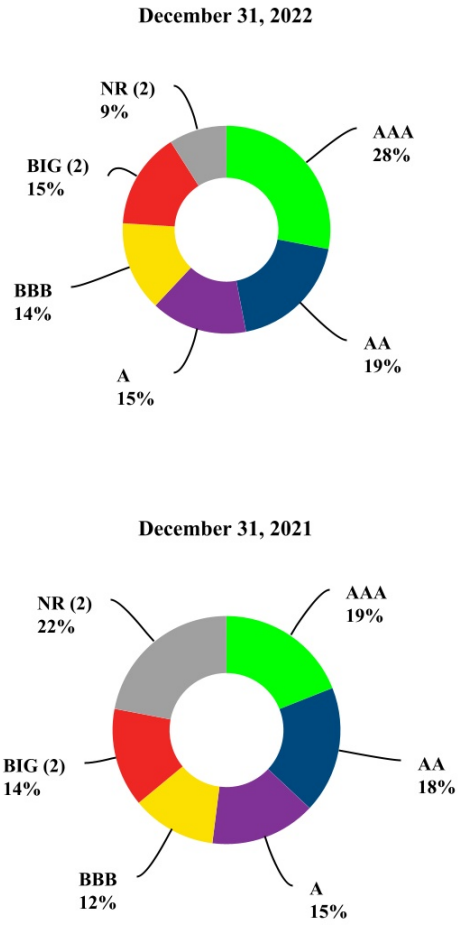
The following table summarizes the composition of Ambac's investment portfolio, excluding VIE investments, at carrying value at December 31, 2022 and 2021:

	Legacy Financial Guarantee Insurance	Specialty Property and Casualty Insurance	Insurance Distribution	Corporate & Other	Consolidated
December 31, 2022					
Fixed maturity securities	$ 1,281	$ 102	$ —	$ 12	$ 1,395
Fixed maturity securities - trading	59	—	—	—	59
Short-term	303	29	—	175	507
Other investments	552	—	—	16	568
Fixed maturity securities pledged as collateral	64	—	—	—	64
Total investments [1]	**$ 2,259**	**$ 131**	**$ —**	**$ 203**	**$ 2,593**
December 31, 2021					
Fixed maturity securities	$ 1,630	$ 72	$ —	$ 28	$ 1,730
Fixed maturity securities - trading	—	—	—	—	—
Short-term	258	32	—	124	414
Other investments	679	—	—	11	690
Fixed maturity securities pledged as collateral	120	—	—	—	120
Total investments (1)	**$ 2,687**	**$ 104**	**$ —**	**$ 164**	**$ 2,955**

(1) Includes investments denominated in non-US dollar currencies with a fair value of £296 ($357) and €39 ($42) as of December 31, 2022 and £341 ($462) and €38 ($43) as of December 31, 2021.

Ambac invests in various asset classes in its fixed maturity securities portfolio. Other investments include diversified equity interests in pooled funds. Refer to Note 5. Investments to the Consolidated Financial Statements in this Annual Report on Form 10-K located in Part II. Item 8 for information about fixed maturity securities and pooled funds by asset class.

The following charts provide the ratings[1] distribution of the fixed maturity investment portfolio based on fair value at December 31, 2022 and 2021.



(1) Ratings are based on the lower of Moody's or S&P ratings. If ratings are unavailable from Moody's or S&P, Fitch ratings are used. If guaranteed, rating represents the higher of the underlying or guarantor's financial strength rating.

(2) Below investment grade and not rated bonds insured by Ambac represented 19% and 32% of the 2022 and 2021 combined fixed maturity investment portfolios, respectively. The decrease is primarily due to the impact of the settlement of insured Puerto Rico bonds described above, under Financial Guarantees in Force.

Premium Receivables. Ambac's premium receivables decreased to $269 at December 31, 2022, from $323 at December 31, 2021. As further discussed in Note 8. Insurance Contracts to the Consolidated Financial Statements, in this Annual Report Form 10-K located in Part II. Item 8, the decrease is due to premium receipts and adjustments for changes in expected and contractual cash flows on financial guarantee insurance contracts, partially offset by decreases to the allowance for credit losses, accretion of the financial guarantee premium receivable discount and increases to premium receivables on the Specialty Property and Casualty Insurance business due to increased volume of policy issuances.

Premium receivables by payment currency were as follows:

Currency (Amounts in millions)	Premium Receivable in Payment Currency		Premium Receivable in U.S. dollars	
U.S. Dollars	$	184	$	184
British Pounds	£	59		71
Euros	€	13		14
Total			$	269

Reinsurance Recoverable on Paid and Unpaid Losses. Ambac has reinsurance in place pursuant to quota share, surplus share treaty and facultative agreements. To minimize its exposure to losses from reinsurers, Ambac (i) monitors the financial condition of its reinsurers; (ii) is entitled to receive collateral from its reinsurance counterparties under certain reinsurance contracts; and (iii) has certain cancellation rights that can be exercised in the event of rating agency downgrades of a reinsurer (among other events and circumstances). For those reinsurance counterparties that do not currently post collateral, Ambac's reinsurers are well capitalized, highly rated, authorized capacity providers. Ambac benefited from letters of credit and collateral amounting to approximately $116 from its reinsurers at December 31, 2022. As of December 31, 2022 and 2021, reinsurance recoverable on paid and unpaid losses were $115 and $55, respectively. Special Property and Casualty Insurance amounted to $82 and $32 at December 31, 2022 and 2021, respectively. Legacy Financial Guarantee amounted to $33 and $23 at December 31, 2022 and 2021, respectively. The increase was primarily a result of the growth of the Special Property and Casualty Insurance business.

Intangible Assets. Intangible assets includes (i) an insurance intangible asset that was established at AFG's emergence from bankruptcy, representing the difference between the fair value and aggregate carrying value of the financial guarantee insurance and reinsurance assets and liabilities, (ii) intangible assets established as part of the acquisition of Xchange in 2020, (iii) indefinite-lived intangible assets established as part of the acquisition of admitted carriers in both 2021 and 2022, and (iv) intangible assets established as part of the acquisition of All Trans and Capacity Marine in 2022. Refer to Note 4. Business Combination to the Consolidated Financial Statements, in this Annual Report Form 10-K located in Part II. Item 8 for further information relating to the acquisitions of Xchange, All Trans and Capacity Marine.

As of December 31, 2022 and 2021, the net intangible asset was $326 and $362, respectively. The decline is driven by amortization and translation gains (losses) from the consolidation of Ambac's foreign subsidiary (Ambac UK), partially offset by the new assets established in 2022.

Derivative Assets and Liabilities. The interest rate derivative portfolio is positioned to benefit from rising rates as a partial hedge against interest rate exposure in the financial guarantee and investment portfolios. Derivative assets and

liabilities on the balance sheet primarily reflect the portion of the portfolio that is not subject to daily cash variation margin payments. Derivative assets decreased from $76 at December 31, 2021, to $27 as of December 31, 2022. Derivative liabilities decreased from $95 at December 31, 2021, to $38 as of December 31, 2022. The decreases resulted primarily from higher interest rates during the year ended December 31, 2022, with the decline in assets partially offset by lower counterparty credit adjustments.

Loss and Loss Adjustment Expense Reserves and Subrogation Recoverable. Loss and loss adjustment expense reserves are based upon estimates of the ultimate aggregate losses inherent in the non-derivative portfolio for insurance policies issued to beneficiaries, including unconsolidated VIEs. The evaluation process for determining the level of reserves is subject to certain estimates and judgments. Refer to the "Critical Accounting Policies and Estimates" and “Results of Operations” sections of Management’s Discussion and Analysis of Financial Condition and Results of Operations, in addition to Basis of Presentation and Significant Accounting Policies and Loss Reserves sections included in Note 2. Basis of Presentation and Significant Accounting Policies and Note 8. Insurance Contracts, respectively, to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K, for further information on loss and loss adjustment expenses.

The loss and loss adjustment expense reserves net of subrogation recoverables and before reinsurance as of December 31, 2022 and 2021 were $534 and $(522), respectively. Loss and loss adjustment expense reserves are included in the Consolidated Balance Sheets as follows:

		Legacy Financial Guarantee			
	Specialty Property and Casualty	Present Value of Expected Net Cash Flows			
Balance Sheet Line Item	Gross Loss and Loss Expense Reserves	Claims and Loss Expenses	Recoveries [1]	Unearned Premium Revenue	Gross Loss and Loss Expense Reserves [2]
December 31, 2022:					
Loss and loss adjustment expense reserves	**$ 90**	**$ 787**	**$ (44)**	**$ (28)**	**$ 805**
Subrogation recoverable	**—**	**5**	**(276)**	**—**	**(271)**
Totals	**$ 90**	**$ 791**	**$ (319)**	**$ (28)**	**$ 534**
December 31, 2021:	:				
Loss and loss adjustment expense reserves	$ 32	$ 1,749	$ (155)	$ (56)	$ 1,570
Subrogation recoverable	—	88	(2,180)	—	(2,092)
Totals	**$ 32**	**$ 1,837**	**$ (2,335)**	**$ (56)**	**$ (522)**

(1) Present value of future recoveries include R&W subrogation recoveries of $140 and $1,730 at December 31, 2022 and 2021, respectively.

Legacy Financial Guarantee Insurance. Ambac has exposure to various bond types issued in the debt capital markets. The bond types that have experienced significant claims, including through commutations, are RMBS, student loan securities and public finance securities. These bond types represent 91% of our ever-to-date insurance claims recorded with RMBS comprising 63%.

The table below indicates gross par outstanding and the components of gross loss and loss adjustment expense reserves related to policies in Ambac’s gross loss and loss adjustment expense reserves at December 31, 2022 and 2021:

($ in millions)	Gross Par Outstanding [1]	Present Value of Expected Net Cash Flows: Claims and Loss Expenses	Present Value of Expected Net Cash Flows: Recoveries	Unearned Premium Revenue	Gross Loss and Loss Expense Reserves [1][2]
December 31, 2022:					
Structured Finance	$ 2,050	$ 664	$ (296)	$ (10)	$ 358
Domestic Public Finance [3]	1,215	96	(11)	(10)	75
Other	782	23	(12)	(8)	3
Loss expenses	—	8	—	—	8
Totals	$ 4,047	$ 791	$ (319)	$ (28)	$ 444
December 31, 2021:					
Structured Finance	$ 2,371	$ 852	$ (2,018)	$ (12)	$ (1,178)
Domestic Public Finance	2,742	905	(312)	(31)	562
Other	1,189	35	(5)	(13)	17
Loss expenses	—	45	—	—	45
Totals	$ 6,302	$ 1,837	$ (2,335)	$ (56)	$ (554)

(1) Ceded par outstanding on policies with loss reserves and ceded loss and loss adjustment expense reserves were $472 and $33, respectively, at December 31, 2022 and $784 and $24, respectively at December 31, 2021. Ceded loss and loss adjustment expense reserves are included in Reinsurance recoverable on paid and unpaid losses.

(2) Loss reserves are included in the balance sheet as loss and loss adjustment expense reserves or Subrogation recoverable dependent on if a policy is in a net liability or net recoverable position.

(3) As a result of the Puerto Rico restructuring and the subsequent acceleration of the AAC insured PRIFA and CCDA bonds gross par outstanding was reduced by $593. Additionally, as a result of the Puerto Rico restructuring and subsequent consolidation of VIE's of AAC insured HTA bonds gross par outstanding was reduced by $410.

The table below reflects the timing of expected financial guarantee claim payments based on deal specific cash flows, excluding expected recoveries. These deal specific cash flows are based on the expected cash flows of the underlying transactions with the majority of these payments expected at or close to the final maturity of the related insurance policy. The timing of expected claim payments for credits with reserves that were established using our statistical loss reserve method is determined based on the weighted average expected life of the exposure. Refer to the Loss Reserves section in Note 2. Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further discussion of our statistical loss reserve method. The timing of these payments may vary significantly from the amounts shown above, especially for credits that are based on our statistical loss reserve method.

	Payments Due by Period				
($ in millions)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Claim payments	$ 1,279	$ 26	$ 51	$ 46	$ 1,156

Variability of Expected Losses and Recoveries

Ambac's management believes loss reserves (present value of expected cash flows, net of recoveries) are adequate to cover future claim payments, but there can be no assurance that the ultimate liability will not be higher than such estimates.

While our loss reserves consider our judgment regarding issuers' financial flexibility to adapt to adverse markets, they may not adequately capture sudden, unexpected or protracted uncertainty that adversely affects market conditions. Accordingly, it is possible that our estimated loss reserves, gross of reinsurance, for financial guarantee insurance policies could be understated. We have attempted to identify possible cash flows related to losses and recoveries using more stressful assumptions than the probability-weighted outcome recorded. The possible net cash flows consider the highest stress scenario that was utilized in the development of our probability-weighted expected loss at December 31, 2022, and assumes an inability to execute any commutation transactions with issuers and/or investors. Such stress scenarios are developed based on management's view about all possible outcomes relating to losses and recoveries. In arriving at such view, management makes considerable judgments about the possibility of various future events. Although we do not believe it is possible to have stressed outcomes in all cases, it is possible that we could have stress case outcomes in some or even many cases. See "Risk Factors" in Part I, Item 1A in this Annual Report on Form 10-K as well as the descriptions of "Structured Finance Variability," "Public Finance Variability," and "Other Credits, including Ambac UK, Variability," below for further discussion of the risks relating to future losses and recoveries that could result in more highly stressed outcomes appearing below.

The occurrence of these stressed outcomes individually or collectively would have a material adverse effect on our results of operations and financial condition and may result in materially adverse consequence for Ambac, including (without limitation) impairing the ability of AAC to honor its financial obligations, particularly its outstanding surplus note and preferred stock obligations; the initiation of rehabilitation proceedings against AAC; decreased likelihood of AAC delivering value to AFG, through dividends or otherwise; and a significant drop in the value of securities issued or insured by AFG or AAC.

Structured Finance

RMBS:

Changes to assumptions that could make our reserves under-estimated include an increase in interest rates, deterioration in housing prices, poor servicing, government intervention into the functioning of the mortgage market and the effect of a weakened economy characterized by growing unemployment and wage pressures. We utilize a model to project losses in our RMBS exposures and changes to reserves, either upward or downward, are not unlikely if we used a different model or methodology to project losses. In the case of both first and second-lien exposures, the possible stress case assumes a lower housing price appreciation projection, which in turn drives higher defaults and severities.

Student Loans:

Changes to assumptions that could make our reserves under-estimated include, but are not limited to, increases in interest rates, default rates and loss severities on the collateral due to economic or other factors, including the economic impact from public health crises and/or natural or other catastrophic events. Such factors may include lower recoveries on defaulted loans or additional losses on collateral or trust assets, including as a result of any enforcement actions by the Consumer Finance Protection Bureau.

Structured Finance Variability:

Using the approaches described above, the possible increase in loss reserves for structured finance credits for which we have an estimate of expected loss at December 31, 2022, could be approximately $15. Additionally, loss payments are sensitive to changes in interest rates, increasing as interest rates rise. For example, an increase in interest rates of 1% could increase our estimate of expected losses by approximately $25. There can be no assurance that losses may not exceed such amounts. Due to the uncertainties related to risks associated with structured finance credits, there can be no assurance that losses may not exceed our stress case estimates.

Public Finance

Ambac's U.S. public finance portfolio consists of municipal bonds such as general and revenue obligations and lease and tax-backed obligations of state and local government entities; however, the portfolio also includes a wide array of non-municipal types of bonds, including transactions with public and private elements, which generally finance infrastructure, housing and other public purpose facilities and interests, the largest sector of which is U.S. military housing.

It is possible our loss reserves for public finance credits may be under-estimated if issuers are faced with prolonged exposure to adverse political, judicial, economic, fiscal or socioeconomic events or trends. Additionally, our loss reserves may be under-estimated because of the local, regional or national economic impact from public health crises and/or natural or other catastrophic events.

Our experience with the city of Detroit's bankruptcy and Commonwealth of Puerto Rico's Title III proceedings as well as other municipal bankruptcies demonstrates the preferential treatment of certain creditor classes, especially the public pensions. The cost of pensions and the need to address frequently sizable unfunded or underfunded pensions is often a key driver of stress for many municipalities and their related authorities, including entities to whom we have significant exposure, such as Chicago's school district, the State of New Jersey and others. Less severe treatment of pension obligations in bankruptcy may lead to worse outcomes for traditional debt creditors.

Variability of outcomes applies to even what are generally considered more secure municipal financings, such as dedicated sales tax revenue bonds that capture sales tax revenues for debt service ahead of any amounts being deposited into the general fund of an issuer. In the case of the Puerto Rico COFINA sales tax bonds that were part of the Commonwealth of Puerto Rico's Title III proceedings, AAC and other creditors agreed to settle at a recovery rate equal to about 93% of pre-petition amounts owed on the Ambac insured senior COFINA bonds. In the COFINA case, the senior bonds still received a reduction or "haircut" despite the existence of junior COFINA bonds, which received a recovery rate equal to about 56% of pre-petition amounts owed.

In addition, municipal entities may be more inclined to use bankruptcy to resolve their financial stresses if they believe preferred outcomes for various creditor groups can be achieved. We expect municipal bankruptcies and defaults to continue to be challenging to project given the unique political, economic, fiscal, legal, governance and public policy differences among municipalities as well as the complexity, long duration and relative infrequency of the cases themselves in forums with a scarcity of legal precedent. Moreover, issuers in Chapter 9 or similar proceedings may obtain judicial rulings and orders that impair creditors' rights or their ability to collect on amounts owed. In certain cases, judicial decisions may be contrary to AAC's expectations or understanding of the law or its rights thereunder, which may lead to worse outcomes in Chapter 9 or similar proceedings than anticipated at the outset.

Another potentially adverse development that could cause the loss reserves on our public finance credits to be underestimated is deterioration in the municipal bond market, resulting from reduced or limited access to alternative forms of credit (such as bank loans) or other exogenous factors, such as changes in tax law that could reduce certain municipal investors' appetite for tax-exempt municipal bonds or put pressure on issuers in states with high state and local taxes. These factors could deprive issuers access to funding at a level necessary to avoid defaulting on their obligations.

Following the December 6, 2022, consummation of the PRHTA POA all of Ambac's exposures to the Commonwealth of Puerto Rico across various instrumentalities have now been restructured and AAC's exposures to Puerto Rico has been reduced to $244 of net par outstanding at December 31, 2022. AAC has further reduced its Puerto Rico exposure since year-end through accelerations and redemptions. However, some uncertainty remains as it relates to the extent and timing to which exposure management strategies, such as commutation and acceleration, will be executed to further reduce exposure to Puerto Rico, and, to a lesser extent, market conditions such as interest rate movements, credit spread changes on remaining plan consideration supporting AAC-insured Puerto Rico exposure in trusts, such as COFINA bonds and PRHTA '98 CVI instruments.

Material additional losses on our public finance credits caused by the aforementioned factors would have a material adverse effect on our results of operations and financial condition. For the public finance credits, including Puerto Rico, for which we have an estimate of expected loss at December 31, 2022, the possible increase in loss reserves could be approximately $115 and there can be no assurance that losses may not exceed our stress case estimates.

Other Credits, including Ambac UK, Variability

It is possible our loss reserves on other types of credits, including those insured by Ambac UK, may be under-estimated because of various risks that vary widely, including the risk that we may not be able to recover or mitigate losses through our remediation processes. For all other credits, including Ambac UK, for which we have an estimate of expected loss, the sum of all the highest stress case loss scenarios is approximately $295 greater than the loss reserves at December 31, 2022. There can be no assurance that losses may not exceed our stress case estimates.

Long-term Debt. The carrying value of each of these as of December 31, 2022 and 2021 is below:

December 31,		2022		2021
Surplus Notes	$	477	$	729
LSNI Ambac Note		—		—
Sitka AAC Note		—		1,154
Tier 2 Notes		146		333
Ambac UK Debt		16		15
Total Long-term Debt	$	639	$	2,230

The decrease in long-term debt from December 31, 2021 resulted from repurchases of surplus notes and the impact of the redemption of secured notes in 2022, described further in *Note 1. Background and Business Description* to the Consolidated Financial Statements, included in this Annual Report on Form 10-K, partially offset by accretion on the carrying value of surplus notes and Ambac UK debt, and paid-in-kind interest on Tier 2 Notes.

Redeemable Noncontrolling Interest. The increase during 2022 was the result the acquisition of All Trans and Capacity Marine partially offset by the remeasurement of the redemption value of the put option provided to the minority owners (noncontrolling interest holders) of Xchange as if it were exercisable on December 31, 2022. Refer to Note 4. Business Combination for further information relating to Ambac's acquisitions.

ACCOUNTING STANDARDS

Please refer to Note 2. Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements, included in Part II, Item 8 in this Annual Report Form 10-K for a discussion of the impact of recent accounting pronouncements on Ambac's financial condition and results of operations.

U.S. STATUTORY BASIS FINANCIAL RESULTS ($ in millions)

AFG's U.S. insurance subsidiaries prepare financial statements under accounting practices prescribed or permitted by its domiciliary state regulator ("SAP") for determining and reporting the financial condition and results of operations of an insurance company. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures manual ("NAIC SAP") is adopted as a component of prescribed practices by each domiciliary state. For further information, see Note 9. Insurance Regulatory Restrictions to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report Form 10-K.

Ambac Assurance Corporation

AAC's statutory policyholder surplus and qualified statutory capital (defined as the sum of policyholders surplus and mandatory contingency reserves) were $598 and $1,191 at December 31, 2022, respectively, as compared to $757 and $1,322 at December 31, 2021, respectively. As of December 31, 2022, statutory policyholder surplus and qualified statutory capital included $519 principal balance of surplus notes outstanding and $115 liquidation preference of preferred stock outstanding. These surplus notes (including related accrued interest of $427 that is not recorded under statutory basis accounting principles); preferred stock; and all other liabilities, including insurance claims, and $146 principal balance of Tier 2 Notes are obligations that, individually and collectively, have claims on the resources of AAC that are senior to AFG's equity and therefore impede AFG's ability to realize residual value and/or receive dividends from AAC.

The significant drivers to the net decrease in policyholder surplus were surplus note repurchases at a cost of $440, contributions to contingency reserves of $28 and a decrease in the fair value of pooled investments of $16, partially offset by statutory net income of $328 for the year ended December 31, 2022. Statutory net income for the year ended December 31, 2022 was positively impacted by (i) the R&W litigation settlements at amounts in excess of our carrying value; (ii) the Puerto Rico restructuring; and (iii) AFS' repayment of its intercompany loan with AAC that was previously impaired.

AAC's statutory surplus and therefore AFG's ultimate ability to realize residual value and/or dividends from AAC is sensitive to

multiple factors, including: (i) loss reserve development, (ii) approval by OCI of payments on surplus notes, (iii) ongoing interest costs associated with surplus notes, (iv) swap gains and losses at AFS, the financial position of which is supported by certain guarantees and financing arrangements from AAC, (v) first time payment defaults of insured obligations, which increase statutory loss reserves, (vi) commutations of insurance policies at amounts that differ from the amount of liabilities recorded, (vii) reinsurance contract terminations at amounts that differ from net assets recorded, (viii) changes to the fair value of pooled fund and other investments carried at fair value, (ix) realized gains and losses, including losses arising from other than temporary impairments of investment securities, (x) the ultimate residual value of Ambac UK, which may be impacted by numerous factors including foreign exchange rates, and (xi) future changes to prescribed practices by the OCI.

The significant differences between GAAP and SAP are that under SAP:

- Loss reserves are only established for losses on guaranteed obligations that have experienced a payment default in an amount that is sufficient to cover the present value of the anticipated defaulted debt service payments over the expected period of default, less estimated recoveries under subrogation rights (5.1% as prescribed by OCI). Under GAAP, in addition to the establishment of loss reserves for defaulted obligations, loss reserves are established (net of GAAP basis unearned premium revenue) for obligations that have experienced credit deterioration, but have not yet defaulted using a weighted-average risk-free discount rate, currently at 3.9%.
- Mandatory contingency reserves are required based upon the type of obligation insured, whereas GAAP does not require such a reserve. Releases of the contingency reserves are generally subject to OCI approval and relate to a determination that the held reserves are deemed excessive.
- Investment grade fixed maturity investments are stated at amortized cost and certain below investment grade fixed maturity investments are reported at the lower of amortized cost or fair value. Under GAAP, all fixed maturity investments are reported at fair value.
- Wholly owned subsidiaries are not consolidated; rather, the equity basis of accounting is utilized and the carrying values of these investments are subject to admissibility tests.
- Variable interest entities ("VIE") are not required to be assessed for consolidation. Under GAAP, a reporting entity that has both the following characteristics is required to consolidate the VIE: a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and b) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. AAC generally has the obligation to absorb losses of VIEs that could potentially be significant to the VIE as the result of its guarantee of insured obligations issued by VIEs. For certain VIEs AAC has the power to direct the most significant activities of the VIE and accordingly consolidates the related VIEs under GAAP.
- All payments of principal and interest on the surplus notes are subject to the approval of the OCI. Unpaid interest due on the surplus notes is expensed when the approval for payment of interest has been granted by the OCI. Under GAAP, interest on surplus notes is accrued regardless of OCI approval.
- Upfront premiums written are earned on a basis proportionate to the remaining scheduled debt service to the original total principal and interest insured. Installment premiums are reflected in income pro-rata over the period covered by the premium payment. Under GAAP, premium revenues for both upfront and installment premiums are earned over the life of the financial guarantee contract in proportion to the insured principal amount outstanding at each reporting date.
- Insurance intangibles that arose as a result of the implementation of Fresh Start reporting are not a concept within SAP. This insurance intangible asset is amortized as an expense on a level yield basis over the life of the related insurance risks.
- Unearned premiums and loss reserves are presented net of ceded amounts, while under GAAP, they are reflected gross of ceded amounts.

Everspan Indemnity Insurance Company

Everspan Indemnity Insurance Company's statutory policyholder surplus was $107 at December 31, 2022, as compared to $106 at December 31, 2021.

The significant drivers to the increase in policyholder surplus for the year ended December 31, 2022, were capital contributions of $16, primarily to support the acquisition of three admitted carriers and the growth of Everspan while maintaining a policyholders surplus in excess of $100, partially offset by a net loss and changes in investment in subsidiaries, primarily due to a limitation on the amount of goodwill that may be admitted in accordance with SAP.

The significant differences between GAAP and SAP are that under SAP:

- Investment grade fixed maturity investments are stated at amortized cost and certain below investment grade fixed maturity investments are reported at the lower of amortized cost or fair value. Under GAAP, all fixed maturity investments are reported at fair value.
- Majority owned subsidiaries are not consolidated; rather, the equity basis of accounting is utilized and the carrying values of these investments are subject to admissibility tests.
- The acquisition of Providence Washington Insurance Company ("PWIC") and the 21st Century Companies were recorded as equity method investments, which include a goodwill component representing the acquisition cost in excess of the related entity's statutory surplus. Goodwill is being amortized over ten years. Under GAAP, the acquisition of the companies were recorded as asset acquisitions, which require i) all net assets to initially be recorded at fair value, and ii) the acquisition cost in excess of the fair value of net assets to be allocated to the bases of certain types of assets based on their relative fair values, if

applicable. Acquired assets include intangible assets with indefinite lives. Such assets are not amortized but their estimated useful lives are reevaluated each reporting period. No goodwill is recorded for asset acquisitions.

- Acquisition costs and ceding commissions, other than excess ceding commissions, are expensed or recognized at the time of a transaction. Under GAAP, acquisition costs and ceding commissions are deferred and recognized over the life of the related transaction.
- Unearned premiums and loss reserves are presented net of ceded amounts, while under GAAP, they are reflected gross of ceded amounts.

AMBAC UK FINANCIAL RESULTS UNDER UK ACCOUNTING PRINCIPLES (£ in millions)

Ambac UK is required to prepare financial statements under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland." Ambac UK's shareholder funds under UK GAAP were £468 at December 31, 2022, as compared to £444 at December 31, 2021. At December 31, 2022, the carrying value of cash and investments was £508, an increase from £500 at December 31, 2021. The increase in shareholder funds and cash and investments was primarily due to the continued receipt of premiums and investment income, and from foreign exchange gains within Ambac UK's investment portfolio, partially offset by loss expenses, operating expenses and tax payments.

The significant differences between US GAAP and UK GAAP are that under UK GAAP:

- Loss reserves are only established for losses on guaranteed obligations when, in the judgment of management, a monetary default in the timely payment of debt service is likely to occur, which would result in Ambac UK incurring a loss. A loss provision is established in an amount that is sufficient to cover the present value of the anticipated defaulted debt service payments over the expected period of default, less estimated recoveries under subrogation rights. The discount rate for loss provisions is equal to the lower of the rate of return on invested assets for either the current year or the period covering the current year plus the four previous years, currently at 0%. The discount rate used for estimated recoveries under subrogation rights is reflective of the credit risk of the counterparty from which subrogation will be received, currently 5.3%. Under U.S. GAAP, loss reserves are established (net of US GAAP basis unearned premium revenue) for obligations that have experienced credit deterioration, but have not yet defaulted using a weighted-average risk-free discount rate, currently at 3.5%.
- Investments in fixed maturity securities are stated at amortized cost, subject to an other-than-temporary impairment evaluation. Under US GAAP, all bonds are reported at fair value.
- VIEs are not required to be assessed for consolidation. Under US GAAP, as noted under AAC Statutory Basis Financial Results above, VIE's with certain characteristics are required to be consolidated. For several VIEs Ambac UK has the power to direct the most significant activities of the VIE and accordingly consolidates the related VIEs under U.S. GAAP.
- Upfront premiums written are earned on a basis proportionate to the remaining scheduled debt service to the total principal and interest insured. Installment premiums are reflected in income pro-rata over the period covered by the premium payment. Under US GAAP, premium revenues for both upfront and installment premiums are earned over the life of the financial guarantee contract in proportion to the insured principal amount outstanding at each reporting date.
- Insurance intangibles that arose as a result of the implementation of Fresh Start reporting are not a concept within UK GAAP. Under US GAAP, this insurance intangible asset is amortized as an expense on a level yield basis over the life of the related insurance risks.
- Unearned premiums and loss reserves are presented net of ceded amounts, while under GAAP, they are reflected gross of ceded amounts.

Ambac UK is also required to prepare financial information in accordance with the Solvency II Directive. The basis of preparation of this information is significantly different from both US GAAP and UK GAAP.

Available and eligible capital resources under Solvency II, to meet solvency capital requirements, were £338 at December 31, 2022. This is an increase from December 31, 2021, when available capital resources were £250 of which £240 were eligible to meet solvency capital requirements. Eligible capital resources at December 31, 2022 and December 31, 2021, are in comparison to regulatory capital requirements of £213 and £238, respectively. Therefore, Ambac UK was in a surplus position in terms of compliance with applicable regulatory capital requirements by £125 at December 31, 2022 and was in a surplus position by £1 at December 31, 2021. The surplus increased as of December 31, 2022, due to the combined impact of (i) the increase in long term interest rates, which resulted in a decrease in technical provision liabilities and hence an increase in eligible own funds and (ii) a decrease in capital requirements for non-life risk due to the maturity and de-risking of certain policies, together with natural run-off of the insured portfolio in the year.

Dialogue between Ambac UK management and its regulators remains ongoing with respect to options for strengthening the capital position further.

Final annual Solvency II data and Ambac UK's annual Solvency and Financial Condition Report will be published on Ambac's website in April 2023.

NON-GAAP FINANCIAL MEASURES ($ in millions)

In addition to reporting the Company's financial results under GAAP,the Company currently reports three non-GAAP financial measures: EBITDA, adjusted earnings and adjusted book value. The most directly comparable GAAP measures are pre-tax net income for EBITDA, net income attributable to

common stockholders for adjusted earnings and Total Ambac Financial Group, Inc. stockholders' equity for 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 present such non-GAAP supplemental financial information because we believe such information is of interest to the investment community that provides greater transparency and enhanced visibility into the underlying drivers of our businesses on a basis that may not be otherwise apparent on a GAAP basis. We view these non-GAAP financial measures as important indicators when assessing and evaluating our performance on a segmented and consolidated basis. These non-GAAP financial measures 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.

Ambac has a significant U.S. tax net operating loss ("NOL") that is offset by a full valuation allowance in the GAAP consolidated financial statements. As a result of this and other considerations, we utilized a 0% effective tax rate for non-GAAP adjustments for both Adjusted Earnings and Adjusted Book Value; which is subject to change.

The following paragraphs define each non-GAAP financial measure. A reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure is also presented below.

EBITDA. EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization of intangible assets. EBITDA is also adjusted for noncontrolling interests in subsidiaries where Ambac does not own 100%.

	Legacy Financial Guarantee Insurance	Specialty Property and Casualty Insurance	Insurance Distribution	Corporate & Other	Consolidated
Year Ended December 31, 2022					
Pretax income (loss) [1]	$ 540	$ (6)	$ 5	$ (14)	$ 525
Adjustments:					
Interest expense	168	—	—	—	168
Depreciation	2	—	—	—	2
Amortization of intangible assets	44	—	3	—	47
Net (gain) attributable to noncontrolling interest		—	(1)		(1)
Earnings before interest, taxes, depreciation and amortization	$ 754	$ (6)	$ 6	$ (14)	$ 740
Year Ended December 31, 2021					
Pretax income (loss) [1]	$ 20	$ (8)	$ 4	$ (15)	$ 2
Adjustments:					
Interest expense	187	—	—	—	187
Depreciation	2	—	—	—	2
Amortization of intangible assets	52	—	3	—	55
Net (gain) attributable to noncontrolling interest			(1)		(1)
Earnings before interest, taxes, depreciation and amortization	$ 262	$ (8)	$ 5	$ (15)	$ 245

(1) Pretax income (loss) is prior to the impact of noncontrolling interests.

Adjusted Earnings (Loss). Adjusted earnings (loss) is defined as net income (loss) attributable to common stockholders, as reported under GAAP, adjusted on an after-tax basis for the following:

- *Insurance intangible amortization:* Elimination of the amortization of the financial guarantee insurance intangible asset that arose as a result of Ambac's emergence from bankruptcy and the implementation of Fresh Start reporting. This adjustment ensures that all financial guarantee contracts are accounted for consistent with the provisions of the Financial Services – Insurance Topic of the ASC.
- *Foreign exchange (gains) losses:* Elimination of the foreign exchange gains (losses) on the re-measurement of assets, liabilities and transactions in non-functional currencies. This adjustment eliminates the foreign exchange gains (losses) on all assets, liabilities and transactions in non-functional currencies, which enables users of our financial statements to better view the results without the impact of fluctuations in foreign currency exchange rates and facilitates period-to-period comparisons of Ambac's operating performance.

The following table reconciles net income attributable to common stockholders to the non-GAAP measure, Adjusted Earnings on a total dollar amount and per diluted share basis, for all periods presented:

($ in millions, except per share data) Year Ended December 31,	2022 $ Amount	2022 Per Diluted Share [1]	2021 $ Amount	2021 Per Diluted Share [1]	2020 $ Amount	2020 Per Diluted Share [1]
Net income (loss) attributable to common stockholders	$ 522	$ 11.31	$ (17)	$ (0.61)	$ (437)	$ (9.47)
Adjustments:						
Non-credit impairment fair value (gain) loss on credit derivatives	—	—	—	—	—	—
Insurance intangible amortization	44	0.95	52	1.12	57	1.23
Foreign exchange (gains) losses	(12)	(0.25)	7	0.15	3	0.06
Adjusted Earnings (Loss) [1]	$ 555	$ 12.01	$ 43	$ 0.66	$ (378)	$ (8.19)

(1) Per Diluted share includes the impact of adjusting redeemable noncontrolling interest to its redemption value

Adjusted Book Value. Adjusted book value is defined as Total Ambac Financial Group, Inc. stockholders' equity as reported under GAAP, adjusted for after-tax impact of the following:

- *Insurance intangible asset:* Elimination of the financial guarantee insurance intangible asset that arose as a result of Ambac's emergence from bankruptcy and the implementation of Fresh Start reporting. This adjustment ensures that all financial guarantee contracts are accounted for within adjusted book value consistent with the provisions of the Financial Services—Insurance Topic of the ASC.
- *Net unearned premiums and fees in excess of expected losses:* Addition of the value of the unearned premium revenue ("UPR") on financial guarantee contracts, in excess of expected losses, net of reinsurance. This non-GAAP adjustment presents the economics of UPR and expected losses for financial guarantee contracts on a consistent basis. In accordance with GAAP, stockholders' equity reflects a reduction for expected losses only to the extent they exceed UPR. However, when expected losses are less than UPR for a financial guarantee contract, neither expected losses nor UPR have an impact on stockholders' equity. This non-GAAP adjustment adds UPR in excess of expected losses, net of reinsurance, to stockholders' equity for financial guarantee contracts where expected losses are less than UPR. This adjustment is only made for financial guarantee contracts since such premiums are non-refundable.
- *Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income:* Elimination of the unrealized gains and losses on the Company's investments that are recorded as a component of accumulated other comprehensive income ("AOCI"). The AOCI component of the fair value adjustment on the investment portfolio may differ from realized gains and losses ultimately recognized by the Company based on the Company's investment strategy. This adjustment only allows for such gains and losses in adjusted book value when realized.

The following table reconciles Total Ambac Financial Group, Inc. stockholders' equity to the non-GAAP measure Adjusted Book Value on a dollar amount and per share basis, for all periods presented:

($ in millions, except per share data) December 31,	2022 $ Amount	2022 Per Share	2021 $ Amount	2021 Per Share
Total Ambac Financial Group, Inc. stockholders' equity	$ 1,252	$ 27.85	$ 1,038	$ 22.42
Adjustments:				
Insurance intangible asset	(266)	(5.91)	(320)	(6.91)
Net unearned premiums and fees in excess of expected losses	214	4.76	310	6.68
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income (Loss)	71	1.59	(154)	(3.32)
Adjusted Book Value	$ 1,272	$ 28.29	$ 874	$ 18.88

The increase in Adjusted Book was primarily attributable to Adjusted earnings for the year ended December 31, 2022 (excluding earned premium previously included in Adjusted Book Value), partially offset by translation losses on the consolidation of AFG's foreign subsidiaries.

Factors that impact changes to Adjusted Book Value include many of the same factors that impact Adjusted Earnings, including the majority of revenues and expenses, but generally exclude components of premium earnings since they are embedded in prior period's Adjusted Book Value through the net unearned premiums and fees in excess of expected losses adjustment. Net unearned premiums and fees in excess of expected losses will affect Adjusted Book Value for (i) changes to future premium assumptions (e.g. expected term, interest rates, foreign currency rates, time passage) and (ii) changes to expected losses for policies which do not exceed their related unearned premiums and (iii) new reinsurance transactions.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk ($ in millions)

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments, as a result of changes in market rates and prices, such as interest rates (inclusive of credit spreads), foreign currency exchange rates and other relevant market rate or price changes. Market risk is, in part, a function of the markets in which the underlying assets are traded. The Company's market risk sensitive financial instruments are primarily entered into for purposes other than trading. As discussed further below, the Company's primary market risk exposures include those from changes in interest rates, foreign currency exchange rates and equity values of limited partnership and other alternative investments.

- The primary market risks for fixed maturity investment securities are interest rate risk and foreign exchange rate risk. Ambac's fixed maturity investment portfolio includes securities denominated both in U.S. dollars and foreign currencies, which are sensitive to changes in interest rates and foreign currency exchange rates. Our fixed maturity investments are generally classified as available for sale, with the effect of market movements recognized immediately through Other comprehensive income, or through Net income when securities are sold or when an impairment charge is recorded, although certain securities held at December 31, 2022 are classified as trading with changes in fair value reported through Net income as they occur.
- Ambac also invests in limited partnerships and other alternative investments, primarily consisting of diversified pooled investment funds, which are reported as Other investments. These funds are subject to equity value changes driven primarily by changes to their respective net asset value ("NAV"). Ambac's share of the changes of the equity value of the funds is reported through Net income. For additional information about Ambac's investments, see Note 5. Investments in this Annual Report on Form 10-K located in Part II. Item 8.
- The interest rate derivatives portfolio is managed as a partial hedge against the effects of rising interest rates elsewhere in the Company, including on Ambac's financial guarantee exposures. Changes in fair value of interest rate derivatives are recognized immediately through Net income. For additional information about Ambac's interest rate derivatives, see Note 10. Derivative Instruments to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K.
- Although our long-term debt obligations are reported at amortized cost and not adjusted for fair value changes, changes in interest rates could have a material impact on their fair value, though with no direct impact on our consolidated financial statements. For additional information about Ambac's debt obligations, see Note 13. Long-term Debt to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K.

Fixed maturity investment securities that are distressed Ambac-insured bonds have market risk characteristics that behave inversely to those associated with future financial guarantee claim payments. Accordingly, such securities are excluded from the market risk sensitivity measures below. Financial instruments of VIEs that are consolidated as a result of Ambac financial guarantees are also excluded from Ambac's measures of market risk. Ambac's exposure to such consolidated VIEs is generally limited to financial guarantees outstanding on the VIEs' liabilities or assets. See Note 12. Variable Interest Entities to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further information about VIEs consolidated as a result of Ambac's financial guarantees.

Ambac utilizes various systems, models and sensitivity scenarios to monitor and manage market risk. These models include estimates, made by management, which utilize current and historical market information. This market information is considered in management's judgments about adverse sensitivity scenarios that are reasonably possible to occur in the near-term. The impact of these scenarios do not consider the possible simultaneous movement in other market rates or prices, actions of management or other factors that could lessen or worsen actual results. For these reasons, the valuation results from these models could differ materially from amounts actually realized in the market.

Market Risk Sensitivities

Interest Rate Risk. Financial instruments for which fair value may be affected by changes in interest rates consist primarily of fixed maturity investment securities, long-term debt and interest rate derivatives. Increases to interest rates would result in declines in the fair value of our fixed maturity investment portfolio. Interest rate increases would also have a negative economic impact on expected future claim payments within the financial guarantee portfolio, primarily related to RMBS and student loan policies. Conversely, interest rate increases would generally result in fair value gains on interest rate derivatives and lower the fair value of our debt obligations. Ambac performs scenario testing to measure the potential for losses in volatile markets. These scenario tests include parallel and non-parallel shifts in the benchmark interest rate curve. We also monitor our interest rates exposure through periodic reviews of projected cash flows and durations of our asset and liability positions.

The following table summarizes the estimated change in fair value of our fixed maturity investment portfolio from a hypothetical immediate increase in interest rates of 100 basis points across the yield curve as of December 31, 2022 and 2021:

December 31,	2022	2021
Fair value of fixed maturity investment [1]	$ 1,740	$ 1,656
Pre-tax impact of 100 basis point increase in interest rates		
Decrease in dollars	$ (53)	$ (50)
As a percent of fair value	3 %	3 %

(1) Excludes investments in distressed Ambac-insured securities and securities held by VIEs consolidated as a result of Ambac's financial guarantees

The following table presents the impact on the fair value of our long-term debt obligations and interest rate derivatives of a hypothetical immediate decrease in interest rates of 100 basis points across the yield curve as of December 31, 2022 and 2021:

December 31,	2022	2021
Fair value of long-term debt including accrued interest [1]	$ (878)	$ (2,598)
Pre-tax impact of 100 basis point decrease in interest rates		
Increase in dollars	$ (18)	$ (55)
As a percent of fair value	2 %	2 %
Fair value of interest rate derivative net assets (liabilities) [1]	$ (12)	$ (19)
Pre-tax impact of 100 basis point decrease in interest rates		
Pre-tax loss from change in fair value in dollars	$ (29)	$ (51)

(1) Excludes long-term debt and derivative instruments of VIEs consolidated as a result of Ambac's financial guarantees

Foreign Currency Risk. Ambac has fixed maturity investments and investments in pooled funds denominated in currencies other than the U.S. dollar, primarily British pounds sterling and Euro. These financial instruments are primarily invested assets of Ambac UK and are held in consideration of non-U.S. dollar exposure in the financial guarantee insurance portfolio and operations of Ambac UK. The adverse fair value impact of a stronger U.S. dollar relative to other currencies on investment holdings would be directionally offset by the economic benefits to non-U.S. dollar financial guarantees and other risk exposures. The following table summarizes the estimated decrease in fair value of these financial instruments assuming immediate 20% strengthening of the U.S. dollar relative to the foreign currencies as of December 31, 2022 and 2021:

December 31,	2022	2021
Fair value of investments denominated in currencies other than the U.S. dollar [1]	$ 398	$ 478
Pre-tax impact of 20% strengthening of the U.S. dollar	$ (80)	$ (96)

(1) Excludes investments in distressed Ambac-insured securities and securities held by VIEs consolidated as a result of Ambac's financial guarantees

Equity Sensitivity. Ambac's investment portfolio includes equity and partnership interests in pooled funds with diverse asset holdings and strategies. The table below summarizes the decrease in fair value of Ambac's pooled fund investments that would occur assuming an immediate and uniform 10% decline in NAV of the funds. The selection of a 10% fair value stress is made only as an illustration of the hypothetical impact of adverse market movements on Ambac's investments with equity value sensitivity. Actual market shocks could have materially different aggregate results and would likely not have a uniform impact on all funds given the diversity of the funds' holdings and strategies.

December 31,	2022	2021
Fair value of investments in pooled funds	$ 556	$ 683
Pre-tax impact of 10% decline in NAV of the funds	$ (56)	$ (68)

Item 8. Financial Statements and Supplementary Data

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Reports of Independent Registered Public Account Firm KPMG LLP, New York, NY, PCAOB ID 185 60

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Ambac Financial Group, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Ambac Financial Group, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of total comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes and financial statement schedules I, II and III (collectively, the consolidated financial statements), and our report dated February 28, 2023 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ **KPMG LLP**

New York, New York
February 28, 2023

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Ambac Financial Group, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Ambac Financial Group, Inc. and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of total comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes and financial statement schedules I, II and III (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2023 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Estimate of loss and loss adjustment expense reserves and subrogation recoverable

As described in Notes 2 and 8 to the consolidated financial statements, the Company estimates financial guarantee loss and loss expense reserves and subrogation recoverable (loss reserves) on a policy-by-policy basis based upon the present value of expected net claim cash outflows or expected net recovery cash inflows, discounted at risk-free rates. Expected net claim cash outflows represent the present value of expected claim cash outflows, less the present value of expected recovery cash inflows. For such policies, a loss and loss adjustment expense reserves liability is recorded for the present value of expected net claim cash outflows in excess of the related unearned premium revenue. Expected net recovery cash inflows represent the present value of expected recovery cash inflows, less the present value of expected claim cash outflows. For such policies, a subrogation recoverable asset is recorded. As of December 31, 2022, the Company recorded loss and loss adjustment expense reserves of $805 million and subrogation recoverable of $271 million.

We identified the evaluation of loss adjustment reserves as a critical audit matter. The evaluation encompassed the assessment of the loss reserves methodologies, including those methods used to estimate the following assumptions: (1) credit worthiness of the issuer of the insured security, (2) the likelihood of possible outcomes regarding the probability of default by the issuer of the insured security, (3) the expected loss severity for each insurance policy, and (4) the probability of remediation, settlement and restructuring outcomes. The evaluation of the methods and the impact of these assumptions required specialized skills and subjective and complex auditor judgment due to a high level of estimation uncertainty.

The following are the primary procedures we performed to address this critical audit matter. With the assistance of credit risk and valuation professionals with specialized industry knowledge and experience, we evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's estimation of loss reserves. This included controls related to the determination of the assumptions and the sources of data and the analysis of the loss reserves. We involved credit risk professionals with specialized skills and

knowledge, who assisted in assessing the individual issuer ratings and credit classifications for certain policies by evaluating the financial performance of the issuer of the insured security and underlying collateral. We also involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the methods used to estimate loss reserves for compliance with U.S. generally accepted accounting principles,
- evaluating, for certain policies, the assumptions, including: the likelihood of possible outcomes regarding the probability of default by the issuer of the insured security; the expected loss severity for each insurance policy; and, the probability of remediation, settlement and restructuring outcomes, and the sources of data and assumptions used in the calculation of loss reserves by comparing to the Company's internal experience and related historical and industry trends.

/s/ **KPMG LLP**

We have served as the Company's auditor since 1985.

New York, New York
February 28, 2023

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Dollars in millions, except share data) December 31,	2022	2021
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost of $1,469 and $1,605)	$ 1,395	$ 1,730
Fixed maturity securities pledged as collateral, at fair value (amortized cost of $— and $15)	—	15
Fixed maturity securities - trading, at fair value	59	—
Short-term investments, at fair value (amortized cost of $507 and $415)	507	414
Short-term investments pledged as collateral, at fair value (amortized cost of $64 and $105)	64	105
Other investments (includes $556 and $683 at fair value)	568	690
Total investments (net of allowance for credit losses of $0 and $0)	2,593	2,955
Cash and cash equivalents (including $14 and $5 of restricted cash)	44	21
Premium receivables (net of allowance for credit losses of $5 and $9)	269	323
Reinsurance recoverable on paid and unpaid losses (net of allowance for credit losses of $0 and $0)	115	55
Deferred ceded premium	124	90
Deferred acquisition costs	3	—
Subrogation recoverable	271	2,092
Derivative assets	27	76
Intangible assets	326	362
Goodwill	61	46
Other assets	84	68
Variable interest entity assets:		
Fixed maturity securities, at fair value	1,967	3,455
Restricted cash	17	2
Loans, at fair value	1,829	2,718
Derivative and other assets	241	40
Total assets	$ 7,973	**$ 12,303**
Liabilities and Stockholders' Equity:		
Liabilities:		
Unearned premiums	$ 372	$ 395
Loss and loss adjustment expense reserves	805	1,570
Ceded premiums payable	39	33
Deferred program fees and reinsurance commissions	5	—
Long-term debt	639	2,230
Accrued interest payable	427	576
Derivative liabilities	38	95
Other liabilities	163	133
Variable interest entity liabilities:		
Long-term debt (includes $2,788 and $4,056 at fair value)	3,107	4,216
Derivative liabilities	1,048	1,940
Other liabilities	5	—
Total liabilities	6,647	**11,187**
Commitments and contingencies (See Note 20)		
Redeemable noncontrolling interest	20	18
Stockholders' equity:		
Preferred stock, par value $0.01 per share; 20,000,000 shares authorized shares; issued and outstanding shares—none	—	—
Common stock, par value $0.01 per share; 130,000,000 shares authorized; issued shares: 46,658,990 and 46,477,068	—	—
Additional paid-in capital	274	257
Accumulated other comprehensive income (loss)	(253)	58
Retained earnings	1,245	726
Treasury stock, shares at cost: 1,685,233 and 172,929	(15)	(3)
Total Ambac Financial Group, Inc. stockholders' equity	1,252	1,038
Nonredeemable noncontrolling interest	53	60
Total stockholders' equity	1,305	**1,098**
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$ 7,973	**$ 12,303**

See accompanying Notes to Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Total Comprehensive Income (Loss)

(Dollars in millions, except share data) Year Ended December 31,	2022	2021	2020
Revenues:			
Net premiums earned	$ 56	$ 47	$ 54
Commission income	31	26	—
Program fees	3	—	—
Net investment income	17	139	122
Net investment gains (losses), including impairments	31	7	22
Net gains (losses) on derivative contracts	129	22	(50)
Net realized gains on extinguishment of debt	81	33	—
Income (loss) on variable interest entities	21	7	5
Other income	10	1	3
Litigation recoveries	126	—	—
Total revenues and other income	505	282	156
Expenses:			
Losses and loss adjustment expenses (benefit)	(396)	(88)	225
Amortization of deferred acquisition costs, net	3	1	—
Commission expense	18	15	—
General and administrative expenses	141	111	92
Intangible amortization	47	55	57
Interest expense	168	187	222
Total expenses	(20)	281	596
Pretax income (loss)	525	2	(440)
Provision (benefit) for income taxes	2	18	(3)
Net income (loss)	522	(16)	(437)
Less: net (gain) loss attributable to noncontrolling interest	(1)	(1)	—
Plus: gain on purchase of auction market preferred shares	1	—	—
Net income (loss) attributable to common stockholders	$ 522	$ (17)	$ (437)
Other comprehensive income (loss), after tax			
Net income (loss)	$ 522	$ (16)	$ (437)
Unrealized gains (losses) on securities, net of income tax provision (benefit) of $(6), $(2) and $1	(225)	(12)	15
Gains (losses) on foreign currency translation, net of income tax provision (benefit) of $—, $— and $—	(85)	(8)	23
Credit risk changes of fair value option liabilities, net of income tax provision (benefit) of $—, $— and $—	—	(1)	1
Changes to postretirement benefit, net of income tax provision (benefit) of $—, $— and $—	(1)	(1)	(3)
Total other comprehensive income (loss), net of income tax	(310)	(21)	37
Total comprehensive income (loss), net of income tax	212	(38)	(400)
Less: net (gain) loss attributable to noncontrolling interest	(1)	(1)	—
Plus: gain on purchase of auction market preferred shares	1	—	—
Total comprehensive income (loss) attributable to common stockholders	$ 212	$ (38)	$ (400)
Net income (loss) per shared attributable to common stockholders			
Basic	$ 11.48	$ (0.61)	$ (9.47)
Diluted	$ 11.31	$ (0.61)	$ (9.47)
Weighted average number of common shares outstanding:			
Basic	45,719,906	46,535,001	46,147,062
Diluted	46,414,830	46,535,001	46,147,062

See accompanying Notes to Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity

($ in Millions)	Total	Ambac Financial Group, Inc.						Nonredeemable Noncontrolling Interest
		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock, at Cost	
Balance at January 1, 2020	**$ 1,536**	**$ 1,203**	**$ 42**	**$ —**	**$ —**	**$ 232**	**$ —**	**$ 60**
Total comprehensive income (loss)	(400)	(437)	37	—	—	—	—	—
Adjustment to initially apply ASU 2016-13	(4)	(4)	—	—	—	—	—	—
Stock-based compensation	11	—	—	—	—	11	—	—
Cost of shares (acquired) issued under equity plan	(3)	(2)	—	—	—	—	(1)	—
Balance at December 31, 2020	**$ 1,140**	**$ 759**	**$ 79**	**$ —**	**$ —**	**$ 242**	**$ (1)**	**$ 60**
Total comprehensive income (loss)	(38)	(17)	(21)	—	—	—	—	—
Stock-based compensation	14	—	—	—	—	14	—	—
Cost of shares (acquired) issued under equity plan	(6)	(4)	—	—	—	—	(2)	—
Changes to redeemable noncontrolling interest	(12)	(12)	—	—	—	—	—	—
Balance at December 31, 2021	**$ 1,098**	**$ 726**	**$ 58**	**$ —**	**$ —**	**$ 257**	**$ (3)**	**$ 60**
Total comprehensive income (loss)	**211**	**521**	**(310)**	—	—	—	—	—
Stock-based compensation	**17**	—	—	—	—	**17**	—	—
Cost of shares (acquired) issued under equity plan	**(4)**	**(5)**	—	—	—	—	**2**	—
Cost of shares repurchased	**(14)**	—	—	—	—	—	**(14)**	—
Changes to Redeemable noncontrolling interest	**3**	**3**	—	—	—	—	—	—
Sale of noncontrolling interest in subsidiary	**2**	—	—	—	—	—	—	**2**
Purchase of Ambac Assurance auction market preferred shares	**(8)**	**1**	—	—	—	—	—	**(9)**
Balance at December 31, 2022	**$ 1,305**	**$ 1,245**	**$ (253)**	**$ —**	**$ —**	**$ 274**	**$ (15)**	**$ 53**

See accompanying Notes to Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

($ in millions) Year Ended December 31,	2022	2021	2020
Cash flows from operating activities:			
Net income attributable to common stockholders	$ 522	$ (17)	$ (437)
Redeemable noncontrolling interest	(1)	(1)	—
Repurchase of auction market preferred shares	1	—	—
Net income	522	(16)	(437)
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	2	2	1
Amortization of bond premium and discount	(11)	(13)	(15)
Share-based compensation	17	14	11
Unearned premiums, net	(58)	(82)	(48)
Losses and loss expenses, net	1,220	(147)	76
Ceded premiums payable	6	6	(3)
Premium receivables	54	48	44
Accrued interest payable	(134)	103	93
Amortization of intangible assets	47	55	57
Net investment gains (losses), including impairments	(31)	(7)	(22)
(Gain) loss on extinguishment of debt	(81)	(33)	—
Variable interest entity activities	(21)	(7)	(5)
Derivative assets and liabilities	(44)	(23)	6
Other, net	(152)	(33)	67
Net cash provided by (used in) operating activities	**1,335**	**(131)**	**(175)**
Cash flows from investing activities:			
Proceeds from sales of bonds	523	236	1,109
Proceeds from matured bonds	206	698	137
Purchases of bonds	(403)	(343)	(975)
Proceeds from sales of other invested assets	166	39	374
Purchases of other invested assets	(112)	(127)	(475)
Change in short-term investments	(52)	98	158
Change in cash collateral receivable	44	9	—
Proceeds from paydowns of consolidated VIE assets	504	171	178
Acquisitions, net of cash acquired	(18)	—	(74)
Other, net	9	(5)	1
Net cash provided by investing activities	**866**	**776**	**432**
Cash flows from financing activities:			
Proceeds from issuance of Sitka AAC Note	—	1,163	—
Proceeds from issuance of Surplus Notes	—	11	—
Paydowns of LSNI Ambac Note	—	(1,641)	(121)
Payments for debt issuance costs	—	(12)	—
Payments for purchases of common stock	(14)	—	—
Payments for purchase of surplus notes	(191)	—	—
Payments for redemption of Sitka AAC Note	(1,210)	—	—
Payments for redemption of Tier 2 Notes	(143)	—	—
Payments for auction market preferred shares	(8)	—	—
Tax payments related to shares withheld for share-based compensation plans	(4)	(6)	(3)
Distributions to noncontrolling interest holders	(1)	(1)	—
Payments of consolidated VIE liabilities	(591)	(170)	(178)
Net cash used in financing activities	**(2,163)**	**(657)**	**(303)**
Effect of foreign exchange on cash and cash equivalents	(1)	—	—
Net cash flow	**38**	**(12)**	**(46)**
Cash, cash equivalents, and restricted cash at beginning of period	23	35	81
Cash, cash equivalents, and restricted cash at end of period	**$ 61**	**$ 23**	**$ 35**

See accompanying Notes to Consolidated Financial Statements

1. BACKGROUND AND BUSINESS DESCRIPTION

Ambac Financial Group, Inc. (“AFG”), headquartered in New York City, is a financial services holding company incorporated in the state of Delaware on April 29, 1991. References to “Ambac,” the “Company,” “we,” “our,” and “us” are to AFG and its subsidiaries, as the context requires. Ambac's business operations include:

- **Legacy Financial Guarantee Insurance** — Ambac's financial guarantee business includes the activities of Ambac Assurance Corporation ("AAC") and its wholly owned subsidiaries, including Ambac Assurance UK Limited (“Ambac UK”) and Ambac Financial Services LLC ("AFS"). Both AAC and Ambac UK have financial guarantee insurance portfolios that have been in runoff since 2008. AFS uses derivatives to hedge interest rate risk in AAC's insurance and investment portfolios.
- **Specialty Property and Casualty Insurance —** Ambac's Specialty Property and Casualty Insurance program business includes five admitted carriers and an excess and surplus lines (“E&S” or “nonadmitted”) insurer (collectively, “Everspan”). Three of the five admitted carrier were acquired in 2022. Everspan carriers have an AM Best rating of 'A-' (Excellent).
- **Insurance Distribution —** Ambac's specialty property and casualty ("P&C") insurance distribution business, which could include Managing General Agents and Underwriters (collectively "MGA/Us"), insurance wholesalers, and other distribution businesses, currently includes (i) Xchange Benefits, LLC (“Xchange”), a P&C MGA/U specializing in accident and health products, (ii) All Trans Risk Solutions, LLC ("All Trans"), a full service managing general underwriter specializing in commercial automobile insurance for specific "for-hire" auto classes, and (iii) Capacity Marine Corporation ("Capacity Marine"), a wholesale retail brokerage and reinsurance intermediary specializing in marine and international risk. Both All Trans and Capacity Marine Corporation were acquired in November 2022, refer to *Note 4. Business Combination* for further information relating to these acquisitions.

Beginning in 2022, the Company began reporting these three business operations as segments; see *Note 3. Segment Information* for further information.

Limitations on Voting and Transfer of Common Stock

AFG’s Amended and Restated Certificate of Incorporation limits voting and transfer rights of stockholders in significant ways. Article IV contains voting restrictions applicable to any person owning at least 10% of AFG's common stock so that such person (including any group consisting of such person and any other person with whom such person or any affiliate or associate of such person has any agreement, contract, arrangement or understanding with respect to acquiring, voting, holding or disposing of AFG’s common stock) shall not be entitled to cast votes in excess of one vote less than 10% of the votes entitled to be cast by all common stock holders, except as otherwise approved by the OCI (as defined below). Article XII contains substantial restrictions on the ability to transfer AFG’s common stock. In order to preserve certain tax benefits, 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), either (i) any person or group of persons shall become a holder of 5% or more of AFG’s common stock or (ii) the percentage stock ownership interest in AFG of any holder of 5% or more of AFG’s common stock shall be increased (a “Prohibited Transfer”). These restrictions shall not apply to an attempted transfer if the transferor or the transferee obtains the written approval of AFG’s Board of Directors to such transfer. A purported transferee of a Prohibited Transfer shall not be recognized as a stockholder of AFG for any purpose whatsoever in respect of the securities which are the subject of the Prohibited Transfer (the “Excess Securities”). Until the Excess Securities are acquired by another person in a transfer that is not a Prohibited Transfer, the purported transferee of a Prohibited Transfer shall not be entitled with respect to such Excess Securities to any rights of stockholders of AFG, including, without limitation, the right to vote such Excess Securities and to receive dividends or distributions, whether liquidating or otherwise, in respect thereof, if any. Once the Excess Securities have been acquired in a transfer that is not a Prohibited Transfer, the securities shall cease to be Excess Securities. If the Board determines that a transfer of securities constitutes a Prohibited Transfer then, upon written demand by AFG, the purported transferee shall transfer or cause to be transferred any certificate or other evidence of ownership of the Excess Securities within the purported transferee’s possession or control, together with any distributions paid by AFG with respect to such Excess Securities, to an agent designated by AFG. Such agent shall thereafter sell such Excess Securities and the proceeds of such sale shall be distributed as set forth in the Amended and Restated Certificate of Incorporation. If the purported transferee of a Prohibited Transfer has resold the Excess Securities before receiving such demand, such person shall be deemed to have sold the Excess Securities for AFG’s agent and shall be required to transfer to such agent the proceeds of such sale, which shall be distributed as set forth in the Amended and Restated Certificate of Incorporation.

Strategies to Enhance Shareholder Value

The Company's primary goal is to maximize long-term shareholder value through the execution of key strategies for its (i) Specialty Property and Casualty Insurance and Insurance Distribution businesses and (ii) Legacy Financial Guarantee Insurance.

Specialty Property and Casualty Insurance and Insurance Distribution strategic priorities include:

- Growing a Specialty Property and Casualty Insurance business which generates underwriting profits and an attractive return on capital from a diversified portfolio of

commercial and personal liability risks accessed through program administrators.

- Building an Insurance Distribution business based on deep domain knowledge in specialty and niche classes of risk which generate attractive margins at scale. This will be achieved through acquisitions, new business "de-novo" formation and incubation, and product expansion supported by a centralized technology led shared services offering.
- Making opportunistic investments that are strategic to both the Specialty Property and Casualty Insurance and Insurance Distribution businesses.

Legacy Financial Guarantee Insurance strategic priorities include:

- Actively managing, de-risking and mitigating insured portfolio risk, and pursuing recovery of previously paid losses.
- Improving operating efficiency and optimizing our asset and liability profile.
- Exploring strategic options to further maximize value for AFG.

The execution of Ambac's strategy to increase the value of its investment in AAC is subject to the restrictions set forth in the Settlement Agreement, dated as of June 7, 2010, as amended (the "Settlement Agreement"), by and among AAC, Ambac Credit Products LLC ("ACP"), AFG and certain counterparties to credit default swaps with ACP that were guaranteed by AAC, as well as the Stipulation and Order among the Office of the Commissioner of Insurance for the State of Wisconsin ("OCI"), AFG and AAC that became effective on February 12, 2018, as amended (the "Stipulation and Order"), each of which requires OCI and, under certain circumstances, holders of surplus notes, to approve certain actions taken by or in respect of AAC. In exercising its approval rights, OCI will act for the benefit of policyholders, and will not take into account the interests of AFG.

The Settlement Agreement limits certain activities of AAC and its subsidiaries, such as issuing indebtedness; engaging in mergers and similar transactions; disposing of assets; making restricted payments; creating or permitting liens; engaging in transactions with affiliates; modifying or creating tax sharing agreements; and taking certain actions with respect to surplus notes (among other restrictions and limitations). The Settlement Agreement includes certain allowances with respect to these activities and generally requires the approval of OCI and, in some cases, holders of surplus notes issued pursuant to the Settlement Agreement, for consents, waivers or amendments.

The Stipulation and Order includes affirmative covenants, as well as restrictions on certain business activities and transactions, of AFG and AAC. The Stipulation and Order has no fixed term and may be terminated or modified only with the approval of OCI. OCI reserved the right to modify or terminate the Stipulation and Order in a manner consistent with the interests of policyholders, creditors and the public generally.

The execution of Ambac's strategy to increase the value of its investment in AAC may also be affected by a new capital framework being developed by OCI ("OCI's Runoff Capital Framework") to assist OCI with making decisions related to capital and liquidity management at AAC. OCI's Runoff Capital Framework is not yet complete and therefore we are not able to predict the results of such and what it may mean for our Legacy Financial Guarantee strategy, particularly as it relates to deleveraging AAC and distributing capital to AFG.

Opportunities for remediating losses on poorly performing insured transactions also depend on market conditions, including the perception of AAC's creditworthiness, the structure of the underlying risk and associated policy as well as other counterparty specific factors. AAC's ability to commute policies or purchase certain investments may also be limited by available liquidity.

Surplus Note Exchanges and Repurchases

On January 19, 2021, AAC entered into a purchase agreement (the "Purchase Agreement") with AFG and certain funds or accounts (the "Note Holders"), pursuant to which (i) the Note Holders agreed to sell to AAC all of the individual beneficial interests (the "Interests") in the 5.1% senior notes due August 28, 2039 (the "Corolla Notes"), issued by the Corolla Trust, a Delaware statutory trust formed by AFG in 2014 (the "Corolla Trust")(see *Note 12. Variable Interest Entities* for a discussion of the establishment of the Corolla Trust), (ii) AFG agreed to sell to AAC the owner trust certificate for the Corolla Trust (the "Corolla Certificate"), which constituted all of the equity interests in the Corolla Trust, and (iii) AAC agreed to exchange the Interests and the Corolla Certificate for AAC's surplus notes (collectively, the "Corolla Note Exchange"). The Note Holders held 100% of the outstanding Corolla Notes. Pursuant to the Purchase Agreement, each $1.00 principal amount of the Corolla Notes (and the associated amount of accrued and unpaid interest thereon) was exchanged for $0.9125 principal amount of surplus notes (and the associated amount of accrued and unpaid interest thereon) on the date of the consummation of the Corolla Note Exchange (the "Closing"). In addition, every $1.00 principal amount of the Corolla Certificate (and the associated amount of accrued and unpaid interest thereon) was exchanged for $0.64 principal amount of surplus notes (and the associated amount of accrued and unpaid interest thereon) on the date of Closing. The Closing occurred on January 22, 2021. At the Closing AAC issued $267 aggregate principal amount of surplus notes to consummate the Corolla Note Exchange and acquire all of the interests in the Corolla Trust. Subsequent to the closing the Corolla Trust was dissolved and the junior surplus note that had been deposited in the Corolla Trust by AFG in 2014 was canceled.

In February 2021, AAC entered into a purchase agreement pursuant to which the holder of $15 principal amount of 5.1% junior surplus notes issued by AAC agreed to sell such notes to AAC in exchange for surplus notes (the "JSN Exchange"). Pursuant to the purchase agreement, each $1.00 principal amount of the junior surplus notes (and the associated amount of accrued and unpaid interest thereon) was exchanged for $0.8581 principal amount of surplus notes (and the associated amount of

accrued and unpaid interest thereon). The closing of the JSN Exchange occurred on February 11, 2021, when AAC issued approximately $13 aggregate principal amount of surplus notes. Subsequent to the closing of the JSN Exchange the junior surplus notes were canceled. As a result of the Corolla Note Exchange and the JSN Exchange, AAC no longer has any junior surplus notes outstanding.

The surplus notes exchanged pursuant to the Corolla Note Exchange and the JSN Exchange are part of the same series as, and rank equally with, the surplus notes previously issued by AAC. The Company recorded a gain of $33 for the year ended December 31, 2021, arising from AAC's purchases of junior surplus notes below their carrying values which is reported within Net realized gains (losses) on extinguishment of debt in the Consolidated Statements of Total Comprehensive Income (Loss). In addition, the Company recorded a gain of $4 for the year ended December 31, 2021, from the exchange of the Corolla Certificate held by AFG above its carrying value, which is reported within Net realized investment gains (losses) in the Consolidated Statements of Total Comprehensive Income (Loss).

During 2022, AAC repurchased $266 current par of surplus notes from third party holders below the carrying value of the surplus notes including accrued interest, resulting in a gain of $134 which is reported within Net realized gains (losses) on extinguishment of debt in the Consolidated Statements of Total Comprehensive Income (Loss) for the year ended December 31, 2022. In addition, in November 2022, AAC purchased all of the remaining surplus notes received by AFG following execution of the Corolla Trust Purchase Agreement described above. AAC's repurchase of surplus notes from AFG had no impact on the consolidated financial statements of the Company.

Puerto Rico

Our financial guarantee insured exposure to Puerto Rico (the "Commonwealth") consisted of several different issuing entities (all below investment grade and whereby AAC has paid substantial claims since 2016) that have been part of the debt restructuring process under the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), a U.S. federal law enacted in 2016 that, among other things, established a financial oversight board (the “FOMB”) and provided for a process for restructuring debt that roughly follows U.S. Bankruptcy laws. As of December 6, 2022, all AAC-insured Puerto Rico obligations have been restructured under PROMESA via court-approved plans of adjustment or qualifying modifications.

Secured Note Refinancing

On July 6, 2021, a newly formed variable interest entity and wholly-owned subsidiary of AFG, Sitka Holdings, LLC (“Sitka”), issued $1,175 par amount of LIBOR plus 4.5% senior secured notes due 2026 (the “Sitka Senior Secured Notes”). In connection with the issuance and sale of the Sitka Senior Secured Notes, AAC issued a secured note to Sitka in the same amount and with the same interest rate and maturity date as the Sitka Senior Secured Notes (the "Sitka AAC Note"). The proceeds from this offering of $1,163 were used to fund a portion of the full redemption of the Ambac LSNI Secured Notes due 2023 (the “LSNI Secured Notes”) and the secured note issued by AAC concurrently with the issuance of the LSNI Secured Notes (the "LSNI Ambac Note"). The remaining balance of the LSNI Secured Notes were redeemed utilizing other available temporary sources of liquidity. Ambac did not consolidate Sitka since it does not have a variable interest in the trust. Accordingly, the Sitka AAC Note was reported within Long-term debt on the Consolidated Balance Sheet. The Sitka AAC Note and the Sitka Senior Secured Notes were fully redeemed with the proceeds (net of reinsurance) of the BOA Settlement Payment from the BOA Parties (as such terms are defined below).

Settlement of RMBS Litigations and Redemption of Secured Notes:

Settlement of RMBS Litigations:

In October 2022, AAC entered into a Settlement Agreement and Release (the “BOA Settlement Agreement”) with Bank of America Corporation and certain affiliates thereof (together, the “BOA Parties”) pursuant to which the BOA Parties paid AAC the sum of $1,840 (the “BOA Settlement Payment”) following the dismissal of AAC’s lawsuits against the BOA Parties concerning certain residential mortgage-backed securities (“RMBS”) trusts, and the withdrawal by AAC of its objections, including any pending appeals, concerning the settlements that were the subject of certain trust instructional proceedings. The BOA Settlement Payment received in October 2022 significantly reduced the subrogation recoverable asset on the Consolidated Balance Sheet. In exchange for the BOA Settlement Payment, AAC, on its own behalf and on behalf of its affiliates, agreed to release the BOA Parties and related parties (the “Released Parties”) from claims asserted or which could have been asserted in AAC’s pending litigations against the BOA Parties as well as claims that AAC and its affiliates ever had, may currently have or may have in the future against the Released Parties, subject to certain limited exceptions. The BOA Settlement Agreement also requires AAC to dismiss other pending claims against the Released Parties, and to generally refrain from, and in certain situations hold the Released Parties harmless with respect to, certain actions taken by AAC with respect to RMBS trusts created prior to the date of the BOA Settlement Agreement involving the Released Parties. The BOA Settlement Payment included recoveries from litigations for alleged breaches of contractual obligations and fraud by the BOA Parties. Management allocated the BOA Settlement Payment to each of the litigations based on previously developed valuations of each individual litigation. The portion of the BOA Settlement Payment allocated to fraud litigation recoveries has been recorded as a litigation recovery in the Statement of Comprehensive Income (Loss).

On December 29, 2022, AAC entered into a Settlement Agreement and Release (the “Nomura Settlement Agreement”) with Nomura Credit & Capital, Inc. (“Nomura”) to settle its litigation against Nomura concerning certain RMBS trusts (the “Trusts”). Pursuant to the Nomura Settlement Agreement, Nomura made a cash payment to AAC of $140 (the "Nomura Settlement Payment"), and AAC and Nomura agreed to release

each other and their respective affiliates and related persons from any claims relating to the Trusts, the financial guaranty policies issued by AAC in connection with Trusts (other than AAC's obligations to pay insurance claims under such policies), the securities related to the Trusts, and the mortgage loans related to the Trusts. The Nomura Settlement Payment received in January 2023 will further reduce the subrogation recoverable asset on the Consolidated Balance Sheet.

Redemption of Notes:

During 2022 and 2023, AAC wholly redeemed its secured debt, in accordance with the terms of such debt, utilizing the BOA Settlement Payment, the Nomura Settlement Payment and other resources as follows:

- Effective October 29, 2022, AAC wholly redeemed the Sitka AAC Note from the BOA Settlement Payment, for $1,218 (a price equal to 103% of the principal amount plus accrued and unpaid interest) and Sitka wholly redeemed the Sitka Senior Secured Notes for the same amount. Ambac recorded a loss of $53 reported in Net realized gains (losses) on extinguishment of debt in the Consolidated Statements of Total Comprehensive Income (Loss) for difference between the carrying value of the Sitka AAC Note and the redemption amount paid, excluding accrued interest.
- Effective October 29, 2022, AAC applied Net Proceeds (as defined below) of approximately $213 from the BOA Settlement Payment to partially redeem Tier 2 Notes plus accrued and unpaid interest as of the date of redemption. The Tier 2 Notes were secured by proceeds from RMBS litigations net of reinsurance ("Net Proceeds") in excess of $1,600 and were subject to mandatory redemption from Net Proceeds in excess of $1,600.
- Effective January 15, 2023, AAC applied the Net Proceeds of $140 from the Nomura Settlement Payment plus approximately $6 from other sources to fully redeem the remaining Tier 2 Notes plus accrued and unpaid interest in the amount of approximately $146 as of the date of redemption.

See *Note 13. Long-term Debt* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for the year ended December 31, 2022, for a description of Sitka, the Sitka AAC Note, the Sitka Senior Secured Notes and the Tier 2 Notes.

AAC also invested a portion of its assets in the Sitka Senior Secured Notes, reported as Fixed maturity securities - available-for-sale on the Consolidated Balance Sheet and recorded a realized investment gain of $5 in the Consolidated Statements of Total Comprehensive Income (Loss) on the redemption date.

Impact to the Consolidated Statement of Comprehensive Income (Loss):

The total gain recognized in net income attributable to common stockholders related to entering into the BOA Settlement Agreement and the Nomura Settlement Agreement, including the redemption of the Sitka AAC Note following the BOA Settlement, was as follows:

	Third Quarter	Fourth Quarter	Full Year 2022
Losses and loss benefit [1]	$ 319	$ 43	$ 362
Litigation recoveries	—	126	126
Net realized gains (losses) on extinguishment of debt	—	(53)	(53)
Net investment gains (losses), including impairments	—	5	5
Impact to net income attributable to common stockholders	$ 319	$ 121	$ 440

(1) Full year 2022 losses and loss benefit relating to R&W recoveries were $123.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Ambac's consolidated financial statements have been prepared on the basis of U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosures. Such estimates that are particularly susceptible to change are used in connection with certain fair value measurements, valuation of financial guarantee loss reserves for non-derivative insurance policies and the valuation allowance on the deferred tax asset, any of which individually could be material.

Consolidation

The consolidated financial statements include the accounts of AFG and all other entities in which AFG (directly or through its subsidiaries) has a controlling financial interest, including variable interest entities ("VIEs") for which AFG or an AFG subsidiary is deemed the primary beneficiary in accordance with the Consolidation Topic of the Accounting Standards Codification ("ASC"). All significant intercompany balances have been eliminated. The usual condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. However, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests. A VIE is an entity: a) that lacks enough equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; or b) where the group of equity holders does not have: (1) the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance; (2) the obligation to absorb the entity's expected losses; or (3) the right to receive the entity's expected residual returns. The determination of whether a variable interest holder is the primary beneficiary involves performing a qualitative analysis of the VIE that includes, among other factors, its capital structure, contractual terms including the rights of each variable interest holder, the activities of the VIE, whether the variable interest holder has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, whether the variable interest holder has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could

potentially be significant to the VIE, related party relationships and the design of the VIE. An entity that is deemed the primary beneficiary of a VIE is required to consolidate the VIE. Refer to *Note 12. Variable Interest Entities*, for a detailed discussion of Ambac's involvement in VIEs, Ambac's methodology for determining whether Ambac is required to consolidate a VIE and the effects of VIEs being consolidated.

AFG Unconsolidated Financial Information

Financial information of AFG is presented in Schedule II in this Annual Report on Form 10-K as of December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020. Investments in subsidiaries are accounted for using the equity method of accounting in Schedule II.

Measurement of Credit Losses on Financial Instruments (CECL)

Ambac measures credit losses on financial assets that are not accounted for at fair value through net income in accordance with the Current Expected Credit Loss standard or "CECL". The CECL impact on available-for-sale debt securities is discussed in the Investments sub-section below.

The CECL impact on amortized cost assets is addressed in the Premium, Reinsurance Recoverables and Loan sub-sections below. These amortized cost assets reflect management's current estimate of all expected lifetime credit losses. The estimate of expected lifetime credit losses considers historical information, current information, as well as reasonable and supportable forecasts. Expected lifetime credit losses for amortized cost assets are recorded as an allowance for credit losses, with subsequent increases or decreases in the allowance reflected in net income each period.

CECL does not apply to subrogation recoveries of previously paid and unpaid losses on insurance contracts accounted for under ASC 944 nor does it apply to equity method investments accounted for under ASC 323.

Investments

The Investments - Debt Securities Topic of the ASC requires that all debt instruments be classified in Ambac's Consolidated Balance Sheets according to their purpose and, depending on that classification, be carried at either cost or fair market value.

Ambac's non-VIE debt investment portfolio is accounted for on a trade-date basis and consists primarily of:

- Investments in fixed maturity securities are either classified as available-for-sale or trading as defined by the Investments - Debt Securities Topic of the ASC. Available-for-sale debt securities are reported in the financial statements at fair value with unrealized gains and losses, net of deferred taxes, reflected in Accumulated Other Comprehensive Income (Loss) in Stockholders' Equity and computed using amortized cost as the basis. For purposes of computing amortized cost, premiums and discounts are accounted for using the effective interest method over the term of the security. For structured debt securities with a large underlying pool of homogenous loans, such as mortgage-backed and asset-backed securities, premiums and discounts are adjusted for the effects of actual and anticipated prepayments. For other fixed maturity securities, such as corporate and municipal bonds, discounts are amortized or accreted over the remaining term of the securities and premiums are amortized to the earliest call date. Investments in fixed maturity securities classified at trading are reported in the financial statements at fair value with unrealized gains and losses included in Net investment income on the Statement of Total Comprehensive Income (Loss).
- Equity interests in pooled investment funds which are accounted for in accordance with the Investments - Equity Securities Topic of the ASC and reported as Other investments on the Consolidated Balance Sheet with income reported through Net investment income on the Statement of Total Comprehensive Income (Loss). Equity interests in the form of common stock or in-substance common stock are classified as trading securities and reported at fair value while limited partner interests in such funds are reported using the equity method.
- Preferred equity investments that do not have readily determinable fair values and are carried at cost, less any impairments as permitted under the Investments — Equity Securities Topic of the ASC.

VIE investments in fixed maturity securities are carried at fair value as they are classified as either available-for-sale or trading as defined by the Investments — Debt Securities Topic of the ASC, or accounted for under the fair value option election. For additional information about VIE investments, including fair value by asset-type, see *Note 12. Variable Interest Entities*.

Fair value is based primarily on quotes obtained from independent market sources. When quotes for fixed maturity securities are not available or cannot be reasonably corroborated, valuation models are used to estimate fair value. These models include estimates, made by management, which utilize current market information. When fair value is not readily determinable for pooled investment funds, the investments are valued using net asset value ("NAV") as a practical expedient as permitted under the Fair Value Measurement Topic of the ASC. Investment valuations could differ materially from amounts that would actually be realized in the market. Realized gains and losses on the sale of investments are determined on the basis of specific identification. Refer to *Note 6. Fair Value Measurements* for further description of the methodologies used to determine the fair value of investments, including model inputs and assumptions where applicable.

Ambac has a formal credit impairment review process for fixed maturity available-for-sale securities in its investment portfolio. Ambac conducts a review each quarter to identify and evaluate investments that have indications of impairment in accordance with the Investments - Debt Securities Topic of the ASC.

Under CECL, factors considered to identify and assess securities for other than temporary impairment included: (i) fair values that have declined by 20% or more below amortized cost; (ii) recent downgrades by rating agencies; (iii) the financial condition of the issuer and financial guarantor, as applicable,

and an analysis of projected defaults on the underlying collateral; (iv) whether scheduled interest payments are past due; (v) whether Ambac has the intent to sell the security; and (vi) whether it is more likely than not that Ambac will be required to sell a security before the anticipated recovery of its amortized cost basis. The recognition of credit impairment losses for available-for-sale debt securities are recorded as an allowance for credit losses with an offsetting charge to net income. Improvements to estimated credit losses for available-for-sale debt securities are recognized immediately in net income.

If we believe a decline in the fair value of a particular fixed maturity available-for-sale investment is not credit impaired, we record the decline as an unrealized loss net of tax in Accumulated Other Comprehensive Income (Loss) in Stockholders' Equity on our Consolidated Balance Sheets. If management either: (i) has the intent to sell its investment in a debt security or (ii) determines that the Company more likely than not will be required to sell the debt security before its anticipated recovery of the amortized cost basis less any current period credit impairment, then an impairment charge is recognized in earnings, with the amortized cost of the security written-down to fair value.

The evaluation of securities for credit impairment is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether, and to what extent, declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's or guarantor's financial condition and/or future prospects, the impact of regulatory actions on the investment portfolio, the performance of the underlying collateral, the effects of changes in interest rates or credit spreads and the expected recovery period. With respect to Ambac insured securities owned, future cash flows used to measure credit impairment represents the sum of (i) the bond's intrinsic cash flows and (ii) the estimated AAC claim payments. Ambac's assessment about whether a decline in value is considered a credit impairment reflects management's current judgment regarding facts and circumstances specific to a security and the factors noted above. If that judgment changes, Ambac may ultimately record a charge for credit impairment in future periods.

Ambac has made certain accounting policy elections related to accrued interest receivable ("AIR") for available-for-sale investments under CECL. Elections include: i) not measuring AIR for credit impairment, instead AIR is written off when it becomes 90 days past due; ii) writing off AIR by reversing interest income; iii) presenting AIR separately in Other Assets on the balance sheet and iv) excluding AIR from amortized cost balances in required CECL disclosures found in Note 5. Investments. AIR at December 31, 2022 and 2021 was $10 and $10, respectively.

Refer to *Note 5. Investments* for further credit impairment disclosures.

Premiums

Legacy Financial Guarantee Insurance:

Gross premiums were received either upfront or in installments. For premiums received upfront, an unearned premium revenue ("UPR") liability was established, which was initially recorded as the cash amount received. For installment premium transactions, a premium receivable asset and offsetting UPR liability was initially established in an amount equal to: (i) the present value of future contractual premiums due (the "contractual" method) or (ii) if the underlying insured obligation is a homogenous pool of assets which are contractually prepayable, the present value of premiums to be collected over the expected life of the transaction (the "expected" method). An appropriate risk-free rate corresponding to the weighted average life of each policy and currency is used to discount the future premiums contractually due or expected to be collected. For example, U.S. dollar exposures are discounted using U.S. Treasury rates while exposures denominated in a foreign currency are discounted using the appropriate risk-free rate for the respective currency. The weighted average risk-free rate at December 31, 2022 and 2021, was 3.0%. and 2.2%, respectively, and the weighted average period of future premiums used to estimate the premium receivable at December 31, 2022 and 2021, was 8.0 years and 8.0 years, respectively.

Insured obligations consisting of homogeneous pools for which Ambac uses expected future premiums to estimate the premium receivable include residential mortgage-backed securities ("RMBS"). As prepayment assumptions change for homogenous pool transactions, or if there is an actual prepayment for a "contractual" method installment transaction, the related premium receivable and UPR are adjusted in equal and offsetting amounts with no immediate effect on earnings using new premium cash flows and the then current risk-free rate corresponding to the initial weighted average life of the related policy.

For both upfront and installment premium policies, premium revenues are earned over the life of the financial guarantee contract in proportion to the insured principal amount outstanding at each reporting date (referred to as the level-yield method). For installment paying policies, the premium receivable discount, equating to the difference between the undiscounted future installment premiums and the present value of future installment premiums, is accreted as premiums earned in proportion to the premium receivable balance at each reporting date.

When a bond issue insured by Ambac has been retired early, typically due to an issuer call, any remaining UPR is recognized at that time to the extent the financial guarantee contract is legally extinguished, causing accelerated premium revenue. For installment premium paying transactions, we offset the recognition of any remaining UPR by the reduction of the related premium receivable to zero (as it will not be collected as a result of the retirement), which may cause negative accelerated premium revenue. Certain obligations insured by Ambac have been legally defeased whereby government securities are purchased by the issuer with the proceeds of a new bond

issuance, or less frequently with other funds of the issuer, and held in escrow. The principal and interest received from the escrowed securities are then used to retire the Ambac-insured obligations at a future date either to their maturity date (a refunding) or a specified call date (a pre-refunding). Ambac has evaluated the provisions in policies issued on these obligations and determined those insurance policies have not been legally extinguished. For policies with refunding securities, premium revenue recognition is not impacted as the escrowed maturity date is the same as the previous legal maturity date. For policies with pre-refunding securities, the maturity date of the pre-refunded security has been shortened from its previous legal maturity. Although premium revenue recognition has not been accelerated in the period of the pre-refunding, it results in an increase in the rate at which the policy's remaining UPR is to be recognized.

For financial guarantee contracts, the issuer's ability and willingness to pay its insured debt obligation impacts the payment of policy losses by Ambac as well as the receipt of premiums from the issuer. As such, management leverages its existing loss reserve estimation process to evaluate credit impairment for premium receivables. Key factors in assessing credit impairment include historical premium collection data, internal risk classifications, credit ratings and loss severities. For structured finance transactions involving special purpose entities, we further evaluate the priority of premiums paid to Ambac within the contractual waterfall, as required by bond indentures. Ambac has a formal quarterly credit impairment review process for premium receivables.

Under CECL, management utilizes either a discounted cash flow ("DCF") or probability of default/loss given default ("PD/LGD") approach to estimate credit impairment. The DCF approach utilizes expected cash flows developed by Ambac's Risk Management Group using the same (or similar) models used for estimating loss reserves where such models can identify shortfalls in premiums. Credit impairment using the DCF approach is equal to the difference between amortized cost and the present value of expected cash flows. Credit impairment under the PD/LGD approach is the product of (i) the premium receivable carrying value, (ii) internally developed default probability (considering internal ratings and average life), and (iii) internally developed loss severities.

Refer to *Note 8. Insurance Contracts* for further credit impairment disclosures.

AAC has reinsurance in place pursuant to surplus share treaties and facultative reinsurance agreements. Similar to gross premiums, premiums ceded to reinsurers were paid either upfront or in installments. For premiums paid upfront, a deferred ceded premium asset was established which is initially recorded as the cash amount paid. For installment premiums, a ceded premiums payable liability and offsetting deferred ceded premium asset were initially established in an amount equal to: i) the present value of future contractual premiums due or ii) if the underlying insured obligation is a homogenous pool of assets, the present value of expected premiums to be paid over the life of the transaction. An appropriate risk-free rate corresponding to the weighted average life of each policy and exposure currency is used to discount the future premiums contractually due or expected to be collected. Premiums ceded to reinsurers reduce the amount of premiums earned by Ambac from its financial guarantee insurance policies. For both upfront and installment premiums, ceded premiums written are primarily recognized in earnings in proportion to and at the same time as the related gross premium revenue is recognized. For premiums paid to reinsurers on an installment basis, Ambac records the present value of future ceding commissions as an offset to ceded premiums payable, using the same assumptions noted above for installment premiums.

Specialty Property and Casualty Insurance:

Gross written premiums on insurance policies are recorded at the inception of the policy and can be received on an upfront or installment basis. Ceded premiums written are based on contractual terms applied against related gross written premiums. Premiums, net of reinsurance, are recognized as revenue on a daily pro-rata basis over the term of the insured risk. Unearned premiums and Deferred ceded premiums represents the portion of gross and ceded premiums written that relate to unexpired risk, respectively.

Premium receivables represent balances currently due and amounts not yet due from policyholders, managing general agents or producers issuing insurance policies on Everspan's behalf. Premium receivables are reported net of an allowance for expected lifetime credit losses. The allowance is based upon Everspan's ongoing review of amounts outstanding, including delinquencies and write-offs, and other relevant factors. Credit risk is partially mitigated by the managing general agent's ability to cancel the policy on behalf of Everspan if the policyholder does not pay the premium, thereby reducing the related policy's premium written and Everspan's premium receivable.

Loans

Loans are reported at either their outstanding principal balance less unamortized discount or at fair value.

- Loans not held by consolidated VIEs are reported at their outstanding principal balance less unamortized discount and are reported within Other assets on the Consolidated Balance Sheet. Interest income is earned using the effective interest method based upon interest accrued on the unpaid principal balance adjusted for accretion of discounts. A loan is considered impaired when, based on the financial condition of the borrower, it is probable that Ambac will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. Ambac has a formal quarterly credit impairment review process for these loans. The key factors in assessing credit impairment are internal credit ratings and loss severities. Management utilizes a PD/LGD approach, similar to the one described above for financial guarantee premium receivables, which is applied to the loan carrying value.
- Loans held by VIEs consolidated as required under the Consolidation Topic of the ASC are carried at fair value under the fair value option election with changes in fair value recorded in Income (loss) on variable interest entities on the Consolidated Statements of Total Comprehensive

Income (Loss). Such loans are reported as Loans, at fair value within the Variable interest entity assets section of the Consolidated Balance Sheet.

Derivative Contracts

The Company has entered into derivative contracts primarily to hedge certain economic risks inherent in its asset and liability portfolios. None of Ambac's derivative contracts are designated as hedges under the Derivatives and Hedging Topic of the ASC. Ambac's derivatives consist primarily of interest rate swaps and futures contracts.

- Ambac maintains a portfolio consisting primarily of interest rate swaps and futures contracts to economically hedge interest rate risk in the financial guarantee and investment portfolios. While this portfolio also includes certain legacy interest rate swaps executed in connection with financial guarantee client financings, the interest rate derivatives portfolio is managed on the basis of its net sensitivity to changes in interest rates. Changes in the fair value of these interest rate derivatives are recorded, along with changes in fair value of other derivative contracts, within Net gains (losses) on derivative contracts on the Consolidated Statements of Total Comprehensive Income (Loss).
- VIEs consolidated under the Consolidation Topic of the ASC entered into derivative contracts to meet specified purposes within their securitization structure. Changes in fair value of consolidated VIE derivatives are included within Income (loss) on variable interest entities on the Consolidated Statements of Total Comprehensive Income (Loss).

All derivatives are recorded on the Consolidated Balance Sheets at fair value on a gross basis; assets and liabilities are netted by counterparty only when a legal right of offset exists. Variation payments on centrally cleared swaps and futures contracts are considered settlements of the associated derivative balances and are reflected as a reduction to derivative liabilities or assets on the Consolidated Balance Sheets. For other derivatives, Ambac has determined that the amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral may not be used to offset amounts due under the derivative instruments in the normal course of settlement. Therefore, such amounts are not offset against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement and are included in Other assets on the Consolidated Balance Sheets. Refer to *Note 10. Derivative Instruments* for further discussion of the Company's use of derivative instruments and their impact of the consolidated financial statements. Refer to *Note 6. Fair Value Measurements* for further description of the methodologies used to determine the fair value of derivative contracts, including model inputs and assumptions where applicable.

Deferred Acquisition Costs, Ceding Commissions and Deferred Program Fees

The Specialty Property and Casualty Program business defers acquisition costs incurred that are related directly to the successful acquisition of new or renewal insurance contracts, including commissions paid to managing general agents. Ceding commissions received from reinsurers represent a recovery of related acquisition costs. Deferred acquisition costs, net of ceding commissions, are amortized over the related policy period, generally one year, and recognized in amortization of deferred acquisition costs. Ceding commissions received in excess of the related direct acquisition costs are deferred and amortized over the related policy period, and recognized as program fees.

Goodwill

Goodwill is attributable to acquisitions, discussed in Note 4. Business Combination and represents the acquisition cost in excess of the fair value of net assets acquired, including identifiable intangible assets. Goodwill is assigned at acquisition to the applicable reporting unit of the acquired entity giving rise to the goodwill. Goodwill is not amortized but is subject to impairment testing. Goodwill impairment tests are performed annually or more frequently if circumstances indicate a possible impairment. Ambac tests goodwill for impairment as of October 1st of each year. If, after assessing qualitative factors, management believes it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative impairment evaluation is performed. Management also has the option to bypass the qualitative evaluation and proceed directly to the quantitative evaluation. The quantitative test compares the estimated fair value of the reporting unit with its carrying value (including goodwill and identifiable intangible assets). An impairment is recognized for the excess of the carrying amount of the reporting unit over it estimated fair value. If the reporting unit's estimated fair value exceeds its carrying value, goodwill is not impaired. There have been no accumulated impairment losses since goodwill was established.

Intangible Assets

Financial Guarantee Insurance intangible:

Upon Ambac's emergence from bankruptcy in 2013, an insurance intangible asset was recorded which represented the difference between the fair value and aggregate carrying value of the financial guarantee insurance and reinsurance assets and liabilities. The carrying values of financial guarantee insurance and reinsurance contracts continue to be reported and measured in accordance with their existing accounting policies. Pursuant to the Financial Services-Insurance Topic of the ASC, the insurance intangible is to be measured on a basis consistent with the related financial guarantee insurance and reinsurance contracts. The initial insurance intangible asset was assigned to groups of insurance and reinsurance contracts with similar characteristics and has been amortized using a level-yield method based on par exposure of the related groups.

Finite-lived intangibles:

Ambac acquired identifiable intangible assets attributable to the Xchange, All Trans and Capacity Marine acquisitions further discussed in *Note 4. Business Combination*. The intangible assets primarily relate to distribution relationships, non-compete agreements and trade names, all of which have finite lives and are amortized over their estimated useful lives using the straight-

line method. The Company tests finite-lived acquired intangible assets for impairment if certain events occur or circumstances change indicating that the carrying amount of the intangible asset may not be recoverable. The carrying amount of the intangible asset is not recoverable if it exceeds the projected undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group. If deemed unrecoverable, an impairment loss is recognized for the excess carrying amount over the fair value. There have been no accumulated impairment losses since these finite-lived intangible assets were established.

Indefinite-lived intangibles

Ambac acquired identifiable intangible assets attributable to its acquisitions of admitted carriers in both 2021 and 2022, which were accounted for as asset acquisitions. The intangible assets relate to insurance licenses which have indefinite lives and therefore are not amortized. The useful lives are re-evaluated each period to determine whether facts and circumstances continue to support an indefinite life. The Company tests indefinite-lived acquired intangible assets for impairment annually or more frequently if circumstances indicate a possible impairment. Ambac tests indefinite-lived intangibles for impairment as of October 1st of each year. If, after assessing qualitative factors, management believes it is more likely than not that the intangible assets are impaired, a quantitative impairment evaluation is performed. Management also has the option to bypass the qualitative evaluation and proceed directly to the quantitative evaluation. The quantitative test compares the estimated fair value of the intangible asset with its carrying value. An impairment is recognized for the excess of the carrying amount of the intangible asset over it estimated fair value. If the asset's estimated fair value exceeds its carrying value, the intangible asset is not impaired. There have been no accumulated impairment losses since these indefinite-lived intangible assets were established.

Restricted Cash

Cash that we do not have the right to use for general purposes is recorded as restricted cash in our consolidated balance sheets. Restricted cash includes (i) consolidated variable interest entity cash restricted to support the obligations of the consolidated VIEs and (ii) fiduciary cash held by Ambac's insurance distribution subsidiaries as described below.

Fiduciary Funds:

As an intermediary, we hold funds, generally in a fiduciary capacity, for the account of third parties, typically as the result of premiums received from retail brokers or insureds that are in transit to insurers and claims due that are in transit from insurers. Since fiduciary assets are not available for corporate use, they are shown in the consolidated balance sheets as restricted cash and we present an equal and corresponding fiduciary liability relating to these funds representing amounts or claims or premiums due on our consolidated balance sheets (included in Other liabilities).

Fiduciary funds are generally required to be kept in bank accounts subject to guidelines which emphasize capital preservation and liquidity. The Company is entitled to retain investment income earned on certain of these fiduciary funds in accordance with industry custom and practice and, in some cases, as supported by agreements with insureds.

Restricted cash for net uncollected premiums and claims and the related fiduciary liabilities were $14 and $5 at December 31, 2022 and 2021, respectively.

Loss and Loss Adjustment Expenses

Legacy Financial Guarantee:

The loss and loss adjustment expense reserve ("loss reserve") policy relates only to Ambac's non-derivative financial guarantee insurance business for insurance policies issued to beneficiaries, including VIEs, for which we do not consolidate the VIE. Losses and loss expenses are based upon estimates of the ultimate aggregate losses inherent in the insured portfolio as of the reporting date. The policy for derivative contracts is discussed in the "Derivative Contracts" section above.

A loss reserve is recorded on the balance sheet on a policy-by-policy basis based upon the present value ("PV") of expected net claim cash outflows or expected net recovery cash inflows, discounted at risk-free rates. The estimate for future net cash flows consider the likelihood of all possible outcomes that may occur from missed principal and/or interest payments on the insured obligation. This estimate also considers future recoveries related to breaches of contractual representations and warranties by RMBS transaction sponsors (prior to the settlements as more fully described in *Note 1. Background and Business Description*), remediation strategies and other contractual or subrogation-related cash flows.

- Net claim cash *outflow* policies represent contracts where the PV of expected cash outflows are greater than the PV of expected recovery cash inflows. For such policies, a "loss and loss adjustment expense reserves" liability is recorded for the excess of the PV of expected net claim cash outflows over the unearned premium revenue.
- Net recovery cash *inflow* policies represent contracts where the PV of expected recovery cash inflows are greater than the PV of expected claim cash outflows. For such policies, a "Subrogation recoverable" asset is recorded.

The evaluation process for determining expected losses is subject to certain judgments based on our assumptions regarding the probability of default by the issuer of the insured security, probability of settlement outcomes (which may include commutation settlements, refinancing and/or other settlement outcomes) and expected severity of credits for each insurance contract. Ambac's loss reserves are based on management's ongoing review of the financial guarantee credit portfolio. Active surveillance of the insured portfolio enables Ambac's Risk Management Group ("RMG") to track credit migration of insured obligations from period to period and update internal classifications and credit ratings for each transaction. Non-adversely classified credits are assigned a Class I rating while adversely classified credits are assigned a rating of Class IA through Class V. The criteria for an exposure to be assigned an adversely classified credit rating includes the deterioration of an issuer's financial condition, underperformance of the underlying

collateral (for collateral dependent transactions such as mortgage-backed or student loan securitizations), poor performance by the servicer of the underlying collateral and other adverse economic events or trends. The servicer of the underlying collateral of an insured securitization transaction is a consideration in assessing credit quality because the servicer's performance can directly impact the performance of the related issue.

All credits are assigned risk classifications by RMG using the following guidelines:

CLASS I – "Fully Performing - Meets Ambac Criteria with Remote Probability of Claim" - Credits that demonstrate adequate security and structural protection with a strong capacity to pay interest, repay principal and perform as underwritten. Factors supporting debt service payment and performance are considered unlikely to change and any such change would not have a negative impact upon the fundamental credit quality. Through ongoing surveillance, Ambac may also designate Class I credits into one or more of the following categories:

- 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, large exposure concentration or concern related to the issuer or transaction or the overall financial and economic sustainability.

CLASS IA – "Potential Problem with Risks to be Dimensioned" - Credits that are fully current and monetary default or claims-payment are not anticipated. The issuer's financial condition may be deteriorating or the credits may lack adequate collateral. A structured financing may also evidence weakness in its fundamental credit quality as evidenced by its under-performance relative to its modeled projections at underwriting, issues related to the servicer's ability to perform or questions about the structural integrity of the transaction. While certain of these credits may still retain an investment grade rating, they usually have experienced or are vulnerable to a ratings downgrade. Further investigation is required to dimension and correct any deficiencies. A complete legal review of documents may be required. An action plan should be developed with triggers for future classification changes upward or downward.

CLASS II – "Substandard Requiring Intervention" - Credits whose fundamental credit quality has deteriorated to the point that timely payment of debt service may be jeopardized by adversely developing trends of a financial, economic, structural, managerial or political nature. No claim payment is currently foreseen but the probability of loss or claim payment over the life of the transaction is now existent (generally 10% or greater probability). Class II credits may be border-line or below investment grade (BBB- to B). Prompt and sustained action must be taken to execute a comprehensive loss mitigation plan and correct deficiencies.

CLASS III – "Doubtful with Clear Potential for Loss" - Credits whose fundamental credit quality has deteriorated to the point that timely payment of debt service has been or will be jeopardized by adverse trends of a financial, economic, structural, managerial or political nature which, in the absence of positive change or corrective action, are likely to result in a loss. The probability of monetary default or claims paying over the life of the transaction is generally 50% or greater. Full exercise of all available remedial actions is required to avert or minimize losses. Class III credits will generally be rated below investment grade (B to CCC).

CLASS IV – "Imminent Default or Defaulted" - Monetary default or claim payments have occurred or are expected imminently. Class IV credits are generally rated D.

CLASS V – "Fully Reserved" - The credit has defaulted and payments have occurred. The claim payments are scheduled and known, reserves have been established to fully cover such claims, and no claim volatility is expected.

The population of credits evaluated in Ambac's loss reserve process are: (i) all adversely classified credits and ii) non-adversely classified credits which had an internal Ambac rating downgrade since the transaction's inception. One of two approaches is then utilized to estimate losses to ultimately determine if a loss reserve should be established.

- The first approach is a statistical expected loss approach, which considers the likelihood of all possible outcomes. The "base case" statistical expected loss is the product of: (i) the par outstanding on the credit; (ii) internally developed default information (taking into consideration internal ratings and average life of an obligation); (iii) internally developed loss severities; and (iv) a discount factor. The loss severities and default information are based on rating agency information, are specific to each bond type and are established and approved by senior RMG officers. For certain credit exposures, Ambac's additional monitoring, loss remediation efforts and probabilities of potential settlement outcomes may provide information relevant to adjust this estimate of "base case" statistical expected losses. Analysts may accept the "base case" statistical expected loss as the best estimate of expected loss or assign multiple probability weighted scenarios to determine an adjusted statistical expected loss that better reflects management's view of a given transaction's expected losses, as well as the potential for additional remediation activities (e.g., commutations).
- The second approach entails the use of cash-flow based models to estimate expected losses (future claims, net of potential recoveries, expected to be paid to the holder of the insured financial obligation). Ambac's RMG group will consider the likelihood of all possible outcomes and develop appropriate cash flow scenarios. This approach can include the utilization of internal or third party models and tools to project future losses and resultant claim payment estimates. We utilize cash flow models for RMBS, student loans and other exposures. RMBS and student loan models use historical performance of the collateral pools in order to then derive future performance characteristics, such as

default and voluntary prepayment rates, which in turn determine projected future claim payments. In other cases, such as many public finance exposures, including Puerto Rico, we do not specifically forecast resources available to pay debt service in the cash flow model itself. Rather, we consider the issuers' overall ability and willingness to pay, including the fiscal, economic, legal and political framework to develop projected future claim payment estimates. In this approach, a probability-weighted expected loss estimate is developed based on assigning probabilities to multiple claim payment scenarios and applying an appropriate discount factor. Additionally, we consider the issuer's ability to refinance an insured issue, Ambac's ability to execute a potential settlement (i.e., commutation) of the insurance policy, including the impact on future installment premiums, and/or other restructuring possibilities in our scenarios. The commutation scenarios and the related probabilities of occurrence vary by transaction, depending on our view of the likelihood of negotiating such a transaction with issuers and/or investors.

The discount factor applied to the statistical expected loss approach is based on a risk-free discount rate corresponding to the remaining expected weighted-average life of the exposure and the exposure currency. For the cash flow scenario approach, discount factors are applied based on a risk-free discount rate term structure and correspond to the date of each respective cash flow payment or recovery and the exposure currency. Discount factors are updated for the current risk-free rate each reporting period.

Ambac establishes loss expense reserves based on our estimate of expected net cash outflows for loss expenses, such as legal and consulting costs.

Below we provide further details of our loss reserve models for both RMBS and student loan exposures:

RMBS Expected Loss Estimate

Ambac insures RMBS transactions collateralized by (i) first-lien mortgages; and (ii) second-lien mortgage loans such as closed-end seconds and home equity lines of credit. If the borrower defaults on the payments due under these loans and the property is subsequently liquidated, the liquidation proceeds are first utilized to pay off the first-lien loan (as well as other costs) and any remaining funds are applied to pay off the second-lien loan. As a result of this subordinate position to the first-lien loan, second-lien loans may carry a significantly higher severity in the event of a loss.

Ambac primarily utilizes a cash flow model ("RMBS cash flow model") to develop estimates of projected losses for both our first and second lien transactions. First, the RMBS cash flow model projects collateral performance utilizing: (i) the transaction's underlying loans' characteristics and status, (ii) projected home price appreciation ("HPA") and (iii) projected interest rates. Depending on the amount of collateral information available for each transaction, we project such performance either at the loan-level or the deal-level using a variety of data that helps dimension the risk of the loans and/or deals. Observed servicer-level behavior may also have an impact on projected transaction performance.

We source HPA projections from a market accepted vendor and interest rate projections are developed from market sources. We use three HPA projection scenarios to develop a base case as well as stress and upside cases. The highest probability is assigned to the base case, with lower probabilities to the stress and upside cases.

For the liabilities of the transaction which we insure, we generally utilize waterfall projections generated from a tool provided by a market accepted vendor. This waterfall tool allows us to capture the impact of each transaction's specific structure (e.g., the waterfall priority of payments, triggers, redemption priority) to generate our specific projected claims profile in the base, upside and downside scenarios.

On a monthly basis, we compare monthly claims submitted against the trustees' reports, waterfall projections and our understanding of the transactions' structures to identify and resolve discrepancies.

In our experience, market performance and model characteristics change and therefore need to be updated and reflected in our models through time. As such, we conduct regular reviews of current models, alternative models and the overall approach to loss estimation.

RMBS Representation and Warranty Subrogation Recoveries

Prior to the settlement of all representation and warranty ("R&W") litigation settlements in 2022, as discussed in Note 1. Background and Business Description, Ambac recorded, as a component of its loss reserve estimate, subrogation recoverables related to securitized loans in RMBS transactions that breached certain R&W described herein. Generally, the sponsor of an RMBS transaction provided R&W with respect to the securitized loans, including R&W with respect to loan characteristics, the absence of borrower misrepresentations in the underlying loans and other misconduct in the origination process and attesting to the compliance of loans with the applicable underwriting guidelines. In such cases, the sponsor of the transaction is obligated, in accordance with the underlying contract, to repurchase, cure or substitute collateral for any loan that breaches the R&W.

- Ambac or its counsel engaged consultants with significant mortgage underwriting experience to review the underwriting documentation for mortgage loans underlying certain insured RMBS transactions with significant collateral losses, resulting in significant claims payments by Ambac.
- Ambac's approach used to estimate RMBS R&W subrogation recoverables was based on obtaining loan files from the original pool and conducting loan file re-underwriting to derive a quantum of breaches and an estimated repurchase obligation..
- Multiple probability-weighted scenarios were developed by applying various realization factors to the estimated

repurchase obligation. The realization factors in these scenarios reflected Ambac's own assumptions about the likelihood of outcomes based on all the information available to it including, but not limited to, (i) discussions with external legal counsel and their views on ultimate settlement and/or litigation outcomes; (ii) assessment of the strength of the specific case; (iii) changes in law or developments in RMBS litigation cases that impact our estimated recoveries; and (iv) experience in settling similar claims. The probability weightings were developed based on the unique facts and circumstances for each transaction. The sum of these probability-weighted scenarios represented the undiscounted RMBS R&W subrogation recovery, which was then discounted using a factor derived from a risk-free discount rate term structure that corresponds to the estimated date of each respective recovery.

Student Loan Expected Loss Estimate

The student loan insured portfolio consists of credits collateralized by private student loans. The calculation of loss reserves for our student loan portfolio involves evaluating numerous factors that can impact ultimate losses. Since our policies cover timely interest and ultimate principal payment, our loss projections must make assumptions for many factors covering a long horizon. Key assumptions that will impact ultimate losses include, but are not limited to, the following: collateral performance (which is highly correlated to the economic environment); interest rates; operating risks associated with the issuer, servicers, special servicers, and administrators; investor appetite for tendering or commuting insured obligations; and as applicable, Ambac's ability and willingness to commute policies. In addition, we consider in our student loan loss projections the potential impact, if any, of proposed or final regulatory actions or orders, including by the Consumer Financial Protection Bureau ("CFPB"), affecting our insured transactions.

We develop and assign probabilities to multiple cash flow scenarios based on each transaction's unique characteristics. Probabilities assigned are based on available data related to the credit, information from contact with the issuer (if applicable), and any economic or market information that may impact the outcomes of the various scenarios being evaluated. Our base case usually projects deal performance out to maturity using expected loss assumptions. As appropriate, we also develop other cases that incorporate various upside and downside scenarios that may include changes to defaults and recoveries.

Specialty Property and Casualty:

loss and loss adjustment expense reserves for Everspan represent management's estimate of the ultimate liability for unpaid losses and loss expenses for claims that have been reported and claims that have been incurred but not yet reported ("IBNR") as of the balance sheet date. The reserves are estimated based upon experience and using a variety of actuarial methods. These estimates are reviewed and are subject to the impact of future changes in factors such as claim severity and frequency, underwriting and claims practices, changes in social and economic conditions including the impact of inflation, legal and judicial developments, medical cost trends and upward trends in damage awards. The ultimate amount for loss and loss adjustment expenses may be in excess, or less than, the amounts recorded on our financial statements. Adjustments will be reflected as part of the net increase or reduction in loss and loss adjustment expense reserves in the periods in which they become known.

The Company performs a continuing review of its loss and loss adjustment expense reserves, including its reserving techniques and the impact of reinsurance. The reserves are also reviewed by qualified actuaries, including actuaries employed by the Company and third party actuaries. Since the reserves are based on estimates, the ultimate liability may be more or less than such reserves.

Reinsurance Recoverable

The corresponding loss and loss adjustment expense reserve ceded to reinsurers is reported as reinsurance recoverable on paid and unpaid losses. The reinsurance recoverable from reinsurers is estimated in a manner consistent with the associated loss and loss adjustment expense reserve. Ambac has reinsurance in place pursuant to quota share, surplus share treaty and facultative reinsurance agreements.

The reinsurance of risk does not legally relieve Ambac of its original liability to its policyholders. In the event that any of Ambac's reinsurers are unable to meet their obligations under reinsurance contracts, Ambac would, nonetheless, be liable to its policyholders for the full amount of its policy.

To minimize its credit exposure to losses from reinsurer insolvencies, Ambac (i) is entitled to receive collateral from certain reinsurance counterparties pursuant to the terms of the relevant reinsurance contracts and (ii) has certain cancellation rights that can be exercised by Ambac in the event of rating agency downgrades of a reinsurer (among other events and circumstances). For those reinsurance counterparties that do not currently post collateral, Ambac's reinsurers are well capitalized, highly rated, authorized capacity providers.

Under CECL, Ambac has a formal quarterly credit impairment review process whereby Ambac has elected to use the practical expedient of considering the fair value of collateral posted by reinsurers when evaluating credit impairment. To determine the total unsecured recoverable to be evaluated for credit impairment, Ambac nets the reinsurance recoverable amount by ceded premiums payable and the fair value of collateral posted, if any.

The key factors in assessing credit impairment for reinsurance recoverables are independent rating agency credit ratings and loss severities. Management utilizes a probability of default/loss given default ("PD/LGD") approach, which is applied to the net unsecured reinsurance recoverable amount. Refer to *Note 8. Insurance Contracts* for credit impairment disclosures.

Long-term Debt

Long-term debt issued by Ambac is carried at par value less unamortized discount. Accrued interest and discount accretion

on long-term debt is reported as Interest expense on the Consolidated Statements of Total Comprehensive Income (Loss). To the extent Ambac repurchases or redeems its long-term debt, such repurchases or redemptions may be settled for an amount different than the carrying value of the obligation. Any difference between the payment and carrying value of the obligation is reported in Net realized gains (losses) on extinguishment of debt on the Consolidated Statements of Total Comprehensive Income (Loss). For surplus note repurchases, the pro-rata purchase price related to principal and accrued interest is reported as a financing and operating activity, respectively, on the Statement of Cash Flows.

For long-term debt issued by consolidated VIEs in which Ambac's variable interest arises from financial guarantees written by Ambac's subsidiaries ("FG VIEs"), we may elect to use the fair value option on an instrument by instrument basis. When the fair value option is elected, changes in the fair value of the FG VIEs' long-term debt is reported within Income (loss) on variable interest entities in the Consolidated Statements of Total Comprehensive Income (Loss), except for the portion of the total change in fair value of financial liabilities caused by changes in the instrument-specific credit risk which is presented separately in Other comprehensive income (loss). In cases where the fair value option has not been elected, the FG VIEs' long-term debt is carried at par less unamortized discount, with interest expense reported within Income (loss) on variable interest entities in the Consolidated Statements of Total Comprehensive Income (Loss).

Noncontrolling Interests

Nonredeemable noncontrolling interests

At December 31, 2022 and 2021, AAC had 4,596 and 5,501 shares of issued and outstanding Auction Market Preferred Shares ("AMPS") with a liquidation preference of $115 and $138 (reported as nonredeemable noncontrolling interest of $53 and $60 on Ambac's balance sheet), respectively. In 2022, Ambac purchased 905 shares of AMPS for $8. The difference between this amount paid to AMPS holders and the carrying amount was reflected as an increase to Net income attributable to common shareholders for approximately $1. The auction occurs every 28 days and the dividend rate has continuously been reset at the maximum rate of one-month LIBOR plus 200 basis points.

Under the terms of the AMPS, dividends may not be paid on the common stock of AAC unless all accrued and unpaid dividends on the AMPS for the then current dividend period have been paid, provided, that dividends on the common stock may be made at all times for the purpose of, and only in such amounts as are necessary for, enabling AFG (i) to service its indebtedness for borrowed money as such payments become due or (ii) to pay its operating expenses. If dividends are paid on the common stock as provided in the prior sentence, dividends on the AMPS become cumulative until the date that all accumulated and unpaid dividends have been paid on the AMPS. AAC has not paid dividends on its AMPS since 2010.

Redeemable noncontrolling interests

The All Trans, Capacity Marine and Xchange acquisitions, further described in Note 4. Business Combination, resulted in 85%, 80% and 80%, respectively, ownership of the acquired entities by Ambac. Under the terms of the acquisition agreements, Ambac has a call option to purchase the remaining 15%, 20% and 20%, respectively, from the minority owners (i.e., noncontrolling interests) and the minority owners have a put option to sell the remaining 15%, 20% and 20%, respectively, to Ambac. Because the exercise of the put options are outside the control of Ambac, in accordance with the Distinguishing Liabilities from Equity Topic of the ASC, Ambac reports redeemable noncontrolling interests in the mezzanine section of its consolidated balance sheet.

The redeemable noncontrolling interest is remeasured each period as the greater of:

i. the carrying value under ASC 810, which attributes a portion of consolidated net income (loss) to the redeemable noncontrolling interest, and

ii. the redemption value of the put option under ASC 480 as if it were exercisable at the end of the reporting period.

Any increase (decrease) in the carrying amount of the redeemable noncontrolling interest as a result of adjusting to the redemption value of the put option is recorded as an offset to retained earnings. The impact of such differences on earnings per share are presented in *Note 16. Net Income Per Share.*

Following is a rollforward of redeemable noncontrolling interest.

Years ended December 31,	2022	2021
Beginning balance	$ 18	$ 7
Fair value of redeemable noncontrolling interest at acquisition date	5	—
Net income attributable to redeemable noncontrolling interest (ASC 810)	(1)	(1)
Adjustment to redemption value (ASC 480)	(3)	12
Ending Balance	**$ 20**	**$ 18**

Revenue Recognition:

Revenues for the Insurance Distribution business operations are recognized in accordance with the Revenue from Contracts with Customers Topic of the ASC. The following steps are applied to recognize revenue: (i) identify the contract(s) with the customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, and (iv) allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. A performance obligation is satisfied either at a point in time or over time depending on the nature of the product or service provided, and the specific terms of the contract with customers.

Insurance Distribution performance obligations consist of underwriting and placing policies with insurers and, for certain products, providing claims servicing. Revenue from insurance policies covering i) limited and short-term medical sold through affinity groups ("Affinity"), ii) commercial and "for hire" auto,

and iii) marine and international risks are recognized up front as no further performance obligations exist after policy placement. Revenue from employer stop loss policies ("ESL") is apportioned to policy placement and claims servicing based on the relative stand-alone selling price of the respective performance obligations with policy placement revenue recognized upfront while claims servicing revenue is recognized over the claim adjustment period.

Revenue consists of base and profit-sharing commissions. Base commissions, associated with policy placement and claims servicing, are estimated by applying the contractual commission percentages to estimated gross premiums written. Profit-sharing commissions represent variable consideration associated with policy placement only and are estimated based on expected loss ratios and the estimated gross premium for base commissions. Base and profit-sharing commissions are estimated with a constraint applied such that a significant reversal of revenue in the future is not probable. Revenue is reported in Commissions income on the Consolidated Statement of Total Comprehensive Income.

Contract assets represent the Company's right to future consideration for services it has already transferred to the customer, which is subject to certain contingencies such as the achievement of loss ratios on underlying insurance policies. Once the right to consideration becomes unconditional, it is reported as a receivable. Contract liabilities represent the Company's obligation to transfer services for which it has already received consideration from the customer. Contract assets and contract liabilities are reported as other assets and other liabilities, respectively, on the Consolidated Balance Sheet.

The Company’s costs to fulfill customer contracts relate to certain commissions paid to independent agents for procuring policies. As these costs relate to the Company’s policy placement performance obligation to its customers, they are expensed as incurred. These costs are reported in Commission expenses on the Consolidated Statement of Total Comprehensive Income. The Company does not incur costs related to obtaining customer contracts.

Employee Benefits

Postretirement and Postemployment Benefits

Ambac provides postretirement and postemployment benefits, including health and life benefits covering employees who meet certain age and service requirements. Ambac accounts for these benefits under the accrual method of accounting. Amounts related to the postretirement health benefits liability are established and charged to expense based on actuarial determinations.

Incentive Compensation

Incentive compensation is a key component of our compensation strategy. Incentive compensation has two components: short term incentive compensation (consisting of an annual cash bonus) and long term incentive plan awards (consisting of deferred cash and awards of restricted and performance stock units). Annual decisions with regard to incentive compensation are generally made in the first quarter of each year and are based on the prior year's performance for the Company, the employee and the employee's business unit.

In 2020, the Ambac 2013 Incentive Compensation Plan (the “2013 Incentive Plan”) was superseded by the 2020 Incentive Compensation Plan ("2020 Incentive Plan"). Both plans allow for the granting of stock options, restricted stock, stock appreciation rights, restricted and performance units and other awards to employees, directors and consultants that are valued or determined by reference to Ambac's common stock. Under these plans, Ambac has issued both cash and equity awards to US employees and consultants.

In connection with the adoption of the 2020 Incentive Plan, all shares reserved but unissued under the 2013 Incentive Plan were transferred to the the 2020 Incentive Plan in addition to any shares underlying outstanding awards under the 2013 Incentive Plan as of June 2, 2020 that subsequently terminate by expiration or forfeiture, cancellation, or otherwise are not issued.

Under the 2013 and 2020 Incentive Compensation Plans. Ambac recognizes compensation costs for all equity classified awards granted at fair value, which is measured on the grant date, and records forfeitures for unvested shares only when they occur. For awards that only include service and performance conditions, the fair value is the market price of Ambac stock on the grant date. For awards that also contain a market condition, specifically a total shareholder return ("TSR") modifier, the fair value is estimated using a Monte Carlo simulation.

The types of equity awards granted to employees are as follows:

- Restricted stock units — only require future service and accordingly the respective fair value is recognized as compensation expense over the relevant service period.
- Performance stock units — require both future service and achieving specified performance targets to vest. Certain performance stock unit grants also include a market condition TSR modifier that will cause the total payout at the end the performance period to increase or decrease depending on Ambac's stock performance relative to a peer group. Compensation costs for all performance stock units are only recognized when the achievement of the performance conditions are considered probable. Once deemed probable, such compensation costs are recognized as compensation expense over the relevant service period. Compensation costs are initially based on the probable outcome of the performance conditions and adjusted for subsequent changes in the estimated or actual outcome each reporting period as necessary. Changes in the estimated or actual outcome of a performance condition are recognized by reflecting a retrospective adjustment to compensation cost in the current period.

In 2020, the Ambac UK Board of Directors adopted a long term incentive plan for Ambac UK employees, which includes both performance and time based awards. Compensation costs for all performance based awards are based on the probable outcome of the performance conditions and adjusted for subsequent changes in the estimated or actual outcome each reporting period as

necessary. Compensation costs for time-based awards are recognized evenly over the service period.

Operating Leases

A contract contains a lease if it conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. Ambac's evaluation of whether certain contracts contain leases requires judgment regarding what party controls the asset and whether the asset is physically distinct.

Ambac is the lessee in leases which are classified as operating leases. Ambac recognizes a single lease cost, calculated so that the cost is allocated generally on a straight-line basis over the lease term within operating expenses in the Consolidated Statements of Total Comprehensive Income (Loss). The lease term commences on the earlier of the date when we become legally obligated for the rent payments or the date on which we take possession of the property. For such operating leases, Ambac recognizes a right-of-use ("ROU") asset and a lease liability, initially measured at the present value of the lease payments. The discount rate used to initially measure the ROU assets and lease liabilities reflects the estimated secured borrowing rate of the applicable Ambac subsidiary, which considers the rate of existing or recent debt obligations of the entity. All cash payments are classified within operating activities in the statement of cash flows.

For contracts where Ambac is the lessee, we have elected the short-term lease recognition exemption for all leases that qualify. For those leases that qualify for that exemption, we will not recognize ROU assets or lease liabilities. For all contracts where Ambac is the lessee and lessor we have also elected the practical expedient to not separate lease and non-lease components.

Depreciation and Amortization

Depreciation of furniture and fixtures, certain information technology development costs and electronic data processing equipment is charged over the estimated useful lives of the respective assets, ranging from three to five years, using the straight-line method. Amortization of leasehold improvements is charged over the remaining term of the respective operating lease using the straight-line method.

Foreign Currency

Financial statement accounts expressed in foreign currencies are translated into U.S. dollars in accordance with the Foreign Currency Matters Topic of the ASC. The functional currencies of Ambac's subsidiaries are the local currencies of the country where the respective subsidiaries are based, which are also the primary operating environments in which the subsidiaries operate.

Foreign currency translation: Functional currency assets and liabilities of Ambac's foreign subsidiaries are translated into U.S. dollars using exchange rates in effect at the balance sheet dates and the related translation adjustments, net of deferred taxes, are included as a component of Accumulated Other Comprehensive Income (Loss) in Stockholders' Equity. Functional currency operating results of foreign subsidiaries are translated using average exchange rates.

Foreign currency transactions: The impact of non-functional currency transactions and the remeasurement of non-functional currency assets and liabilities into the respective subsidiaries' functional currency (collectively "foreign currency transactions gains/(losses)") are $11, $(7) and $(1) for the years ended December 31, 2022, 2021 and 2020, respectively. Foreign currency transactions gains/(losses) are primarily the result of remeasuring Ambac UK's assets and liabilities denominated in currencies other than its functional currency, primarily the U.S. dollar and the Euro.

Commitments and Contingencies

The Company and its subsidiaries are defendants in or parties to actual, pending and threatened lawsuits and proceedings. A liability is accrued for such contingencies when a loss is both probable and reasonably estimable. If a loss is not "probable and reasonably estimable," but is reasonably possible, disclosure of the contingency and an estimate of the loss or range of loss is required if such an estimate can be determined. Significant management judgment is required to apply this guidance. As a legal contingency develops, the Company, in conjunction with outside counsel, evaluates what level of accrual and/or disclosure is required under the guidance. See the Litigation Against Ambac section of Note 20. Commitments and Contingencies for additional information about our legal contingencies and related accounting evaluation.

Income Taxes

Ambac files a consolidated U.S. Federal income tax return with its subsidiaries. Ambac and its subsidiaries also file separate or combined income tax returns in various states, local and foreign jurisdictions. Current tax assets and liabilities are recognized for taxes refundable or payable for the current year.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on current and deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. In June 2021, the United Kingdom legislation increasing the tax rate from 19% to 25% was fully enacted. As such, we incorporated the effects of the tax rate increase in our current and deferred tax evaluation for the years ended December 31, 2021 and 2022.

The Income Taxes Topic of the ASC requires that companies assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence using a 'more likely than not' standard. In making such judgments, significant weight is given to evidence that can be objectively verified. The level of deferred tax asset recognition is influenced by management's assessment of future profitability, which depends on the existence of sufficient

taxable income within the carry forward periods available under the tax law.

Net Income Per Share

Basic net income per share is computed by dividing net income attributable to common stockholders, including the adjustment to redemption value of the redeemable noncontrolling interest, by the weighted-average number of common shares outstanding and vested restricted stock units (together, "Basic Weighted Average Shares Outstanding"). Diluted net income per share is computed by dividing net income attributable to common stockholders, including the adjustment to redemption value of the redeemable controlling interest, by the Basic Weighted-Average Shares Outstanding plus all potentially dilutive common shares outstanding during the period. All potentially dilutive common shares outstanding consider common stock deliverable pursuant to warrants, vested and unvested options, unvested restricted stock units and performance stock units granted under existing compensation plans.

Supplemental Disclosure of Cash Flow Information

Year Ended December 31,	2022	2021	2020
Cash paid during the period for:			
Income taxes	$ 6	$ 15	$ 11
Interest on long-term debt	283	80	107
Non-cash investing and financing activities:			
Decrease in long-term debt as a result of surplus notes exchanges	—	71	—
Securities acquired in transactions related to Puerto Rico restructurings	508	—	—
Loans acquired through financial guarantee subrogation	20	—	—
VIE long-term debt issued related to Puerto Rico restructurings	583	—	—

December 31,	2022	2021	2020
Reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets to the Consolidated Statements of Cash Flow:			
Cash and cash equivalents	$ 31	$ 17	$ 20
Restricted cash	14	5	13
Variable Interest Entity Restricted cash	17	2	2
Total cash, cash equivalents, and restricted cash shown on the Consolidated Statements of Cash Flows	61	23	35

Reclassifications and Rounding

Reclassifications may have been made to prior years' amounts to conform to the current year's presentation. Certain amounts and tables in the consolidated financial statements and associated notes may not add due to rounding.

Adopted Accounting Standards

The Company adopted the following accounting standards in 2022:

Contracts Assets and Liabilities in a Business Combination

In October 2021, the FASB issued ASU 2021-08, *Accounting for Contract Asset and Contract Liabilities from Contracts with Customers*. The business combination guidance in ASC 805 generally requires a company to recognize and measure the assets and the liabilities it acquires at fair value on the acquisition date. ASC 805 further requires the acquired assets and liabilities to be subsequently measured in accordance with other relevant GAAP standards. ASU 2021-08 creates an exception to the general rule and requires contract assets and liabilities acquired in a business combination to be recognized in accordance with ASC 606 at the acquisition date. The ASU aligns the business combination accounting at the acquisition date with the subsequent accounting for contract assets and liabilities under ASC 606. The ASU is effective for fiscal years beginning after December 15, 2022, with early adoption permitted, including early adoption in an interim period. Ambac early-adopted the ASU on November 1, 2022, and applied it to the acquisitions of All-Trans and Capacity Marine. The adoption did not have a consequential impact on Ambac's financial statements.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU provides companies with optional guidance to ease the potential accounting burden related to transitioning away from reference rates, such as LIBOR, that are expected to be discontinued as a result of initiatives undertaken by various jurisdictions around the world. For example, under current GAAP, contract modifications which change a reference rate are required to be evaluated in determining whether the modifications result in the establishment of new contracts or the continuation of existing contracts. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The ASU can be applied prospectively as of the beginning of the interim period that includes or is subsequent to March 12, 2020, or any date thereafter, but does not apply to contract modifications and other transactions entered into or evaluated after December 31, 2022. In December 2022, the FASB issued ASU 2022-06 which extends the sunset date to December 31, 2024. The ASU was adopted in 2022 for applicable financial instruments and contracts that transitioned to new reference rates and the adoption did not have a consequential impact on Ambac's financial statements.

Equity-classified Written Call Options

In May 2021, the FASB issued ASU 2021-04, *Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. The ASU clarifies and reduces diversity in practice for an issuer's accounting for modifications or exchanges of equity-classified written call options (e.g. warrants) that remain equity-classified after the modification or exchange. The ASU requires an issuer to account for the modification or exchange based on the economic substance of the transaction. For example, if the modification or exchange is related to the issuance of debt or equity, any change in the fair value of the written call option would be accounted for as part of the debt issuance cost in accordance with the debt guidance or equity issuance cost in accordance with the equity guidance, respectively. The ASU was adopted on January 1, 2022 and did not have a consequential impact on Ambac's financial statements.

Convertible Instruments and Contracts in an Entity's Own Equity

In August 2020, the FASB issued ASU 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. The ASU i) simplifies the accounting for convertible debt and convertible preferred stock by reducing the number of accounting models, and amends certain disclosures, ii) amends and simplifies the derivative scope exception guidance for contracts in an entity's own equity, including share-based compensation, and iii) amends the diluted earnings per share calculations for convertible instruments and contracts in an entity's own equity. The ASU was adopted on January 1, 2022 and did not have a consequential impact on Ambac's financial statements.

Future Application of Accounting Standards:

There are no material future accounting standards currently being evaluated.

3. SEGMENT INFORMATION

The Company reports its results of operations in three segments: Legacy Financial Guarantee Insurance, Specialty Property and Casualty Insurance and Insurance Distribution, separate from Corporate and Other, which is consistent with the manner in which the Company's chief operating decision maker ("CODM") reviews the business to assess performance and allocate resources. See Note 1. Background and Business Description for a description of each of the Company's business segments.

The following tables summarize the components of the Company’s total revenues and expenses, pretax income (loss) and total assets by reportable business segment. Information provided below for “Corporate and Other” primarily relates to the operations of AFG, which will include investment income on its investment portfolio and costs to maintain the operations of AFG, including public company reporting, capital management and business development costs for the acquisition and development of new business initiatives.

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollar Amounts in Millions, Except Share Amounts)

	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consolidated
Year Ended December 31, 2022					
Revenues:					
Net premiums earned	$ 42	$ 14			$ 56
Commission income			$ 31		31
Program fees		3			3
Net Investment income	12	2		$ 3	17
Net investment gains (losses), including impairments	32	—		—	31
Net gains (losses) on derivative contracts	128	—		1	129
Net realized gains (losses) on extinguishment of debt	81				81
Other income [1]	30	—	1	—	31
Litigation recoveries	126				126
Total revenues and other income	451	18	31	4	505
Expenses:					
Loss and loss adjustment expenses (benefit)	(406)	9			(396)
Amortization of deferred acquisition costs, net	—	3			3
Commission expenses			18		18
General and administrative expenses	102	13	6	17	139
Depreciation expense	2	—	—	—	2
Intangible amortization	44		3		47
Interest expense	168				168
Total expenses	(89)	25	27	17	(20)
Pretax income (loss)	$ 540	$ (6)	$ 5	$ (14)	$ 525
Total Assets [2]	$ 7,292	$ 316	$ 138	$ 226	$ 7,973

(1) Other revenues include the following line items on the Consolidated Statements of Total Comprehensive Income: Income (loss) on variable interest entities and other income (expense).

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollar Amounts in Millions, Except Share Amounts)

	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consolidated [2]
Year Ended December 31, 2021					
Revenues:					
Net premiums earned	$ 46	$ 1			$ 47
Commission income			$ 26		26
Program fees		—			—
Net Investment income	138	1		$ 1	139
Net investment gains (losses), including impairments	3	—		4	7
Net gains (losses) on derivative contracts	22	—			22
Net realized gains (losses) on extinguishment of debt	33				33
Other income (expense) [1]	8	—	—	—	8
Litigation recoveries	—				—
Total revenues and other income	**250**	**2**	**26**	**5**	**282**
Expenses:					
Loss and loss adjustment expenses (benefit)	(89)	—			(88)
Amortization of deferred acquisition costs, net	—	—			1
Commission expenses			15		15
General and administrative expenses	77	9	5	19	110
Depreciation expense	2	—	—	—	2
Intangible amortization	52		3		55
Interest expense	187				187
Total expenses	**230**	**9**	**22**	**19**	**281**
Pretax income (loss)	**$ 20**	**$ (8)**	**$ 4**	**$ (15)**	**$ 2**
Total Assets [2]	**$ 11,871**	**$ 156**	**$ 93**	**$ 182**	**$ 12,303**

(1) Other revenues include the following line items on the Consolidated Statements of Total Comprehensive Income: Income (loss) on variable interest entities and other income (expense).

(2) Inter-segment revenues and inter-segment pre-tax income (loss) amounts are insignificant and are not presented separately. Total assets noted in the Corporate and Other Column is net of AFG's investment in surplus notes issued by the Legacy Financial Guarantee Segment with fair values of $90 at December 31, 2021.

Prior to 2021, Ambac's business operations consisted solely of Legacy Financial Guarantee Insurance.

4. BUSINESS COMBINATION

Ambac has acquired the following entities that were accounted for as business combinations and advance Ambac's strategy of expanding into the Insurance Distribution sector.

- Effective November 1, 2022, Ambac completed the acquisition of 85% of All Trans and 80% of Capacity Marine for a combined purchase price of $26 in cash. Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company's Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period as defined by ASC 805.
- On December 31, 2020, Ambac completed the acquisition of 80% of the membership interests of Xchange for a purchase price of $81 in cash. All amounts recorded at the time of the acquisitions are final and no subsequent adjustments were made within the permitted measurement period as defined by ASC 805.

The following table summarizes the consideration paid for these acquisitions and the estimated fair values of the aggregate assets and liabilities acquired, as well as the fair value of the noncontrolling interest, at the acquisition dates:

Fair Value	All Trans & Capacity Marine	Xchange
Cash	$ 4	$ 2
Restricted cash	4	4
Intangible assets	16	36
Goodwill	15	46
Other assets	6	8
Total assets acquired	$ 45	$ 96
Other liabilities	13	8
Total liabilities assumed	13	8
Less: Redeemable noncontrolling interest	5	7
Total consideration	**$ 26**	**$ 81**

Goodwill was recorded to reflect the excess purchase consideration over net assets acquired and primarily consists of the future economic benefits that we expect to receive as a result of the acquisitions, driven by the value potential future distribution and carrier relationships, and synergies with other Ambac business operations. Tax deductible goodwill totaled $21 and $65, deductible over 15 years for each of the All Trans and Capacity Marine and Xchange acquisitions, respectively.

The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed were based on management's estimates and assumptions at the time of the acquisitions.

The fair value of the redeemable non-controlling interest of $5 and $7, respectively on the acquisition dates for the All Trans and Capacity Marine and Xchange acquisitions were estimated based on the non-controlling interest's respective share of each acquiree's enterprise value, adjusted for the value of Ambac's call options to purchase, and the minority owners' put options to sell to Ambac, respectively, the remaining non-controlling interests. Please refer to the Noncontrolling Interests section of Note 2. Basis of Presentation and Significant Accounting Policies, for further information regarding the terms of the call and put options, as well as the redeemable noncontrolling interest balance sheet classification.

The following table sets forth the estimated fair values of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition.

	Fair Value	Weighted Average Remaining Useful Life - Years
All Trans & Capacity Marine		
Distribution relationships	$ 15	15.0
Trade name	1	15.0
Total	**16**	
Xchange		
Distribution relationships	$ 33	15.0
Non-compete agreements	1	5.0
Trade name	1	8.0
Total	**$ 36**	

The distribution relationships intangible represents existing relationships maintained with a variety of brokers and distributors across its product lines. It excludes the value of potential future distribution relationships that may be developed, which is included in goodwill. The trade name intangible represents the rights to the brand names which are well known in the marketplace that each company competes in. The non-compete agreements intangible relates to agreements entered into with certain key management personnel.

The overall weighted average useful life of the identified amortizable intangible assets acquired is 15 years and 14 years for the All Trans and Capacity Marine and Xchange acquisitions, respectively.

Pro forma information related to the acquisitions was not presented as the impact was not material to the Company's financial results.

5. INVESTMENTS

Ambac's non-VIE invested assets are primarily comprised of (i) fixed maturity securities classified as either available-for-sale or trading securities, (ii) interests in pooled investment funds which are reported within Other investments on the Consolidated Balance Sheets and (iii) preferred equity investments which are reported within Other investments on the Consolidated Balance Sheets. Interests in pooled investment funds in the form of common stock or in-substance common stock are classified as trading securities, while limited partner interests in such funds are reported using the equity method. Fixed maturity securities classified as trading are unrated municipal bond and other obligations of Puerto Rico issuing entities that are part of the the PROMESA restructuring process as described further in *Note 8. Insurance Contracts*.

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Fixed Maturity Securities

The amortized cost and estimated fair value of available-for-sale investments, excluding VIE investments, at December 31, 2022 and 2021 were as follows:

	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022					
Fixed maturity securities:					
Municipal obligations	$ 44	$ —	$ —	$ 2	$ 43
Corporate obligations	659	—	1	63	598
Foreign obligations	85	—	—	9	76
U.S. government obligations	68	—	—	4	65
Residential mortgage-backed securities	230	—	28	19	238
Commercial mortgage-backed securities	15	—	—	—	15
Collateralized debt obligations	141	—	—	4	137
Other asset-backed securities [1]	227	—	2	5	224
	1,469	—	31	106	1,395
Short-term	507	—	—	—	507
	1,977	—	31	106	1,902
Fixed maturity securities pledged as collateral:					
Short-term	64	—	—	—	64
	64	—	—	—	64
Total available-for-sale investments	$ 2,041	$ —	$ 31	$ 106	$ 1,966
December 31, 2021					
Fixed maturity securities:					
Municipal obligations	$ 315	—	28	3	340
Corporate obligations	612	—	10	9	613
Foreign obligations	89	—	—	2	87
U.S. government obligations	45	—	1	1	45
Residential mortgage-backed securities	182	—	70	—	252
Collateralized debt obligations	128	—	—	—	128
Other asset-backed securities [1]	234	—	32	—	265
	1,605	—	141	16	1,730
Short-term	415	—	—	—	414
	2,020	—	141	16	2,145
Fixed maturity securities pledged as collateral:					
U.S. government obligations	15	—	—	—	15
Short-term	105	—	—	—	105
	120	—	—	—	120
Total available-for-sale investments	**2,140**	$ —	$ 141	$ 16	$ 2,265

(1) Consists primarily of Ambac's holdings of military housing and student loan securities.

The amortized cost and estimated fair value of available-for-sale investments, excluding VIE investments, at December 31, 2022, by contractual maturity, were as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 606	$ 605
Due after one year through five years	456	427
Due after five years through ten years	317	277
Due after ten years	51	43
	1,429	1,353
Residential mortgage-backed securities	230	238
Commercial mortgage-backed securities	15	15
Collateralized debt obligations	141	137
Other asset-backed securities	227	224
Total	$ 2,041	$ 1,966

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

Unrealized Losses on Fixed Maturity Securities

The following table shows gross unrealized losses and fair values of Ambac's available-for-sale investments, excluding VIE investments, which at December 31, 2022, did not have an allowance for credit losses under the CECL standard. This information is aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
December 31, 2022						
Fixed maturity securities:						
Municipal obligations	$ 21	$ 1	$ 7	$ 1	$ 28	$ 2
Corporate obligations	280	21	279	42	559	63
Foreign obligations	27	2	47	7	73	9
U.S. government obligations	40	3	19	1	58	4
Residential mortgage-backed securities	132	19	—	—	132	19
Commercial mortgage-backed securities	3	—	—	—	3	—
Collateralized debt obligations	90	3	36	1	126	4
Other asset-backed securities	198	4	5	1	203	5
	791	53	392	53	1,183	106
Short-term	78	—	8	—	86	—
Total temporarily impaired securities	$ 869	$ 53	$ 400	$ 53	$ 1,269	$ 106

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	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
December 31, 2021						
Fixed maturity securities:						
Municipal obligations	$ 117	$ 3	$ 2	$ —	$ 118	$ 3
Corporate obligations	363	8	17	1	380	9
Foreign obligations	75	2	3	—	78	2
U.S. government obligations	25	—	2	—	27	1
Residential mortgage-backed securities	—	—	1	—	2	—
Collateralized debt obligations	68	—	3	—	71	—
Other asset-backed securities	6	—	—	—	6	—
	654	14	28	1	682	16
Short-term	114	—	13	—	128	—
	768	**14**	**41**	**1**	**810**	**16**
Fixed income securities, pledged as collateral:						
U.S. government obligations	15	—	—	—	15	—
Total collateralized investments	15	—	—	—	15	—
Total temporarily impaired securities	**$ 783**	**$ 14**	**$ 41**	**$ 1**	**$ 825**	**$ 16**

Management has determined that the securities in the above table do not have credit impairment as of December 31, 2022 and 2021 based upon (i) no actual or expected principal and interest payment defaults on these securities; (ii) analysis of the creditworthiness of the issuer and financial guarantor, as applicable, and (iii) for debt securities that are non-highly rated beneficial interests in securitized financial assets, analysis of whether there was an adverse change in projected cash flows. Management's evaluation as of December 31, 2022, includes the expectation that all principal and interest payments on securities guaranteed by AAC or Ambac UK will be made timely and in full.

Ambac's assessment about whether a security is credit impaired reflects management's current judgment regarding facts and circumstances specific to the security and other factors. If that judgment changes, Ambac may record a charge for credit impairment in future periods.

The declines in fair value and resultant unrealized losses across asset classes as of December 31, 2022 included in the above table resulted from the impact of increasing interest rates and market spreads. Management has determined that the securities with unrealized losses are not credit impaired. Further discussion of management's assessment with respect to security categories with larger unrealized loss balances is below.

Corporate obligations

The gross unrealized losses on corporate obligations as of December 31, 2022 resulted from an increase in interest rates and, to a lesser extent, market spreads since the securities were purchased. Unrealized losses of $61 related to 584 investment grade securities with an average unrealized loss equal to 10% of amortized cost at December 31, 2022. Securities that have below investment grade credit ratings or are unrated comprise $2 of the gross unrealized loss and have an average unrealized loss equal to 8% of amortized cost at December 31, 2022.

Management believes that the full and timely receipt of all principal and interest payment on corporate obligations with unrealized losses as of December 31, 2022 is probable.

Residential mortgage-backed securities and Other asset-backed securities

As of December 31, 2022, all of the $19 unrealized loss on residential mortgage-backed securities related to 13 Ambac-insured securities. Five of these account for $18 of the unrealized loss and have an average unrealized loss equal to 15% of amortized cost. The $5 unrealized loss on other asset backed securities related to 14 Ambac-insured securities or resecuritization instruments collateralized with Ambac-insured securities and have an average unrealized loss equal to 2% of amortized cost. The majority of these unrealized losses for both residential mortgage-backed and other asset-backed securities relate to securities with long dated weighted average lives making their fair values more sensitive to interest rate changes. Also, most of these securities have below investment grade credit ratings or are unrated. The unrealized losses on these obligations resulted from adverse market conditions for long dated credit assets. As noted above, expected cash flows used in evaluating credit impairment of Ambac-insured securities contemplate full and timely payment of all principal and interest payments on Ambac-insured securities. This assumption is included in the projection of model based cash flows used in evaluating credit impairments on beneficial interests in securitized financial assets, including the residential mortgage backed and student loan asset backed securities included in this group.

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Investment Income (Loss)

Net investment income (loss) was comprised of the following for the affected periods:

Year Ended December 31,	2022	2021	2020
Fixed maturity securities	$ 61	$ 78	$ 103
Short-term investments	11	—	5
Loans	1	—	1
Investment expense	(6)	(6)	(6)
Securities available-for-sale and short-term	66	74	103
Fixed maturity securities - trading	(23)	—	—
Other investments	(26)	66	19
Total net investment income (loss)	**$ 17**	**$ 139**	**$ 122**

Net investment income (loss) from Other investments primarily represents changes in fair value on equity securities including certain pooled investment funds, and income from investment limited partnerships and other equity interests accounted for under the equity method.

Net Investments Gains (Losses), including Impairments

The following table details amounts included in net investment gains (losses) and impairments included in earnings for the affected periods:

Year Ended December 31,	2022	2021	2020
Gross realized gains on securities	$ 36	$ 14	$ 38
Gross realized losses on securities	(18)	(2)	(12)
Foreign exchange (losses) gains	14	(5)	(4)
Credit impairments	—	—	—
Intent / requirement to sell impairments	—	—	—
Net investment gains (losses), including impairments	**$ 31**	**$ 7**	**$ 22**

Ambac had an allowance for credit losses $— and $— at December 31, 2022 and 2021, respectively.

Ambac did not purchase any financial assets with credit deterioration for the years ended December 31, 2022 and 2021.

Counterparty Collateral, Deposits with Regulators and Other Restrictions

Ambac routinely pledges and receives collateral related to certain transactions. Securities held directly in Ambac's investment portfolio with a fair value of $64 and $120 at December 31, 2022 and 2021, respectively, were pledged to derivative counterparties. Ambac's derivative counterparties have the right to re-pledge the investment securities and as such, these pledged securities are separately classified on the Consolidated Balance Sheets as "Fixed maturity securities pledged as collateral, at fair value" and "Short-term investments pledged as collateral, at fair value". Refer to *Note 10. Derivative Instruments* for further information on cash collateral. There was no cash or securities received from other counterparties that were re-pledged by Ambac.

Securities carried at $23 and $17 at December 31, 2022 and 2021, respectively, were deposited by Ambac's insurance subsidiaries with governmental authorities or designated custodian banks as required by laws affecting insurance companies. Invested assets carried at $1 as December 31, 2022, were deposited as security in connection with a letter of credit issued for an office lease.

Securities with a fair value of $669 at December 31, 2021, were held by Ambac UK, the capital stock of which was pledged as collateral for the Sitka AAC Note. The Sitka AAC Note was fully redeemed as of October 29, 2022, and therefore the pledge of Ambac UK's capital stock was subsequently released. Refer to Note 13. Long-term Debt for further information about the Sitka AAC Note.

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Guaranteed Securities

Ambac's fixed maturity portfolio includes securities covered by guarantees issued by AAC and other financial guarantors ("insured securities"). The published rating agency ratings on these securities reflect the higher of the financial strength rating of the financial guarantor or the rating of the underlying issuer. Rating agencies do not always publish separate underlying ratings (those ratings excluding the insurance by the financial guarantor). In the event these underlying ratings are not available from the rating agencies, Ambac will assign an internal rating. The following table represents the fair value and weighted-average underlying rating of insured securities in Ambac's investment portfolio at December 31, 2022 and 2021, respectively:

	Municipal Obligations	Corporate Obligations	Mortgage and Asset-backed Securities	Total	Weighted Average Underlying Rating [1]
December 31, 2022:					
Ambac Assurance Corporation	$ 10	$ —	$ 394	$ 403	B
Total	**$ 10**	**$ —**	**$ 394**	**$ 403**	**B**
December 31, 2021:					
Ambac Assurance Corporation	$ 316	$ —	$ 439	$ 754	B
National Public Finance Guarantee Corporation	2	—	—	2	BBB-
Assured Guaranty Municipal Corporation	1	—	—	1	A-
Total	**$ 318**	**$ —**	**$ 439**	**$ 757**	**B**

(1) Ratings are based on the lower of Standard & Poor's or Moody's rating. If unavailable, Ambac's internal rating is used.

Other Investments

Ambac's investment portfolio includes interests in various pooled investment funds. Fair value and additional information about investments in pooled funds, by investment type, is summarized in the table below. Except as noted in the table, fair value as reported is determined using net asset value ("NAV") as a practical expedient. Redemption of certain funds valued using NAV may be subject to withdrawal limitations and/or redemption fees which vary with the timing and notification of withdrawal provided by the investor. In addition to these investments, Ambac has unfunded commitments of $53 to private credit and private equity funds at December 31, 2022.

Class of Funds December 31,	2022	2021	Redemption Frequency	Redemption Notice Period
Hedge funds [1]	$ 186	$ 216	quarterly or semi-annually	90 days
Private credit [4]	84	88	quarterly if permitted	180 days if permitted
High yield and leveraged loans [5]	80	78	daily	0 - 30 days
Equity market investments [3] [11]	64	98	daily or quarterly	0 - 90 days
Investment grade floating rate income [2]	63	107	weekly	0 days
Private equity [6]	47	37	quarterly if permitted	90 days if permitted
Real estate properties [7]	22	33	quarterly	10 business days
Convertible bonds [10] [11]	8	—	daily	0 days
Emerging markets debt [8] [11]	—	24	daily	0 days
Insurance-linked investments [9]	1	2	see footnote (9)	see footnote (9)
Total equity investments in pooled funds	**$ 556**	**$ 683**		

(1) This class seeks to generate superior risk-adjusted returns through selective asset sourcing, active trading and hedging strategies across a range of asset types.

(2) This class of funds includes investments in high quality floating rate debt securities including ABS and corporate floating rate notes.

(3) This class of funds aim to achieve long-term growth through diversified exposure to global equity markets.

(4) This class aims to obtain high long-term returns primarily through credit and preferred equity investments with low liquidity and defined term.

(5) This class of funds includes investments in a range of instruments including high-yield bonds, leveraged loans, CLOs, ABS and floating rate notes to generate income and capital appreciation.

(6) This class seeks to generate long-term capital appreciation through investments in private equity, equity-related and other instruments.

(7) Investments consist of UK property to generate income and capital growth

(8) This class seeks long-term income and growth through investments in the bonds of issuers in emerging markets.

(9) This class seeks to generate returns from insurance markets through investments in catastrophe bonds, life insurance and other insurance linked investments. This investment is restricted in connection with the unwind of certain insurance linked exposures. Ambac has redeemed its investment to the extent permitted by the fund.

(10) This class seeks to generate total return from portfolios focused primarily on convertible securities

(11) These categories include fair value amounts totaling $61 and $106 at December 31, 2022 and 2021, respectively, that are readily determinable and are priced through pricing vendors, for Equity market investments of $53 and $82; Convertible bonds investments $8 and $—; and for Emerging markets debt of $— and $24.

Other investments also includes preferred equity investments with a carrying value of $12 and $8 as of December 31, 2022 and 2021, respectively, that do not have readily determinable fair values and are carried at cost, less any impairments as permitted under the Investments — Equity Securities Topic of the ASC. There were no impairments recorded on these investments or adjustments to fair value to reflect observable price changes in identical or similar investments from the same issuer during the periods presented.

The portion of net unrealized gains (losses) related to securities classified as trading and equity securities, excluding those reported using the equity method, still held at the end of each period is as follows:

Year Ended December 31,	2022	2021	2020
Net gains (losses) recognized during the period on trading securities	$ (48)	$ 23	$ —
Less: net gains (losses) recognized during the reporting period on trading securities sold during the period	(26)	1	(18)
Unrealized gains (losses) recognized during the reporting period on trading securities still held at the reporting date	$ (22)	$ 22	$ 18

6. FAIR VALUE MEASUREMENTS

The Fair Value Measurement Topic of the ASC establishes a framework for measuring fair value and disclosures about fair value measurements.

Fair Value Hierarchy

The Fair Value Measurement Topic of the ASC specifies a fair value hierarchy based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company-based assumptions. The fair value hierarchy has three broad levels as follows:

- Level 1: Quoted prices for identical instruments in active markets. Assets and liabilities classified as Level 1 include US Treasury and other foreign government obligations traded in highly liquid and transparent markets, certain highly liquid pooled fund investments, exchange traded futures contracts and money market funds.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Assets and liabilities classified as Level 2 generally include investments in fixed maturity securities representing municipal, asset-backed and corporate obligations, certain interest rate swap contracts and most long-term debt of variable interest entities consolidated under the Consolidation Topic of the ASC.
- Level 3: Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. This hierarchy requires the use of observable market data when available. Assets and liabilities classified as Level 3 include certain uncollateralized interest rate swap contracts and certain investments in fixed maturity securities. Additionally, Level 3 assets and liabilities generally include loan receivables, and certain long-term debt of variable interest entities consolidated under the Consolidation Topic of the ASC.

The Fair Value Measurement Topic of the ASC permits, as a practical expedient, the estimation of fair value of certain investments in funds using the net asset value per share of the investment or its equivalent (“NAV”). Investments in funds valued using NAV are not categorized as Level 1, 2 or 3 under the fair value hierarchy. The Investments — Equity Securities Topic of the ASC permits the measurement of certain equity securities without a readily determinable fair value at cost, less impairment, and adjusted to fair value when observable price changes in identical or similar investments from the same issuer occur (the "measurement alternative"). The fair values of investments measured under this measurement alternative are not included in the below disclosures of fair value of financial instruments.

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The following table sets forth the carrying amount and fair value of Ambac's financial assets and liabilities as of December 31, 2022 and 2021, including the level within the fair value hierarchy at which fair value measurements are categorized. As required by the Fair Value Measurement Topic of the ASC financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Carrying Amount	Total Fair Value	Fair Value Measurements Categorized as:		
			Level 1	Level 2	Level 3
December 31, 2022:					
Financial assets:					
Fixed maturity securities:					
Municipal obligations	$ 102	$ 102	$ —	$ 102	$ —
Corporate obligations	598	598	—	585	12
Foreign obligations	76	76	76	—	—
U.S. government obligations	65	65	65	—	—
Residential mortgage-backed securities	238	238	—	238	—
Commercial mortgage-backed securities	15	15	—	15	—
Collateralized debt obligations	137	137	—	137	—
Other asset-backed securities	224	224	—	157	67
Fixed maturity securities, pledged as collateral:					
Short-term	64	64	64	—	—
Short term investments	507	507	506	1	—
Other investments [1]	568	556	61	—	—
Cash, cash equivalents and restricted cash	44	44	43	1	—
Derivative assets:					
Interest rate swaps—asset position	27	27	—	1	26
Warrants	1	1	—	—	1
Other assets-loans	10	10	—	—	10
Variable interest entity assets:					
Fixed maturity securities: Corporate obligations, fair value option	1,828	1,828	—	—	1,828
Fixed maturity securities: Municipal obligation, trading	43	43	—	43	—
Fixed maturity securities: Municipal obligations, available-for-sale	96	96	—	96	—
Restricted cash	17	17	17	—	—
Loans	1,829	1,829	—	—	1,829
Derivative assets: Interest rate swaps—asset position	190	190	—	190	—
Derivative assets: Currency swaps—asset position	49	49	—	49	—
Total financial assets	$ 6,537	$ 6,525	$ 833	$ 1,425	$ 3,772
Financial liabilities:					
Long term debt, including accrued interest	$ 1,065	$ 878	$ —	$ 864	$ 14
Derivative liabilities:					
Interest rate swaps—liability position	38	38	—	38	—
Liabilities for net financial guarantees written [2]	159	476	—	—	476
Variable interest entity liabilities:					
Long-term debt (includes $2,788 at fair value)	3,107	3,145	—	2,992	154
Derivative liabilities: Interest rate swaps—liability position	1,048	1,048	—	1,048	—
Total financial liabilities	$ 5,418	$ 5,586	$ —	$ 4,942	$ 644

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	Carrying Amount	Total Fair Value	Fair Value Measurements Categorized as: Level 1	Level 2	Level 3
December 31, 2021:					
Financial assets:					
Fixed maturity securities:					
Municipal obligations	$ 340	$ 340	$ —	$ 340	$ —
Corporate obligations	613	613	1	600	12
Foreign obligations	87	87	87	—	—
U.S. government obligations	45	45	45	—	—
Residential mortgage-backed securities	252	252	—	252	—
Collateralized debt obligations	128	128	—	128	—
Other asset-backed securities	265	265	—	187	79
Fixed maturity securities, pledged as collateral:					
U.S. government obligations	15	15	15	—	—
Short-term	105	105	105	—	—
Short term investments	414	414	369	46	—
Other investments [1]	690	683	106	—	—
Cash, cash equivalents and restricted cash	21	21	21	1	—
Derivative assets:					
Interest rate swaps—asset position	76	76	—	5	71
Other assets-loans	3	3	—	—	3
Variable interest entity assets:					
Fixed maturity securities: Corporate obligations, fair value option	3,320	3,320	—	—	3,320
Fixed maturity securities: Municipal obligations, available-for-sale	136	136	—	136	—
Restricted cash	2	2	2	—	—
Loans	2,718	2,718	—	—	2,718
Derivative assets; Currency swaps-asset position	38	38	—	38	—
Total financial assets	**$ 9,268**	**$ 9,261**	**$ 750**	**$ 1,732**	**$ 6,202**
Financial liabilities:					
Long term debt, including accrued interest	$ 2,806	$ 2,598	$ —	$ 2,575	$ 22
Derivative liabilities:					
Interest rate swaps—liability position	94	94	—	94	—
Liabilities for net financial guarantees written [2]	(866)	(112)	—	—	(112)
Variable interest entity liabilities:					
Long-term debt (includes $4,056 at fair value)	4,216	4,255	—	4,086	169
Derivative liabilities: Interest rate swaps—liability position	1,940	1,940	—	1,940	—
Total financial liabilities	**$ 8,190**	**$ 8,775**	**—**	**8,695**	**79**

(1) Excluded from the fair value measurement categories in the table above are investment funds of $494 and $577 as of December 31, 2022 and 2021, respectively, which are measured using NAV as a practical expedient. Also excluded from the fair value measurements in the table above are equity securities with a carrying value of $12 and $8 as of December 31, 2022 and 2021, respectively, that do not have readily determinable fair values and have carrying amounts determined using the measurement alternative.

(2) The carrying value of net financial guarantees written includes financial guarantee amounts in the following balance sheet items: Premium receivables; Reinsurance recoverable on paid and unpaid losses; Deferred ceded premium; Subrogation recoverable; Insurance intangible asset; Unearned premiums; Loss and loss adjustment expense reserves; Ceded premiums payable, premiums taxes payable and other deferred fees recorded in Other liabilities.

Determination of Fair Value

When available, Ambac uses quoted active market prices specific to the financial instrument to determine fair value and classifies such items within Level 1. The determination of fair value for financial instruments categorized in Level 2 or 3 involves judgment due to the complexity of factors contributing to the valuation. Third-party sources from which we obtain independent market quotes also use assumptions, judgments and estimates in determining financial instrument values and different third parties may use different methodologies or provide different values for financial instruments. In addition, the use of internal valuation models may require assumptions about hypothetical or inactive markets. As a result of these factors, the actual trade value of a financial instrument in the market, or exit value of a financial instrument position by

Ambac, may be significantly different from its recorded fair value.

Ambac's financial instruments carried at fair value are mainly comprised of investments in fixed maturity securities, equity interests in pooled investment funds, derivative instruments, and certain variable interest entity assets and liabilities. Valuation of financial instruments is performed by Ambac's finance group using methods approved by senior financial management with consultation from risk management and portfolio managers as appropriate. Preliminary valuation results are discussed with portfolio managers quarterly to assess consistency with market transactions and trends as applicable. Market transactions such as trades or negotiated settlements of similar positions, if any, are reviewed to validate fair value model results. However many of the financial instruments valued using significant unobservable inputs have very little or no observable market activity. Methods and significant inputs and assumptions used to determine fair values across portfolios are reviewed quarterly by senior financial management. Other valuation control procedures specific to particular portfolios are described further below.

Fixed Maturity Securities

The fair values of fixed maturity investment securities are based primarily on market prices received from broker quotes or alternative pricing sources. Because many fixed maturity securities do not trade on a daily basis, pricing sources apply available market information through processes such as matrix pricing to calculate fair value. Such prices generally consider a variety of factors, including recent trades of the same and similar securities. In those cases, the items are classified within Level 2. For those fixed maturity investments where quotes were not available or cannot be reasonably corroborated, fair values are based on internal valuation models. Key inputs to the internal valuation models generally include maturity date, coupon and yield curves for asset-type and credit rating characteristics that closely match those characteristics of the specific investment securities being valued. Items valued using valuation models are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be significant inputs that are readily observable. Longer (shorter) expected maturities or higher (lower) yields used in the valuation model will, in isolation, result in decreases (increases) in fair value. Generally, lower credit ratings or longer expected maturities will be accompanied by higher yields used to value a security. At December 31, 2022, approximately 5%, 91%, and 4% of the fixed maturity investment portfolio (excluding variable interest entity investments) was valued using broker quotes, alternative pricing sources and internal valuation models, respectively. At December 31, 2021, approximately 6%, 90%, and 4% of the fixed maturity investment portfolio (excluding variable interest entity investments) was valued using broker quotes, alternative pricing sources and internal valuation models, respectively.

Ambac performs various review and validation procedures to quoted and modeled prices for fixed maturity securities, including price variance analyses, missing and static price reviews, overall valuation analysis by portfolio managers and finance managers and reviews associated with our ongoing impairment analysis. Unusual prices identified through these procedures will be evaluated further against alternative third-party quotes (if available), internally modeled prices and/or other relevant data, and the pricing source values will be challenged as necessary. Price challenges generally result in the use of the pricing source's quote as originally provided or as revised by the source following their internal diligence process. A price challenge may result in a determination by either the pricing source or Ambac management that the pricing source cannot provide a reasonable value for a security or cannot adequately support a quote, in which case Ambac would resort to using either other quotes or internal models. Results of price challenges are reviewed by portfolio managers and finance managers.

Information about the valuation inputs for fixed maturity securities classified as Level 3 is included below:

Other asset-backed securities: This security is a subordinated tranche of a securitization collateralized by Ambac-insured military housing bonds. The fair value classified as Level 3 was $67 and $79 at December 31, 2022 and 2021, respectively. Fair value was calculated using a discounted cash flow approach with expected future cash flows discounted using a yield consistent with the security type and rating. Significant inputs for the valuation at December 31, 2022 and 2021 include the following:

December 31, 2022:	
a. Coupon rate	**5.98%**
b. Average Life	**13.46 years**
c. Yield	**12.60%**
December 31, 2021:	
a. Coupon rate	**5.97%**
b. Average Life	**14.14 years**
c. Yield	**10.20%**

Corporate obligations: This includes certain investments in convertible debt securities. The fair value classified as Level 3 was $12 and $12 at December 31, 2022 and 2021, respectively. Fair value was calculated by discounting cash flows to average maturity of 1.75 years and yield of 11.3% at December 31, 2022, and 2.75 years and a yield of 11.6% at December 31, 2021. Yields used are consistent with the security type and rating.

Other Investments

Other investments primarily relate to investments in pooled investment funds. The fair value of pooled investment funds is determined using dealer quotes or alternative pricing sources when such investments have readily determinable fair values. When fair value is not readily determinable, pooled investment funds are valued using NAV as a practical expedient as permitted under the Fair Value Measurement Topic of the ASC. Refer to *Note 5. Investments* for additional information about

such investments in pooled funds that are reported at fair value using NAV as a practical expedient.

Derivative Instruments

Ambac's derivative instruments primarily comprise interest rate swaps and exchange traded futures contracts. Fair value is determined based upon market quotes from independent sources, when available. When independent quotes are not available, fair value is determined using valuation models. These valuation models require market-driven inputs, including contractual terms, credit spreads and yield curves. The valuation of certain derivative contracts also require the use of data inputs and assumptions that are determined by management and are not readily observable in the market. Under the Fair Value Measurement Topic of the ASC, Ambac is required to consider its own credit risk when measuring the fair value of derivative liabilities. Factors considered in estimating the amount of any Ambac credit valuation adjustment ("CVA") on such contracts include collateral posting provisions, right of set-off with the counterparty, the period of time remaining on the derivative and the pricing of recent terminations. The aggregate Ambac CVA impact was not significant to the fair value of derivatives at both December 31, 2022 or 2021.

Interest rate swaps that are not centrally cleared are valued using vendor-developed models that incorporate interest rates and yield curves that are observable and regularly quoted. These models provide the net present value of the derivatives based on contractual terms and observable market data. Generally, the need for counterparty (or Ambac) CVAs on interest rate derivatives is mitigated by the existence of collateral posting agreements under which adequate collateral has been posted. Certain of these derivative contracts entered into with financial guarantee customers are not subject to collateral posting agreements. Counterparty credit risk related to such customer derivative assets is included in our determination of their fair value.

All of Ambac's credit derivatives ("CDS") positions have terminated as of June 30, 2022 and were not significant to Ambac's financial position or results of operations for the periods presented.

As of December 31, 2022 Ambac holds warrants to purchase preferred stock of a development stage company. These warrants have a fair value of $1 as of December 31, 2022, determined using a standard warrant valuation model with internally developed input assumptions.

Financial Guarantees

Fair value of net financial guarantees written represents our estimate of the cost to Ambac to completely transfer its insurance obligation to another market participant of comparable credit worthiness. In theory, this amount should be the same amount that another market participant of comparable credit worthiness would hypothetically charge in the marketplace, on a present value basis, to provide the same protection as of the balance sheet date. This fair value estimate of financial guarantees is presented on a net basis and includes direct and assumed contracts written, net of ceded reinsurance contracts.

Long-term Debt

As of December 31, 2022, long-term debt includes AAC surplus notes, Tier 2 Notes issued in connection with the conclusion of the rehabilitation of the Segregated Account of AAC, and the Ambac UK debt issued in connection with the Ballantyne commutation. As described in *Note 1. Background and Business Description*, the Sitka AAC Note was wholly redeemed effective October 29, 2022, and Tier 2 Notes were partially redeemed effective October 29, 2022 and fully redeemed effective January 15, 2023. The fair values of surplus notes, Sitka AAC Note and Tier 2 Notes are classified as Level 2. The fair value of Ambac UK debt is classified as Level 3.

Other Financial Assets and Liabilities

Included in Other assets are loans, the fair values of which are estimated based upon internal valuation models and are classified as Level 3.

Variable Interest Entity Assets and Liabilities

The financial assets and liabilities of Legacy Financial Guarantee Insurance VIEs ("FG VIEs") consolidated under the Consolidation Topic of the ASC consist primarily of fixed maturity securities and loans held by the VIEs, derivative instruments and notes issued by the VIEs which are reported as long-term debt. As described in *Note 12. Variable Interest Entities,* these FG VIEs are securitization entities which have liabilities and/or assets guaranteed by AAC or Ambac UK.

The fair values of FG VIE long-term debt are based on price quotes received from independent market sources when available. Such quotes are considered Level 2 and generally consider a variety of factors, including recent trades of the same and similar securities. For those instruments where quotes were not available or cannot be reasonably corroborated, fair values are based on internal valuation models. Comparable to the sensitivities of investments in fixed maturity securities described above, longer (shorter) expected maturities or higher (lower) yields used in the valuation model will, in isolation, result in decreases (increases) in fair value liability measurement for FG VIE long-term debt.

FG VIE derivative asset and liability fair values are determined using vendor-developed valuation models, which incorporated observable market data related to specific derivative contractual terms including interest rates, foreign exchange rates and yield curves.

The fair value of FG VIE fixed maturity securities and loan assets are generally based on Level 2 market price quotes received from independent market sources when available. When FG VIE asset fair values are not readily available from market quotes, values are estimated internally. Internal valuations of FG VIE's fixed maturity securities or loan assets are derived from the fair values of the notes issued by the respective VIE and the VIE's derivatives, determined as described above, adjusted for the fair values of Ambac's financial guarantees associated with the VIE. The fair value of financial guarantees consist of: (i) estimated future premium cash flows discounted at a rate consistent with that implicit in the fair value of the VIE's liabilities and (ii) estimates of future claim payments discounted at a rate that includes Ambac's own

credit risk. Estimated future premium payments to be paid by the VIEs were discounted at a weighted average rate of 6.8% and 3.0% at December 31, 2022 and 2021, respectively. At December 31, 2022, the range of these discount rates was between 5.8% and 8.5%. At December 31, 2021, the range of these discount rates was between 2.2% and 4.1%.

Additional Fair Value Information for Financial Assets and Liabilities Accounted for at Fair Value

The following tables present the changes in the Level 3 fair value category for the periods presented in 2022, 2021 and 2020.

Ambac classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

Level-3 Financial Assets and Liabilities Accounted for at Fair Value

				VIE Assets and Liabilities		
Year ended December 31, 2022	**Investments [1]**	**Other Assets**	**Derivatives**	**Investments**	**Loans**	**Total**
Balance, beginning of period	**$ 91**	**$ —**	**$ 70**	**$ 3,320**	**$ 2,718**	**$ 6,199**
Total gains/(losses) realized and unrealized:						
Included in earnings	**1**	**—**	**(38)**	**(789)**	**(333)**	**(1,160)**
Included in other comprehensive income	**(12)**	**—**	**—**	**(353)**	**(279)**	**(644)**
Purchases	**—**	**—**	**—**	**—**	**—**	**—**
Issuances	**—**	**—**	**—**	**—**	**—**	**—**
Sales	**—**	**—**	**—**	**—**	**—**	**—**
Settlements	**(1)**	**—**	**(6)**	**(349)**	**(278)**	**(633)**
Balance, end of period	**$ 79**	**$ —**	**$ 26**	**$ 1,828**	**$ 1,829**	**$ 3,762**
The amount of total gains/(losses) included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date	**$ 1**	**$ —**	**$ (38)**	**$ (789)**	**$ (333)**	**$ (1,160)**
The amount of total gains/(losses) included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date	**$ (12)**	**$ —**	**$ —**	**$ (353)**	**$ (279)**	**$ (644)**

Level-3 Financial Assets and Liabilities Accounted for at Fair Value

				VIE Assets and Liabilities		
Year Ended December 31, 2021	**Investments [1]**	**Other Assets [2]**	**Derivatives**	**Investments**	**Loans**	**Total**
Balance, beginning of period	**$ 78**	**$ 1**	**$ 84**	**$ 3,215**	**$ 2,998**	**$ 6,376**
Total gains/(losses) realized and unrealized:						
Included in earnings	1	—	(6)	176	59	230
Included in other comprehensive income	1	—	—	(32)	(26)	(58)
Purchases	13	—	—	—	—	13
Issuances	—	—	—	—	—	—
Sales	—	—	—	—	—	—
Settlements	(2)	(1)	(8)	(38)	(313)	(362)
Balance, end of period	**$ 91**	**$ —**	**$ 70**	**$ 3,320**	**$ 2,718**	**$ 6,199**
The amount of total gains/(losses) included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date	$ (1)	$ —	$ (6)	$ 176	$ 59	$ 227
The amount of total gains/(losses) included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date	$ (1)	$ —	$ —	$ (32)	$ (26)	$ (59)

Level-3 Financial Assets and Liabilities Accounted for at Fair Value

				VIE Assets and Liabilities		
Year Ended December 31, 2020	Investments [1]	Other Assets [2]	Derivatives	Investments	Loans	Total
Balance, beginning of period	**$ 72**	**$ 3**	**$ 66**	**$ 2,957**	**$ 3,108**	**$ 6,207**
Total gains/(losses) realized and unrealized:						
Included in earnings	1	(2)	25	183	98	306
Included in other comprehensive income	6	—	—	109	83	198
Purchases	—	—	—	—	—	—
Issuances	—	—	—	—	—	—
Sales	—	—	—	—	—	—
Settlements	(1)	—	(7)	(35)	(290)	(334)
Balance, end of period	**$ 78**	**$ 1**	**$ 84**	**$ 3,215**	**$ 2,998**	**$ 6,376**
The amount of total gains/(losses) included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date	$ 1	$ (2)	$ 25	$ 183	$ 98	$ 305
The amount of total gains/(losses) included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date	$ 6	$ —	$ —	$ 109	$ 83	$ 198

(1) Investments classified as Level 3 consist of a one other asset-backed security and two convertible notes acquired in 2021.

(2) Other assets carried at fair value and classified as Level 3 relate to an equity interest in an Ambac sponsored VIE liquidated in 2021.

Invested assets and VIE long-term debt are transferred into Level 3 when internal valuation models that include significant unobservable inputs are used to estimate fair value. All such securities that have internally modeled fair values have been classified as Level 3. Derivative instruments are transferred into Level 3 when the use of unobservable inputs becomes significant to the overall valuation. There were no transfers of financial instruments into or out of Level 3 in the periods disclosed.

Gains and losses (realized and unrealized) relating to Level 3 assets and liabilities included in earnings for the affected periods are reported as follows:

	Net Investment Income	Net Gains (Losses) on Derivative Contracts	Income (Loss) on Variable Interest Entities	Other Income (Expense)
Year Ended December 31, 2022				
Total gains (losses) included in earnings for the period	**$ 1**	**$ (38)**	**$ (1,123)**	**$ —**
Changes in unrealized gains (losses) relating to financial instruments still held at the reporting date	**1**	**(39)**	**(1,123)**	**—**
Year Ended December 31, 2021				
Total gains (losses) included in earnings for the period	$ 1	$ (6)	$ 235	$ —
Changes in unrealized gains (losses) relating to financial instruments still held at the reporting date	1	(6)	235	—
Year Ended December 31, 2020				
Total gains (losses) included in earnings for the period	$ 1	$ 25	$ 281	$ (2)
Changes in unrealized gains (losses) relating to financial instruments still held at the reporting date	—	25	281	(2)

7. FINANCIAL GUARANTEES IN FORCE

Legacy financial guarantees outstanding includes the exposures of policies that insure variable interest entities ("VIEs") consolidated in accordance with ASC Topic 810, Consolidation. Financial guarantees outstanding include the exposure of policies that insure 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. Financial guarantees outstanding exclude the exposures of policies that insure bonds which have been called, pre-refunded or refunded and excludes exposure of the policies insuring the Sitka Senior Secured Notes as defined in Note 1. Background and Business Description. The gross par amount of financial guarantees outstanding was $27,551 and $34,122 at

December 31, 2022 and 2021, respectively. The par amount of financial guarantees outstanding, net of reinsurance, was $22,613 and $28,020 at December 31, 2022 and 2021, respectively. As of December 31, 2022, the aggregate amount of financial guarantee insured par ceded to reinsurers under reinsurance agreements was $4,938 with the largest reinsurer accounting for $2,187 or 7.9% of gross par outstanding at December 31, 2022.

As of December 31, 2022 and 2021, the legacy financial guarantee portfolio consisted of the types of guaranteed bonds as shown in the following table:

Net Par Outstanding December 31, [1]	2022	2021
Public Finance:		
Housing revenue [2]	$ 5,491	$ 5,610
Lease and tax-backed revenue	1,979	3,196
General obligation	1,301	1,612
Other	1,776	1,942
Total Public Finance	10,547	12,360
Structured Finance:		
Mortgage-backed and home equity	1,930	2,724
Investor-owned utilities	1,103	1,556
Other	579	624
Total Structured Finance	3,612	4,904
International Finance:		
Sovereign/sub-sovereign	4,077	5,141
Investor-owned and public utilities	2,583	3,283
Asset-backed and other	1,083	1,276
Transportation	711	1,056
Total International Finance	8,454	10,756
Total	**$ 22,613**	**$ 28,020**

(1) Net Par Outstanding 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 bond.

(2) Includes $5,400 and $5,490 of Military Housing net par at December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the financial guaranteed portfolio by location of risk was as outlined in the table below:

Net Par Outstanding December 31,	2022	2021
United States	$ 14,159	$ 17,264
United Kingdom	7,223	9,255
Italy	644	718
Austria	310	343
Australia	259	203
France	14	219
Other international	4	18
Total	**$ 22,613**	**$ 28,020**

Gross financial guarantees in force (principal and interest) were $44,734 and $54,272 at December 31, 2022 and 2021, respectively. Net financial guarantees in force (after giving effect to reinsurance) were $34,975 and $42,653 as of December 31, 2022 and 2021, respectively.

In the United States, no state accounted for more than 10% of the total net par outstanding at December 31, 2022. The highest single insured risk represented 3.6% of the total net par amount guaranteed.

8. INSURANCE CONTRACTS

Amounts presented in this Note relate only to Ambac's non-derivative insurance business for insurance policies issued to beneficiaries, excluding consolidated VIEs.

Premiums

The effect of reinsurance on premiums written and earned was as follows:

Year Ended December 31,	Direct	Assumed	Ceded	Net Premiums
2022:				
Written	$ 127	$ —	$ 104	$ 23
Earned	126	—	69	56
2021:				
Written	$ 2	$ —	$ 35	$ (33)
Earned	62	—	15	47
2020:				
Written	$ (1)	$ —	$ (1)	$ —
Earned	65	1	12	54

Included in net earned premiums are accelerated financial guarantee premium revenues for retired obligations for the years ended December 31, 2022, 2021 and 2020, of $8, $1 and $12, respectively.

The following table summarizes net premiums earned by location of risk:

Year Ended December 31,	2022	2021	2020
United States	41	$ 27	$ 32
United Kingdom	13	14	24
Other international	3	6	(2)
Total	56	$ 47	$ 54

Premium Receivables, including credit impairments

Premium receivables at December 31, 2022 and 2021 were $269 and $323, respectively.

Management evaluates premium receivables for expected credit losses ("credit impairment") in accordance with the CECL standard adopted January 1, 2020, which is further described in *Note 2. Basis of Presentation and Significant Accounting Policies*. The key indicator management uses to assess the credit quality of legacy financial guarantee premium receivables is Ambac's internal risk classifications for the insured obligation determined by the Risk Management Group.

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Below is the amortized cost basis of financial guarantee premium receivables by risk classification code and asset class as of December 31, 2022 and 2021:

Surveillance Categories as of December 31, 2022

Type of Guaranteed Bond	I	IA	II	III	IV	Total
Public Finance:						
Housing revenue	$ 140	$ 3	$ 5	$ —	$ —	$ 148
Other	2	—	—	—	—	2
Total Public Finance	142	3	5	—	—	150
Structured Finance:						
Mortgage-backed and home equity	—	—	—	—	11	11
Student loan	1	1	—	7	—	8
Structured insurance	—	—	—	—	—	—
Other	4	—	—	—	—	4
Total Structured Finance	5	1	—	7	11	24
International:						
Sovereign/sub-sovereign	49	7	—	9	—	64
Investor-owned and public utilities	18	—	—	—	—	18
Other	2	—	—	—	—	2
Total International	70	7	—	9	—	85
Total [(1) (2)]	$ 217	$ 10	$ 5	$ 16	$ 11	$ 259

Surveillance Categories as of December 31, 2021

Type of Guaranteed Bond	I	IA	II	III	IV	Total
Public Finance:						
Housing revenue	$ 149	$ 3	$ 5	$ —	$ —	$ 157
Other	2	—	—	—	—	2
Total Public Finance	**151**	**3**	**5**	**—**	**—**	**159**
Structured Finance:						
Mortgage-backed and home equity	1	—	1	2	12	16
Student loan	1	1	—	9	—	12
Structured insurance	10	—	—	—	—	10
Other	7	—	—	—	—	7
Total Structured Finance	**19**	**1**	**1**	**12**	**12**	**45**
International:						
Sovereign/sub-sovereign	74	8	—	11	—	93
Investor-owned and public utilities	28	—	—	—	—	28
Other	5	—	—	—	—	5
Total International	**107**	**8**	**—**	**11**	**—**	**125**
Total [(2)]	$ 277	$ 12	$ 6	$ 22	$ 12	$ 329

(1) Excludes specialty property and casualty premium receivables of $16 and $2 at December 31, 2022 and 2021, respectively.

(2) The underwriting origination dates for all policies included are greater than five years prior to the current reporting date.

Below is a rollforward of the premium receivable allowance for credit losses as of December 31, 2022 and 2021:

Year Ended December 31,	2022	2021
Beginning balance	**$ 9**	$ 17
Current period provision (benefit)	**(4)**	(6)
Write-offs of the allowance	**—**	(2)
Recoveries of previously written-off amounts	**—**	—
Ending balance	**$ 5**	**$ 9**

At December 31, 2022 and 2021, $— and $— of premiums were past due.

Legacy Financial Guarantee Premium Receivables

Gross premiums are received either upfront or in installments. For premiums received upfront, an unearned premium revenue ("UPR") liability is established, which is initially recorded as the cash amount received. For installment premium policies, a premium receivable asset and offsetting UPR liability is initially established in an amount equal to: (i) the present value of future contractual premiums due (the "contractual" method) or (ii) if the assets underlying the insured obligation are homogenous pools which are contractually prepayable, the present value of premiums to be collected over the expected life of the transaction (the "expected" method).

Below is the gross premium receivable roll-forward (direct contracts), net of the allowance for credit losses, for the affected periods:

Year Ended December 31,	2022	2021	2020
Beginning premium receivable	**$ 320**	$ 370	$ 416
Adjustment to initially apply ASU 2016-13	**—**	—	(3)
Premium receipts	**(36)**	(35)	(46)
Adjustments for changes in expected and contractual cash flows for contracts (1)	**(31)**	(27)	(6)
Accretion of premium receivable discount for contracts	**8**	8	9
Changes to allowance for credit losses	**4**	8	(4)
Other adjustments (including foreign exchange) (2)	**(12)**	(4)	5
Ending premium receivable (3)	**$ 254**	**$ 320**	**$ 370**

(1) Adjustments for changes in expected and contractual cash flows are primarily due to higher discount rates and reductions in insured exposure as a result of early policy terminations and unscheduled principal paydowns .

(2) Includes foreign exchange gains/(losses) of ($13), ($2) and $4 for 2022, 2021,and 2020 respectively.

(3) Premium receivable includes premiums to be received in foreign denominated currencies most notably in British Pounds and Euros.

At December 31, 2022, 2021 and 2020 premium receivables include British Pounds of $71 (£59), $108 (£80) and $117 (£86), respectively, and Euros of $14 (€13), $16 (€14) and $19 (€16), respectively.

The following table summarizes the future gross undiscounted premiums to be collected and future premiums earned, net of reinsurance at December 31, 2022:

	Future Premiums to be Collected (1)	Future Premiums to be Earned Net of Reinsurance (2)
Three months ended:		
March 31, 2023	**$ 8**	**$ 5**
June 30, 2023	**7**	**5**
September 30, 2023	**7**	**5**
December 31, 2023	**5**	**5**
Twelve months ended:		
December 31, 2024	**26**	**19**
December 31, 2025	**25**	**18**
December 31, 2026	**24**	**18**
December 31, 2027	**23**	**17**
Five years ended:		
December 31, 2032	**95**	**70**
December 31, 2037	**59**	**42**
December 31, 2042	**27**	**17**
December 31, 2047	**13**	**8**
December 31, 2052	**4**	**2**
December 31, 2057	**—**	**—**
Total	**$ 322**	**$ 231**

(1) Future premiums to be collected are undiscounted, gross of allowance for credit losses, and are used to derive the discounted premium receivable asset recorded on Ambac's balance sheet.

(2) Future premiums to be earned, net of reinsurance relate to the unearned premiums liability and deferred ceded premium asset recorded on Ambac's balance sheet. The use of contractual lives for many bond types which do not have homogeneous pools of underlying collateral is required in the calculation of the premium receivable as further described in *Note 2. Basis of Presentation and Significant Accounting Policies*. This results in a different premium receivable balance than if expected lives were considered. If installment paying policies are retired or prepay early, premiums reflected in the premium receivable asset and amounts reported in the above table for such policies may not be collected. Future premiums to be earned also considers the use of contractual lives for many bond types which do not have homogeneous pools of underlying collateral, which may result in different unearned premium than if expected lives were considered. If those bonds types are retired early, premium earnings may be negative in the period of call or refinancing.

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Loss and Loss Adjustment Expense Reserves

Ambac's loss and loss adjustment expense reserves ("loss reserves") are based on management's on-going review of the insured portfolio. Below are the components of the loss and loss adjustment expense reserves and the subrogation recoverable asset at December 31, 2022 and 2021:

	Specialty Property and Casualty	Legacy Financial Guarantee			
		Present Value of Expected Net Cash Flow			
Balance Sheet Line Item	**Gross Loss and Loss Expense Reserves**	**Claims and Loss Expenses**	**Recoveries**	**Unearned Premium Revenue**	**Gross Loss and Loss Expense Reserves**
December 31, 2022:					
Loss and loss adjustment expense reserves	**$ 90**	**$ 787**	**$ (44)**	**$ (28)**	**$ 805**
Subrogation recoverable	**—**	**5**	**(276)**	**—**	**(271)**
Totals	**$ 90**	**$ 791**	**$ (319)**	**$ (28)**	**$ 534**
December 31, 2021:					
Loss and loss adjustment expense reserves	$ 32	$ 1,749	$ (155)	$ (56)	$ 1,570
Subrogation recoverable	—	88	(2,180)	—	(2,092)
Totals	**$ 32**	**$ 1,837**	**$ (2,335)**	**$ (56)**	**$ (522)**

Below is the loss and loss reserve expense roll-forward, net of subrogation recoverable and reinsurance, for the affected periods.

Year Ended December 31,	**2022**	**2021**	**2020**
Beginning gross loss and loss adjustment expense reserves	**$ (522)**	$ (397)	$ (482)
Reinsurance recoverable	**55**	33	26
Beginning balance of net loss and loss adjustment expense reserves	**(578)**	(430)	(508)
Losses and loss expenses (benefit) incurred:			
Current year	**4**	—	15
Prior years	**(401)**	(89)	210
Total [1][2]	**(397)**	(88)	225
Loss and loss adjustment expenses (recovered) paid:			
Current year	**7**	—	1
Prior years	**(1,867)**	59	148
Total	**(1,860)**	59	149
Foreign exchange effect	**(2)**	—	2
Ending net loss and loss adjustment expense reserves	**883**	(578)	(430)
Impact of VIE consolidation [3]	**(464)**	—	—
Reinsurance recoverable [4]	**115**	55	33
Ending gross loss and loss adjustment expense reserves	**534**	**(522)**	**(397)**

(1) Total losses and loss expenses (benefit) includes $(41), $5 and $(7) for the years ended December 31, 2022, 2021 and 2020, respectively, related to ceded reinsurance.

(2) Ambac records the impact of estimated recoveries related to securitized loans in RMBS transactions that breached certain representations and warranties ("R&W's") by transaction sponsors within losses and loss expenses (benefit) for the Legacy Financial Guarantee segment. The losses and loss expense (benefit) incurred associated with changes in estimated R&W's for the year ended December 31, 2022, 2021 and 2020 was $(123), $20 and $(23), respectively. Refer to Note 1. Background and Business Description to the Consolidated Financial Statements in this Annual Report on Form 10-K for details of the RMBS litigation settlements reached in October and December 2022.

(3) In connection with the Puerto Rico restructuring, three new trusts were established for the year ended December 31, 2022. These trusts were consolidated by Ambac as further discussed in Note 12. Variable Interest Entities.

(4) Represents reinsurance recoverable on future loss and loss adjustment expenses. Additionally, the Balance Sheet line "Reinsurance recoverable on paid and unpaid losses" includes reinsurance recoverables (payables) of $0, $0 and $0 as of December 31, 2022, 2021 and 2020, respectively, related to previously presented loss and loss adjustment expenses and subrogation.

For 2022, the positive development in prior years was primarily attributable to the Puerto Rico restructuring and favorable RMBS development due to the positive impact of discount rates and the impact of the litigation settlements with Bank of America Corporation and certain affiliates thereof and Nomura Credit & Capital, Inc. as described in *Note 1. Background and Business Description* to the Consolidated Financial Statements in this Annual Report on Form 10-K; both in the legacy financial guarantee segment. For 2022, prior years' loss and loss expenses recovered includes $1,687 related the litigation settlement with Bank of America Corporation and certain affiliates.

For 2021, the positive development in prior years was primarily due to favorable development in Public Finance credits (largely Puerto Rico) and the RMBS portfolio.

For 2020, the adverse development in prior years was primarily a result of deterioration in Public Finance credits, largely Puerto Rico, partially offset by favorable development in the RMBS portfolio.

Legacy Financial Guarantee Loss Reserves:

The tables below summarize information related to policies currently included in Ambac's loss and loss adjustment expense reserves or subrogation recoverable at December 31, 2022 and 2021, excluding consolidated VIEs. Gross par exposures 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 bond. The weighted average risk-free rate used to discount loss reserves at December 31, 2022 and 2021 was 3.9% and 1.2%, respectively.

	Surveillance Categories as of December 31, 2022						
	I	IA	II	III	IV	V	Total
Number of policies	37	6	9	12	93	5	162
Remaining weighted-average contract period (in years) (1)	7	19	14	14	12	7	13
Gross insured contractual payments outstanding:							
Principal	$ 709	$ 200	$ 459	$ 1,000	$ 1,646	$ 34	$ 4,047
Interest	526	198	286	156	565	19	1,750
Total	$ 1,235	$ 399	$ 745	$ 1,156	$ 2,210	$ 53	$ 5,797
Gross undiscounted claim liability	$ 4	$ 4	$ 43	$ 446	$ 729	$ 53	$ 1,279
Discount, gross claim liability	(1)	(1)	(7)	(162)	(316)	(9)	(496)
Gross claim liability before all subrogation and before reinsurance	$ 3	$ 3	$ 36	$ 284	$ 413	$ 43	$ 783
Less:							
Gross RMBS subrogation (2)	$ —	$ —	$ —	$ —	$ (140)	$ —	$ (140)
Discount, RMBS subrogation	—	—	—	—	—	—	—
Discounted RMBS subrogation, before reinsurance	—	—	—	—	(140)	—	(140)
Less:							
Gross other subrogation (3)	(14)	(4)	—	(31)	(172)	(12)	(233)
Discount, other subrogation	2	—	—	5	42	4	54
Discounted other subrogation, before reinsurance	(12)	(3)	—	(26)	(130)	(8)	(179)
Gross claim liability, net of all subrogation and discounts, before reinsurance	$ (9)	$ —	$ 36	$ 258	$ 143	$ 35	$ 464
Less: Unearned premium revenue	$ (2)	$ (2)	$ (5)	$ (8)	$ (10)	$ (1)	$ (28)
Plus: Loss expense reserves	1	1	—	2	4	—	8
Gross loss and loss adjustment expense reserves	$ (10)	$ (2)	$ 32	$ 252	$ 137	$ 34	$ 444
Reinsurance recoverable reported on Balance Sheet (4)	$ 1	$ —	$ 8	$ 21	$ 3	$ —	$ 33

(1) Remaining weighted-average contract period is weighted based on projected gross claims over the lives of the respective policies.

(2) RMBS subrogation represents Ambac's estimate of subrogation recoveries from RMBS transaction sponsors for R&W breaches.

(3) Other subrogation represents subrogation related to excess spread and other contractual cash flows on public finance and structured finance transactions, including RMBS.

(4) Reinsurance recoverable reported on the Balance Sheet includes reinsurance recoverables of $33 related to future loss and loss adjustment expenses and $0 related to presented loss and loss adjustment expenses and subrogation.

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Dollar Amounts in Millions, Except Share Amounts)

	Surveillance Categories as of December 31, 2021						
	I	IA	II	III	IV	V	Total
Number of policies	34	15	7	14	130	5	205
Remaining weighted-average contract period (in years) (1)	9	12	14	15	13	7	14
Gross insured contractual payments outstanding:							
Principal	$ 904	$ 840	$ 459	$ 1,300	$ 2,759	$ 40	$ 6,302
Interest	589	612	308	169	1,284	22	2,984
Total	$ 1,493	$ 1,452	$ 767	$ 1,469	$ 4,043	$ 62	$ 9,286
Gross undiscounted claim liability	$ 5	$ 16	$ 45	$ 544	$ 1,423	$ 62	$ 2,095
Discount, gross claim liability	—	(1)	(3)	(109)	(185)	(4)	(303)
Gross claim liability before all subrogation and before reinsurance	$ 5	$ 15	$ 42	$ 435	$ 1,238	$ 57	$ 1,792
Less:							
Gross RMBS subrogation (2)	$ —	$ —	$ —	$ —	$ (1,737)	$ —	$ (1,737)
Discount, RMBS subrogation	—	—	—	—	7	—	7
Discounted RMBS subrogation, before reinsurance	—	—	—	—	(1,730)	—	(1,730)
Less:							
Gross other subrogation (3)	—	(5)	—	(33)	(583)	(12)	(633)
Discount, other subrogation	—	—	—	2	24	2	28
Discounted other subrogation, before reinsurance	—	(5)	—	(31)	(559)	(10)	(605)
Gross claim liability, net of all subrogation and discounts, before reinsurance	$ 5	$ 10	$ 42	$ 404	$ (1,051)	$ 47	$ (543)
Less: Unearned premium revenue	$ (3)	$ (10)	$ (5)	$ (14)	$ (24)	$ (1)	$ (56)
Plus: Loss expense reserves	1	—	—	4	40	—	45
Gross loss and loss adjustment expense reserves	$ 3	$ 1	$ 38	$ 394	$ (1,036)	$ 46	$ (554)
Reinsurance recoverable reported on Balance Sheet (4)	$ 1	$ 1	$ 10	$ 22	$ (11)	$ —	$ 23

(1) Remaining weighted-average contract period is weighted based on projected gross claims over the lives of the respective policies.

(2) RMBS subrogation represents Ambac's estimate of subrogation recoveries from RMBS transaction sponsors for R&W breaches.

(3) Other subrogation represents subrogation related to excess spread and other contractual cash flows on public finance and structured finance transactions, including RMBS.

(4) Reinsurance recoverable reported on the Balance Sheet includes reinsurance recoverables of $24 related to future loss and loss adjustment expenses and $0 related to presented loss and loss adjustment expenses and subrogation.

Puerto Rico

Ambac has remaining exposure to the Commonwealth of Puerto Rico (the "Commonwealth") and its instrumentalities on two different issuing entities with total net par exposure of $244. Components of the remaining Puerto Rico net par outstanding include capital appreciation bonds which are reported at the par amount at the time of issuance of the related insurance policy as opposed to the current accreted value of the bonds.

We have been paying claims for several years on most of our exposure to Puerto Rico, which had consisted of several different issuing entities. These issuing entities had been part of the PROMESA restructuring process that began in 2016. On December 6, 2022, the Fifth Amended Title III Plan of Adjustment of The Puerto Rico Highways and Transportation Authority ("PRHTA POA") became effective and concluded the debt restructuring of all AAC-insured Puerto Rico obligations under PROMESA. The consummation of the PRHTA POA followed previous plans of adjustment and qualifying modifications related to AAC's insured Puerto Rico exposure, including the Eighth Amended Plan Title III Joint Plan of Adjustment for the Commonwealth of Puerto Rico, et al. ("Eighth Amended POA") together with the Qualifying Modifications for PRIFA and CCDA ("PRIFA QM" and "CCDA QM"), respectively, in March 2022, which resolved the PROMESA restructuring process for the GO, PBA, PRIFA and CCDA issuing entities that had portions of their bonds insured by AAC; and COFINA Plan of Adjustment in February 2019, which resolved the restructuring process for the COFINA issuing entity that had portions of their bonds insured by AAC.

PRHTA / CCDA PSA

Creditor recoveries under the PRHTA POA were based upon the PRHTA/CCDA PSA, which was originally executed on May 5, 2021, and provides for certain consideration for holders of bonds issued by certain Commonwealth instrumentalities, PRHTA, and CCDA on account of their claims against the Commonwealth arising from such bonds ("Clawback" claims). Under the PRHTA/CCDA PSA, PRHTA creditors shared $389 of cash proceeds that was paid on July 8, 2022, once the PRHTA distribution condition was met pursuant to the Eighth Amended POA (the “Interim Distribution”). In addition, PRHTA creditors received an approximately 69% share, subject to a lifetime nominal cap of $3,698, of the Clawback Creditors' portion of the

outperformance of the Commonwealth's sales and use tax ("SUT") relative to the certified 2020 Commonwealth Fiscal Plan's projections (the "Clawback CVI"). The Clawback CVI instrument was also distributed as part of the Interim Distribution on July 8, 2022. PRHTA bondholder also received new PRHTA bonds with a face amount of $1,245. Of the $1,245 in new bonds, approximately $646.4 was allocated to holders of PRHTA '68 bonds and approximately $598.6 was allocated to holders of PRHTA '98 bonds. The new PRHTA bonds were distributed to creditors on December 6, 2022, upon the effective date of the PRHTA POA. AAC and other PRHTA creditors also received restriction fees and consummation costs on the effective date of the PRHTA POA.

PRHTA Interim Distribution

On July 8, 2022, following satisfaction of the PRHTA distribution condition, AAC received its share of the Interim Distribution of cash and Clawback CVI related to the Ambac-insured PRHTA ’68 and ’98 bonds in satisfaction of the Clawback claims against the Commonwealth under the Eighth Amended POA. On the PRHTA POA effective date, a portion of the cash and Clawback CVI, or the proceeds thereof, were: (i) distributed to PRHTA ’98 commuting bondholders together with the new PRHTA bonds in connection with the PRHTA POA and a commutation payment from AAC in full satisfaction of in full and final discharge of Ambac’s obligations under the Ambac insurance policies or (ii) deposited into a trust, as described below, together with the new PRHTA bonds in connection with the PRHTA POA.

PRHTA Effective Date Transactions

On December 6, 2022, 1) all remaining outstanding AAC-insured PRHTA '68 bonds or about $4 of net par exposure were fully satisfied and eliminated via acceleration, and 2), pursuant to bondholder election, about 21% or $83 of net par exposure of AAC-insured PRHTA '98 bonds were fully satisfied and eliminated via commutation. The AAC-insured PRHTA '98 bondholders who failed to elect commutation had their bondholders’ share of plan consideration under the PRHTA POA and the interim distribution under the Eighth Amended POA deposited into a newly formed trust. These trusts with initial net par exposure of about $312 were consolidated by Ambac as further discussed in Note 12. Variable Interest Entities. Following the effective date, trust units were redeemed, reducing the PRHTA '98 net par exposure to about $178 at December 31, 2022. Since year-end, AAC-insured PRHTA exposure has been further reduced through redemptions of trusts units.

Eighth Amended POA Effective Date Transactions

On March 15, 2022, and pursuant to bondholder elections: (i) all of the remaining outstanding AAC-insured GO and PBA bonds or about $94 in insured par were satisfied and eliminated via commutation or acceleration and (ii) about 39% and 19% of the par of AAC's outstanding AAC-insured PRIFA and CCDA bonds, respectively, or about $172, were eliminated via commutation. The AAC-insured PRIFA and CCDA bondholders who failed to elect commutation had their respective shares of consideration available under the Commonwealth Plan and the PRIFA QM, or CCDA QM, as applicable, deposited into newly formed trusts. These trusts were consolidated by Ambac as further discussed in Note 12. Variable Interest Entities. Since the effective date, the remainder of those PRIFA and CCDA bonds belonging to bondholders who elected not to commute their AAC insurance policies and that were deposited into trusts together with the related AAC policies have all been accelerated, satisfying and eliminating all of the Ambac-insured PRIFA and CCDA bonds.

Representation and Warranty Recoverable

Ambac records estimated RMBS R&W subrogation recoverables for breaches of R&W by sponsors of certain RMBS transactions. For a discussion of the approach utilized to estimate RMBS R&W subrogation recoverables, see Note 2. Basis of Presentation and Significant Accounting Policies.

Ambac has recorded RMBS R&W subrogation recoverables of $140, ($140 net of reinsurance) and $1,730, ($1,704 net of reinsurance) at December 31, 2022 and 2021, respectively. On December 29, 2022, AAC entered into a Settlement Agreement and Release with Nomura Credit & Capital, Inc. whereby the parties settled all RMBS litigation brought by AAC against Nomura and AAC received $140 on January 3, 2023 bringing to a close all of AAC's legacy litigation against RMBS sponsor.

Reinsurance Recoverables, Including Credit Impairments:

The Company uses ceded reinsurance to transfer certain insurance risk, along with premiums written and earned, to other insurance carriers that agree to share in such risks. The primary purpose of the reinsurance is to (i) protect the Company, at a cost, from losses in excess of amounts it is willing to accept, (ii) protect the Company's capital, and (iii) within the Specialty Property and Casualty Insurance operations, to manage the Company's net retention on individual risks and overall exposure to losses while providing the Company the ability to offer policies with sufficient limits to meet policyholder needs.

- Within its Specialty Property and Casualty Insurance segment, the Company generally enters into quota share reinsurance agreements whereby the Company cedes to the capacity providers (reinsurers) a substantial amount (generally 70% or more) of its gross liability under all policies issued by and on behalf of the Company by the MGA/U.

Ambac is exposed to the credit risk of the reinsurer, or the risk that one of its reinsurers becomes insolvent or otherwise unable or unwilling to pay policyholder claims. This credit risk is generally mitigated by either selecting well capitalized, highly rated authorized capacity providers or requiring that the capacity provider post collateral to secure the reinsured risks, which in some instances, exceeds the related reinsurance recoverable.

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated loss and loss adjustment expense reserves. The Company reports its reinsurance recoverables net of an allowance for amounts that are estimated to be uncollectible.

Ambac's reinsurance assets, including deferred ceded premiums and reinsurance recoverables on losses amounted to $239 at December 31, 2022. Credit exposure existed at December 31, 2022, with respect to reinsurance recoverables to the extent that any reinsurer may not be able to reimburse Ambac under the terms of these reinsurance arrangements. At December 31, 2022, there were ceded reinsurance balances payable of $39 offsetting this credit exposure. Contractually ceded reinsurance payables can only be offset against amounts owed from the same reinsurer in the event that such reinsurer is unable to meet its obligations to reimburse Ambac.

To minimize its credit exposure to losses from reinsurer insolvencies, Ambac (i) is entitled to receive collateral from its reinsurance counterparties in certain reinsurance contracts and (ii) has certain cancellation rights that can be exercised by Ambac in the event of rating agency downgrades of a reinsurer (among other events and circumstances). Ambac held letters of credit and collateral amounting to $116 from its reinsurers at December 31, 2022. For those reinsurance counterparties that do not currently post collateral, Ambac's reinsurers are well capitalized, highly rated, authorized capacity providers. Additionally, while legacy liabilities from the PWIC acquisition and the three admitted carriers acquired by Everspan on January 3, 2022(the "21st Century Companies") were fully ceded to certain reinsurers, Everspan also benefits from an unlimited, uncapped indemnity from Enstar Holdings (US) and 21st Century Premier Insurance Company, respectively, to mitigate any residual risk to these reinsurers.

The allowance for credit losses is based upon Ambac's ongoing review of amounts outstanding and the key indicators management uses to assess the credit quality of reinsurance recoverables are collateral posted by the reinsurers and independent rating agency credit ratings. The evaluation begins with a comparison of the fair value of collateral posted by the reinsurer to the recoverable, net of ceded premiums payable. Any shortfall of collateral posted is evaluated against the credit rating of the reinsurer to determine whether an allowance is considered necessary.

For 2022, our top three reinsurers represented 84.2% of our total ceded reinsurance recoverables, and reinsurance recoverables were primarily from reinsurers with applicable ratings of A or better. The following table sets forth our three most significant reinsurers by amount of reinsurance recoverable as of December 31, 2022.

Reinsurers	Type of Insurance	Rating (1)	Reinsurance Recoverable (2)	Unsecured Recoverable (3)
QBE Insurance Corporation	Specialty P&C	A	$ 41	$ 41
Assured Guaranty Re Ltd.	Financial Guarantee	AA	30	—
General Reinsurance Company	Specialty P&C	A++	25	11
All other reinsurers			18	7
Total recoverables			$ 115	$ 60

(1) Represents financial strength ratings from S&P for financial guarantee reinsurers and AM Best for specialty P&C reinsurers.

(2) Represents reinsurance recoverables on paid and unpaid losses. Unsecured amounts from QBE Insurance Corporation is also supported by an unlimited, uncapped indemnity from Enstar Holdings (US).

(3) Reinsurance recoverables reduced by ceded premiums payables due to reinsurers, letters of credit, and collateral posted for the benefit of Ambac.

The allowance for credit losses is based upon Ambac's ongoing review of amounts outstanding. Key indicators management uses to assess the credit quality of reinsurance recoverables are financial performance of the reinsurers, collateral posted by the reinsurers and independent rating agency credit ratings. The evaluation begins with a comparison of the fair value of collateral posted by the reinsurer to the recoverable, net of ceded premiums payable. Any shortfall of collateral posted is evaluated against our assessment of the reinsurer's financial strength, including its credit rating to determine whether an allowance is considered necessary.

Ambac has uncollateralized credit exposure of $60 and $32 and has recorded an allowance for credit losses of less than a million at December 31, 2022 and December 31, 2021, respectively. The uncollateralized credit exposure includes legacy liabilities obtained from the acquisitions of PWIC and the 21st Century Companies of $45 and $30 at December 31, 2022 and December 31, 2021, respectively. Legacy liabilities are also supported by an unlimited, uncapped indemnity from Enstar Holdings (US) and 21st Century Premier Insurance Company, respectively.

9. INSURANCE REGULATORY RESTRICTIONS

United States

AAC is domiciled in the State of Wisconsin and, as such, it is subject to the insurance laws and regulations of the State of Wisconsin (the "Wisconsin Insurance Laws") and is regulated by the OCI as a domestic insurer. Everspan Indemnity and its wholly owned subsidiary, Everspan Insurance Company ("Everspan Insurance"), are domiciled in Arizona and are subject to the insurance laws and regulations of Arizona (the "Arizona Insurance Laws") and are regulated by the Arizona Department of Insurance and Financial Institutions as domestic insurers. The other subsidiaries of Everspan Insurance are domiciled in various States and are therefore subject to the insurance laws and regulations of their respective States of domicile (together with the Wisconsin Insurance Laws and the Arizona Insurance Laws, the "State Insurance Laws") and regulated by the insurance departments of those States as domestic insurers. In addition, AAC, Everspan Insurance and its subsidiaries are subject to the insurance laws and regulations of the other jurisdictions in which they are licensed and operate as foreign insurers.

Insurance laws and regulations applicable to insurers vary by jurisdiction, but the insurance laws and regulations applicable to our insurance carriers generally require them to maintain minimum standards of business conduct and solvency; to meet

certain financial tests; and to file policy forms, premium rate schedules and certain reports with regulatory authorities, including information concerning capital structure, ownership, financial condition (such as risk-based capital), corporate governance and enterprise risk. AAC, because it is a financial guarantee insurer, is not subject to risk-based capital requirements. As a run-off financial guarantor, AAC has been operating under the Stipulation and Order required by OCI. OCI is developing OCI's Runoff Capital Framework to assist with decisioning related to capital and liquidity management at AAC.

Regulated insurance companies are also required to file quarterly and annual statutory financial statements in each jurisdiction in which they are licensed. The State Insurance Laws also require prior approval (or non-disapproval) of certain transactions between an insurance carrier and its affiliates. The level of supervisory authority that may be exercised by non-domiciliary insurance regulators varies by jurisdiction. Generally, however, non-domiciliary regulators are authorized to suspend or revoke the insurance license they issued and to impose restrictions on that license in the event that laws or regulations are breached by a regulated insurance company or in the event that continued or unrestricted licensing of the regulated insurance company constitutes a "hazardous condition" (or meets a similar standard) in the opinion of the non-domiciliary regulator.

The domiciliary regulators have primary regulatory authority, including with respect to the initiation and administration of rehabilitation or liquidation proceedings. Additionally, the accounts and operations of AAC and Everspan are subject to individual periodic comprehensive financial examinations by their domestic regulators, and may be examined collectively by the lead regulator of the affiliated insurance company group.

In December 2020, Everspan Insurance completed its re-domestication from Wisconsin to Arizona and obtained broad authority to write property and casualty insurance (while contemporaneously surrendering its authority to write financial guaranty insurance) in Arizona. Everspan Insurance thereafter sought similar amendments to its certificates of authority in all other states. Everspan Insurance and its subsidiaries (Providence Washington Insurance Company, Greenwood Insurance Company, Consolidated National Insurance Company and 21st Century Auto Insurance Company of New Jersey) are subject to risk-based capital requirements.

Everspan Indemnity was formed in 2020 as a domestic surplus lines insurer in Arizona and, accordingly, is eligible to write property and casualty insurance as an excess and surplus lines insurance in all states by virtue of the U.S. Nonadmitted and Reinsurance Reform Act of 2010. Everspan Indemnity owns 100% of Everspan Insurance. Everspan Indemnity issued its first policies in May 2021.

All of Ambac's insurance subsidiaries are in compliance with the minimum capital and surplus levels required under the State Insurance Laws required to transact all business written to date.

Our Insurance Distribution businesses, like some other managing general agents, brokerages and program administrators, may be subject to licensing requirements and regulation by insurance regulators in various states in which they conduct business.

In addition to the legal restrictions applicable to AAC as described herein, pursuant to the terms of the Settlement Agreement and the Stipulation and Order, AAC must seek prior approval by OCI of certain corporate actions. The Settlement Agreement and Stipulation and Order include covenants which restrict the operations of AAC. The Settlement Agreement will remain in force until the surplus notes that were issued pursuant to the Settlement Agreement have been redeemed, repurchased or repaid in full. The Stipulation and Order will remain in force for so long as OCI determines it to be necessary. Certain of the restrictions in the Settlement Agreement may be waived with the approval of the OCI and/or the requisite percentage of holders of AAC's surplus notes.

OCI's Runoff Capital Framework, when implemented, will assist OCI with making decisions related to capital and liquidity management at AAC. OCI's Runoff Capital Framework is not yet complete and therefore we are not able to predict the results of such and what it may mean for our Legacy Financial Guarantee strategy, particularly as it relates to deleveraging AAC and distributing capital to AFG. Nevertheless, in the event that the OCI Runoff Capital Framework were to indicate that AAC is in a capital deficit position, OCI cannot require AFG or any other Ambac entity to contribute capital to or otherwise support AAC.

Although not domiciled in New York, AAC is nevertheless subject to the New York insurance law governing financial guarantee insurers. New York's comprehensive financial guarantee insurance law defines the scope of permitted financial guarantee insurance and governs the conduct of business of all financial guarantors licensed to do business in New York, including AAC. The New York financial guarantee insurance law also establishes single and aggregate risk limits with respect to insured obligations insured by financial guarantee insurers. Such single risk limits are specific to the type of insured obligation (for example, municipal or asset-backed). Under the aggregate limits, policyholders' surplus and contingency reserves must at least equal a percentage of aggregate net liability that is equal to the sum of various percentages of aggregate net liability for various categories of specified obligations. At December 31, 2022, AAC is in compliance with applicable aggregate risk limits and applicable single risk limits.

The financial statements of AAC and Everspan are prepared on the basis of accounting practices prescribed or permitted by the State Insurance Laws and the actions of regulatory authorities thereunder. AAC and Everspan use such statutory accounting practices prescribed or permitted by the applicable regulatory authorities for determining and reporting their financial condition and results of operations, including for determining solvency under the State Insurance Laws. The States in which AAC and Everspan are domiciled have adopted the National Association of Insurance Commissioners ("NAIC") accounting practices and procedures manual ("NAIC SAP") as a component of prescribed practices as codified in each State's applicable law or regulation.

Statutory policyholder surplus differs from stockholder's equity determined under GAAP principally due to statutory accounting rules that treat financial guarantee premiums and loss reserves, investments, consolidation of subsidiaries or variable interest entities and surplus notes differently.

The following are details of statutory surplus for AAC and Everspan Indemnity:

- AAC's statutory policyholder surplus was $598 at December 31, 2022, as compared to $757 as of December 31, 2021.
- Everspan Indemnity has statutory policyholder surplus of $107 as of December 31, 2022 as compared to $106 as of December 31, 2021.

The OCI has prescribed additional practices and has permitted accounting practices for AAC. As a result of the prescribed and permitted practices discussed below, AAC's statutory surplus at December 31, 2022 and 2021 was higher by $90 and lower by $5, respectively, than if AAC had reported such amounts in accordance with NAIC SAP.

Everspan Indemnity and its subsidiaries do not have permitted or additional prescribed practices at December 31, 2022. The Arizona Department of Insurance and Financial Institutions has permitted accounting practices for Everspan Indemnity and Everspan Insurance at December 31, 2021 As a result of the permitted practice discussed below, Everspan Indemnity's statutory surplus at December 31, 2021 was higher by $18 than if Everspan had reported such amounts with NAIC SAP. Everspan had no additional prescribed practices as at December 31, 2021.

Additional Prescribed Accounting Practices

AAC:

OCI has prescribed the following accounting practices that differ from NAIC SAP for AAC:

- Paragraph 8 of Statement of Statutory Accounting Principles No. 60 "Financial Guaranty Insurance" allows for a deduction from loss reserves for the time value of money by application of a discount rate equal to the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve. The discount rate shall be adjusted at the end of each calendar year. Additionally, in accordance with paragraph 13.e of Statutory Accounting Principles No. 97 "Investments in Subsidiary, Controlled and Affiliated Entities" and paragraph 8 of Statutory Accounting Principles No. 5R "Liabilities, Contingencies and Impairments of Assets - Revised", AAC records probable losses on its subsidiaries for which it guarantees their obligations. AAC also discounts probable losses on guarantees of subsidiary obligations using a discount rate equal to the average rate of return on its admitted assets. AAC's average rates of return on its admitted assets at December 31, 2022 and 2021 were 3.22% and 5.28%, respectively. OCI has directed AAC to utilize a prescribed discount rate of 5.10% for the purpose of discounting both its loss reserves and its probable losses on subsidiary guarantees.
- Paragraph 4 of Statement of Statutory Accounting Principles No. 41 "Surplus Notes" ("SSAP 41") states that proceeds received by the issuer of surplus notes must be in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the commissioner of the state of domicile. Under statutory accounting principles, surplus notes issued in conjunction with commutations or the settlement of obligations would be valued at zero upon issuance pursuant to paragraph 4, SSAP 41. OCI has directed the Company to record surplus notes issued in connection with commutations or the settlement of obligations at full par value upon issuance. The surplus notes issued have a claim against surplus senior to the preferred and common shareholders.
- Paragraph 35 of Statement of Statutory Accounting Principles No. 43R "Loan-backed and Structured Securities" states that when an other-than-temporary impairment ("OTTI") has occurred, the amount of the OTTI recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate. From June 11, 2014 to February 12, 2018, OCI had directed AAC to not evaluate for OTTI investments in AAC insured securities with designated policies that were allocated to a segregated account of AAC in rehabilitation overseen by OCI, and required all such investments be reported at amortized cost regardless of its NAIC risk designation.

Permitted Accounting Practices

AAC:

OCI has allowed the following permitted practice for AAC:

- Wisconsin accounting practices for changes to contingency reserves differ from NAIC SAP. Under NAIC SAP, contributions to and releases from the contingency reserve are recorded via a direct charge or credit to surplus. Under the Wisconsin Administrative Code, contributions to and releases from the contingency reserve are to be recorded through underwriting income. AAC received permission from OCI to record contributions to and releases from the contingency reserve, in accordance with NAIC SAP.

Everspan:

The Arizona Department of Insurance and Financial Institutions has allowed the following permitted practice for Everspan:

- Paragraph 8 of Statement of Statutory Accounting Principles No. 97 "Investment in Subsidiary, Controlled and Affiliated Entities" ("SSAP 97") states Investments in US insurance Subsidiary, Controlled and Affiliated entities shall be recorded based on the underlying audited statutory equity of the respective entity's financial statements adjusted for any unamortized goodwill. Everspan has received permission from the Arizona Department of Insurance and Financial Institutions to admit its investment

at December 31, 2021 of its wholly owned subsidiary, Providence Washington Insurance Company. Providence Washington Insurance Company received a waiver from its regulator to file a statutory audit report issued for the year ended December 31, 2021.

United Kingdom

The Prudential Regulatory Authority ("PRA") and Financial Conduct Authority ("FCA") (and their predecessor regulator the Financial Services Authority ("FSA")) are the dual statutory regulator responsible for regulating the financial services industry in the United Kingdom, with the purpose of maintaining confidence in the U.K. financial system, providing public understanding of the system, securing the proper degree of protection for consumers and helping to reduce financial crime.

These regulators have exercised significant oversight of Ambac UK since 2008, after Ambac, AAC and Ambac UK began experiencing financial stress. In 2009, Ambac UK's license to write new business was curtailed by the FSA and the insurance license was limited to undertaking only run-off related activity. As such, Ambac UK is authorized to run-off its credit, suretyship and financial guarantee insurance portfolio in the United Kingdom.

The PRA requires that non-life insurance companies such as Ambac UK maintain a margin of solvency at all times in respect of the liabilities of the insurance company, the calculation of which depends on the type and amount of insurance business a company writes. These solvency requirements were amended on January 1, 2016, in order to implement the European Union's "Solvency II" directive on risk-based capital. Ambac UK had previously been in a capital shortfall position as compared to these solvency capital requirements, but has met the requirements since December 31, 2021.

Dividend Restrictions, Including Contractual Restrictions

State Insurance Regulators prescribe rules that determine if AAC and Everspan may declare dividends. In addition, AAC and Everspan are subject to certain restrictions in their respective articles of incorporation with regards to the payment of dividends. Board action authorizing a distribution by an insurance company must generally be reported to the applicable domiciliary regulator prior to payment. In addition, State Insurance Laws generally require regulatory approval for the payment of extraordinary dividends, which are distributions in amounts that would exceed certain thresholds, such as a percentage of surplus or net income for the prior year or number of years.

Everspan does not have sufficient earned surplus at this time to pay ordinary dividends under the State Insurance Laws. Furthermore, certain subsidiaries of Everspan Insurance are restricted from paying dividends to Everspan Insurance until 2025 or later pursuant to the regulatory orders approving the acquisition of those subsidiaries, unless specifically approved by the applicable domiciliary regulator.

Due to losses experienced by AAC, it has been unable to pay ordinary dividends to AFG since 2008 and will be unable to pay common dividends in 2023 without the prior consent of the OCI, which is extremely unlikely. AAC's ability to pay dividends is further restricted by the Settlement Agreement (as described below), by the terms of its AMPS (as described below) and by the Stipulation and Order, and may be affected by OCI's Runoff Capital Framework, although OCI's Runoff Capital Framework has not yet been implemented and we cannot predict the results or implications thereof. See *Note 1. Background and Business Description* for further information. Accordingly, AAC's ability to pay dividends to AFG and the timing thereof remain subject to substantial uncertainty.

- Pursuant to the Settlement Agreement, AAC may not make any "Restricted Payment" (which includes dividends from AAC to Ambac) in excess of $5 in the aggregate per annum, other than Restricted Payments from AAC to Ambac in an amount up to $8 per annum solely to pay operating expenses of Ambac. Concurrent with making any such Restricted Payment, a pro rata amount of AAC's surplus notes would also need to be redeemed at par.
- Under the terms of AAC's AMPS, dividends may not be paid on the common stock of AAC unless all accrued and unpaid dividends on the AMPS for the then current dividend period have been paid, provided, that dividends on the common stock may be made at all times for the purpose of, and only in such amounts as are necessary for, enabling Ambac (i) to service its indebtedness for borrowed money as such payments become due or (ii) to pay its operating expenses. If dividends are paid on the common stock as provided in the prior sentence, dividends on the AMPS become cumulative until the date that all accumulated and unpaid dividends have been paid on the AMPS.
- The Stipulation and Order requires OCI approval for the payment of any dividend or distribution on the common stock of AAC.
- OCI's Runoff Capital Framework may be implemented in the near term. While OCI's Runoff Capital Framework is not complete and we cannot predict the results and implications thereof, it is possible that OCI's Runoff Capital Framework and decisions based thereon may affect AAC's ability to reduce financial leverage or to pay dividends to AFG. Nevertheless, in the event that the OCI Runoff Capital Framework were to indicate that AAC is in a capital deficit position, OCI cannot require AFG or any other Ambac entity to contribute capital to or otherwise support AAC.

UK law prohibits Ambac UK from declaring a dividend to its shareholders unless it has "profits available for distribution." The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the UK insurance regulatory laws impose no statutory restrictions on a general insurer's ability to declare a dividend, the PRA's and FCA's rules governing capital extraction by insurance firms in run off require Ambac UK to consider its future capital requirements over a 3 to 5 year period in both base case and downside stress scenarios before declaring a dividend. Further, the FSA

amended Ambac UK's license in 2010 such that the PRA must specifically approve ("non-objection") any transfer of value and/or assets from Ambac UK to AAC or any other Ambac group company, other than in respect of certain disclosed contracts between the two parties (such as in respect of a management services agreement between AAC and Ambac UK). Ambac UK is not expected to pay any dividends to AAC in the near future.

10. DERIVATIVE INSTRUMENTS

The following tables summarize the gross fair values of individual derivative instruments and the impact of legal rights of offset as reported in the Consolidated Balance Sheets as of December 31, 2022 and 2021.

	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets/ Liabilities Presented in the Consolidated Balance Sheet	Gross Amount of Collateral Received / Pledged not Offset in the Consolidated Balance Sheet	Net Amount
December 31, 2022:					
Derivative Assets:					
Interest rate swaps	$ 27	$ —	$ 27	$ —	$ 27
Warrants	1	—	1	—	1
Total non-VIE derivative assets	$ 28	$ —	$ 27	$ —	$ 27
Derivative Liabilities:					
Interest rate swaps	38	—	38	38	—
Total non-VIE derivative liabilities	$ 38	$ —	$ 38	$ 38	$ —
Variable Interest Entities Derivative Assets:					
Interest rate swaps	$ 190	$ —	$ 190	$ —	$ 190
Currency swaps	49	—	49	—	49
Total VIE derivative assets	$ 239	$ —	$ 239	$ —	$ 239
Variable Interest Entities Derivative Liabilities:					
Interest rate swaps	$ 1,048	$ —	$ 1,048	$ —	$ 1,048
Total VIE derivative liabilities	$ 1,048	$ —	$ 1,048	$ —	$ 1,048
December 31, 2021:					
Derivative Assets:					
Interest rate swaps	$ 76	$ —	$ 76	$ —	$ 76
Total non-VIE derivative assets	**$ 76**	**$ —**	**$ 76**	**$ —**	**$ 76**
Derivative Liabilities:					
Credit derivatives	$ —	$ —	$ —	$ —	$ —
Interest rate swaps	94	—	94	93	1
Total non-VIE derivative liabilities	**$ 95**	**$ —**	**$ 95**	**$ 93**	**$ 2**
Variable Interest Entities Derivative Assets:					
Currency swaps	$ 38	$ —	$ 38	$ —	$ 38
Total VIE derivative assets	**$ 38**	**$ —**	$ 38	$ —	$ 38
Variable Interest Entities Derivative Liabilities:					
Interest rate swaps	$ 1,940	$ —	$ 1,940	$ —	$ 1,940
Total VIE derivative liabilities	**$ 1,940**	**$ —**	**$ 1,940**	**$ —**	**$ 1,940**

Amounts representing the right to reclaim cash collateral or the obligation to return cash collateral are not offset against fair value amounts recognized for derivative instruments on the Consolidated Balance Sheets. The amounts representing the right to reclaim cash collateral and posted margin, recorded in "Other assets" were $6 and $13 as of December 31, 2022 and 2021, respectively. There were no amounts held representing an obligation to return cash collateral as of December 31, 2022 and 2021.

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The following tables summarize the location and amount of gains and losses of derivative contracts in the Consolidated Statements of Total Comprehensive Income (Loss) for the years ended December 31, 2022, 2021 and 2020:

	Location of Gain (Loss) Recognized in Consolidated Statements of Total Comprehensive Income (Loss)	Amount of Gain (Loss) Recognized in Consolidated Statement of Total Comprehensive Income (Loss) – Year Ended December 31,		
		2022	2021	2020
Non-VIE derivatives:				
Credit derivatives	Net gains (losses) on derivative contracts	$ —	$ —	$ —
Interest rate swaps	Net gains (losses) on derivative contracts	65	13	(9)
Warrants	Net gains (losses) on derivative contracts	1	—	—
Futures contracts	Net gains (losses) on derivative contracts	62	9	(41)
Total Non-VIE derivatives		129	22	(50)
Variable Interest Entities:				
Currency swaps	Income (loss) on variable interest entities	24	2	(6)
Interest rate swaps	Income (loss) on variable interest entities	541	(152)	(138)
Total Variable Interest Entities		565	(150)	(144)
Total derivative contracts		$ 694	$ (128)	$ (193)

Interest Rate Derivatives

Ambac, through its subsidiary Ambac Financial Services ("AFS"), uses interest rate swaps, US Treasury futures contracts and other derivatives, to provide a partial economic hedge against the effects of rising interest rates elsewhere in the Legacy Financial Guarantee Insurance segment, including on Ambac's financial guarantee exposures. Additionally, AFS provided interest rate swaps to states, municipalities and their authorities, asset-backed issuers and other entities in connection with their financings. As of December 31, 2022 and 2021, the notional amounts of AFS's derivatives are as follows:

	Notional - December 31,	
Type of Derivative	**2022**	**2021**
Interest rate swaps—pay-fixed/receive-variable	$ 989	$ 1,275
US Treasury futures contracts—short	—	470
Interest rate swaps—receive-fixed/pay-variable	337	185

Other Derivatives:

The principal notional outstanding for credit derivative contracts was $0 and $201 as of December 31, 2022 and December 31, 2021, respectively.

As of December 31, 2022 Ambac holds warrants to purchase preferred stock of a development stage company.

Derivatives of Consolidated Variable Interest Entities

Certain VIEs consolidated under the Consolidation Topic of the ASC entered into derivative contracts to meet specified purposes within the securitization structure. The notional for VIE derivatives outstanding as of December 31, 2022 and 2021, were as follows:

	Notional - December 31,	
Type of VIE Derivative	**2022**	**2021**
Interest rate swaps—receive-fixed/pay-variable	$ 1,573	$ 1,221
Interest rate swaps—pay-fixed/receive-variable	887	1,069
Currency swaps	176	272

Contingent Features in Derivatives Related to Ambac Credit Risk

Ambac's over-the-counter interest rate swaps are centrally cleared when eligible. Certain interest rate swaps remain with professional swap-dealer counterparties and direct customer counterparties. These non-cleared swaps are generally executed under standardized derivative documents including collateral support and master netting agreements. Under these agreements, Ambac is required to post collateral in the event net unrealized losses exceed predetermined threshold levels. Additionally, given that AAC is no longer rated by an independent rating agency, counterparties have the right to terminate the swap positions.

As of December 31, 2022 and 2021, the net liability fair value of derivative instruments with contingent features linked to Ambac's own credit risk was $38 and $93, respectively, related to which Ambac had posted cash and securities as collateral with a fair value of $54 and $109, respectively. All such ratings-based contingent features have been triggered requiring maximum collateral levels to be posted by Ambac while preserving counterparties' rights to terminate the contracts. Assuming all such contracts terminated at fair value on December 31, 2022, settlement of collateral balances and net derivative liabilities would result in a net receipt of cash and/or securities by Ambac. If counterparties elect to exercise their right to terminate, the actual termination payment amounts will be determined in accordance with derivative contract terms, which may result in amounts that differ from market values as reported in Ambac's financial statements.

11. GOODWILL AND INTANGIBLE ASSETS

See Note 2. Basis of Presentation and Significant Accounting Policies for discussion of goodwill. The following table presents the Company's goodwill.

December 31,	2022	2021
Beginning balance	$ 46	$ 46
Business acquisitions	15	—
Impairments	—	—
Ending balance	**$ 61**	**$ 46**

Intangible asset and accumulated amortization are included in the Consolidated Balance Sheets, as shown below.

December 31,	2022	2021
Finite-lived Intangible Assets:		
Insurance intangible:		
Gross carrying value	$ 1,247	$ 1,278
Accumulated amortization	981	958
Net insurance intangible asset	**266**	**320**
Other intangibles:		
Gross Carrying value	52	36
Accumulated amortization	6	3
Net other intangible assets	**47**	**33**
Total finite-lived intangible assets	**$ 312**	**$ 353**
Indefinite-lived Intangible Assets:		
Insurance licenses	$ 14	$ 9
Total intangible assets	**$ 326**	**$ 362**

Amortization Expense:

Amortization expense is included in the Consolidated Statements of Total Comprehensive Income (Loss), as shown below.

Year ended December 31,	2022	2021	2020
Insurance intangible	$ 44	52	$ 57
Other intangibles	3	3	—
Total	**$ 47**	**$ 55**	**$ 57**

The estimated future amortization expense for finite-lived intangible assets is as follows:

Amortization Expense	Insurance Intangible Asset [1]	Other Intangible Assets [1]	Total
2023	$ 27	$ 4	$ 31
2024	25	4	29
2025	23	4	27
2026	21	3	25
2027	19	3	23
Thereafter	149	28	178

(1) The weighted-average insurance intangible amortization and other intangible amortization periods are 7.3 years and 6.4 years, respectively.

12. VARIABLE INTEREST ENTITIES

Ambac, with its subsidiaries, has engaged in transactions with variable interest entities ("VIEs") in various capacities.

- AAC and Ambac UK provide financial guarantees for various debt obligations issued by special purpose entities, including VIEs ("FG VIEs");
- Ambac sponsors special purpose entities that issued notes to investors for various purposes; and
- AAC and Ambac UK invest in collateralized debt obligations, mortgage-backed and other asset-backed securities issued by VIEs and their ownership interest is generally insignificant to the VIE and/or Ambac does not have rights that direct the activities that are most significant to such VIE.

FG VIEs

AAC and Ambac UK provide financial guarantees in respect of assets held or debt obligations of VIEs. AAC and Ambac UK's primary variable interest exists through this financial guarantee insurance. The transaction structures provide certain financial protection to Ambac. Generally, upon deterioration in the performance of a transaction or upon an event of default as specified in the transaction legal documents, AAC or Ambac UK will obtain certain control rights that enable them to remediate losses. These rights may enable them to direct the activities of the entity that most significantly impact the entity's economic performance. Under the Stipulation and Order, AAC is required to obtain OCI approval with respect to the exercise of certain significant control rights in connection with policies that had previously been allocated to the Segregated Account, which was established in 2010 to segregate certain segments of AAC's liabilities for purposes of the rehabilitation proceeding overseen by the Wisconsin Insurance Commissioner in order to facilitate an orderly run-off and/or settlement of the liabilities allocated to the Segregated Account (which ceased to exist in 2018). Accordingly, AAC does not have the right to direct the most significant activities of those FG VIEs.

- We determined that AAC or Ambac UK generally have the obligation to absorb a FG VIE's expected losses given that they have issued financial guarantees supporting certain liabilities (and in some cases certain assets). As further described below, Ambac consolidates certain FG VIEs in cases where we also have the power to direct the activities that most significantly impact the VIE's economic performance due to one or more of the following: (i) the transaction experiencing deterioration and breaching performance triggers, giving AAC or Ambac UK the ability to exercise certain control rights, (ii) AAC or Ambac UK being involved in the design of the VIE and receiving control rights from its inception, such as may occur from loss remediation activities, or (iii) the transaction not experiencing deterioration, however due to the passive nature of the VIE, AAC or Ambac UK's contingent control rights upon a future breach of performance triggers is considered to be the power over the most significant activity.

- A VIE is generally deconsolidated in the period that AAC or Ambac UK no longer has such control rights, which could occur in connection with the execution of remediation activities on the transaction or amortization of insured exposure, either of which may reduce the degree of control over a VIE.
- Assets and liabilities of FG VIEs that are consolidated are reported within Variable interest entity assets or Variable interest entity liabilities on the Consolidated Balance Sheets.
- The election to use the fair value option is made on an instrument by instrument basis. Generally, Ambac has elected the fair value option for consolidated FG VIE financial assets and financial liabilities, except in cases where AAC or Ambac UK was involved in the design of the VIE and was granted control rights at its inception.
  - When the fair value option is elected, changes in the fair value of the FG VIE's financial assets and liabilities are reported within Income (loss) on variable interest entities in the Consolidated Statements of Total Comprehensive Income (Loss), except for the portion of the total change in fair value of financial liabilities caused by changes in the instrument-specific credit risk which is presented separately in Other comprehensive income (loss).
  - In cases where the fair value option has not been elected, the FG VIE's invested assets are fixed maturity securities and are classified as either available-for-sale or trading as defined by the Investments - Debt Securities Topic of the ASC. Available-for-sale assets are reported in the financial statements at fair value with unrealized gains and losses reflected in Accumulated Other Comprehensive Income (Loss) in Stockholders' Equity. Trading assets are reported at fair value with unrealized gains and losses reflected within net income. The financial liabilities of these FG VIEs consist of long term debt obligations and are carried at par less unamortized discount. Income from the FG VIE's securities (including investment income, realized gains and losses and credit impairments as applicable) and interest expense on long term debt are reported within Income (loss) on variable interest entities in the Consolidated Statements of Total Comprehensive Income (Loss).
- Upon initial consolidation of a FG VIE, Ambac recognizes a gain or loss in earnings for the difference between: (i) the fair value of the consideration paid, the fair value of any non-controlling interests and the reported amount of any previously held interests and (ii) the net amount, as measured on a fair value basis, of the assets and liabilities consolidated. Upon deconsolidation of a FG VIE, Ambac recognizes a gain or loss for the difference between: (i) the fair value of any consideration received, the fair value of any retained non-controlling investment in the VIE and the carrying amount of any non-controlling interest in the VIE and (ii) the carrying amount of the VIE's assets and liabilities. Gains or losses from consolidation and deconsolidation that are reported in earnings are reported within Income (loss) on variable interest entities on the Consolidated Statements of Total Comprehensive Income (Loss).
- The impact of consolidating such FG VIEs on Ambac's balance sheet is the elimination of transactions between the consolidated FG VIEs and AAC or Ambac UK and the inclusion of the FG VIE's third party assets and liabilities. For a financial guarantee insurance policy issued to a consolidated VIE, Ambac does not reflect the financial guarantee insurance policy in accordance with the related insurance accounting rules under the Financial Services — Insurance Topic of the ASC. Consequently, upon consolidation, Ambac eliminates the insurance assets and liabilities associated with the policy from the Consolidated Balance Sheets. Such insurance assets and liabilities may include premium receivables, reinsurance recoverable, deferred ceded premium, subrogation recoverable, unearned premiums, loss and loss adjustment expense reserves, ceded premiums payable and insurance intangible assets. For investment securities owned by AAC or Ambac UK that are debt instruments issued by the VIE, the associated debt and investment balances are eliminated upon consolidation.

FG VIEs which are consolidated may include recourse and non-recourse liabilities. FG VIEs' liabilities that are insured by AAC or Ambac UK are with recourse, because the AAC or Ambac UK guarantees the payment of principal and interest in the event the issuer defaults. FG VIEs' liabilities that are not insured by the AAC or Ambac UK are without recourse, because AAC or Ambac UK has not issued a financial guarantee and is under no obligation for the payment of principal and interest of these instruments. AAC or Ambac UK's economic exposure to consolidated FG VIEs is limited to the financial guarantees issued for recourse liabilities and any additional variable interests held by them. Additionally, AAC or Ambac UK's general creditors, other than those specific policy holders which own the VIE debt obligations, do not have rights with regard to the assets of the VIEs. Ambac evaluates the net income effects and earnings per share effects to determine attributions between AAC or Ambac UK and non-controlling interests as a result of consolidating a VIE. Ambac has determined that the net income and earnings per share effect of consolidated FG VIEs are attributable to AAC or Ambac UK's interests through financial guarantee premium and loss payments with the VIE.

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The following table summarizes the carrying values of assets and liabilities, along with other supplemental information related to VIEs that are consolidated as a result of financial guarantees of Ambac UK and AAC:

December 31,	2022			2021		
	Ambac UK	Ambac Assurance	Total VIEs	Ambac UK	Ambac Assurance	Total VIEs
ASSETS:						
Fixed maturity securities, at fair value:						
Corporate obligations, fair value option	$ 1,828	$ —	$ 1,828	$ 3,320	$ —	$ 3,320
Municipal obligations, trading	—	43	43	—	—	—
Municipal obligations, available-for-sale (1)	—	96	96	—	136	136
Total FG VIE fixed maturity securities, at fair value	1,828	139	1,967	3,320	136	3,455
Restricted cash	1	16	17	1	1	2
Loans, at fair value (2)	1,829	—	1,829	2,718	—	2,718
Derivative assets	239	—	239	38	—	38
Other assets	—	2	2	—	2	2
Total FG VIE assets	$ 3,896	$ 157	$ 4,054	$ 6,077	$ 139	$ 6,216
LIABILITIES:						
Long-term debt:						
Long-term debt, at fair value (3)	$ 2,788	$ —	$ 2,788	$ 4,056	$ —	$ 4,056
Long-term debt, at par less unamortized discount	—	319	319	—	160	160
Total long-term debt	2,788	319	3,107	4,056	160	4,216
Derivative liabilities	1,048	—	1,048	1,940	—	1,940
Other liabilities	—	5	5	—	—	—
Total FG VIE liabilities	$ 3,836	$ 324	$ 4,160	$ 5,996	$ 160	$ 6,156
Number of FG VIEs consolidated	5	4	9	5	1	6

(1) Available-for-sale FG VIE fixed maturity securities consist of municipal obligations with an amortized cost basis of $99 and $106 at December 31, 2022 and December 31, 2021, respectively. At December 31, 2022, there were $1 aggregate gross gains and $(4) aggregated gross losses. At December 31, 2021, there were aggregate gross unrealized gains of $29. All such securities had contractual maturities due after ten years as of December 31, 2022.

(2) The unpaid principal balances of loan assets carried at fair value were $1,977 and $2,363 as of December 31, 2022 and 2021, respectively.

(3) The unpaid principal balances of long-term debt carried at fair value were $3,064 and $3,579 as of December 31, 2022 and 2021, respectively.

The following schedule details the components of Income (loss) on variable interest entities for the affected periods:

Year ended December 31,	2022	2021	2020
Net change in fair value of VIE assets and liabilities reported under the fair value option	$ —	$ 4	$ (1)
Less: Credit risk changes of fair value option long-term debt reported through other comprehensive income (loss)	(1)	1	(1)
Net change in fair value of VIE assets and liabilities reported in earnings under the fair value option	(1)	5	(3)
Investment income (loss)	(4)	6	7
Net realized investment gains (losses) on available-for-sale securities	2	2	8
Interest expense on long-term debt carried at par less unamortized cost	(12)	(6)	(6)
Other expenses	(1)	(1)	—
Gain (loss) from consolidating VIEs	37	—	—
Income (loss) on variable interest entities	$ 21	$ 7	$ 5

As further discussed in *Note 8. Insurance Contracts*, in connection with the Puerto Rico restructuring, three new trusts were established for the year ended December 31, 2022. Ambac was required to consolidate these trusts which resulted in a combined gain of $37. Including these new trusts, Ambac consolidated three and zero FG VIEs for the years ended December 31, 2022 and 2021, respectively. Ambac did not deconsolidate any FG VIEs for the years ended December 31, 2022 and 2021.

The following table displays the carrying amount of the assets, liabilities and maximum exposure to loss of Ambac's variable interests in non-consolidated VIEs resulting from financial guarantee and derivative contracts by major underlying asset classes, as of December 31, 2022 and 2021:

		Carrying Value of Assets and Liabilities		
	Maximum Exposure To Loss [1]	Insurance Assets [2]	Insurance Liabilities [3]	Net Derivative Assets (Liabilities) [4]
December 31, 2022:				
Global structured finance:				
Mortgage-backed—residential	$ 2,559	$ 266	$ 400	$ —
Other consumer asset-backed	652	6	225	—
Other	430	2	2	1
Total global structured finance	3,642	274	628	1
Global public finance	17,997	216	212	—
Total	$ 21,639	$ 490	$ 840	$ 1
December 31, 2021:				
Global structured finance:				
Mortgage-backed—residential	$ 3,265	$ 1,929	$ 521	$ —
Other consumer asset-backed	788	17	234	—
Other	826	3	10	5
Total global structured finance	4,879	1,949	765	5
Global public finance	20,233	246	257	—
Total	$ 25,112	$ 2,195	$ 1,023	$ 5

(1) Maximum exposure to loss represents the maximum future payments of principal and interest on insured obligations and derivative contracts. Ambac's maximum exposure to loss does not include the benefit of any financial instruments (such as reinsurance or hedge contracts) that Ambac may utilize to mitigate the risks associated with these variable interests.

(2) Insurance assets represent the amount included in "Premium receivables" and "Subrogation recoverable" for financial guarantee insurance contracts on Ambac's Consolidated Balance Sheets.

(3) Insurance liabilities represent the amount included in "Loss and loss adjustment expense reserves" and "Unearned premiums" for financial guarantee insurance contracts on Ambac's Consolidated Balance Sheets.

(4) Net derivative assets (liabilities) represent the fair value recognized on credit derivative contracts and interest rate swaps on Ambac's Consolidated Balance Sheets.

Ambac Sponsored Non-consolidated VIEs

On July 6, 2021, Sitka Holdings, LLC ("Sitka"), Ambac's then newly formed non-consolidated VIE, issued the Sitka Senior Secured Notes. Ambac's debt obligation to Sitka had a carrying value of $1,154 at December 31, 2021, reported within Long-term debt on the Consolidated Balance Sheets. The Sitka Senior Secured Notes were fully redeemed effective as of October 29, 2022. See *Note 1. Background and Business Description* in this Annual Report on Form 10-K for further information.

13. LONG-TERM DEBT

Long-term debt outstanding, excluding VIE long-term debt, was as follows:

December 31,	2022			2021		
	Par Value	Unamortized Discount	Carrying Value	Par Value	Unamortized Discount	Carrying Value
Ambac Assurance:						
5.1% Surplus Notes	$ 519	$ (42)	$ 477	$ 785	$ (56)	$ 729
Sitka AAC Note	—	—	$ —	1,175	(21)	1,154
Tier 2 Notes	146	—	146	333	—	333
Ambac UK Debt	41	(25)	16	41	(26)	15
Long-term debt	$ 706	$ (67)	$ 639	$ 2,334	$ (104)	$ 2,230

Aggregated annual maturities of non-VIE long-term debt obligations (based on scheduled maturity dates as further discussed below) are as follows:

2023	$	665 (1), (2)
2024		—
2025		—
2026		—
2027		—
Thereafter		41
Total	**$**	**706**

(1) Surplus Notes had a scheduled maturity date of June 7, 2020. OCI declined the request of Ambac Assurance to pay the principal amount of the surplus notes, plus all accrued and unpaid interest thereon, on June 7, 2020, June 7, 2021 and June 7, 2022. As a result, the payment date for principal of the surplus notes was extended until OCI grants approval to make the payment. Interest will accrue, compounded on each anniversary of the original scheduled payment date or scheduled maturity date, on any unpaid principal or interest through the actual date of payment at 5.1% per annum. Included in the table above is the potential principal payment at the next scheduled payment date of June 7, 2023.

(2) Includes $146 of Tier 2 Notes, as more fully described in Note 1. Background and Business Description, which were fully redeemed on January 15, 2023.

Surplus Notes

Ambac Assurance's surplus notes, with a par amount of $519 and $785 at December 31, 2022 and 2021, respectively, had a scheduled maturity of June 7, 2020, which has been extended until OCI grants approval to make the payment. During the year ended December 31, 2022, surplus notes with aggregate par amount of $266 were acquired and extinguished. The discount on surplus notes outstanding as of December 31, 2022, is being accreted into income at a weighted average effective interest rate of 7.0%.

Ambac can provide no assurance as to when surplus note principal and interest payments will be made. If OCI does not approve payments on or the acquisition of surplus notes over time, the ongoing accretion of interest on the notes may impair AAC's ability to extinguish the notes in full. Surplus notes are subordinated in right of payment to policyholder and other claims.

Sitka AAC Note

The Sitka AAC Note, issued in connection with the Secured Note Refinancing on July 6, 2021, was wholly redeemed effective October 29, 2022, as a result of the BOA Settlement Payment as more fully described in Note 1. Background and Business Description. Interest on the Sitka AAC Note was payable quarterly (on the last day of each quarter beginning with September 30, 2021) at an annual rate of 3-month U.S. Dollar LIBOR + 4.50%, subject to a 0.75% LIBOR floor. The discount on Sitka AAC Note was being accreted into income at an effective interest rate of 5.7%

Tier 2 Notes

The Tier 2 Notes, issued on February 12, 2018, were partially redeemed on October 29, 2022, as a result of the BOA Settlement Payment as more fully described in Note 1. Background and Business Description. The Tier 2 Notes had a par value of $146 and $333 (including paid-in-kind interest of $49 and $93) at December 31, 2022 and 2021, respectively, and had a legal maturity of February 12, 2055. Interest on the Tier 2 Notes was at an annual rate of 8.50%. Other than upon payment of principal at redemption or maturity, interest payments were not due in cash on interest payment dates and were paid-in-kind and compounded on the last day of each calendar quarter. The Tier 2 Notes were recorded at a discount to par as any consideration paid that was directly related to the issuance of the Tier 2 Notes was capitalized and was part of the effective yield calculation. Ambac accreted the discount on the Tier 2 Notes into earnings at an effective interest rate of 9.9% based on the projected redemption at the date of issuance. The discount had been fully accreted as of December 31, 2020.

The Tier 2 Notes were secured by recoveries from the RMBS Litigations in excess of $1,600 and subject to mandatory redemption upon: (i) receipt of recoveries from the RMBS Litigations in excess of $1,600 ("Tier 2 Net Proceeds") and (ii) payment of principal or interest on AAC surplus notes. Promptly, and in any event within five business days after the receipt (whether directly or indirectly) of Tier 2 Net Proceeds, AAC was required to deposit an amount equal to the Tier 2 Net Proceeds to a collateral account. As described in Note 1. Background and Business Description, the Tier 2 Notes were fully redeemed effective January 15, 2023 as a result of the Nomura Settlement Payment.

Ambac UK Debt

The Ambac UK debt, issued in connection with the commutation of its exposure with respect to Ballantyne Re plc on June 18, 2019, has a par value of $41 and $41 at December 31, 2022 and 2021, and a legal maturity of May 2, 2036. Interest on the Ambac UK debt is at an annual rate of 0.00%. The Ambac UK debt was recorded at its fair value at the date of issuance. The discount on the debt is currently being accreted into income at an effective interest rate of 7.4%.

Variable Interest Entities, Long-term Debt

The variable interest entity notes were issued by consolidated VIEs. Ambac is the primary beneficiary of the VIEs as a result of providing financial guarantees on certain of the VIEs obligations. Consequently, Ambac has consolidated these variable interest entity notes and all other assets and liabilities of the VIEs. Ambac is not primarily liable for the debt obligations of these entities. Ambac would only be required to make payments on these debt obligations in the event that the issuer defaults on any principal or interest due and to the extent such obligations are guaranteed by Ambac. The total unpaid principal amount of outstanding long-term debt associated with VIEs consolidated as a result of the financial guarantee provided by Ambac was $3,388 and $3,739 as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, the ranges of final maturity dates of the outstanding long-term debt

associated with these VIEs were December 2025 to August 2054 and December 2025 to August 2054, respectively. As of December 31, 2022 and 2021, the interest rates on these VIEs' long-term debt ranged from 0.00% to 7.93% in both years. Aggregated annual maturities of VIE long-term debt following December 31, 2022 are: 2023-$0; 2024-$0; 2025-$26; 2026-$0; 2027-$0; Thereafter-$3,362.

14. REVENUES FROM CONTRACTS WITH CUSTOMERS

The following table presents the revenues recognized in accordance with the Revenue from Contracts with Customers Topic of the ASC disaggregated by policy type for the year ended December 31, 2022 and 2021:

Year ended December 31,	2022	2021
Employer stop loss	$ 9	$ 8
Affinity products	19	18
Commercial Auto, Marine and Other	3	—
Total	**31**	**$ 26**

During the year ended December 31, 2022, the amount of revenue recognized related to performance obligations satisfied in a previous period, inclusive of changes due to estimates was approximately $6.

Contract Assets and Liabilities

The balances of contract assets and contract liabilities with customers were as follows:

December 31,	2022	2021
Premiums and commissions receivable	$ 7	$ 2
Contract assets	5	4
Contract liabilities	1	1

Contract assets represent estimated future consideration related to base commissions and profit-sharing commissions that were recognized as revenue upon the placement of the policy, but are not yet billable or collectable. The Company does not have the right to bill or collect payment on i) base commissions until the related premiums from policyholders have been collected nor ii) profit-sharing commissions until after the contract year is completed. The change in contract assets during the year ended December 31, 2022, was primarily due to the acquisition of All Trans and Capacity Marine, reclassification to receivables (unconditional right) and collections.

Contract liabilities represent advance consideration received from customers related to Employer stop loss base commissions that will be recognized over time as claims servicing is performed, which typically occurs between 17 and 20 months from contract inception. During the year ended December 31, 2022, the Company recognized revenue that was included in the contract liability balance as of the beginning of the period of $1.

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15. COMPREHENSIVE INCOME

The following tables detail the changes in the balances of each component of accumulated other comprehensive income for the affected periods:

	Unrealized Gains (Losses) on Available- for Sale Securities [1]	Amortization of Postretirement Benefit [1]	Gain (Loss) on Foreign Currency Translation [1]	Credit Risk Changes of Fair Value Option Liabilities [1] [2]	Total
Year Ended December 31, 2022:					
Beginning Balance	$ 154	$ 4	$ (100)	$ (1)	$ 58
Other comprehensive income (loss) before reclassifications	(211)	—	(85)	—	(296)
Amounts reclassified from accumulated other comprehensive income (loss)	(14)	(1)	—	—	(15)
Net current period other comprehensive income (loss)	(225)	(1)	(85)	—	(310)
Balance at December 31, 2022	$ (71)	$ 3	$ (184)	$ (1)	$ (253)
Year ended December 31, 2021:					
Beginning Balance	$ 166	$ 5	$ (92)	$ —	$ 79
Other comprehensive income before reclassifications	(5)	—	(8)	—	(13)
Amounts reclassified from accumulated other comprehensive income	(7)	(1)	—	(1)	(9)
Net current period other comprehensive income (loss)	(12)	(1)	(8)	(1)	(21)
Balance at December 31, 2021	$ 154	$ 4	$ (100)	$ (1)	$ 58

(1) All amounts are net of tax and noncontrolling interest. Amounts in parentheses indicate reductions to Accumulated Other Comprehensive Income.

(2) Represents the changes in fair value attributable to instrument-specific credit risk of liabilities for which the fair value option is elected.

The following table details the significant amounts reclassified from each component of accumulated other comprehensive income, shown in the above rollforward tables, for the affected periods:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income Year Ended December 31, 2022	2021	Affected Line Item in the Consolidated Statement of Total Comprehensive Income
Unrealized Gains (Losses) on Available-for-Sale Securities [1]			
	$ (17)	$ (7)	Net realized investment gains (losses)
	3	(1)	Provision for income taxes
	$ (14)	$ (7)	Net of tax and noncontrolling interest
Amortization of Postretirement Benefit			
Prior service cost	$ (1)	$ (1)	Other income
Actuarial gains (losses)	—	—	Other income
	(1)	(1)	Total before tax
	—	—	Provision for income taxes
	$ (1)	$ (1)	Net of tax and noncontrolling interest
Credit Risk Changes of Fair Value Option Liabilities			
	$ —	$ (1)	Credit risk changes of fair value option liabilities
	—	—	Provision for income taxes
	—	(1)	Net of tax and noncontrolling interest
Total reclassifications for the period	$ (15)	$ (9)	**Net of tax and noncontrolling interest**

(1) Net unrealized investment gains (losses) on available for sale securities are included in Ambac's Consolidated Statements of Comprehensive Income as a component of Accumulated Other Comprehensive Income. Changes in these amounts include reclassification adjustments to exclude from "Other comprehensive income (loss)" those items that are included as part of "Net income" for a period that has been part of "Other comprehensive income (loss)" in earlier periods.

16. NET INCOME PER SHARE

As of December 31, 2022, 44,973,757 shares of AFG's common stock (par value $0.01) and warrants entitling holders to acquire up to 4,877,617 shares of new common stock at an exercise price of $16.67 per share were issued and outstanding. Common shares outstanding decreased by 1,330,382, during the year ended December 31, 2022, primarily due to share repurchases partially offset by settlements of employee restricted and performance stock units. For the three years ended December 31, 2022, 2021 and 2020, —, 132 and 34 warrants were exercised, respectively, resulting in an issuance of —, 4 and 8 shares of common stock, respectively.

Share Repurchases

On March 29, 2022, AFG's Board of Directors approved a share repurchase program authorizing up to $20 in share repurchases, with an expiration date of March 31, 2024, which may be terminated at any time. As of December 31, 2022, AFG repurchased 1,605,316 shares for $14.2 with an average purchase price of $8.86 per share. On May 5, 2022, the Board of Directors authorized an additional $15 in share repurchase bringing the total unused authorized amount to $20.8.

Warrant Repurchases

On June 30, 2015, the Board of Directors of AFG authorized the establishment of a warrant repurchase program that permits the repurchase of up to $10 of warrants. On November 3, 2016, the Board of Directors of AFG authorized a $10 increase to the warrant repurchase program. The remaining aggregate authorization at December 31, 2022 was $12. For the years ended December 31, 2022 and 2021, AFG did not repurchase any warrants.

Earnings Per Share Calculation

The numerator of the basic and diluted earnings per share computation represents net income (loss) attributable to common stockholders adjusted by the retained earnings impact of the adjustment to redemption value of redeemable noncontrolling interests under ASC 480. The redemption value adjustment is further described in the Redeemable Noncontrolling Interests section of *Note 2. Basis of Presentation and Significant Accounting Policies*.

The following table provides a reconciliation of net income attributable to common stockholders to the numerator in the basic and diluted earnings per share calculation, together with the resulting earnings per share amounts:

Year ended December 31,	2022	2021	2020
Net income (loss) attributable to common stockholders	$ 522	$ (17)	$ (437)
Adjustment to redemption value (ASC 480)	3	(12)	—
Numerator of basic and diluted EPS	$ 525	$ (28)	$ (437)
Per Share:			
Basic	11.48	$ (0.61)	$ (9.47)
Diluted	11.31	$ (0.61)	$ (9.47)

The denominator of the basic earnings per share computation represents the weighted average common shares outstanding plus vested restricted stock units (together, "Basic Weighted Average Shares Outstanding"). The denominator of diluted earnings per share adjusts the basic weighted average shares outstanding for all potential dilutive common shares outstanding during the period. All potential dilutive common shares outstanding consider common stock deliverable pursuant to warrants, unvested restricted stock units and performance stock units granted under existing compensation plans.

The following table provides a reconciliation of the common shares used for basic net income per share to the diluted shares used for diluted net income per share:

Year Ended December 31,	2022	2021	2020
Basic weighted average shares outstanding	45,719,906	46,535,001	46,147,062
Effect of potential dilutive shares [1]:			
Warrants	—	—	—
Stock options	—	—	—
Restricted stock units	144,194	—	—
Performance stock units [2]	550,730	—	—
Diluted weighted average shares outstanding	46,414,830	46,535,001	46,147,062
Anti-dilutive shares excluded from the above reconciliation			
Warrants	4,877,617	4,877,653	4,877,754
Stock options	—	—	16,121
Restricted stock units	177,119	475,333	302,145
Performance stock units [2]	—	700,915	1,002,501

(1) For the years ended years ended December 31, 2021 and 2020, Ambac had a net loss and accordingly excluded all potentially dilutive securities from the determination of diluted loss per share as their impact was anti-dilutive.

(2) Performance stock units are reflected based on the performance metrics through the balance sheet date. Vesting of these units is contingent upon meeting certain performance metrics. Although a portion of these performance metrics have been achieved as of the respective period end, it is possible that awards may no longer meet the metric at the end of the performance period.

17. INCOME TAXES

AFG files a consolidated Federal income tax return with its subsidiaries. AFG and its subsidiaries also file separate or combined income tax returns in various states, local and foreign jurisdictions. The following are the major jurisdictions in which Ambac and its subsidiaries operate and the earliest tax years subject to examination:

Jurisdiction	Tax Year
United States	2010
New York State	2013
New York City	2018
United Kingdom	2019
Italy	2018

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Consolidated Pretax Income (Loss)

U.S. and foreign components of pre-tax income (loss) were as follows:

Year Ended December 31,	2022	2021	2020
U.S.	$ 511	$ (32)	$ (441)
Foreign	13	34	1
Total	**$ 525**	**$ 2**	**$ (440)**

Provision (Benefit) for Income Taxes

The components of the provision (benefit) for income taxes were as follows:

Year Ended December 31,	2022	2021	2020
Current taxes			
U.S. state and local	$ —	$ 2	$ —
Foreign	7	10	8
Total current taxes	6	12	8
Deferred taxes			
Foreign	(4)	6	(10)
Total deferred taxes	$ (4)	$ 6	$ (10)
Provision for income taxes	**$ 2**	**$ 18**	**$ (3)**

The total effect of income taxes on net income and stockholders' equity for the years ended December 31, 2022, 2021 and 2020 is as follows:

Year Ended December 31,	2022	2021	2020
Total income taxes charged to net income	$ 2	$ 18	$ (3)
Income taxes charged (credited) to stockholders' equity:			
Unrealized gains (losses) on investment securities, including foreign exchange	(47)	(3)	3
Change in retirement benefits	—	—	—
Credit Risk Changes to Fair Value Options	—	—	—
Valuation allowance to equity	41	1	(3)
Total charged to stockholders' equity:	(6)	(2)	1
Total effect of income taxes	**$ (4)**	**$ 16**	**$ (1)**

Reconciliation of U.S. Federal Statutory Income Tax Rate to Actual Income Tax Rate

The tax provisions in the accompanying Consolidated Statements of Total Comprehensive Loss reflect effective tax rates differing from prevailing Federal corporate income tax rates. The following is a reconciliation of these differences:

Year Ended December 31,	2022		2021		2020	
Tax on income (loss) at statutory rate	$ 110	21 %	$ —	21 %	$ (92)	21 %
Changes in expected tax resulting from:						
Tax-exempt interest	(1)	— %	(2)	(114) %	(2)	— %
Foreign taxes	4	1 %	8	448 %	6	(1) %
State Income Taxes	(1)	— %	14	794 %	—	— %
Substantiation adjustment	—	— %	—	— %	(29)	7 %
Variable Interest Entities	25	5 %	—	— %	—	— %
Valuation allowance	(131)	(25)%	(4)	(230) %	113	(26) %
Other, net	(4)	(1)%	1	72 %	2	— %
Tax expense on income (loss)	**$ 2**	**1 %**	**$ 18**	**991 %**	**$ (3)**	**1 %**

Unrecognized Tax Positions

The Company had no material unrecognized tax benefits at December 31, 2021 and 2020.

Deferred Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 2022 and 2021, are presented below:

December 31,	2022	2021
Deferred tax liabilities:		
Insurance intangible	$ 56	$ 67
Unearned premiums and credit fees	24	32
Investments	—	14
Variable interest entities	4	15
Other	1	6
Total deferred tax liabilities	85	134
Deferred tax assets:		
Net operating loss carryforward	725	736
Interest expense carryforward	66	50
Investments	6	—
Loss reserves	38	180
State capital loss carryforward	8	7
Debentures	15	7
Compensation	6	8
Other	4	4
Subtotal deferred tax assets	867	993
Valuation allowance	796	886
Total deferred tax assets	70	106
Net deferred tax liability	**$ 15**	**$ 28**

In accordance with the Income Tax Topic of the ASC, a valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than-not that some, or all, of the deferred tax asset will not be realized. As a result of the risks and uncertainties associated with future operating results, management believes it is more likely than not that the Company will not generate sufficient U.S. federal, state and/or local taxable income to recover the deferred tax operating assets and therefore maintains a full valuation allowance. The remaining net deferred tax liability of $15 is attributable to Ambac U.K. and is classified in other liabilities on the Consolidated Balance Sheet.

NOL Usage & Investment Interest Carryforward

Pursuant to a 2013 Closing Agreement between Ambac and the United States Internal Revenue Service ("IRS"), AAC could have to pay as much as $8 to the IRS in the year utilized should AAC utilize $2,142 of NOLs and Interest Expense Limitation available to it as of December 31, 2022.

As of December 31, 2022, the Company has (i) $3,454 of NOLs, which if not utilized will begin expiring in 2030, and will fully expire in 2043, and (ii) $314 of interest expense tax deduction carryover, which has an indefinite carryforward period but is limited in any particular year based on certain provisions. Beginning in 2022, the Company is presenting these items separately in the deferred income tax table above with conforming display in 2021.

18. EMPLOYMENT BENEFIT PLANS

Postretirement Health Care and Postemployment Benefits

Ambac provides postretirement and postemployment/severance benefits, including health and life benefits for certain employees who meet predefined age and service requirements. None of the plans are currently funded. Postretirement and postemployment benefits expense, including severance benefits paid, were $2, $1 and $1 for the years ended December 31, 2022, 2021 and 2020, respectively.

Effective August 1, 2005, new employees were not eligible for postretirement benefits. The current postretirement benefit requires retirees to purchase their own medical insurance policy with a portion of their premium being reimbursed by Ambac. The unfunded accumulated postretirement benefit obligation was $11 as of December 31, 2022. The assumed health care cost trend rates range from 5.5% in 2023, decreasing ratably to 4.5% in 2032.

The following table sets forth projected benefit payments from Ambac's postretirement plan over the next ten years for current retirees:

2023	$ —
2024	—
2025	—
2026	—
2027	1
Thereafter	3
Total	**$ 5**

The discount rate used in determining the projected benefit obligations for the postretirement plan is selected by reference to a pension liability index with similar duration to that of the benefit plan. The rates used for the projected plan benefit obligations at the measurement date for December 31, 2022 and 2021, were 5.00% and 2.75%, respectively.

Savings Incentive Plans

As a result of the acquisitions of All Trans and Capacity Marine effective November 1, 2022, Ambac has multiple savings incentive plans. Substantially all US employees are covered by one of these plans. The Plan sponsored by AFG includes employer matching contributions equal to 100% of the employees' contributions, up to 3% of such participants' compensation, as defined in the plan, plus 50% of contributions up to an additional 2% of compensation, subject to limits set by the Internal Revenue Code. Xchange employees moved to this plan from a previous plan sponsored by Xchange during 2022. The Xchange sponsored plan included employer matching contributions equal to 4% of such participants' compensation, as defined in the plan. Employees of All Trans and Capacity Marine are included in a multiple employer plan that has discretionary contributions for which none were made during Ambac's ownership of these entities. The total cost of the

savings incentive plans were $1, $1 and $1 for the years December 31, 2022, 2021 and 2020, respectively.

Incentive Compensation - Stock Units and Cash

Employees, directors and consultants of Ambac are eligible to participate in Ambac's 2020 Incentive Plan, which is the successor plan to the 2013 Incentive Plan, subject to the discretion of the compensation committee of Ambac's Board of Directors. There are 1,475,000 and 4,000,000 shares of Ambac's common stock authorized for awards under the 2020 Plan and 2013 Plan, respectively. Awards may also be made under the 2020 Plan with respect to the shares that remained available for grant under the 2013 Plan. In addition, shares subject to outstanding awards granted under the 2013 Plan that subsequently terminate by expiration or forfeiture, cancellation, or otherwise without the issuance of such shares become available for awards under the 2020 Plan. Of the total shares authorized for issuance pursuant to the 2020 Plan and 2013 Plan, the following are the number of shares available for future grant at December 31, 2022:

- 74,907 shares when shares available for future grant are reduced by the maximum number of shares that could be issued pursuant to outstanding performance awards; and
- 1,145,243 shares when shares available for future grant are reduced by the probable number of shares that could be issued pursuant to outstanding performance awards which are subject to change depending on actual performance.

On June 24, 2021, the compensation committee of Ambac's Board of Directors adopted the Ambac Financial Group, Inc. Executive Stock Deferral Plan (the "Stock Deferral Plan"). Under the Stock Deferral Plan, certain executives of AFG and its subsidiaries who are designated by the compensation committee as eligible to participate in the Stock Deferral Plan may elect to defer the settlement of all or a portion of the RSU (as defined below) awards and PSU (as defined below) awards that are granted to the executives to a future date(s) selected by the executive. Deferred awards under the Stock Deferral Plan (and any related dividend equivalents) will continue to be paid in shares of common stock of AFG, which will be issued under the 2020 Plan, provided that any dividend equivalents credited on a participant's deferred awards in respect of cash dividends paid by AFG will be paid to the participant in cash. The Stock Deferral Plan is not funded, and deferred awards under the Stock Deferral Plan are not segregated from the Company's general assets.

The amount of stock-based compensation expense and corresponding after-tax expense are as follows:

Year Ended December 31,	2022	2021	2020
Restricted stock units	5	5	3
Performance awards	12	10	8
Total stock-based compensation	$ 17	$ 14	$ 11
Total stock-based compensation (after-tax)	**$ 17**	**$ 14**	**$ 11**

Restricted Stock Units ("RSUs")

RSUs can be awarded to certain employees for a portion of their STIP compensation, LTIP compensation, sign-on and special awards for exceptional performance. RSUs can also be awarded to consultants for meeting certain contractual performance goals. The LTIP, sign-on, consultant and special awards generally vest in equal installments over a two to three year period. Such vesting is expressly conditioned upon continued service with Ambac through the applicable vesting date, although vesting may be accelerated in certain circumstances under the awards, including for terminations due to death, disability, eligible retirement, or involuntary termination by Ambac other than for cause.

As part of our director compensation program, prior to 2021 RSUs were awarded annually on or about April 30 of each year to directors and would vest on the last day of April of the following year. During 2021, the director compensation program was revised to provide for quarterly grants of RSUs that would vest one year from the grant date. These RSUs will not settle until the respective director's termination from the board of directors or, if earlier, upon a change in control. All RSUs provide for accelerated vesting upon a change in control, death or disability or involuntary removal other than for cause (not including removal pursuant to a shareholder vote at a regularly scheduled annual meeting of shareholders). Upon termination (other than for cause), the unvested RSUs shall partially vest as of the date of such termination in an amount equal to the number of then outstanding unvested RSUs multiplied by a fraction, the numerator of which shall be the number of calendar days which have lapsed since the grant date and the denominator of which shall be the number of calendar days from the grant date until the next regularly scheduled quarterly grant date pursuant to Ambac's director compensation program.

As of December 31, 2022, 923,250 RSUs remained outstanding, of which (i) 538,163 units required future service as a condition to the delivery of the underlying shares of common stock and (ii) 385,087 units do not require future service and are deferred for future settlement. As of December 31, 2021, 837,070 RSUs remained outstanding, of which (i) 504,764 units required future service as a condition to the delivery of the underlying shares of common stock, and (ii) 332,306 units did not require future service and were deferred for future settlement.

A summary of RSU activity for 2022 is as follows:

	Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	837,070	$ 17.82
Granted	352,141	$ 12.48
Delivered or returned to plan [1]	(263,505)	$ 17.13
Forfeited	(2,456)	$ 15.65
Outstanding at end of period	**923,250**	**$ 15.94**

(1) When restricted stock unit awards issued by Ambac become taxable compensation to employees, shares may be withheld to cover the employee's withholding taxes. For the year ended December 31, 2022, Ambac withheld 97,871 shares from

employees that settled restricted stock units to meet the required tax withholdings.

Ambac's closing share price on the grant date was used to estimate the fair value of the service condition based RSU on the grant date. The weighted average grant date fair value per share of RSUs granted during 2022, 2021 and 2020 was $12.48, $17.39 and $17.36, respectively. As of December 31, 2022, there was $4 of total unrecognized compensation costs related to unvested RSUs granted. These costs are expected to be recognized over a weighted average period of 1.6 years. The fair value for RSUs vested and delivered during the year ended December 31, 2022, 2021 and 2020 was $4, $4 and $4, respectively.

Performance Stock Awards ("PSUs")

PSUs are awarded to certain employees for a portion of their LTIP compensation and vest after 3 years from grant date. The actual number of shares payable at settlement is subject to performance metrics relative to AFG, Xchange, Everspan and AAC. Actual payout can range from 0% to 240% of the number of units granted. Under currently outstanding award agreements, performance will be evaluated as follows:

- In regards to Xchange, for the 2021 and 2022 PSU awards, cumulative earnings before interest, taxes, depreciation and amortization over the vesting period.
- In regards to Everspan, for the 2022 PSU awards, cumulative earnings before interest, taxes, depreciation and amortization over the vesting period.
- In regards to AAC: (i) changes in AAC's assets relative to its insurance and financial obligations, which is intended to reward participants for increases in the relative value of AAC (2020 PSU awards only) and (ii) reductions in watch list and adversely classified credits, which is intended to reward participants for de-risking the financial guarantee insured portfolio.
- Relative Total Shareholder Return; the modifier will cause the payout at the end of the performance period to be increased or decreased 10% for awards issued through 2021 and 20% for 2022 awards, if AFG's stock performance compared to a peer group is at or above the 75th percentile or at or below the 25th percentile, respectively.

Pursuant to the LTIP award agreements if (i) a termination occurs by reason of disability, an involuntary termination by the Company other than for "cause," or "retirement," the recipient would be entitled to receive the PSU award which would only be payable at the end of the relevant performance period and based on the satisfaction of the performance conditions related to such award at the time of termination and (ii) a termination occurred prior to the last day of the performance period by reason of death, the beneficiaries of the recipient would be entitled to receive the number of PSUs that the recipient would have been entitled to receive at a 100% overall payout multiple regardless of the outcome of any of the performance conditions. The current performance awards shall be settled within 75 days after the end of the performance period, including those with partial or accelerated vesting, subject to any deferrals made pursuant to the Stock Deferral Plan.

A summary of PSU activity for 2022 is as follows:

	Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	**722,056**	**$ 18.97**
Granted [1]	**529,285**	**13.44**
Delivered [2]	**(422,620)**	**19.42**
Forfeited	**(7,361)**	**16.93**
Performance adjustment [3]	**97,591**	**19.17**
Outstanding at end of period	**918,951**	**$ 15.67**

(1) Represents performance share units at 100% of units granted for LTIP Awards.

(2) Reflects the number of performance shares attributable to the performance goals attained over the completed performance period and for which service conditions have been met. When performance stock unit awards issued by Ambac become taxable compensation to employees, shares may be withheld to cover the employee's withholding taxes. For the year ended December 31, 2022, Ambac purchased 157,377 of shares from employees that settled performance based restricted stock units to meet the required tax withholdings.

(3) Represents the number of additional shares issued for awards granted in 2019 as a result of actual performance during the performance period.

As of December 31, 2022, there was $8 of total unrecognized compensation costs related to the PSU portion of unvested performance awards, which are expected to be recognized over a weighted average period of 1.6 years. The fair value for PSUs vested and delivered during the year ended December 31, 2022, 2021 and 2020 was $5, $10 and $4, respectively.

19. LEASES

Ambac is the lessee and lessor under certain lease agreements further described below.

Lessee information

Ambac is the lessee in operating leases for corporate offices, a data center, auto and equipment. Leases in effect at December 31, 2022, have remaining lease terms ranging from under 1 year to 7 years. Certain of these leases include automatic renewal or early termination provisions. Ambac does not include these provisions in the determination of its lease liabilities and right-of-use assets unless exercise is considered reasonably certain.

Lease costs are included in operating expenses on the Consolidated Statement of Total Comprehensive Income (Loss). The components of lease costs, net of sub-lessor income, is as follows:

Year Ended December 31,	2022	2021
Operating lease cost	$ 4	$ 5
Short-term lease cost	—	—
Variable lease cost	—	—
Sublease income	(1)	(1)
Total lease cost	**$ 4**	**$ 4**

Ambac is required to make variable lease payments under certain leases which primarily relates to variable costs of the lessor, such as taxes, insurance, maintenance and electricity.

Supplemental information related to leases is as follows:

Year Ended December 31,	2022	2021
Cash paid for amounts included in the measurement of operating lease liabilities	$ 5	$ 5
Right-of-use assets obtained in exchange for operating lease liabilities (non-cash)	—	—

Supplemental balance sheet information related to leases is as follows:

December 31,	2022	2021
Operating leases:		
Operating lease right of use assets	$ 21	$ 23
Operating lease liabilities	25	28
Weighted average remaining lease term:		
Operating leases	6.8 years	7.7 years
Weighted average discount rate:		
Operating leases	7.8 %	7.7 %

Operating lease right of use assets and operating lease liabilities are included in Other assets and Other liabilities, respectively, on the consolidated balance sheet.

Future undiscounted lease payments, gross of sublease receipts, to be made are as follows:

As of December 31, 2022	Operating Leases
2023	$ 5
2024	5
2025	5
2026	4
2027	4
Thereafter	9
Total lease payments	32
Less: imputed interest	(7)
Total	**$ 25**

Lessor information

Ambac is the lessor in one operating sublease of corporate office space which has a remaining term of 7.0 years. There are no extension or termination provisions.

Future undiscounted lease payments to be received are as follows:

As of December 31, 2022	Operating Leases
2023	$ 1
2024	1
2025	1
2026	1
2027	1
Thereafter	3
Total lease receipts	**$ 9**

20. COMMITMENTS AND CONTINGENCIES

Litigation Against Ambac - Pending Cases

Monterey Bay Military Housing, LLC, et al. v. Ambac Assurance Corporation, et al. (United States District Court, Southern District of New York, Case No. 1:19-cv-09193-PGG, transferred on October 4, 2019 from the United States District Court, Northern District of California, San Jose Division, Case No. 17-cv-04992-BLF, filed August 28, 2017). Plaintiffs, the corporate developers of various military housing projects, filed an amended complaint on October 27, 2017 against AAC, a former employee of AAC, and certain unaffiliated persons and entities, asserting claims for (i) violation of 18 U.S.C §§ 1962(c) and 1962(d) (civil Racketeer Influenced and Corrupt Organizations Act ("RICO") and conspiracy to commit civil RICO), (ii) breach of fiduciary duty, (iii) aiding and abetting breach of fiduciary duty, (iv) fraudulent misrepresentation, (v) fraudulent concealment and (vi) conspiracy to commit fraud. The claims relate to bonds and debt certificates (insured by AAC) that were issued to finance the renovation and construction of housing at certain military bases. Plaintiffs allege that defendants secretly conspired to overcharge plaintiffs for the financing of the projects and directed the excess profits to themselves. Plaintiffs allege defendants generated these excess profits by supposedly charging inflated interest rates, manipulating "shadow ratings," charging unnecessary fees, and hiding evidence of their alleged wrongdoing. Plaintiffs seek, among other things, compensatory damages, disgorgement of profits and fees, punitive damages, trebled damages and attorneys' fees. AAC and the other defendants filed motions to dismiss the amended complaint on November 13, 2017. On July 17, 2018, the court granted AAC's and the other defendants' motion to dismiss the first amended complaint without prejudice. On December 17, 2018, Plaintiffs filed a second amended complaint. On February 15, 2019, AAC and the other defendants filed a motion to dismiss the second amended complaint. On September 26, 2019, the court issued a decision denying defendants' motion to dismiss and *sua sponte* reconsidering its previous denial of defendants' motion to transfer venue to the Southern District of New York ("SDNY").

On October 10, 2019, after the case was transferred to the SDNY, the defendants filed motions to vacate or reconsider the decision by the Northern District of California on the defendants' motion to dismiss. On March 31, 2021, the court granted defendants' motions for reconsideration and, upon reconsideration, dismissed the claims against AAC and its former employee for breach of fiduciary duty and for aiding and abetting breach of AAC's or its former employee's fiduciary duty; dismissed two plaintiffs' RICO claims against AAC and its former employee; and in all other respects denied defendants' motions. Defendants served answers to the second amended complaint on April 21, 2021, asserting several affirmative defenses, including a defense for unclean hands focused on the plaintiffs' failure to maintain the project properties and falsification of maintenance records. On May 24, 2021, plaintiffs moved to strike defendants' unclean hands defenses. On September 14, 2021, Magistrate Judge Sarah L. Cave, to whom plaintiffs' motion to strike was referred for a Report and Recommendation, issued an opinion and order denying plaintiffs' motion. On April 6, 2022, certain co-defendants filed a motion to sever the plaintiffs' claims and to dismiss all claims except for claims asserted by the Monterey Bay plaintiffs.

In re National Collegiate Student Loan Trusts Litigation (Delaware Court of Chancery, Consolidated C.A. No. 12111, filed November 1, 2019). On November 1, 2019, AAC became aware of a new declaratory judgment action filed by certain residual equity interest holders ("NC Owners" or "Plaintiffs") in fourteen National Collegiate Student Loan Trusts (the "Trusts") against Wilmington Trust Company, the Owner Trustee for the Trusts; U.S. Bank National Association, the Indenture Trustee; GSS Data Services, Inc., the Administrator; and AAC. Through this action, Plaintiffs seek a number of judicial determinations. On January 21, 2020, the presiding Vice Chancellor entered an order consolidating the action with previously filed litigation relating to the Trusts. On February 13, 2020, AAC, the Owner Trustee, the Indenture Trustee, and other parties filed declaratory judgment counterclaims. Several parties, including Plaintiffs and AAC, filed motions for judgment on the pleadings in support of their requested judicial determinations. On August 27, 2020, the Vice Chancellor issued an opinion addressing all of the pending motions for judgment on the pleadings, which granted certain of the parties' requested judicial determinations and denied others. He deferred judgment on still other declarations pending further factual development. The Vice Chancellor has entered a series of stays to facilitate good-faith settlement discussions, the most recent of which was entered on January 27, 2023, and stays the matter through February 28, 2023.

Financial Oversight and Management Board for Puerto Rico, et al. v. Autonomy Master Fund Limited, et al. (United States District Court, District of Puerto Rico, No. 19-ap-00291, filed May 2, 2019). On May 2, 2019, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), together with the Official Committee of Unsecured Creditors for the Commonwealth (the "Committee"), filed an adversary proceeding against certain parties that filed proofs of claim on account of general obligation bonds issued by the Commonwealth of Puerto Rico, including AAC. The complaint seeks declarations that the general obligation bonds are unsecured obligations and, in the alternative, seeks to avoid any security interests that holders of such bonds may have. On June 12, 2019, a group of general obligation bondholders moved to dismiss the complaint. On June 13, 2019, at the request of the Plaintiffs, the District Court stayed the case until September 1, 2019 as to all defendants; on July 24, 2019, the District Court referred this matter to mediation and ordered it stayed during the pendency of such mediation. AAC filed a statement of position and reservation of rights on February 5, 2020; certain other defendants filed motions to dismiss on this same date. On February 9, 2020, the Oversight Board announced that it intended to file, and to seek to confirm, an amended plan of adjustment (the "Commonwealth Plan"). On March 10, 2020, the District Court ordered that this case remain stayed while the Oversight Board attempted to confirm the Commonwealth Plan. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed (as described below), resolved this litigation. On May 9, 2022, the District Court dismissed this case.

Financial Oversight and Management Board for Puerto Rico, et al. v. Ambac Assurance Corporation, et al. (United States District Court, District of Puerto Rico, No. 19-ap-00363, filed May 20, 2019). On May 20, 2019, the Oversight Board, together with the Committee, as Plaintiffs, filed an adversary proceeding against certain parties that filed proofs of claim on account of bonds issued by PRHTA (as defined below), including AAC. The complaint seeks declarations that the PRHTA bonds are only secured by revenues on deposit with the PRHTA fiscal agent and that PRHTA bondholders have no security interest in any other property of PRHTA or the Commonwealth, and in the alternative, to the extent such other security interests exist, the complaint seeks to avoid other security interests that holders of PRHTA bonds may have. On June 14, 2019, at the request of the Plaintiffs, the District Court stayed the case until September 1, 2019; on July 24, 2019, the District Court referred this matter to mediation and ordered it stayed during the pendency of such mediation. On December 19, 2019, the District Court ordered that this matter remain stayed pending further order of the District Court pursuant to the Oversight Board's initiation of a separate adversary proceeding concerning PRHTA bonds (No. 20-ap-00005, discussed below). The October 12, 2022 confirmation of the PRHTA POA (as defined below), which is currently being appealed (as described below), resolved this litigation. AAC expects this case will be dismissed pursuant to PRHTA POA.

Financial Oversight and Management Board for Puerto Rico v. Ambac Assurance Corp., et al. (United States District Court, District of Puerto Rico, No. 20-ap-00003, filed Jan. 16, 2020). On January 16, 2020, the Oversight Board filed an adversary proceeding against monoline insurers insuring PRIFA (as defined below) bonds and the PRIFA bond trustee, all of which defendants filed proofs of claim against the Commonwealth relating to PRIFA bonds. The complaint seeks to disallow defendants' proofs of claim against the Commonwealth in their entirety, including for lack of secured status. On February 27, 2020, defendants filed motions to dismiss. On March 10, 2020, the District Court stayed the motions to dismiss and authorized the Oversight Board to move for summary judgment, which motion defendants opposed. On May 5, 2021, Assured

Guaranty Corp. and Assured Guaranty Municipal Corp. ("Assured") and National Public Finance Guarantee Corporation ("National") announced an agreement with the Oversight Board with respect to the PRHTA/PRCCDA Settlement (as defined below). On July 14, 2021, AAC and Financial Guaranty Insurance Company ("FGIC") reached an agreement in principle with the Oversight Board with respect to the PRIFA Settlement (as defined below). On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRIFA bond trustee jointly moved to stay this case as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement (as defined below). On August 3, 2021, the District Court ordered that this case be stayed. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed (as described below), resolved this litigation. On September 30, 2022, the District Court entered an order closing this adversary proceeding.

Financial Oversight and Management Board for Puerto Rico v. Ambac Assurance Corp., et al. (United States District Court, District of Puerto Rico, No. 20-ap-00004, filed Jan. 16, 2020). On January 16, 2020, the Oversight Board filed an adversary proceeding against monoline insurers insuring PRCCDA (as defined below) bonds and the PRCCDA bond trustee, all of which defendants filed proofs of claim against the Commonwealth relating to PRCCDA bonds. The complaint seeks to disallow defendants' proofs of claim against the Commonwealth in their entirety, including for lack of secured status. On February 27, 2020, defendants filed motions to dismiss. On March 10, 2020, the District Court stayed the motions to dismiss and authorized the Oversight Board to move for summary judgment, which motion defendants opposed. On May 5, 2021, Assured and National announced an agreement with the Oversight Board with respect to the PRHTA/PRCCDA Settlement. On July 14, 2021, AAC and FGIC reached an agreement in principle with the Oversight Board with respect to the PRIFA Settlement. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRCCDA bond trustee jointly moved to stay this case as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this case be stayed. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed (as described below), resolved this litigation. On September 30, 2022, the Court entered an order closing this adversary proceeding.

Financial Oversight and Management Board for Puerto Rico v. Ambac Assurance Corp., et al. (United States District Court, District of Puerto Rico, No. 20-ap-00005, filed Jan. 16, 2020). On January 16, 2020, the Oversight Board filed an adversary proceeding against monoline insurers insuring PRHTA bonds, certain PRHTA bondholders, and the PRHTA fiscal agent for bondholders, all of which defendants filed proofs of claim against the Commonwealth relating to PRHTA bonds. The complaint seeks to disallow defendants' proofs of claim against the Commonwealth in their entirety, including for lack of secured status. On February 27, 2020, defendants filed motions to dismiss. On March 10, 2020, the District Court stayed the motions to dismiss and authorized the Oversight Board to move for summary judgment, which motion defendants opposed. On May 5, 2021, Assured and National announced an agreement with the Oversight Board with respect to the PRHTA/PRCCDA Settlement. On July 14, 2021, AAC and FGIC reached an agreement in principle with the Oversight Board with respect to the PRIFA Settlement. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRHTA fiscal agent jointly moved to stay this case as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this case be stayed. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed (as described below), resolved this litigation. On September 30, 2022, the District Court entered an order closing this adversary proceeding.

Financial Oversight and Management Board for Puerto Rico v. Ambac Assurance Corp., et al. (United States District Court, District of Puerto Rico, No. 20-ap-00007, filed Jan. 16, 2020). On January 16, 2020, the Oversight Board and the Committee filed an adversary proceeding against monoline insurers insuring bonds issued by PRHTA, certain PRHTA bondholders, and the PRHTA fiscal agent for bondholders, all of which defendants filed proofs of claim against PRHTA relating to PRHTA bonds. The complaint seeks to disallow portions of defendants' proofs of claim against PRHTA, including for lack of secured status. On March 10, 2020, the District Court stayed this case. On May 5, 2021, Assured and National announced an agreement with the Oversight Board with respect to the PRHTA/PRCCDA Settlement. On July 14, 2021, AAC and FGIC reached an agreement in principle with the Oversight Board with respect to the PRIFA Settlement. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRHTA fiscal agent jointly moved to stay this case as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this case be stayed. On April 14, 2022, the Oversight Board filed a notice that this case has not been resolved by the Commonwealth Plan and should remain pending. The October 12, 2022 confirmation of the PRHTA POA, which is currently being appealed (as described below), resolved this litigation. On September 30, 2022, the Court entered an order closing this adversary proceeding.

Litigation Against Ambac - General

AAC's estimates of projected losses for RMBS transactions consider, among other things, the RMBS transactions' payment waterfall structure, including the application of interest and principal payments and recoveries, and depend in part on our interpretations of contracts and other bases of our legal rights. From time to time, bond trustees and other transaction participants have employed different contractual interpretations and have commenced, or threatened to commence, litigation to resolve these differences. It is not possible to predict whether additional disputes will arise, nor the outcomes of any potential litigation. It is possible that there could be unfavorable outcomes in this or other disputes or proceedings and that our interpretations may prove to be incorrect, which could lead to changes to our estimate of loss reserves.

AAC has periodically received various regulatory inquiries and requests for information with respect to investigations and

inquiries that such regulators are conducting. AAC has complied with all such inquiries and requests for information.

The Company is involved from time to time in various routine legal proceedings, including proceedings related to litigation with present or former employees. Although such litigation routine and incidental to the conduct of its business, such litigation can potentially result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages.

Everspan may be subject to disputes with policyholders regarding the scope and extent of coverage offered under Everspan's policies; be required to defend claimants in suits against its policyholders for covered liability claims; or enter into commercial disputes with its reinsurers, MGA/Us or third party claims administrators regarding their respective contractual obligations and rights. Under some circumstances, the results of such disputes or suits may lead to liabilities beyond those which are anticipated or reserved.

From time to time, Ambac is subject to allegations concerning its corporate governance that may lead to litigation, including derivative litigation, and while the monetary impacts may not be material, the matters may distract management and the Board of Directors from their principal focus on Ambac's business, strategy and objectives.

It is not reasonably possible to predict whether additional suits will be filed or whether additional inquiries or requests for information will be made, and it is also not possible to predict the outcome of litigation, inquiries or requests for information. It is possible that there could be unfavorable outcomes in these or other proceedings. Legal accruals for litigation against the Company in which a loss is probable and reasonably estimable are not material to the operating results or financial position of the Company, nor is it possible to predict a range of loss in excess of the accrued amounts. For all other litigation matters the Company is defending, management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes. Under some circumstances, adverse results in any such proceedings could be material to our business, operations, financial position, profitability or cash flows. The Company believes that it has substantial defenses to the claims above and, to the extent that these actions proceed, the Company intends to defend itself vigorously; however, the Company is not able to predict the outcomes of these actions.

Litigation Filed or Joined by Ambac

In the ordinary course of their businesses, certain of Ambac's subsidiaries assert claims in legal proceedings against third parties to recover losses already paid and/or mitigate future losses. The amounts recovered and/or losses avoided which may result from these proceedings is uncertain, although recoveries and/or losses avoided in any one or more of these proceedings during any quarter or fiscal year could be material to Ambac's results of operations in that quarter or fiscal year.

Puerto Rico

On January 18, 2022, the United States District Court for the District of Puerto Rico (the "District Court") entered an order confirming a plan of adjustment for the Commonwealth of Puerto Rico (the "Commonwealth Plan"). On January 20, 2022, the District Court entered orders approving a Qualifying Modification (the "PRIFA QM") for the Puerto Rico Infrastructure Finance Authority ("PRIFA") and a Qualifying Modification (the "PRCCDA QM") for the Puerto Rico Convention Center District Authority ("PRCCDA"). On October 12, 2022, the District Court entered an order confirming a plan of adjustment (the "PRHTA POA") for the Puerto Rico Highways and Transportation Authority (the "PRHTA"). These two plans of adjustment and two qualifying modifications incorporated settlements reached between AAC, the Oversight Board, and certain other parties related to each of AAC's Puerto Rico-related exposures, which included agreements with respect to the treatment of general obligation and Puerto Rico Public Buildings Authority ("PBA") bonds (the "GO/PBA Settlement"), PRHTA and PRCCDA bonds (the "PRHTA/PRCCDA Settlement"), and PRIFA bonds (the "PRIFA Settlement"). By incorporating these settlements, the Commonwealth Plan, PRIFA QM, PRCCDA QM, and PRHTA POA resolved the majority of AAC's outstanding Puerto Rico-related litigation. The confirmation orders for both the Commonwealth Plan and the PRHTA POA have been appealed; if either confirmation order is reversed on appeal, the litigations that have been resolved by that confirmation order may be affected. The status of those appeals is discussed immediately below, followed by a discussion of AAC's additional remaining outstanding Puerto Rico-related litigation.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17- bk-03283) (appeals of the Commonwealth Plan). On January 18, 2022, the District Court entered an order confirming the Commonwealth Plan and entered its findings of fact and conclusions of law related thereto. Several parties filed notices of appeal of the District Court's confirmation order to the First Circuit Court of Appeals, including a number of teachers' unions ("the Teachers' Unions"), the Oversight Board, certain individual creditors, a number of credit unions ("the Credit Unions"), and Suiza Dairy Corporation ("Suiza"). *Teachers' Unions*: On April 26, 2022, the First Circuit rejected the Teachers' Unions' challenges to the Commonwealth Plan and affirmed the confirmation order; on May 10, 2022, the Teachers' Unions petitioned for rehearing *en banc*. On May 13, 2022, the First Circuit denied the Teachers' Unions' petition for rehearing *en banc*. On August 9, 2022, the Teachers' Unions filed a petition for a writ of certiorari seeking Supreme Court review of the First Circuit's decision affirming the confirmation order; the Supreme Court denied the Teachers' Unions' petition on November 21, 2022. *Oversight Board*: On July 18, 2022, the First Circuit rejected the Oversight Board's challenges to, and affirmed, the confirmation order. The Oversight Board filed a petition for a writ of certiorari seeking Supreme Court review of the First Circuit's decision in its appeal of the confirmation order on October 17, 2022; the Supreme Court denied the petition on February 21, 2023. *Individual creditors*: On October 27, 2022, the First Circuit entered an order dismissing the individual creditors' confirmation appeal. *Credit Unions*: On November 23, 2022, the First Circuit entered an order dismissing the Credit Unions' appeal. *Suiza*: The Suiza appeal remains pending before the First Circuit.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17- bk-03567) (appeal of the PRHTA POA). On October 12, 2022, the District Court entered an order confirming the PRHTA POA and entered its findings of fact and conclusions of law related thereto. On October 24, 2022, a group of present and former employees of PRHTA ("the Vazquez-Velazquez Group") filed a notice of appeal with respect to, and a motion to stay, the PRHTA POA confirmation order. On October 28, 2022, a number of parties—including AAC—filed an opposition to the stay motion, requesting, in the alternative, that the appealing parties seeking a stay be required to post supersedeas bonds pending appeal. On November 15, 2022, the District Court entered an order denying the Vazquez-Velazquez Group's motion for a stay pending appeal. On November 21, 2022, the Vazquez-Velazquez Group filed a motion in the First Circuit for a stay pending appeal. On November 29, 2022, a number of parties—including the Oversight Board and AAC—filed oppositions to the Vazquez-Velazquez Group's stay motion. The Vazquez-Velazquez Group filed a brief on the same day requesting to withdraw their stay motion. The First Circuit granted the request to withdraw the stay motion on November 30, 2022. The Vazquez-Velazquez Group filed its opening brief in the First Circuit on February 15, 2023.

Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Ambac Assurance Corporation v. Alejandro Garcia Padilla, et al. (United States District Court, District of Puerto Rico No. 3:16-cv-01037, filed January 7, 2016). On January 7, 2016, AAC, along with co-plaintiffs Assured, filed a complaint for declaratory and injunctive relief to protect its rights against the illegal clawback of certain revenue by the Commonwealth of Puerto Rico. Defendants moved to dismiss on January 29, 2016. On October 4, 2016, the court denied the Defendants' motions to dismiss. On October 14, 2016, Defendants filed a Notice of Automatic Stay, asserting that Plaintiffs' claims have been rendered moot and further asserting that the case was automatically stayed under section 405 of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). On May 3, 2017, the Oversight Board filed a petition to adjust the Commonwealth's debts under Title III of PROMESA, resulting in an automatic stay of litigation against the Commonwealth. On May 17, 2017, the court issued an order staying this case until further order of the court. AAC expects this case will be dismissed given the settlements reached between AAC and the Oversight Board.

Ambac Assurance Corporation v. Puerto Rico Highways and Transportation Authority (United States District Court, District of Puerto Rico, No. 16-cv-1893, filed May 10, 2016). AAC filed a complaint against the PRHTA on May 10, 2016, alleging breach of fiduciary duty and breach of contract in connection with PRHTA's extension of an existing toll road concession agreement. The complaint alleges that it was inappropriate for PRHTA to enter into the extension agreement in its current state of financial distress because PRHTA has no control over, and is unlikely to receive, the proceeds of the transaction. AAC also filed related motions seeking the appointment of a provisional receiver for PRHTA and expedited discovery. On May 21, 2017, the Oversight Board filed a petition to adjust PRHTA's debts under Title III of PROMESA, resulting in an automatic stay of litigation against PRHTA. On May 24, 2017, the court issued an order staying this case until further order of the court. The settlements reached between AAC and the Oversight Board resolved this litigation, and the January 20, 2022 PRIFA QM provided for dismissal of this case. AAC expects this case will be dismissed pursuant to the PRIFA QM.

Ambac Assurance Corporation v. Puerto Rico, et al. (United States District Court, District of Puerto Rico, No. 17-1567, filed May 2, 2017). On May 2, 2017, AAC filed a complaint seeking a declaration that the Commonwealth's Fiscal and Economic Growth Plan (the "FEGP") and a statute called the "Fiscal Plan Compliance Law" are unconstitutional and unlawful because they violate the Contracts, Takings, and Due Process Clauses of the U.S. Constitution, are preempted by PROMESA, and are unlawful transfers of property from COFINA to the Commonwealth in violation of PROMESA. On May 3, 2017, a petition under Title III of PROMESA was filed on behalf of the Commonwealth of Puerto Rico, and on May 5, 2017, a petition under Title III of PROMESA was filed on behalf of COFINA, resulting in an automatic stay of litigation against COFINA. On May 17, 2017, the court issued an order staying this case until further order of the court. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRCCDA bond trustee jointly moved to stay this case as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this case be stayed. The settlements reached between AAC and the Oversight Board resolved this litigation, and the January 20, 2022 PRIFA QM provided for dismissal of this case. On January 24, 2023, the court dismissed this case.

Ambac Assurance Corporation v. Puerto Rico, et al. (United States District Court, District of Puerto Rico, No. 17-1568, filed May 2, 2017). On May 2, 2017, AAC filed a complaint alleging that various moratorium laws and executive orders enacted by the Commonwealth to claw back funds from PRIFA, PRHTA, and PRCCDA bonds violate the Contracts, Takings, and Due Process Clauses of the U.S. Constitution, are preempted by PROMESA, and unlawfully transfer PRHTA, PRCCDA, and PRIFA property to the Commonwealth. On May 3, 2017, a petition under Title III of PROMESA was filed on behalf of the Commonwealth of Puerto Rico and on May 21, 2017, a petition under Title III of PROMESA was filed on behalf of PRHTA, resulting in an automatic stay of litigation against the Commonwealth and PRHTA (respectively). On May 17, 2017, the court issued an order staying this case until further order of the court. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRCCDA bond trustee jointly moved to stay this case as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this case be further stayed. The settlements reached between AAC and the Oversight Board resolved this litigation, and the January 20, 2022 PRIFA QM provided for dismissal of this case. On February 1, 2023, the court dismissed this case.

Ambac Assurance Corporation v. Bank of New York Mellon (United States District Court, Southern District of New York, No. 1:17-cv-03804, filed May 2, 2017). On May 2, 2017, AAC filed a complaint in New York State Supreme Court, New York

County, against the trustee for the COFINA bonds, Bank of New York Mellon ("BNY"), alleging breach of fiduciary, contractual, and other duties for failing to adequately and appropriately protect the holders of certain AAC-insured senior COFINA bonds. On May 19, 2017, BNY filed a notice of removal of this action from New York state court to the United States District Court for the Southern District of New York. On May 30, 2017, the United States District Court for the District of Puerto Rico entered an order in an adversary proceeding brought by BNY (No. 1:17-ap-00133) staying this litigation pending further order of the court. The COFINA Plan became effective on February 12, 2019, and, pursuant to the District Court's confirmation order, this litigation was permitted to continue, with AAC's claims against BNYM being limited to those for gross negligence, willful misconduct and intentional fraud. On November 17, 2021, the District Court denied as moot BNY's motion to transfer venue to the District of Puerto Rico and continued the stay of the action. On July 6, 2022, the District Court granted AAC's motion to lift the stay and for leave to file a Second Amended Complaint ("SAC"). AAC filed its SAC on July 10, 2022, and on July 25, 2022, BNY moved to dismiss the SAC. On September 23, 2022, Ambac filed its opposition to BNY's motion to dismiss, and on October 24, 2022, BNY filed its reply in support of its motion to dismiss. Oral argument has been requested but not yet scheduled.

Financial Oversight and Management Board for Puerto Rico v. Public Buildings Authority (United States District Court, District of Puerto Rico, No. 1:18-ap-00149, filed December 21, 2018). On December 21, 2018, the Oversight Board, together with the Committee, as Plaintiffs, filed a complaint against the PBA seeking declaratory judgment that the leases between PBA and its lessees—many of whom are agencies and instrumentalities of the Commonwealth—are "disguised financings," not true leases, and therefore should not be afforded administrative expense priority under the Bankruptcy Code. On March 12, 2019, AAC and other interested parties were permitted to intervene in order to argue that the PBA leases are valid leases and are entitled to administrative expense treatment under the Bankruptcy Code. On March 10, 2020, the District Court ordered that this case be stayed while the Oversight Board attempted to confirm the Commonwealth Plan. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, resolved this litigation. AAC expects this case will be dismissed pursuant to the Commonwealth Plan.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17-bk-03283), *Omnibus Objection of (I) Financial Oversight and Management Board, Acting Through its Special Claims Committee, and (II) Official Committee of Unsecured Creditors, Pursuant to Bankruptcy Code Section 502 and Bankruptcy Rule 3007, to Claims Filed or Asserted by Holders of Certain Commonwealth General Obligation Bonds* (Dkt. No. 4784, filed January 14, 2019) ("GO Bond Claim Objection"). On January 14, 2019, the Oversight Board and the Committee filed an omnibus claim objection in the Commonwealth's Title III case challenging claims arising from certain general obligation bonds issued by the Commonwealth in 2012 and 2014 totaling approximately $6 billion, none of which are held or insured by AAC. On April 11, 2019, AAC filed a notice of participation in support of the objection, advancing the argument, among other things, that the PBA leases are true leases, but the associated debt nonetheless should be included in the Commonwealth's debt ceiling calculation such that the 2012 and 2014 general obligation bond issuances are null and void and claims arising therefrom should be disallowed. On February 5 and 19, 2020, certain parties filed motions to dismiss the claim objection. On March 10, 2020, the District Court ordered that this matter remain stayed while the Oversight Board attempted to confirm the Commonwealth Plan. On July 19, 2020, the Committee filed a motion to lift the stay on this claim objection in light of changes to the Commonwealth's fiscal plan and likely changes to the Commonwealth Plan in light of COVID-19. On September 1, 2020, AAC filed a partial joinder to the Committee's motion. On September 17, 2020, the District Court denied the Committee's motion without prejudice. On October 1, 2020, the Committee moved the District Court to reconsider its denial of the Committee's motion to lift the stay; on October 5, 2020, the District Court denied the Committee's motion for reconsideration. On October 16, 2020, the Committee appealed to the First Circuit the District Court's order denying the Committee's motion to lift the stay on its claim objection. On February 22, 2021, the First Circuit dismissed the appeal. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, resolved this litigation. On September 30, 2022, the Court entered an order terminating this matter.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17-bk-03283), *Ambac Assurance Corporation's Motion and Memorandum of Law in Support of Its Motion Concerning Application of the Automatic Stay to the Revenues Securing PRIFA Rum Tax Bonds* (Dkt. No. 7176, filed May 30, 2019) ("PRIFA Stay Motion"). On May 30, 2019, AAC and FGIC filed a motion seeking an order that the automatic stay does not apply to certain lawsuits AAC seeks to bring or to continue relating to bonds issued by PRIFA, or, in the alternative, for relief from the automatic stay to pursue such lawsuits or for adequate protection of AAC's collateral. On January 31, 2020, AAC, FGIC, Assured, and the PRIFA bond trustee filed an amended motion seeking substantially similar relief. On July 2, 2020, the District Court denied the motion to lift the stay on certain grounds. Briefing regarding additional grounds on which AAC and other movants seek stay relief concluded on August 5, 2020; on September 9, 2020, the District Court denied the motion to lift the stay on the additional grounds. On September 23, 2020, AAC and the other movants appealed this decision to the First Circuit. On March 3, 2021, the First Circuit affirmed the District Court's opinions denying the motion to lift the stay. On May 5, 2021, Assured and National announced an agreement with the Oversight Board with respect to the PRHTA/PRCCDA Settlement. On July 14, 2021, AAC and FGIC reached an agreement in principle with the Oversight Board with respect to the PRIFA Settlement, and as a result of that settlement, also joined the PRHTA/PRCCDA Settlement. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRIFA bond trustee jointly moved to stay this motion as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this motion be stayed. The January

18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, resolved this litigation.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17-bk-03283), *Motion of Assured Guaranty Corp., Assured Municipal Corp., Ambac Assurance Corporation, National Public Finance Guarantee Corporation, and Financial Guaranty Insurance Company for Relief from the Automatic Stay, or, in the Alternative, Adequate Protection* (Dkt. No. 10102, filed January 16, 2020) ("PRHTA Stay Motion"). On January 16, 2020, AAC, Assured, National, and FGIC filed a motion seeking an order that the automatic stay does not apply to movants' enforcement of the application of pledged revenues to the PRHTA bonds or the enforcement of movants' liens on revenues pledged to such bonds, or, in the alternative, for adequate protection of movants' interests in the revenues pledged to PRHTA bonds. On July 2, 2020, the District Court denied the motion to lift the stay on certain grounds. Briefing regarding additional grounds on which AAC and other movants seek stay relief concluded on August 5, 2020; on September 9, 2020, the District Court denied the motion to lift the stay on the additional grounds. On September 23, 2020, AAC and the other movants appealed this decision to the First Circuit. On March 3, 2021, the First Circuit affirmed the District Court's opinions denying the motion to lift the stay. On May 5, 2021, Assured and National announced an agreement with the Oversight Board with respect to the PRHTA/PRCCDA Settlement. On May 11, 2021, the Oversight Board, Assured, and National jointly moved to stay this case with respect to Assured and National as a result of the PRHTA/PRCCDA Settlement. AAC and FGIC objected to the motion to stay on May 18, 2021, and briefing on the motion to stay concluded on May 21, 2021. On May 25, 2021, the District Court ordered this case stayed with respect to Assured and National as a result of the PRHTA/PRCCDA Settlement. On July 14, 2021, AAC and FGIC reached an agreement in principle with the Oversight Board with respect to the PRIFA Settlement. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRHTA fiscal agent jointly moved to stay this motion as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this motion be stayed. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, resolved this litigation.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17-bk-03283), *Ambac Assurance Corporation, Financial Guaranty Insurance Company, Assured Guaranty Corp., Assured Municipal Corp., and the Bank of New York Mellon's Motion Concerning Application of the Automatic Stay to the Revenues Securing the CCDA Bonds* (Dkt. No. 10104, filed January 16, 2020) ("PRCCDA Stay Motion"). On January 16, 2020, AAC, FGIC, Assured, and the PRCCDA bond trustee filed a motion seeking an order either (i) that the automatic stay does not apply to movants' enforcement of their rights to revenues pledged to PRCCDA bonds by bringing an enforcement action against PRCCDA; or, in the alternative, (ii) lifting the automatic stay to enable movants to pursue an enforcement action against PRCCDA; or, in the further alternative, (iii) ordering adequate protection of movants' interests in the PRCCDA pledged to PRCCDA bonds. On July 2, 2020, the District Court denied the motion to lift the stay on certain grounds, but found that the movants had stated a colorable claim that a certain account was the "Transfer Account" on which movants hold a lien. Briefing regarding additional grounds on which AAC and other movants seek stay relief concluded on August 5, 2020; on September 9, 2020, the District Court denied the motion to lift the stay on the additional grounds, and found that a final determination on issues related to the identity of the Transfer Account would be made in the decision on the motions for summary judgment issued in the PRCCDA-related adversary proceeding, No. 20-ap-00004. On May 5, 2021, Assured and National announced an agreement with the Oversight Board with respect to the PRHTA/PRCCDA Settlement. On May 11, 2021, the Oversight Board, Assured, and National jointly moved to stay this case with respect to Assured and National as a result of the PRHTA/PRCCDA Settlement. AAC and FGIC objected to the motion to stay on May 18, 2021, and briefing on the motion to stay concluded on May 21, 2021. On May 25, 2021, the District Court ordered this case stayed with respect to Assured and National as a result of the PRHTA/PRCCDA Settlement. On July 14, 2021, AAC and FGIC reached an agreement in principle with the Oversight Board with respect to the PRIFA Settlement. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRCCDA bond trustee jointly moved to stay this motion as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this motion be stayed. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, resolved this litigation. On September 30, 2022, the Court entered an order terminating the PRCCDA Stay Motion.

Ambac Assurance Corporation v. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, Oriental Financial Services LLC; Popular Securities LLC; Raymond James & Associates, Inc., RBC Capital Markets LLC; Samuel A. Ramirez & Co. Inc., Santander Securities LLC; UBS Financial Services Inc.; and UBS Securities LLC (Commonwealth of Puerto Rico, Court of First Instance, San Juan Superior Court, Case No. SJ-2020-CV-01505, filed February 19, 2020). On February 19, 2020, AAC filed a complaint in the Commonwealth of Puerto Rico, Court of First Instance, San Juan Superior Court, against certain underwriters of Ambac-insured bonds issued by PRIFA and PRCCDA, with causes of action under the Puerto Rico civil law doctrines of actos propios and Unilateral Declaration of Will. AAC alleges defendants engaged in inequitable conduct in underwriting Ambac-insured bonds issued by PRIFA and PRCCDA, including failing to investigate and adequately disclose material information in the official statements for the bonds that defendants provided to AAC regarding systemic deficiencies in the Commonwealth's financial reporting. AAC seeks damages in compensation for claims paid by AAC on its financial guaranty insurance policies insuring such bonds, pre-judgment and post-judgment interest, and attorneys' fees. On March 20, 2020, defendants removed this case to the Title III Court; AAC moved to remand the case back to the Court of First Instance on

April 20, 2020, and on July 29, 2020, the District Court granted AAC's motion to remand. AAC filed an amended complaint in the Commonwealth court on October 28, 2020, adding claims on bonds issued by the Commonwealth, PBA and PRHTA and adding defendants that had underwritten these bonds. Defendants filed motions to dismiss on December 8 and 14, 2020. On July 30, 2021, the Commonwealth court granted defendants' motions to dismiss. AAC appealed the dismissal to the Commonwealth Court of Appeals on September 16, 2021; on April 27, 2022, the Commonwealth Court of Appeals affirmed the dismissal. On May 31, 2022, Ambac filed a petition for a writ of certiorari, seeking review of the decision in the Puerto Rico Supreme Court. The petition was denied on July 13, 2022. AAC filed a motion for reconsideration on July 28, 2022. The Puerto Rico Supreme Court denied the motion for reconsideration on November 10, 2022.

Ambac Assurance Corporation v. Autopistas Metropolitanas de Puerto Rico, LLC (United States District Court, District of Puerto Rico, No. 3:20-cv-01094, filed February 19, 2020). On February 19, 2020, AAC filed a complaint in the U.S. District Court for the District of Puerto Rico, against Autopistas Metropolitanas de Puerto Rico, LLC ("Metropistas"), which holds a concession from PRHTA for two Puerto Rico highways, PR-5 and PR-22, in connection with a 10-year extension of the concession that was entered into in April 2016. The complaint includes claims for fraudulent conveyance and unjust enrichment, alleging that the consideration paid by Metropistas for the extension was less than reasonably equivalent value and most of the benefit of such payment was received by the Commonwealth instead of PRHTA. AAC also seeks a declaratory judgment that it has a valid and continuing lien on certain toll revenues that are being collected by Metropistas. On March 31, 2020, the Oversight Board filed a motion before the Title III Court seeking an order directing Ambac to withdraw its complaint. On June 16, 2020, the Title III Court ordered AAC to withdraw its complaint. AAC moved to withdraw its complaint on June 23, 2020, and noticed an appeal from the Title III Court's order to withdraw on June 30, 2020. Oral argument before the First Circuit was held on March 8, 2021. On August 2, 2021, the Oversight Board, AAC, and Metropistas jointly moved to stay this appeal as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 4, 2021, the First Circuit ordered that this appeal be stayed. On February 10, 2023, the parties filed a stipulation of dismissal in the First Circuit appeal; on February 13, 2023, the First Circuit dismissed the appeal.

Ambac Assurance Corporation v. Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 3:20-ap-00068, filed May 26, 2020). On May 26, 2020, AAC filed an adversary complaint before the Title III Court seeking (i) a declaration that titles I, II, and III of PROMESA are unconstitutional because they violate the Bankruptcy Clause of the U.S. Constitution (which requires all bankruptcy laws to be uniform) and (ii) dismissal of the pending Title III petitions. On August 17, 2020, the Oversight Board filed a motion to dismiss the complaint; on August 18, 2020, the Official Committee of Retired Employees of the Commonwealth of Puerto Rico (the "Retiree Committee") and the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") filed joinders to the motion to dismiss. The United States filed a memorandum of law in support of the constitutionality of PROMESA on October 2, 2020. On August 2, 2021, the Oversight Board, AAC, FGIC, and the PRCCDA bond trustee jointly moved to stay this case as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this case be stayed. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, resolved this litigation. On March 23, 2022, the District Court dismissed this case.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17-bk-03283), *Urgent Motion for Bridge Order, and Motion for Appointment as Trustees Under 11 U.S.C. § 926, of Ambac Assurance Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., Financial Guaranty Insurance Company, and National Public Finance Guarantee Corporation* (Dkt. No. 13708, filed July 17, 2020) ("PRHTA Trustee Motion"). On July 17, 2020, AAC, Assured, FGIC, and National filed a motion seeking appointment as trustees under Section 926 of the Bankruptcy Code to pursue certain avoidance actions on behalf of PRHTA against the Commonwealth of Puerto Rico. The PRHTA Trustee Motion attached a proposed complaint detailing the avoidance claims that movants would pursue. On August 11, 2020, the District Court denied the PRHTA Trustee Motion; on August 24, 2020, movants noticed an appeal of the denial of the PRHTA Trustee Motion to the First Circuit. On July 29, 2021, AAC, Assured, FGIC, and National jointly moved to dismiss the appeal at the First Circuit as a result of the PRHTA/PRCCDA Settlement and the PRIFA Settlement. On July 30, 2021, the First Circuit dismissed the appeal. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, resolved this litigation.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17-bk-03283), *Objection of Ambac Assurance Corporation, Pursuant to Bankruptcy Code Section 502 and Bankruptcy Rule 3007, to Claim Asserted by the Official Committee of Retired Employees of the Commonwealth of Puerto Rico Appointed in the Commonwealth's Title III Case* (Dkt. No. 16884, filed June 3, 2021) ("Pension Claim Objection"). On June 3, 2021, AAC filed a claim objection in the Commonwealth's Title III case challenging the amount of the claim filed by the Retiree Committee against the Commonwealth, which asserted pension liabilities of at least $58.5 billion. AAC contended that this asserted pension liability was overstated by at least $9 billion, and sought disallowance of the Retiree Committee's proof of claim to the extent of the overstatement. On June 17, 2021, the Oversight Board and the Retiree Committee each indicated an intention to move to terminate the Pension Claim Objection. The Oversight Board contended that AAC lacked standing to bring the Pension Claim Objection and that the objection is moot; the Retiree Committee contended that the Pension Claim Objection should be addressed at confirmation. AAC responded on June 21, 2021. On June 22, 2021, the District Court denied the Pension Claim Objection without prejudice. On August 2,

2021, the Oversight Board and AAC jointly moved to stay this matter as a result of the PRIFA Settlement and AAC's joinder to the PRHTA/PRCCDA Settlement and the GO/PBA Settlement. On August 3, 2021, the District Court ordered that this matter be stayed. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, resolved this litigation.

In re Financial Oversight and Management Board for Puerto Rico (United States District Court, District of Puerto Rico, No. 1:17- bk-03283), *Monolines' Reply to Underwriter Defendants' Objection to Plan and Proposed Confirmation Order* (Dkt. No. 18871), filed October 27, 2021). On October 19, 2021, certain banks, underwriters, and professionals involved in the underwriting of bonds issued or guaranteed by the Commonwealth and its instrumentalities (the "Underwriter Defendants") filed an objection to proposed Commonwealth Plan and a related proposed confirmation order. On October 27, 2021, AAC and FGIC filed a reply in response to the Underwriter Defendants' objection. The January 18, 2022 confirmation of the Commonwealth Plan, which is currently being appealed, overruled this objection and resolved this litigation.

Student Loans Exposure

CFPB v. Nat'l Collegiate Master Student Loan Trust (United States District Court, District of Delaware, Case No. 1:17-cv-01323, filed September 18, 2017). The Consumer Financial Protection Bureau ("CFPB") filed a complaint against fifteen National Collegiate Student Loan Trusts, regarding alleged improprieties and deficiencies in servicing practices. Simultaneous with the filing of its complaint, CFPB also filed a motion to approve a proposed consent judgment that would have granted monetary damages and injunctive relief against the Trusts. AAC guaranteed certain securities issued by three of the Trusts and indirectly insures six other Trusts. On September 20, 2017, AAC filed a motion to intervene in the action, which motion was granted on October 19, 2018. Following discovery and briefing, on May 31, 2020, the District Court denied the CFPB's motion to approve the proposed consent judgment. On March 19, 2020, Intervenor Transworld Systems Inc. filed a motion to dismiss the action for lack of subject matter jurisdiction. On July 10, 2020, AAC and several other intervenors filed a motion to dismiss the action for lack of subject matter jurisdiction and for failure to state a claim. On July 2, 2020, the CFPB submitted an application for entry of default against the Trusts. AAC and the Owner Trustee opposed the CFPB's application. On March 26, 2021, the court granted intervenors' motion to dismiss for failure to state a claim and denied the motion to dismiss for lack of subject matter jurisdiction. The court also denied as moot the CFPB's application for entry of default against the Trusts. The CFPB filed an amended complaint on April 30, 2021. On May 21, 2021, the Trusts and several intervenors, including AAC, moved to dismiss the CFPB's amended complaint for failure to state a claim. On December 13, 2021, the court denied the Trusts' and intervenors' motions to dismiss the amended complaint. On December 23, 2021, the Trusts and several intervenors, including AAC, filed a motion seeking (i) an order certifying for interlocutory appeal the court's December 13, 2021 order denying the motion to dismiss the amended complaint, and (ii) a stay of the action pending resolution of any appeal. The motion is fully briefed and remains pending. On January 26, 2022, the Trusts and several intervenors, including AAC, answered the CFPB's amended complaint, asserting several affirmative defenses and denying that the CFPB is entitled to relief from the Trusts. On February 11, 2022, the court certified its ruling on the motion to dismiss for interlocutory appeal to the U.S. Court of Appeals for the Third Circuit, and stayed the case pending appeal. On February 21, 2022, the Trusts and several intervenors, including AAC, filed a petition with the Third Circuit for permission to appeal the District Court's order denying their motion to dismiss the amended complaint. On March 3, 2022, the CFPB filed its opposition to the petition for permission to appeal. On April 29, 2022, the Third Circuit granted the Trusts' and intervenors' petition. On September 23, 2022, the Trusts and other intervenors, including AAC, filed their opening brief to the Third Circuit, seeking reversal of the District Court's order denying their motion to dismiss the amended complaint. The Consumer Financial Protection Bureau filed its responsive brief on November 7, 2022. The Trusts and other intervenors, including AAC, filed their reply brief on December 28, 2022. The Third Circuit is scheduled to hear oral argument in the matter on March 24, 2023.

RMBS Litigation

In connection with AAC's efforts to seek redress for breaches of representations and warranties and fraud related to the information provided by both the underwriters and the sponsors of various transactions and for failure to comply with the obligation by the sponsors to repurchase ineligible loans, AAC has filed various lawsuits:

- Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Nomura Credit & Capital, Inc. and Nomura Holding America Inc. (Supreme Court of the State of New York, County of New York, Case No. 651359/2013, filed on April 15, 2013). AAC has asserted claims for material breach of contract and has requested the repurchase of loans that breach representations and warranties under the contracts. AAC also asserted alter ego claims against Nomura Holding America, Inc. Defendants filed a motion to dismiss on July 12, 2013. On September 22, 2014, plaintiffs filed an amended complaint which added (in addition to the claims previously asserted) a claim for fraudulent inducement. On October 31, 2014 defendants filed a motion to strike the amended complaint and on November 10, 2014 also filed a motion to dismiss the fraudulent-inducement claim. On June 3, 2015, the court denied defendants' July 2013 motion to dismiss AAC's claim for breaches of representations and warranties, but granted the defendants' motion to dismiss AAC's claims for breach of the repurchase protocol and for alter ego liability against Nomura Holding. On December 29, 2016, the court denied Nomura's motion to strike AAC's amended complaint and its motion to dismiss the fraudulent-inducement claim. Nomura appealed the June 2015 decision to the extent it denied its motion to dismiss, filing its opening appellate brief on March 23, 2017. On December 7, 2017, the First Department affirmed the trial court's June 3, 2015 decision. On August 25, 2021, AAC filed a note of issue demanding

a jury for its fraud claim and a bench trial for its breach-of-contract claim. On August 31, 2021, Nomura filed a jury demand for AAC's breach-of-contract claim. On December 21, 2021, the parties filed motions for summary judgment. Pursuant to a settlement, this case was voluntarily dismissed with prejudice pursuant to a stipulation signed by the parties on January 3, 2023. The action is concluded.

- Ambac Assurance Corporation v. U.S. Bank National Association (United States District Court, Southern District of New York, Docket No. 17-cv-02614, filed April 11, 2017). AAC has asserted claims for breach of contract, breach of fiduciary duty, declaratory judgment, and violation of the Streit Act in connection with defendant's failure to enforce rights and remedies and defendant's treatment of trust recoveries, as trustee of five residential mortgage-backed securitizations for which AAC issued insurance policies. On September 15, 2017, U.S. Bank filed a motion to dismiss. On June 29, 2018, the court granted in part and denied in part U.S. Bank's motion to dismiss. The court dismissed the breach-of-fiduciary duty claim in part as duplicative of the breach-of-contract claim; dismissed the breach-of-contract claim as untimely only to the extent that it was premised on U.S. Bank's obligation to certify that mortgage documents were properly delivered to the Trusts; dismissed the Streit Act claims; and otherwise denied the motion to dismiss. Fact discovery and Phase 1 expert discovery have concluded, and the parties filed partial summary judgment motions on Phase 1 issues on November 9, 2021. On September 30, 2022, the Court granted in full AAC's motion for partial summary judgment, and the Court denied in part and granted in part U.S. Bank's motion for partial summary judgment. On October 18, 2022, the Court set a schedule for additional summary judgment briefing, which was concluded on February 10, 2023, to be followed by briefing on AAC's proposed use of statistical sampling before proceeding with Phase 2 discovery.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure — None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Ambac's disclosure controls and procedures are designed to ensure that information required to be disclosed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including without limitation that information required to be disclosed by Ambac in its SEC filings is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate to allow for timely decisions regarding required disclosure.

Ambac's Disclosure Committee assists the CEO and CFO in their responsibilities to design, establish, maintain and evaluate the effectiveness of disclosure controls and procedures. The Disclosure Committee is responsible for, among other things, the oversight, maintenance and implementation of the disclosure controls and procedures, subject to the supervision and oversight of the CEO and CFO. Ambac's management, with the participation of its CEO and CFO, has evaluated the effectiveness of Ambac's disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2022 and, the CEO and CFO have concluded that at that date Ambac's disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting. Management of Ambac is responsible for establishing and maintaining adequate internal control over financial reporting. Ambac's internal control over financial reporting is a process designed under the supervision of the CEO and CFO and overseen by Ambac's Board of Directors to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Ambac's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Ambac's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of Ambac; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of Ambac; and (iii) provide reasonable assurance regarding the prevention or timely detection and remediation of unauthorized acquisition, use or disposition of Ambac's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Ambac management conducted an assessment of the effectiveness of Ambac's internal control over financial reporting based on the criteria established in the Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Ambac management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based on its evaluations, Ambac's management have concluded that, as of December 31, 2022, our internal control over financial reporting was effective based on the criteria articulated in the 2013 Internal Control - Integrated Framework. The effectiveness of our internal control over financial reporting as of December 31, 2022 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which expressed an unqualified opinion on the effectiveness of Ambac's internal control over financial reporting.

Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2022 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. .

Item 9B. Other Information

On February 22, 2023, Mr. C. James Prieur resigned as a member of the Board of Directors of each of Ambac Financial Group, Inc. and Ambac Assurance Corporation.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information relating to AFG's executive officers and directors, including its audit committee and audit committee financial experts, will be in AFG's definitive Proxy Statement for its 2023 Annual Meeting of Stockholders which will be filed within 120 days of the end of our fiscal year ended December 31, 2022 (the "2023 Proxy Statement") and is incorporated herein by reference.

Ambac has a Code of Business Conduct and Ethics which promotes management's commitment to integrity and expresses Ambac's standards for ethical behavior by providing guidelines for handling business situations appropriately. This code can be found on Ambac's website at www.ambac.com on the "Environmental, Social & Governance" page under "Governance Documents." Ambac will disclose on its website any amendment to, or waiver from, a provision of its Code of Business Conduct and Ethics that applies to its Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer. Ambac's corporate governance guidelines and the charters for the committees of the Board of Directors are also available on our website under the "Governance Documents" page.

Item 11. Executive Compensation

Information relating to Ambac's executive officer and director compensation will be in the 2023 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information relating to security ownership of certain beneficial owners of AFG's common stock and information relating to the security ownership of AFG's management will be in the 2023 Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2022, regarding securities issued under our 2013 Incentive Compensation Plan and 2020 Incentive Compensation Plan.

	Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Third Column)
Equity compensation plans approved by security holders	2013 Incentive Compensation Plan [1]	1,069,639	$0.00	—
	2020 Incentive Compensation Plan [1]	2,755,432	$0.00	74,907[4]
Equity compensation plans not approved by security holders	None	---	---	---
Total		3,825,071[2] [3]	$0.00 [5]	74,907[4]

(1) Our 2020 Incentive Compensation Plan ("2020 Plan") was approved by the stockholders of AFG on June 2, 2020, as a successor to our 2013 Incentive Compensation Plan ("2013 Plan") which was approved on December 18, 2013. Effective June 2, 2020, awards may no longer be granted under the 2013 Plan; authorized and unissued shares under the 2013 Plan are available for issuance under the 2020 Plan.

(2) Represents, as of December 31, 2022, the number of outstanding restricted stock unit awards and the maximum number of performance stock units that may be issued if certain performance goals are achieved. Refer to Note 18. Employment Benefit Plans to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for a description of the grants made under our 2013 and 2020 Incentive Compensation Plans. This amount includes 983,016 restricted stock units and 2,842,055 performance stock units which are based on the maximum number of shares potentially payable under the awards. Maximum number of shares potentially payable under performance awards is 240% of target.

(3) Each restricted stock unit and performance stock unit awarded under our 2013 and 2020 Incentive Compensation Plans was granted at no cost to the persons receiving them. Restricted stock units represent the contingent right to receive the equivalent number of shares of AFG common stock and may vest after the passage of time. Performance stock units represent the contingent right to receive a number of shares of AFG common stock up to 240%

of the number of units granted depending upon the achievement of certain company-wide performance goals at the end of a specified performance period.

(4) Represents the number of securities remaining available for future issuance under compensation plans assuming the maximum number of shares are issued on settlement of performance stock units. The number of securities remaining available for future issuance under compensation plans assuming the probable number of shares are issued on settlement of performance stock units would be 1,145,243.

(5) There are no outstanding options as of December 31, 2020. Performance shares and restricted stock units are not included in determining weighted-average price as they have no exercise price.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information relating to Ambac with respect to certain relationships and related transactions and director independence will be in the 2023 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information relating to principal accountant fees and services will be in the 2023 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as a part of this report:

1. Financial Statements

The consolidated financial statements included in Part II, Item 8 above are filed as part of this Annual Report on Form 10-K.

2. Financial Statement Schedules

The financial statement schedules filed herein, which are the only schedules required to be filed, are as follows:

	Page
Schedule I — Summary of Investments Other Than Investments in Related Parties	139
Schedule II — Condensed Financial Information of Registrant (Parent Company Only)	140
Schedule III — Supplementary Insurance Information	145

(b) Exhibits

	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit Number	
(3)	**Articles of Incorporation and bylaws:**				
3.1	Amended and Restated Certificate of Incorporation of Ambac Financial Group, Inc.	8-A	05/01/13	3.2	
3.2	Amended By-Laws of Ambac Financial Group, Inc.				X
(4)	**Instruments defining the rights of security holders, including indentures:**				
4.1	Description of Capital Stock	8-A	05/01/13		
4.2	Specimen form of common stock certificate	8-A	05/01/13	4.1	
4.3	Warrant Agreement between Ambac Financial Group, Inc. and Computershare Inc.	8-A	05/01/13	4.2	
4.4	Specimen form of warrant certificate (included in Exhibit 4.2)				
4.5	Fiscal Agency Agreement, dated as of July 19, 2010, by and between the Segregated Account of Ambac Assurance Corporation and The Bank of New York Mellon, as fiscal agent	10-K	03/03/14	4.10	
4.6	Form of Surplus Note due June 7, 2020 issued by the Segregated Account of Ambac Assurance Corporation.(included in Exhibit 4.9)				

	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit Number	
4.7	Fiscal Agency Agreement, dated as of June 7, 2010, by and between Ambac Assurance Corporation and The Bank of New York Mellon, as fiscal agent	8-K	06/08/10	10.3	
4.8	Amendment dated as of October 3, 2014 to Fiscal Agency Agreement dated as of June 7, 2010 by and between Ambac Assurance Corporation and The Bank of New York Mellon, as fiscal agent	10-Q	11/09/15	4.1	
4.9	Indenture (including the form of Notes), dated as of July 6, 2021, between Sitka Holdings, LLC and The Bank of New York Mellon, as trustee and note collateral agent	8-K	07/06/21	4.1	
4.10	Promissory Note and Security Agreement issued by Ambac Assurance Corporation in favor of Sitka Holdings, LLC	8-K	07/06/21	4.3	
(10)	**Material contract and management compensation plans and arrangements:**				
10.1	Ambac Financial Group, Inc.'s Long-Term Incentive Compensation Plan	10-Q	08/11/14	10.1	
10.2	Form of Amended and Restated Restricted Stock Unit Award Letter for executive officers	10-K	03/03/14	10.4	
10.3	Form of Equity Award Letter for directors	10-K	03/03/14	10.5	
10.4	Closing Agreement between Ambac Financial, Group, Inc. and Commissioner of Internal Revenue, dated April 30, 2013	8-K	05/03/13	10.2	
10.5	Form of Expense Sharing and Cost Allocation Agreement among Ambac Assurance Corporation, Ambac Financial Group, Inc. and their respective subsidiaries and affiliates				X
10.6	Lease, dated as of March 1, 2011, by and between One State Street, LLC and Ambac Assurance Corporation	10-K	03/16/11	10.34	
10.7	Settlement, Discontinuance and Release Agreement, dated as of March 1, 2011, by and among One State Street, LLC, Ambac Financial Group, Inc., Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation	10-K	03/16/11	10.33	
10.8	Settlement Agreement, dated as of June 7, 2010, by and among Ambac Assurance Corporation, Ambac Credit Products LLC, Ambac Financial Group, Inc. and the parties listed on Schedule A thereto	10-Q	11/15/10	10.1	
10.9	Ambac Financial Group, Inc. Severance Pay Plan (Applicable to termination on or after December 16, 2021)	10-K	02/24/22	10.10	
10.10	Lease Modification dated as of September 8, 2015 to the Lease dated as of March 1, 2011, by and between One State Street, LLC and Ambac Assurance Corporation	10-K	02/29/16	10.27	
10.11	Employment Agreement dated as of November 1, 2016 by and among Ambac Financial Group, Inc., Ambac Assurance Corporation and David Trick	10-Q	11/03/16	10.2	
10.12	Employment Agreement dated as of December 8, 2016, by and among Ambac Financial Group, Inc., Ambac Assurance Corporation and Claude LeBlanc	8-K	12/13/16	10.1	
10.13	Employment Agreement dated as of January 4, 2017 by and among Ambac Financial Group, Inc., Ambac Assurance Corporation and Stephen Ksenak	8-K	01/06/17	10.1	
10.14	Second Amended Plan of Rehabilitation of the Segregated Account of Ambac Assurance Corporation dated September 25, 2017, and effective as of February 12, 2018	10-K	02/28/18	10.38	
10.15	Order Granting the Rehabilitator's Motion to Further Amend the Plan of Rehabilitation and confirming the Second Amended Plan of Rehabilitation, as amended, Case No. 10-CV-1576 (Dane County, Wisconsin) dated January 22, 2018	10-K	02/28/18	10.39	
10.16	Stipulation and Order - Office of the Commissioner of Insurance of the State of Wisconsin, in the Matter of the Rehabilitation of the Segregated Account of Ambac Assurance Corporation effective as of February 12, 2018	10-K	02/28/18	10.40	

	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit Number	
10.17	Amendment No. 1 to the Stipulation and Order - Office of the Commissioner of Insurance of the State of Wisconsin, in the Matter of the Rehabilitation of the Segregated Account of Ambac Assurance Corporation effective as of February 12, 2018	10-K	02/28/19	10.37	
10.18	Preferred Stock Repurchase and Support Agreement dated as of June 22, 2018, by and among Ambac Assurance Corporation ("AAC"), Ambac Financial Group, Inc. and the holders of one or more series of the AAC's outstanding Auction Market Preferred Shares	8-K	06/25/18	10.1	
10.19	SUBLEASE dated as of January 30, 2019, between Advance Magazine Publishers Inc. (D/B/A CONDE NAST), and Ambac Assurance Group Corporation	10-K	03/02/20	10/45	
10.20	Amended and Restated Employment Agreement dated as of February 27, 2020, by and among Ambac Financial Group, Inc., Ambac Assurance Corporation and Claude LeBlanc	10-K	03/02/20	10.46	
10.21	2020 Incentive Compensation Plan	Def 14A	04/15/20	Ex. B	
10.22	Purchase Agreement, by and among, Ambac Assurance Corporation, Ambac Financial Group, Inc. and certain funds or accounts affiliated with or managed by CVC Credit Partners, LLC, CVC Credit Partners Investment Management Limited and EJF Capital LLC, dated as of January 19, 2021	8-K	01/25/21	0.0101	
10.23	Form of 2020 Restricted Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. LeBlanc, Trick and Ksenak	10-Q	05/11/20	10.1	
10.24	Form of 2020 Restricted Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. Barranco, Eisman, Reilly and Ms. Smith	10-Q	05/11/20	10.2	
10.25	Form of 2020 Performance Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. LeBlanc, Trick and Ksenak	10-Q	05/11/20	10.3	
10.26	Form of 2020 Performance Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. Barranco, Eisman, Reilly and Ms. Smith	10-Q	05/11/20	10.4	
10.27	Form of 2021 Restricted Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. LeBlanc, Trick and Ksenak	10-Q	05/10/21	10.1	
10.28	Form of 2021 Restricted Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. Barranco, Eisman, Reilly and Ms. Smith	10-Q	05/10/21	10.2	
10.29	Form of 2021 Performance Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. LeBlanc, Trick and Ksenak	10-Q	05/10/21	10.3	
10.30	Form of 2021 Performance Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. Barranco, Eisman, Reilly and Ms. Smith	10-Q	05/10/21	10.4	
10.31	Executive Stock Deferral Plan dated June 24, 2021	8-K	06/30/21	10.1	
10.32	Financial Guaranty Insurance Policy, dated July 6, 2021, issued by Ambac Assurance Corporation	8-K	07/06/21	10.1	
10.33	Collateral Agreement, dated as of July 6, 2021, made by Sitka Holdings, LLC in favor of The Bank of New York Mellon, as note collateral agent and trustee	8-K	07/06/21	10.2	
10.34	Settlement Agreement and Release dated as of October 6, 2022 by and among Bank of America Corporation and certain affiliates and Ambac Assurance Corporation (Portions of this exhibit have been omitted in reliance on Regulation S-K Item 601(b)(10)(iv))				X
10.35	Settlement Agreement and Release dated as of December 29, 2022 by and among Nomura Credit & Capital, Inc. and Ambac Assurance Corporation. (Portions of this exhibit have been omitted in reliance on Regulation S-K Item 601(b)(10)(iv))				X

	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit Number	
10.36	Form of 2022 Restricted Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. LeBlanc, Trick and Ksenak	10-Q	05/10/22	10.1	
10.37	Form of 2022 Restricted Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. Barranco, Eisman, McGinnis and Ms. Smith.	10-Q	05/10/22	10.2	
10.38	Form of 2022 Performance Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. LeBlanc, Trick and Ksenak	10-Q	05/10/22	10.3	
10.39	Form of 2022 Performance Stock Unit Award Agreement between Ambac Financial Group, Inc. and Messrs. Barranco, Eisman, McGinnis and Ms. Smith	10-Q	05/10/22	10.4	
(99) Additional exhibits					
99.1	Second Modified Fifth Amended Plan of Reorganization of Ambac Financial Group, Inc., effective as of May 1, 2013	10-K	03/03/14	99.3	
Other exhibits, filed or furnished, as indicated:					
21.1	List of Subsidiaries of Ambac Financial Group, Inc.				X
23.1	Consent of Independent Registered Public Accounting Firm				X
24.1	Power of Attorney for directors of Ambac Financial Group, Inc.				X
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) Promulgated under the Securities Exchange Act of 1934, as amended				X
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) Promulgated under the Securities Exchange Act of 1934, as amended				X
32.1++	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				
104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags or embedded within the Inline XBRL document				

++ Furnished herewith.

SCHEDULE I

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Summary of Investments
Other Than Investments in Related Parties
December 31, 2022

Type of Investment ($ in millions)	Cost	Estimated Fair Value	Amount at Which Shown in the Balance Sheet
Municipal obligations	$ 44	$ 43	$ 43
Corporate obligations	659	598	598
Foreign obligations	85	76	76
U.S. government obligations	68	65	65
Residential mortgage-backed securities	230	238	238
Commercial mortgage-backed securities	15	15	15
Collateralized debt obligations	141	137	137
Other asset-backed securities	227	224	224
Short-term	572	572	572
Fixed income - trading	60	59	59
Other[1]	528	556	568
Total	$ 2,630	$ 2,581	$ 2,593

(1) Excluded from the estimated fair value amount are equity securities with a carrying value of $12 as of December 31, 2021, that do not have readily determinable fair values and are carried on the balance sheet at cost, less impairment, and adjusted to fair value when observable price changes in identical or similar investments from the same issuer occur, as permitted under the Investments — Equity Securities Topic of the ASC

See the Report of Independent Registered Public Accounting Firm.

SCHEDULE II

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Financial Information
Of Registrant (Parent Company Only)
Condensed Balance Sheets

($ in millions, except share data) December 31,	2022	2021
Assets:		
Fixed maturity securities, at fair value (amortized cost of $13 and $130)	$ 12	$ 119
Short-term investments, at fair value (amortized cost of $175 and $124)	175	124
Other investments	16	11
Total investments (net of allowance for credit losses of $0 and $3)	203	254
Cash	3	1
Investment in subsidiaries	1,029	769
Investment income due and accrued	1	1
Other assets	19	17
Total assets	**$ 1,255**	**$ 1,041**
Liabilities and Stockholders' Equity:		
Liabilities:		
Current taxes	$ 1	$ 1
Accounts payable and other liabilities	3	2
Total liabilities	**3**	**3**
Stockholders' equity:		
Preferred stock, par value $0.01 per share; 20,000,000 shares authorized shares; issued and outstanding shares—none	—	—
Common stock, par value $0.01 per share; 130,000,000 shares authorized; issued shares: 46,658,990 and 46,477,068	—	—
Additional paid-in capital	274	257
Accumulated other comprehensive income (loss)	(253)	58
Retained earnings	1,245	726
Treasury stock, shares at cost: 1,685,233 and 172,929	(15)	(3)
Total Ambac Financial Group, Inc. stockholders' equity	**1,252**	**1,038**
Total liabilities and stockholders' equity	**$ 1,255**	**$ 1,041**

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the following notes.

See the Report of Independent Registered Public Accounting Firm.

SCHEDULE II

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Financial Information
Of Registrant (Parent Company Only)
Condensed Statement of Comprehensive Income

($ in millions) Year Ended December 31,	2022	2021	2020
Revenues:			
Investment income	$ 10	$ 10	$ 13
Other income	—	—	—
Net gains on derivative contracts	1	—	—
Net investment gains (losses), including impairments	(14)	(5)	(1)
Total revenues	(2)	5	12
Expenses:			
General and administrative expenses	17	19	19
Total expenses	17	19	19
Income (loss) before income taxes and equity in undistributed net gain (loss) of subsidiaries	(20)	(14)	(7)
Federal income tax provision (benefit)	—	2	—
Income (loss) before net income (loss) of subsidiaries	(19)	(16)	(7)
Net gain (loss) of subsidiaries	542	(1)	(430)
Net income (loss)	**$ 522**	**$ (17)**	**$ (437)**
Other comprehensive income (loss), after tax:			
Net income (loss)	$ 522	$ (17)	$ (437)
Unrealized gains (losses) on securities, net of income tax provision (benefit) of $(6), $(2) and $1	(225)	(12)	15
Gains (losses) on foreign currency translation, net of income tax provision (benefit) of $—, $— and $—	(85)	(8)	23
Credit risk changes of fair value option liabilities, net of income tax provision (benefit) of $—, $— and $—	—	(1)	1
Changes to postretirement benefit, net of income tax provision (benefit) of $—, $— and $—	(1)	(1)	(3)
Total other comprehensive income (loss)	(310)	(21)	37
Total comprehensive income (loss) attributable to Ambac Financial Group, Inc.	**$ 212**	**$ (38)**	**$ (400)**

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the following notes.

See the Report of Independent Registered Public Accounting Firm.

SCHEDULE II

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Financial Information
Of Registrant (Parent Company Only)
Condensed Statement of Stockholders' Equity

($ in millions)	Total	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Preferred Stock	Common Stock	Additional Paid-in Capital	Common Stock Held in Treasury, at Cost
Balance at January 1, 2020	**$ 1,477**	**$ 1,203**	**$ 42**	**$ —**	**$ —**	**$ 232**	**$ —**
Total comprehensive income (loss)	(400)	(437)	37	—	—	—	—
Adjustment to initially apply ASU 2016-13	(4)	(4)	—	—	—	—	—
Stock-based compensation	11	—	—	—	—	11	—
Cost of shares (acquired) issued under equity plan	(3)	(2)	—	—	—	—	(1)
Balance at December 31, 2020	**1,080**	**759**	**79**	**—**	**—**	**242**	**(1)**
Total comprehensive income (loss)	(38)	(17)	(21)	—	—	—	—
Stock-based compensation	14	—	—	—	—	14	—
Cost of shares (acquired) issued under equity plan	(6)	(4)	—	—	—	—	(2)
Changes to redeemable noncontrolling interest	(12)	(12)	—	—	—	—	—
Balance at December 31, 2021	**1,038**	**726**	**58**	**—**	**—**	**257**	**(3)**
Total comprehensive income (loss)	**211**	**521**	**(310)**	**—**	**—**	**—**	**—**
Stock-based compensation	**17**	**—**	**—**	**—**	**—**	**17**	**—**
Cost of shares (acquired) issued under equity plan	**(4)**	**(5)**	**—**	**—**	**—**	**—**	**2**
Cost of shares repurchased	**(14)**	**—**	**—**	**—**	**—**	**—**	**(14)**
Change in redeemable noncontrolling interest	**3**	**3**	**—**	**—**	**—**	**—**	**—**
Purchase of Ambac Assurance auction market preferred shares	**1**	**1**	**—**	**—**	**—**	**—**	**—**
Balance at December 31, 2022	**$ 1,252**	**$ 1,245**	**$ (253)**	**$ —**	**$ —**	**$ 274**	**$ (15)**

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the following notes.

See the Report of Independent Registered Public Accounting Firm.

SCHEDULE II

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Financial Information
Of Registrant (Parent Company Only)
Condensed Statements of Cash Flow

($ in millions) Year Ended December 31,	2022	2021	2020
Cash flows from operating activities:			
Net income (loss)	$ 522	$ (17)	$ (437)
Adjustments to reconcile net income loss to net cash used in operating activities:			
Net (income) loss of subsidiaries	(542)	1	423
Amortization of bond premium and discount	(7)	(9)	(6)
Net investment gains (losses), including impairments	14	5	1
Increase (decrease) in current income taxes payable	(1)	1	30
Share-based compensation	12	14	11
(Increase) decrease in other assets and liabilities	41	(5)	(1)
Distributions received from majority owned subsidiary	6	6	—
Other, net	1	(6)	(10)
Net cash provided by (used in) operating activities	46	**(10)**	**11**
Cash flows from investing activities:			
Proceeds from sales and matured bonds	68	33	46
Purchases of bonds	(1)	(34)	(45)
Change in short-term investments	(51)	105	89
Change in other investments	(4)	(8)	—
Acquisitions, net of cash acquired	—	—	(74)
Net cash provided by (used in) investing activities	12	**95**	**16**
Cash flows from financing activities:			
Capital contribution to subsidiaries	(42)	(92)	(29)
Cost of shares acquired	(14)	—	—
Net cash (used in) financing activities	(57)	**(92)**	**(29)**
Net cash flow	1	**(6)**	**(2)**
Cash at beginning of period	1	7	9
Cash at end of period	$ 3	**$ 1**	**$ 7**
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes	$ —	$ —	$ —

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the following notes.

See the Report of Independent Registered Public Accounting Firm.

SCHEDULE II

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Condensed Financial Information
Of Registrant (Parent Company Only)
Notes to Condensed Financial Information
(Dollar Amounts in Millions)

The condensed financial information of Ambac Financial Group, Inc. ("AFG" or the "Registrant") as of December 31, 2022 and 2021, and for the three years in the period ended December 31, 2022, should be read in conjunction with the consolidated financial statements of AFG Financial Group, Inc. and Subsidiaries and the notes thereto included in this Annual Report on Form 10-K for the year ended December 31, 2022.

AFG, headquartered in New York City, is a financial services holding company incorporated in the state of Delaware on April 29, 1991.

Business Combinations

Effective November 1, 2022, Ambac completed the acquisition of 85% of All Trans Risk Solutions, LLC ("All Trans") and 80% of Capacity Marine Corporation ("Capacity Marine") for a combined purchase price of $26 in cash. All Trans is a full service managing general underwriter specializing in commercial automobile insurance for specific "for-hire" auto classes, and (iii) Capacity Marine is a wholesale retail brokerage and reinsurance intermediary specializing in marine and international risk. Based on the acquisition date and the complexity of the underlying valuation work, certain amounts included in the Company's Consolidated Financial Statements may be provisional and thus subject to further adjustments within the permitted measurement period as defined by ASC 805.

On December 31, 2020, Ambac completed the acquisition of 80% of the membership interests of Xchange for a purchase price of $81 in cash. Xchange is a property and casualty Managing General Underwriter focused on accident and health products. See Note 4. Business Combination to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10-K for further information.

Income Taxes

AFG files a consolidated Federal income tax return with its U.S. subsidiaries. AFG and its subsidiaries also file separate or combined income tax returns in various states, local and foreign jurisdictions. As of December 31, 2022, the Company has (i) $3,454 of NOLs, which if not utilized will begin expiring in 2030, and will fully expire in 2043, and (ii) $314 of interest expense tax deduction carryover, which has an indefinite carryforward period but is limited in any particular year based on certain provisions.

The NOLs allocated to AFG as of December 31, 2022, were $1,630, and begin expiring in 2030 and fully expire in 2043.

SCHEDULE III

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Supplementary Insurance Information
(Dollar Amounts in Millions)

Segment	Deferred Acquisition Costs	Loss and Loss Adjustment Expense Reserves	Unearned Premium	Earned Premiums	Net Investment Income	Loss and Loss Adjustment Expenses (Benefit)	Amortization of Deferred Amortization Costs	Other Operating Expenses	Net Written Premiums
2022									
Legacy Financial Guarantee Insurance	**$ —**	**$ 715**	**$ 287**	**$ 42**	**$ 12**	**$ (406)**	**$ —**	**$ 104**	**$ (6)**
Specialty Property and Casualty Insurance	**3**	**90**	**85**	**14**	**2**	**9**	**3**	**13**	**29**
2021									
Legacy Financial Guarantee Insurance	$ —	$ 1,538	$ 385	46	$ 138	$ (89)	$ —	$ 78	$ (35)
Specialty Property and Casualty Insurance	—	32	10	1	1	—	—	9	3

See the Report of Independent Registered Public Accounting Firm.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMBAC FINANCIAL GROUP, INC.

Dated: February 28, 2023

By: **/S/ DAVID TRICK**
David Trick
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ JEFFREY S. STEIN* Jeffrey S. Stein	Chairman of the Board and Director	February 28, 2023
/S/ CLAUDE LEBLANC Claude LeBlanc	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2023
/S/ DAVID TRICK David Trick	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2023
/S/ ROBERT B. EISMAN Robert B. Eisman	Senior Managing Director and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2023
/S/ IAN D. HAFT* Ian D. Haft	Director	February 28, 2023
/S/ DAVID L. HERZOG* David L. Herzog	Director	February 28, 2023
/S/ LISA G. IGLESIAS* Lisa G. Iglesias	Director	February 28, 2023
/S/ JOAN LAMM-TENNANT* Joan Lamm-Tennant	Director	February 28, 2023
/S/ STEPHEN M. KSENAK *By: Stephen M. Ksenak	Attorney-in-fact	February 28, 2023

EXHIBIT 3.2

AMENDED BY-LAWS
OF

AMBAC FINANCIAL GROUP, INC.

ARTICLE I.
OFFICES

Section 1.01. ***Registered Office***. The registered office of Ambac Financial Group, Inc. (the "Corporation") in the State of Delaware shall be at the principal office of The Corporation Trust Company in the City of Wilmington, County of New Castle, and the registered agent in charge thereof shall be The Corporation Trust Company.

Section 1.02. ***Other Offices***. The Corporation may also have an office or offices at any other place or places within or without the State of Delaware as the Board of Directors of the Corporation (the "Board") may from time to time determine or the business of the Corporation may from time to time require.

ARTICLE II.
MEETINGS OF STOCKHOLDERS

Section 2.01. ***Place of Meetings***. Meetings of stockholders shall be held at any place within or outside the State of Delaware as designated by the Board. The Board may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the General Corporation Law of the State of Delaware (the "DGCL"). In the absence of any such designation or determination, stockholders' meetings shall be held at the Corporation's principal executive office.

Section 2.02. ***Annual Meetings***. The annual meeting of stockholders of the Corporation for the election of directors of the Corporation ("Directors"), and for the transaction of such other business as may properly come before such meeting, shall be held at such place, if any, on a date and at a time as shall be fixed by the Board and designated in the notice or waiver of notice of such annual meeting. At the annual meeting, the stockholders shall elect Directors and transact such other business as may properly be brought at the meeting. Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only as provided in Section 2.14.

Section 2.03. ***Special Meetings***.

(a) Special meetings of stockholders for any purpose or purposes may be called only by (i) the Board or the Chairman of the Board, the Chief Executive Officer of the Corporation, the President of the Corporation, or (ii) the Secretary of the Corporation (the "Secretary") upon the written request or requests submitted in accordance with, and in the form and containing the information required by, this Section 2.03 (a "Proper Special Meeting Request"), by one or more holders of record of shares of common stock of the Corporation ("Shares") representing, collectively, 25% or more of the voting power of the then issued and outstanding Shares (the "Requisite Percentage"). Any such meeting shall be held on a date, place, if any, and at a time as shall be designated by the Board.

(b) Holders of record of Shares representing, collectively, the Requisite Percentage shall have the right to request that the Secretary call a special meeting of stockholders for the election of Directors or Other Business only if the item or items of business to be transacted at the requested special meeting are a proper subject for stockholder action at a special meeting of stockholders under applicable law and only upon compliance by the requesting stockholders with the provisions of this Section 2.03. In the case of a special

meeting of stockholders called by the Secretary following receipt of a written request or requests from holders of record holding, collectively, the Requisite Percentage in accordance with Section 2.03(a)(ii), the date of such special meeting, as fixed by the Board, shall not be fewer than 45 days nor more than 90 days after the first date by which Proper Special Meeting Request(s) by holders of record holding, collectively, the Requisite Percentage have been received by the Secretary at the Corporation's principal executive office in accordance with this Section 2.03. Nothing in this Section 2.03 shall be deemed or construed to give any stockholder a right to fix the date, time, or place of, or to fix any record date for, any special meeting of stockholders.

(c) To be in proper form and constitute a Proper Special Meeting Request, a special meeting request from any stockholder or stockholders pursuant to Section 2(a)(ii) shall be in writing, shall be submitted by a holder of record of Shares, and shall set forth and describe in fair, accurate, and material detail:

(i) the purpose or purposes for which the meeting is to be called; and

(ii) all Stockholder Information as to (x) each stockholder of record making a special meeting request pursuant to Section 2.03(a)(ii), (y) the Beneficial Owner or Beneficial Owners, if different, on whose behalf such request is given, and (z) any affiliates or associates (each within the meaning of Rule 12b-2 under the Exchange Act, or its successor provision) of such stockholder(s) of record or Beneficial Owner(s) (in each case, a "Requesting Person");

(A) all Disclosable Interests as to each Requesting Person;

(B) all Proposed Nomination Information as to each Proposed Nominee, if a purpose of the special meeting is to elect Directors and the Requesting Person is proposing any Proposed Nominee(s);

(C) all Proposed Business Information, if a purpose of the special meeting is the consideration of any Other Business;

(D) a Holder of Record Representation;

(E) a Proxy Solicitation Representation by or on behalf of each Requesting Person.

The Corporation may require any Proposed Nominee to furnish such other information as it may reasonably require to determine (1) the eligibility of any Proposed Nominee to serve as a Director, and (2) whether such Proposed Nominee qualifies as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation, or any publicly disclosed corporate governance guideline or committee charter of the Corporation.

For purposes of this Section 2.03, capitalized terms used herein but not otherwise defined in this Section 2.03 shall have such meanings as defined in Section 2.14(d); provided, however, that for purposes of this Section 2.03, (x) the term "Requesting Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 2.14(d), (y) references to the date or dates as of which updated or supplemental information is required to be true and correct pursuant to Section 2.14 shall refer to the date or dates as of which updated or supplemental information is required to be true and correct pursuant to Section 2.03(d), and (z) references to the stockholder's notice required by Section 2.14(a) or Section 2.14(b) shall refer to special meeting requests pursuant to Section 2.03(a)(ii).

(d) In the case of a special meeting of stockholders called pursuant to Section 2.03(a)(ii), each Requesting Person shall further update and supplement such Requesting Person's special meeting request(s) so that:

(i) the information provided or required to be provided in such special meeting request(s) pursuant to Section 2.03(c) shall be updated and supplemented to be true and correct as of:

(A) the record date for the determination of stockholders entitled to notice of the special meeting;

(B) if such record date is more than 15 Business Days before the special meeting, as of the date that is 10 Business Days before the special meeting; and

(C) as of the date that is 10 Business Days before the date scheduled for the convening of any postponed special meeting or the reconvening of any adjourned special meeting.

(ii) The time that such updated and supplemental information must be delivered to, or mailed to and received by, the Secretary at the Corporation's principal executive office is as follows:

(A) in the case of information that is required to be updated and supplemented pursuant to Section 2.03(d)(i)(A) to be true and correct as of the record date for the determination of stockholders entitled to notice of the special meeting, not later than the later of (x) 5 Business Days after such record date or (y) 5 Business Days after the Public Announcement of such record date;

(B) in the case of information that is required to be updated and supplemented pursuant to Section 2.03(d)(i)(B) to be true and correct as of the date that is 10 Business Days before the special meeting, not later than 8 Business Days before the special meeting; and

(C) in the case of information that is required to be updated and supplemented pursuant to Section 2.03(d)(i)(C) to be true and correct as of the date that is 10 Business Days before the date scheduled for the convening of any postponed special meeting or the reconvening of any adjourned special meeting, not later than 8 Business Days before the date scheduled for such convening or reconvening of the special meeting; provided, however, if it is not practicable to provide such updated and supplemental information not later than 8 Business Days before the date scheduled for such convening or reconvening, on the first practicable date before any such convening or reconvening.

(e) The Secretary shall not accept, and shall consider ineffective, a special meeting request from a stockholder (i) that does not comply with this Section 2.03, (ii) that relates to an item of business to be transacted at the requested special meeting that is not a proper subject for stockholder action under applicable law, or (iii) if the business proposed to be conducted at the requested special meeting as set forth in such special meeting request is identical to or substantially similar to an item of business that will be submitted for stockholder approval or consideration at any meeting of stockholders to be held on or before the 90th day after the first date by which Proper Special Meeting Request(s) by holders of record of Shares representing, collectively, the Requisite Percentage have been received by the Secretary at the Corporation's principal executive office in accordance with this Section 2.03. The Board shall have the power, if the facts warrant, to determine

whether or not a written request or requests have or have not been submitted in accordance with, and in the form and containing the information required by, this Section 2.03, and if such written request or requests have not been submitted in accordance with, and in the form and containing the information required by, this Section 2.03, to determine that such written request or requests do not constitute Proper Special Meeting Requests as required by this Section 2.03. In addition to the requirements of this Section 2.03, each Requesting Person shall comply with all requirements of applicable law, including all requirements of the Exchange Act, with respect to any special meeting request.

(f) Anything in Section 2.14 to the contrary notwithstanding, in the case of a special meeting of stockholders called pursuant to Section 2.03(a)(ii), if a purpose of such special meeting is to elect Directors to the Board, and a Requesting Person has included in such Requesting Person's Proper Special Meeting Request the name of each Proposed Nominee the Requesting Person proposes to nominate at the requested special meeting for election to the Board, together with all other information required by Section 2.03(c), and so long as the Requesting Person has otherwise complied with this Section 2.03, then the Requesting Person's Proper Special Meeting Request shall be deemed to be, and shall substitute for, the notice contemplated by Section 2.14(b) and such Requesting Person shall be deemed to have given timely notice of such nominations in the proper form for purposes of Section 2.14(b) and otherwise to have complied with the notice procedures set forth in Section 2.14(b)(ii), so long as such Requesting Person provides any updates or supplements to such Proper Special Meeting Request at such times and in the forms required by Section 2.03(d).

(g) Except as expressly provided in, and in accordance with, this Section 2.03, stockholders shall not be permitted to call or cause any officer of the Corporation to call a special meeting of stockholders for the election of Directors or any Other Business. As provided in Section 2.05, the election of Directors and any Other Business may be conducted at a special meeting of stockholders only if such business is brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Section 2.05. Anything in this Section 2.03 to the contrary notwithstanding, in the case of a special meeting of stockholders called pursuant Section 2.03(a)(ii), the Board may submit its own proposal or proposals, including nominations of persons for election to the Board if election of Directors is a purpose of the special meeting, for consideration at such special meeting. At the direction of the Board, such proposal or proposals shall be included in the notice for the special meeting as a purpose or purposes for which the meeting is called. In the case of a special meeting of stockholders called pursuant to this Section 2.03 (whether by the Board, the Chairman of the Board, the Chief Executive Officer, or the President or by the Secretary following receipt of a written request or requests from holders of record of Shares representing, collectively, the Requisite Percentage in accordance with Section 2.03(a)(ii)), if a purpose of such special meeting is to elect Directors to the Board, then stockholders (other than the requesting stockholders who have properly made nominations pursuant to Section 2.03(f) by including such nominations in a Proper Special Meeting Request) may nominate additional candidates for election as Directors only in accordance and subject to compliance with the procedures set forth in Section 2.14(b).

(h) A stockholder may revoke a special meeting request by submitting a written revocation of a special meeting request delivered to, or mailed to and received by, the Secretary at the Corporation's principal executive office at any time before the special meeting (a "Demand Revocation"). The Board shall have the sole discretion to determine whether or not to proceed with the special meeting if after the Secretary's receipt of Proper Special Meeting Request(s) from the holders of record holding, collectively, the Requisite Percentage (i) any Demand Revocation(s) are delivered to or received by the Secretary, or (ii) at any time before the record date for the determination of stockholders entitled to vote at the special meeting, a Requesting Person updates or supplements such Requesting

Person's special meeting request as required by Section 2.03(d), which updated or supplemented request evidences or indicates a reduction in the voting power of the Shares held of record by such Requesting Person, and as a result of such Demand Revocation(s), update, or supplementation, there no longer are unrevoked Proper Special Meeting Requests by holders of record holding, collectively, the Requisite Percentage as required by this Section 2.03.

Section 2.04. ***Fixing Date for Determination of Stockholders of Record***.

(a) Meetings of Stockholders. In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than 60 days nor less than 10 days before the date of such meeting. If the Board so fixes a record date for determining the stockholders entitled to notice of any meeting of stockholders, such date shall also be the record date for determining the stockholders entitled to vote at such meeting, unless the Board determines, at the time it fixes the record date for determining the stockholders entitled to notice of such meeting, that a later date on or before the date of the meeting shall be the record date for determining the stockholders entitled to vote at such meeting. If no record date is fixed by the Board, the record date for determining stockholders entitled to notice of and to vote at any meeting of stockholders or any adjournment thereof shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to receive notice of such adjourned meeting the same or an earlier date as that fixed for determining the stockholders entitled to vote at such adjourned meeting in accordance with the foregoing provisions of this subsection (a) of this Section 2.04.

(b) Dividends and Distributions. In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board may fix, in advance, a record date. Such record date shall not precede the date upon which the resolution fixing such record date is adopted, and shall not be more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be the close of business on the day on which the Board adopts the resolution relating thereto.

Section 2.05. ***Notice of Stockholder Meetings and Adjournment***.

(a) General. Except as otherwise provided by law, a notice of each annual or special meeting of stockholders in the form of a writing or electronic transmission, stating the place, if any, date, and time of such meeting, as well as the record date for determining stockholders entitled to vote at the meeting (if such record date is different from the record date for determining stockholders entitled to notice of the meeting), and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, shall be given to each stockholder entitled to notice of such meeting, not less than 10 days nor more than 60 days before the date of the meeting. Notice of special meetings of stockholders shall also include the purpose or purposes for which the meeting is called. Business transacted at any special meeting of stockholders shall be limited to the purpose or purposes stated in the notice. The Board, acting by resolution, may postpone and reschedule any previously scheduled annual or special meeting of stockholders.

(b) Any notice to stockholders given by the Corporation under this Section 2.05 or any other provision of these By-laws, the certificate of incorporation, or applicable Delaware law may be given in writing directed to the stockholder's mailing address (or by electronic transmission directed to the stockholder's electronic mail address, as applicable) as it appears on the records of the Corporation and shall be deemed given (1) if mailed, when the notice is deposited in the U.S. mail, postage prepaid, (2) if delivered by courier service to the stockholder's mailing address, the earlier of when the notice is received or left at such stockholder's address or (3) if given by electronic mail, when directed to such stockholder's electronic mail address unless the stockholder has notified the corporation in writing or by electronic transmission of an objection to receiving notice by electronic mail. A notice by electronic mail must include a prominent legend that the communication is an important notice regarding the corporation. In addition, any notice to stockholders given by the Corporation under this Section 2.05 or any other provision of these By-laws, the certificate of incorporation, or applicable Delaware law shall also be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given, and any such notice shall be deemed given: (1) if by facsimile telecommunication, when directed to a facsimile telecommunication number at which the stockholder has consented to receive notice; (2) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (3) if by any other form of electronic transmission, when directed to the stockholder. Any consent by a stockholder to receive notice in a form of electronic transmission shall be revocable by the stockholder by written notice or electronic transmission to the Corporation. Notwithstanding the foregoing, the Corporation shall not give notice to a stockholder by an electronic transmission (including by electronic mail) from and after the time that (1) the Corporation is unable to deliver by such electronic transmission two consecutive notices given by the Corporation and (2) such inability becomes known to the Secretary or an Assistant Secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice, provided, however, that the inadvertent failure to discover such inability shall not invalidate any meeting or other action. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Corporation that notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

(c) Adjournments. When any meeting is convened, the presiding officer of the meeting may adjourn or recess the meeting if (i) no quorum is present for the transaction of business, (ii) the Board determines that adjournment is necessary or appropriate to enable the stockholders to consider fully information which the Board determines has not been made sufficiently or timely available to stockholders, or (iii) the Board or presiding officer determines that adjournment is otherwise in the best interests of the Corporation. Whenever a meeting of stockholders, annual or special, is adjourned to another date, time or place, notice need not be given of the adjourned meeting if the date, time and place thereof are announced at the meeting at which the adjournment is taken. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote thereat. At the meeting following the recess or adjournment of the original meeting, any business may be transacted which might have been transacted at such original meeting.

Section 2.06. ***Waiver of Notice***. Notice of any annual or special meeting of stockholders need not be given to any stockholder who files with the Secretary, a written waiver of notice, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after such meeting. Neither the business to be transacted at, nor the purpose of, any meetings of stockholders need to be specified in any written waiver of notice thereof. Attendance of a stockholder at a meeting, in person or by proxy, shall constitute a waiver of notice of such meeting, except when such stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting,

to the transaction of any business on the grounds that the notice of such meeting was inadequate or improperly given.

Section 2.07. ***Postponement or Cancellation of Meeting***. Any previously scheduled meeting of the stockholders may be postponed and rescheduled, and, unless the Certificate of Incorporation of the Corporation (the "Certificate of Incorporation") otherwise provides, any special meeting of stockholders, other than special meetings called pursuant to Section 2.03(a)(ii), may be canceled by resolution of the Board upon public notice given prior to the date previously scheduled for such meeting.

Section 2.08. ***Quorum***. Except as otherwise required by law or the Certificate of Incorporation, the holders of record of a majority of the voting power of the Shares entitled to vote thereat, present in person or by proxy, shall constitute a quorum for the transaction of business at all meetings of stockholders, whether annual or special. If, however, such quorum shall not be present in person or by proxy at any meeting of stockholders, the presiding officer at the meeting in accordance with Section 2.05(b) hereof or the stockholders entitled to vote thereat may adjourn the meeting from time to time until a quorum shall be present in person or by proxy. To the fullest extent permitted by law, when a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any stockholder.

Section 2.09. ***Voting***.

(a) Except as otherwise provided in the Certificate of Incorporation, each stockholder shall be entitled to one vote for each Share held of record by such stockholder. Unless a greater number of affirmative votes is required by the Certificate of Incorporation, these By-laws, the rules or regulations of any stock exchange upon which the equity securities of the Corporation are listed for trading, or as otherwise required by law, if a quorum exists at any meeting of stockholders, stockholders shall have approved any matter, other than the election of Directors, if the votes cast by stockholders present in person or represented by proxy at the meeting and entitled to vote on the matter in favor of such matter exceed the votes cast by such stockholders against such matter. If any holders of any class or series of the Corporation's capital stock shall be entitled to more or less than one vote for any share of capital stock, on any matter for which such holders are entitled to vote, every reference in these By-laws to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

(b) In an election of Directors which is not a contested election, if a quorum exists, each nominee to be elected by stockholders shall be elected if the votes cast in favor of such nominee exceed the votes cast by such stockholders against such nominee. If a Director in an uncontested election does not receive a majority of votes cast for his or her election, the Director shall, within ten (10) business days of certification of election results, submit to the Board of Directors a letter of resignation for consideration by the Governance and Nominating Committee. The Governance and Nominating Committee shall promptly assess the appropriateness of such nominee's continuing to serve as a Director and recommend to the Board of Director the action to be taken with respect to such tendered resignation. The Board of Directors shall determine whether to accept or reject such resignation within ninety (90) days from the date of the certification of election results.

(c) In cases where, as of the tenth (10th) day preceding the date on which the Corporation first mails its notice for a meeting at which Directors are being elected, the number of nominees for Director exceeds the number of Directors to be elected (as determined by the Secretary), if a quorum exists, each nominee to be elected by stockholders shall be elected by a plurality of the votes cast.

(d) In the event the Corporation receives proxies for disqualified or withdrawn nominees for the Board of Directors, votes in such proxies for such disqualified or withdrawn nominees shall be treated as abstentions.

Section 2.10. ***Proxies***. Each stockholder entitled to vote at a meeting of stockholders or to express, in writing, consent to or dissent from any action of stockholders without a meeting may authorize another person or persons to act for such stockholder by proxy. Without limiting the manner in which a stockholder may authorize another person or persons to act for such stockholder as proxy, the following shall constitute valid means by which a stockholder may grant such authority: (a) a stockholder or his or her authorized officer, director, employee or agent may execute a document authorizing another person or persons to act for such stockholder as proxy; and (b) a stockholder may authorize another person or persons to act for such stockholder as proxy by transmitting or authorizing the transmission of an electronic transmission to the person or persons who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization, or like agent duly authorized by the person or persons who will be the holder(s) of the proxy to receive such transmission; provided, however, that any such electronic transmission must either set forth or be submitted with information from which it can be determined that the transmission was authorized by the stockholder. If it is determined that any such electronic transmission is valid, the inspectors or, if there are no inspectors, such other persons making that determination, shall specify the information upon which they relied. No proxy shall be voted or acted upon more than three years from its date, unless the proxy provides for a longer period. Each proxy shall be delivered to the inspectors of election prior to or at the meeting. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by filing a subsequent duly executed proxy with the Secretary. Any copy, facsimile telecommunication, or other reliable reproduction of a document (including any electronic transmission) authorizing another person or persons to act as proxy for a stockholder may be substituted or used in lieu of the original document for any and all purposes for which the original document could be used; provided, however, that such copy, facsimile telecommunication, or other reproduction shall be a complete reproduction of the entire original document.

Section 2.11. ***Presiding Officer and Secretary at Meetings***. At any meeting of stockholders, the Chairman, or in his absence, the President, or if neither such person is available, then a person designated by the Board, shall preside at and act as the presiding officer of the meeting. The Secretary, or in his or her absence a person designated by the presiding officer, shall act as secretary of the meeting. The presiding officer of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including regulation of the manner of voting, the conduct of discussion, and the propriety of any proposal brought before the meeting. The Board may adopt by resolution rules, regulations, and procedures for the conduct of any meeting of stockholders. Except to the extent inconsistent with any such rules, regulations, and procedures, the presiding officer of the meeting shall have the right and authority to prescribe such rules, regulations, and procedures for the conduct of the meeting (which need not be in writing) and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the polls for each matter upon which stockholders will vote at the meeting.

Section 2.12. ***Inspectors of Election***. The votes at each meeting of stockholders shall be supervised by not less than two inspectors of election who shall decide all questions respecting the qualification of voters, the validity of the proxies and the acceptance or rejection of votes. The Board shall, in advance of any meeting of stockholders, appoint two or more inspectors of election to act at the meeting and make a written report thereof. The Board may designate one or more persons as alternate inspectors to replace any inspector who fails to act. In the event that there are less than two inspectors present and acting at any meeting, the presiding officer shall appoint an additional inspector or inspectors so that there shall always be at least two inspectors to act at the meeting. Each inspector, before entering upon the discharge of this or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors. Notwithstanding the foregoing, the presiding officer may review all

determinations made by the inspectors, and in so doing the presiding officer shall be entitled to exercise his or her sole judgment and discretion and he or she shall not be bound by any determinations made by the inspectors. All determinations by the inspectors and, if applicable, the presiding officer, shall be subject to further review by any court of competent jurisdiction.

Section 2.13. ***List of Stockholders***. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; provided, however, if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the list will reflect the stockholders entitled to vote as of the 10th day before the meeting date, arranged in alphabetical order, and showing the address of each stockholder and the number of Shares registered in the name of each stockholder. Nothing contained in this Section shall require the Corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting at the Corporation's discretion, either (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. The stock ledger shall be the only evidence of the identity of the stockholders entitled to examine such list.

Section 2.14. ***Submission of Nominations and Proposed Business For Consideration at Meetings of Stockholders***.

(a) Annual Meetings of Stockholders.

(i) Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders may be made for consideration and voting at an annual meeting of stockholders only (A) pursuant to the Corporation's notice of meeting (or any supplement thereto), (B) by or at the direction of the Board, or (C) by any stockholder (x) who was a stockholder of record (and, with respect to any Beneficial Owner, if different, on whose behalf such business is proposed or such nomination or nominations are made by such stockholder of record, only if such Beneficial Owner was the Beneficial Owner of Shares) both at the time the notice provided for in Section 2.14(a)(ii) and Section 2.14(a)(iii) is delivered to the Secretary and on the record date for the determination of stockholders entitled to vote at the meeting; (y) who is entitled to vote at the meeting upon such election of Directors or upon such business, as the case may be; and (z) who complies with the notice procedures and other requirements set forth in Section 2.14(a)(ii) and Section 2.14(a)(iii). Except as otherwise expressly provided in the Certificate of Incorporation or pursuant to applicable law, the foregoing provisions of clause (C) provide the exclusive means by which a stockholder may make nominations of persons for election to the Board to be considered and voted upon by the stockholders at an annual meeting of stockholders. Except for proposals properly made in accordance with Rule 14a-8 under the Exchange Act, and the rules and regulations thereunder, and included in the notice of meeting given by or at the direction of the Board, the foregoing provisions of clause (C) provide the exclusive means by which a stockholder may propose business to be brought before an annual meeting of stockholders. In addition, for business (other than the nomination of persons for election to the Board) to be properly brought before an annual meeting by a stockholder, such business must be a proper matter for stockholder action pursuant to the Certificate of Incorporation, these By-laws, and applicable law.

(ii) For nominations or other business to be properly brought before an annual meeting of stockholders by a stockholder, the stockholder (A) must have given

timely notice thereof in writing and in proper form to the Secretary at the Corporation's principal executive office, and (B) must provide any updates or supplements to such notice at such times and in the forms required by this Section 2.14. To be timely, a stockholder's notice relating to an annual meeting shall be delivered to, or mailed to and received by, the Secretary at the Corporation's principal executive office not later than the close of business on the 60th day, and not earlier than the close of business on the 90th day, before the date of the one-year anniversary of the immediately preceding year's annual meeting; provided, however, that if the date of the annual meeting is more than 30 days before, or more than 30 days after, such anniversary date, notice by the stockholder must be so delivered, or mailed and received, not earlier than the close of business on the 90th day before such annual meeting and not later than the close of business on the later of (x) the 60th day before such annual meeting or (y) the 15th day following the day on which Public Announcement of the date of such meeting is first made by the Corporation. In no event shall the Public Announcement of an adjournment or postponement of an annual meeting of stockholders commence a new time period (or extend any time period) for the giving of a stockholder's notice as described in this Section 2.14(a)(ii).

(iii) To be in proper form for purposes of this Section 2.14, a stockholder's notice to the Secretary (whether pursuant to this Section 2.14(a) or Section 2.14(b)) must be submitted in writing by a holder of record of Shares and set forth and describe in fair, accurate, and material detail:

(A) all Stockholder Information as to each Proposing Person;

(B) all Disclosable Interests as to each Proposing Person;

(C) all Proposed Nomination Information as to each Proposed Nominee, if the notice pertains to a Proposed Nominee;

(D) all Proposed Business Information, if the notice relates to any Other Business;

(E) a Holder of Record Representation;

(F) a Proxy Solicitation Representation by or on behalf of each Proposing Person; and

(G) a completed and signed questionnaire with respect to the background and qualification of such nominee (which questionnaire shall be provided by the Secretary of the Corporation within ten (10) days of receipt of the notice provided in Section 2.14(a)(ii)).

(iv) Notwithstanding anything in the second sentence of Section 2.14(a)(ii) to the contrary, if (A) the number of Directors to be elected to the Board at an annual meeting is increased after the Corporation has made Public Announcement of the number of Directors to be elected at such meeting or the size of the Board is increased, and (B) there is no Public Announcement by the Corporation naming all persons the Board nominated for Director or specifying the size of the increased Board at least 75 days before the one-year anniversary of the preceding year's annual meeting, then a stockholder's notice required by this Section 2.14 shall also be considered timely, but only with respect to Proposed Nominees for any new positions created by such increase, if it shall be delivered to, or mailed to and received by, the Secretary at the Corporation's principal executive office not later than the close of business on the 15th day following the day on which Public Announcement of such increase is first made by the Corporation.

(v) Only such persons who are nominated in accordance with the procedures and other provisions set forth in Section 2.14(a) (expressly including those persons nominated by or at the direction of the Board) shall be eligible to be elected at an annual meeting of stockholders to serve as Directors. Only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures and other provisions set forth or referred to in Section 2.14(a). Except as otherwise provided by applicable law, the presiding officer of an annual meeting of stockholders shall have the power and duty (A) if the facts warrant, to determine that a nomination or any business proposed to be brought before the annual meeting was not made or was not proposed, as the case may be, in accordance with the procedures set forth in this Section 2.14(a), and (B) if any proposed nomination or business was not made or was not proposed, as the case may be, in compliance with this Section 2.14(a), to declare that such nomination shall be disregarded or that such proposed business shall not be transacted.

(vi) A stockholder or other Proposing Person shall provide written notice to the Secretary of the Corporation promptly, and in any event within two (2) business days, after becoming aware that any part of the Proxy Statement Representation made by such stockholder or other Proposing Person shall not be true and correct.

(b) Additional Nominations In Connection With Special Meetings Of Stockholders At Which Directors Are To Be Elected.

(i) Nominations of persons for election to the Board may be made for consideration and voting at a special meeting of stockholders at which Directors are to be elected pursuant to the Corporation's notice of meeting only (A) by or at the direction of the Board or (B) if a purpose for such meeting as stated in the Corporation's notice for such meeting is the election of one or more Directors, by any stockholder (x) who was a stockholder of record (and, with respect to any Beneficial Owner, if different, on whose behalf such nomination or nominations are made by such stockholder of record, only if such Beneficial Owner was the Beneficial Owner of Shares) both at the time the notice provided for in Section 2.14(b)(ii) is delivered to the Secretary and on the record date for the determination of stockholders entitled to vote at the special meeting; (y) who is entitled to vote at the meeting in such election; and (z) who complies with the notice procedures set forth in Section 2.14(b)(ii); provided, however, that a stockholder may nominate persons for election at a special meeting of stockholders only to such position(s) as specified in the Corporation's notice of the meeting.

(ii) If a special meeting of stockholders has been called in accordance with Section 2.03 for the purpose of electing one or more Directors to the Board, then for nominations of Proposed Nominees for election to the Board to be properly brought before such special meeting by a stockholder pursuant to Section 2.14(b)(i)(B), the stockholder (A) must have given timely notice thereof in writing and in the proper form to the Secretary at the Corporation's principal executive office, and (B) must provide any updates or supplements to such notice at such times and in the forms required by this Section 2.14. To be timely, a stockholder's notice relating to a special meeting of stockholders shall be delivered to, or mailed to and received by, the Secretary at the Corporation's principal executive office not earlier than the close of business on the 90th day before such special meeting and not later than the close of business on the later of (x) the 60th day before such special meeting or (y) the 15th day following the day on which Public Announcement is first made by the Corporation of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. In no event shall the Public Announcement of an adjournment or

postponement of a special meeting of stockholders commence a new time period (or extend any time period) for the giving of a stockholder's notice as described in this Section 2.14(b)(ii). To be in proper form for purposes of this Section 2.14(b), such notice shall set forth the information required by clauses (A), (B), (C), (E), and (F) of Section 2.14(a)(iii). For the avoidance of doubt, notice of Proposed Nominees for election to the Board included in a stockholder request for a special meeting of stockholders submitted in accordance with Sections 2.03(a)(ii) and 2.03(c) shall be deemed timely and in proper form as set forth in Section 2.03(f).

(iii) Only such persons who are nominated in accordance with the procedures and other provisions set forth in this Section 2.14(b) (expressly including those persons nominated by or at the direction of the Board) shall be eligible to be elected at a special meeting of stockholders to serve as Directors. Except as otherwise provided by applicable law, the presiding officer of a special meeting of stockholders shall have the power and duty (A) if the facts warrant, to determine that a nomination proposed to be made at the special meeting was not made in accordance with the procedures set forth in this Section 2.14(b), and (B) if any proposed nomination was not made in compliance with this Section 2.14(b), to declare that such nomination shall be disregarded.

(c) General.

(i) A stockholder providing notice of nominations of Proposed Nominees for election to the Board at an annual or special meeting of stockholders or notice of business proposed to be brought before an annual meeting of stockholders shall further update and supplement such notice so that all the information required to be provided in such notice pursuant to Section 2.14(a)(iii) (including, in the case of notice of nominations of Proposed Nominees in connection with a special meeting of stockholders, the information required to be provided in such notice pursuant to Section 2.14(b)(i)) shall be true and correct as of:

(A) the record date for the determination of stockholders entitled to notice of the meeting;

(B) if such record date is more than 15 Business Days before the meeting, then as of the date that is 10 Business Days before the meeting; and

(C) as of the date that is 10 Business Days before the date scheduled for the convening of any postponed meeting or the reconvening of any adjourned meeting.

(ii) The time that such updated and supplemental information must be delivered to, or mailed to and received by, the Secretary at the Corporation's principal executive office is as follows:

(A) in the case of information that is required to be updated and supplemented pursuant to Section 2.14(c)(i)(A) to be true and correct as of the record date for the determination of stockholders entitled to notice of the meeting, not later than the later of (x) 5 Business Days after such record date or (y) 5 Business Days after the Public Announcement of such record date; and

(B) in the case of information that is required to be updated and supplemented pursuant to Section 2.14(c)(i)(B) to be true and correct as of the date that is 10 Business Days before the meeting, not later than 8 Business Days before the meeting; and

(C) in the case of information that is required to be updated and supplemented pursuant to Section 2.14(c)(i)(C) to be true and correct as of the date that is 10 Business Days before the date scheduled for the convening of any postponed meeting or the reconvening of any adjourned meeting, not later than 8 Business Days before the date scheduled for such convening or reconvening of the meeting; provided, however, if it is not practicable to provide such updated and supplemental information not later than 8 Business Days before the date scheduled for such convening or reconvening, on the first practicable date before any such convening or reconvening.

(iii) The Corporation may require any Proposed Nominee to furnish such other information as it may reasonably require to determine (A) the eligibility of such Proposed Nominee to serve as a Director, and (B) whether such Proposed Nominee qualifies as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation, or any publicly disclosed corporate governance guideline or committee charter of the Corporation.

(iv) Notwithstanding the foregoing provisions of this Section 2.14, unless otherwise required by applicable law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders to present a nomination or proposed business that such stockholder has proposed in accordance with this Section 2.14, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 2.14, to be considered a qualified representative of the stockholder, a Person must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such Person must produce to the Secretary or inspector of elections such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(v) Section 2.14(a) is expressly intended to apply to any business proposed to be brought before an annual meeting of stockholders other than any proposal made pursuant to Rule 14a-8 under the Exchange Act. Nothing in this Section 2.14 shall be deemed to (A) affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor thereto) promulgated under the Exchange Act, (B) confer upon any stockholder a right to have a nominee or any proposed business included in the Corporation's proxy statement, or (C) affect the rights of the holders of any class or series of shares of capital stock of the Corporation having a preference over the common stock of the Corporation, as to dividends or upon liquidation, to nominate and elect Directors pursuant to and to the extent provided in any applicable provisions of the Certificate of Incorporation.

(d) Definitions. As used in these By-laws, the following capitalized terms shall have the following meanings:

(i) A Person shall be deemed to be the "Beneficial Owner" of, to "Beneficially Own" or to have "Beneficial Ownership" of any Referenced Securities of the Corporation (A) that such Person or any of such Person's affiliates or associates beneficially owns, directly or indirectly, for purposes of Section 13(d) of the Exchange Act and Rule 13d-3 thereunder (or any comparable or successor law or regulation); (B) that such Person or any of such Person's affiliates or associates has (x) the right to acquire (whether such right is exercisable immediately or only

after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing), or upon the exercise of conversion, exchange purchase rights, warrants or options, or otherwise; (y) the right to vote or to direct the vote of, pursuant to any agreement, arrangement or understanding, whether or not in writing; or (z) the right to dispose, direct, or cause the disposition of, pursuant to any agreement, arrangement or understanding, whether or not in writing; or (C) that are beneficially owned, directly or indirectly, by any other Person or any affiliate or associate thereof with which such Person or any of such Person's affiliates or associates has any agreement, arrangement or understanding, whether or not in writing for the purpose of acquiring, holding, voting or disposing of any such Referenced Securities of the Corporation.

(ii) "Business Day" shall mean a day, other than Saturday, Sunday, or public holidays in the United States of America.

(iii) "Derivative Instrument" shall mean any option, warrant, convertible security, stock appreciation right, future, forward, swap, borrowing or financing agreement or arrangement, synthetic arrangement or similar right, agreement or arrangement (whether or not currently exercisable and whether written or oral) with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any Referenced Securities of an entity, or with a value derived in whole or in part from the value of any Referenced Securities of an entity, including by reference to the market price, volatility, dividend, or interest rate or other attribute, whether or not such instrument or right shall be subject to settlement through delivery of (or otherwise with respect to) the underlying Referenced Securities, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of Referenced Securities of an entity, including by reference to the market price, volatility, dividend or interest rate or other attribute, including but not limited to "derivative securities" as defined under Rule 16a-1 under the Exchange Act; provided, however, that Derivative Instrument shall not include interests in broad-based index options, broad-based index futures, and broad-based publicly traded market baskets of stocks approved for trading by the appropriate federal governmental authority.

(iv) "Disclosable Interests" shall mean with respect to each Proposing Person: (A) (i) all Long Interests, (ii) all Short Interests, (iii) all indebtedness and other obligations of the Corporation or any of the Corporation's Subsidiaries, and (iv) all Synthetic Interests with respect to any Referenced Securities of the Corporation or any of its Subsidiaries, in each case (i) through (iv), in which that Proposing Person, directly or indirectly, holds an interest; (B) any proxy (other than a revocable proxy given in response to a public proxy solicitation made pursuant to, and in accordance with, the Exchange Act), agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has or shares a right to, directly or indirectly, vote or direct or cause any third party to vote any Shares; (C) any rights to dividends or other distributions on or with respect to Shares, directly or indirectly, Beneficially Owned by such Proposing Person that are separated or separable from the underlying Shares; (D) any carried interest, profits interest or other performance-related fees (other than an asset based fee) to which such Proposing Person, directly or indirectly, is entitled based on any past, present or future increase or decrease in the value of any Referenced Securities of the Corporation or any of its Subsidiaries and/or Synthetic Interest with respect to any Referenced Security of the Corporation or any of its Subsidiaries; (E) any significant interest in any shares of capital stock, other securities, obligations or indebtedness of or Synthetic Interest in any one or more of the principal competitors or members of the peer group of the Corporation or any of its Subsidiaries (as set forth in the most recent annual report or annual meeting proxy statement, as the case may be, of the Corporation) directly or

indirectly held or beneficially owned by such Proposing Person and the class, series, number and, if applicable, principal amount of shares of capital stock, other securities, obligations or indebtedness relating to any such interest; (F) any significant interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship), by security holdings or otherwise, of such Proposing Person, in the Corporation or any Subsidiary thereof, or in their respective obligations, other than an interest arising from ownership of any Referenced Securities where such Proposing Person receives no additional or special benefit not shared on a pro rata basis by all other holders of the same class or series of such securities; and (G) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the nominations or business proposed to be brought before the meeting pursuant to Regulation 14A under the Exchange Act, including without limitation, for purposes of clauses (A) through (G) of this Section 2.14(d)(iv), any of the foregoing held by or otherwise applicable to any member of such Proposing Person's immediate family sharing the same household. With respect to the interests described in clauses (A)(i) through (A)(iv) of this Section 2.14(d)(iv), Disclosable Interests shall also include, without limitation, (x) the date on which the Proposing Person acquired an interest, directly or indirectly, in any Referenced Securities of the Corporation or any of its Subsidiaries and/or Synthetic Interest with respect to any Referenced Securities of the Corporation or any of its Subsidiaries, as applicable, and (y) the initial and present investment intent as to such interests. With respect to any Synthetic Interest, Disclosable Interests shall also include, without limitation, the identification of the counterparty to and any other participant in each such Synthetic Interest and whether (1) such Synthetic Interest conveys to such Proposing Person any voting rights, directly or indirectly, in any Referenced Securities of the Corporation or any of its Subsidiaries, (2) such Synthetic Interest is required to be, or is capable of being, settled through delivery of (or otherwise with respect to) Referenced Securities of the Corporation or any of its Subsidiaries, and (3) such Proposing Person, counterparty, or any other participant in such Synthetic Interest has entered into other transactions, agreements, arrangements, understandings, or relationships that hedge, mitigate, or otherwise alter or affect the economic effect of such Synthetic Interest. Notwithstanding anything to the contrary in this Section 2.14(d)(iv), Disclosable Interests shall not include any such disclosures with respect to the ordinary course of business activities of any broker, dealer, commercial bank, or trust company (or nominee for any of them) who is a Proposing Person solely as a result of being the stockholder directed to prepare and submit the notice required by these By-laws on behalf of a Beneficial Owner.

(v) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(vi) "Holder of Record Representation" shall mean a representation by each Proposing Person who is giving the required notice to the Secretary pursuant to Section 2.14(a) or Section 2.14(b): (A) that the notice the Proposing Person is giving to the Secretary is being given on behalf of (x) such holder of record and/or (y) one or more Beneficial Owners of Shares held of record by such holder of record, (B) as to each such Beneficial Owner, the number of Shares held of record by such holder of record that are Beneficially Owned by such Beneficial Owner, with documentary evidence of such Beneficial Ownership, (C) that such holder of record is entitled to vote at such meeting and intends to appear (or have a qualified representative appear in accordance with Section 2.14(c)(iv)) at the meeting to propose such business or nomination and (D) that the Proposing Person acknowledges that, if such holder of record (or a qualified representative thereof) does not appear (including virtually, in the case of a meeting conducted

by means of remote communication) to present such business or nomination(s) at such meeting, the Corporation need not present such business or nomination(s) for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(vii) "Long Interest" shall mean all securities, including securities that are not equity securities, of the Corporation that are Beneficially Owned, other than a Synthetic Long Interest.

(viii) "Other Business" shall mean business other than the nomination of persons for election to the Board that the stockholder proposes to bring at a meeting.

(ix) "Person" shall mean a natural person, corporation, partnership (general or limited), limited liability company, firm, estate, trust, common or collective fund, association, unincorporated organization, private foundation, joint stock company, or other organization or entity.

(x) "Proposed Business Information" shall mean with respect to any Other Business: (A) a reasonably brief description of the business desired to be brought at the meeting; (B) the text of the proposal or business (including the text of any resolutions proposed for consideration and if such business includes a proposal to amend these By-laws, the language of the proposed amendment); (C) the reasons for conducting such business at the meeting; (D) any present or prospective material interest in such business of each Proposing Person; and (E) a summary of any material agreements, arrangements, and understandings regarding the business proposed to be brought at the meeting (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other record or Beneficial Owner of any Referenced Securities of the Corporation and/or Synthetic Interest or any other Person or Persons (including their names).

(xi) "Proposed Nomination Information" shall mean with respect to any Proposed Nominee: (A) the name, age, business and residence address, and principal occupation or employment, of the Proposed Nominee; (B) all other information relating to the Proposed Nominee that would be required to be disclosed about such Proposed Nominee if proxies were being solicited for the election of the Proposed Nominee as a Director in an election contest (whether or not such proxies are or will be solicited), or that is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Exchange Act; (C) such Proposed Nominee's written consent to being named in the proxy statement and on the proxy card, in each case, if any, as a Proposed Nominee and to serving as a Director if elected; and (D) all information with respect to such Proposed Nominee that would be required to be set forth in a stockholder's notice pursuant to this Section 2.14 if such Proposed Nominee were a Proposing Person.

(xii) "Proposed Nominee" shall mean a person or persons nominated by a stockholder or stockholders for election to the Board in accordance with these By-laws.

(xiii) "Proposing Person" shall mean (A) the stockholder or stockholders of record giving the notice required by Section 2.14(a) or Section 2.14(b), (B) the Beneficial Owner or Beneficial Owners, if different, on whose behalf such notice is given, and (C) any affiliates or associates (each within the meaning of Rule 12b-2 under the Exchange Act, or its successor provision) of such stockholder(s) of record or Beneficial Owner(s).

(xiv) "Proxy Solicitation Representation" shall mean a representation that the stockholder giving notice and any other Proposing Person that intends to solicit proxies in support of director nominees other than the Corporation's nominees

will (A) solicit proxies from holders of the Corporation's outstanding capital stock representing at least 67% of the voting power of shares of capital stock entitled to vote on the election of Directors, (B) include a statement to that effect in its proxy statement and/or the form of proxy, (C) otherwise comply with Rule 14a-19 promulgated under the Exchange Act and (D) provide the Secretary of the Corporation not less than five (5) business days prior to the meeting or any adjournment, postponement or rescheduling thereof, with reasonable documentary evidence (as determined by the Secretary in good faith) that such stockholder and other Proposing Persons complied with such representations.

(xv) "Public Announcement" shall mean disclosure by the Corporation in a press release reported by the Dow Jones News Service, Associated Press, Bloomberg, or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14, or 15(d) of the Exchange Act.

(xvi) "Referenced Securities" shall mean shares of any class or series of capital stock, other securities, obligations, indebtedness of, or any other legal or beneficial interest in, an entity, whether or not such instrument or right constitutes a "security" under the Exchange Act.

(xvii) "Short Interest" shall mean any short sale within the meaning of Rule 200 of the Exchange Act, any sale of borrowed securities, "naked short sale" or any other short interest in any security (including a security that is not an equity security) of the Corporation, other than a Synthetic Short Interest.

(xviii) "Stockholder Information" shall mean as to each Proposing Person (A) the name and address of such Proposing Person (including, if applicable, the name and address that appear on the Corporation's books and records); and (B) the class or series and number of shares of capital stock of the Corporation or any of its Subsidiaries that are, directly or indirectly, owned of record or Beneficially Owned by such Proposing Person.

(xix) "Subsidiary" or "Subsidiaries" shall mean any corporation, limited liability company, partnership, or other business organization in which the Corporation controls more than 50% of the voting power.

(xx) "Synthetic Interest" shall mean any Synthetic Long Interest or Synthetic Short Interest.

(xxi) "Synthetic Long Interest" shall mean any Derivative Instrument that represents an opportunity to profit or share in any profit derived from any increase in the value of Referenced Securities of an entity, other than a Long Interest.

(xxii) "Synthetic Short Interest" shall mean any Derivative Instrument that represents an opportunity to profit or share in any profit derived from any decrease in the value of Referenced Securities of an entity, other than any Short Interest.

Section 2.15. ***Stockholders' Consent in Lieu of Meeting***.

(a) Consents to Corporate Action. Unless otherwise provided by the Certificate of Incorporation, any action which is required to be or may be taken at any annual or special meeting of stockholders, subject to the provisions of paragraphs (b) and (c) of this Section 2.15, may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, shall have been signed by the holders of the outstanding Shares having not less than the minimum number of votes that would be necessary to authorize or to take such action at a meeting at which all

Shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to its registered office in the State of Delaware or its principal place of business, or to an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. Prompt notice of the taking of the corporate action without a meeting and by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that consents in writing signed by a sufficient number of the holders to take the action were delivered to the Corporation.

(b) Determination of Record Date of Action by Consent. In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting (including by electronic transmission as permitted by law), the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request that the Board fix a record date. The Board shall promptly adopt a resolution fixing the record date; provided, however, if no record date has been fixed by the Board within 10 days of the date on which such request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware or its principal place of business, or to an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery shall occur as set forth in Section 2.15(a). If no record date has been fixed by the Board and prior action by the Board is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board adopts the resolution taking such prior action.

(c) Electronic Transmission. An electronic transmission consenting to an action to be taken and transmitted by a stockholder or proxyholder, or by a person or persons authorized to act for a stockholder or proxyholder, shall be deemed to be written and signed for the purposes of this Section 2.15; provided, however, that any such electronic transmission sets forth or is delivered with information from which the Corporation can determine (i) that the electronic transmission was transmitted by the stockholder or proxyholder or by a person or persons authorized to act for the stockholder or proxyholder, and (ii) the date on which such stockholder or proxyholder or authorized person or persons transmitted such electronic transmission. The date on which such electronic transmission is transmitted shall be deemed to be the date on which such consent was signed. A consent given by electronic transmission is delivered to the Corporation upon the earliest of: (i) when the consent enters an information processing system, if any, designated by the Corporation for receiving consents, so long as the electronic transmission is in a form capable of being processed by that system and the Corporation is able to retrieve that electronic transmission; (ii) when a paper reproduction of the consent is delivered to the Corporation's principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded; (iii) when a paper reproduction of the consent is delivered to the Corporation's registered office in the State of Delaware by hand or by certified or registered mail, return receipt requested; or (iv) when delivered in such other manner, if any, provided by resolution of the Board. A consent given by electronic transmission is delivered under this Section 2.15 even if no person is aware of its receipt. Receipt of an electronic acknowledgement

from an information processing system establishes that a consent given by electronic transmission was received but, by itself, does not establish that the content sent corresponds to the content received.

(d) Copy, Facsimile, or Other Reproduction. Any copy, facsimile, or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used; provided, however, that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

(e) Procedures for Written Consent. In the event of the delivery to the Corporation of a written consent or consents purporting to represent the requisite voting power to authorize or take corporate action and/or related revocations, the Secretary shall provide for safekeeping of such consents and revocations and shall, as promptly as practicable, engage nationally recognized independent judges of election for the purpose of promptly performing a ministerial review of the validity of the consents and revocations. No action by written consent and without a meeting shall be effective until such judges have completed their review, determined that the requisite number of valid and unrevoked consents has been obtained to authorize or take action specified in the consents, and certified such determination for entry in the records of the Corporation kept for the purpose of recording the proceedings of meetings of stockholders.

Section 2.16. ***Remote Communication***.

(a) In lieu of holding an annual or special meeting of stockholders at a designated place as set forth in Section 2.01, the Board may, in its sole discretion, determine that any annual or special meeting of stockholders may be held solely by means of remote communication.

(b) If authorized by the Board, in its sole discretion, and subject to such guidelines and procedures as the Board may adopt, stockholders and proxyholders may, by means of remote communication:

(i) participate in a meeting of stockholders, whether such meeting is held at a designated place or solely by means of remote communication; and

(ii) be deemed present in person and vote at a meeting of stockholders, whether such meeting is to be held at a designated place or solely by means of remote communication; provided, however, that (A) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (B) the Corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (C) if any stockholder or proxyholder votes or takes action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

ARTICLE III.
BOARD OF DIRECTORS

Section 3.01. ***General Powers***. The business and affairs of the Corporation shall be managed by the Board or under the direction of the Board, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law, the Certificate of Incorporation or these By-laws directed or required to be exercised or done by stockholders.

Section 3.02. ***Number and Term of Office***. The Board shall consist of five Directors, or such other number as shall be fixed from time to time by resolution of the Board. Directors need not be stockholders. Directors shall be elected at the annual meeting of stockholders, and each Director shall hold office until his successor is elected and qualified, or until his earlier death or resignation or removal in the manner hereinafter provided.

Section 3.03. ***Resignation***. Any Director may resign at any time by giving notice in writing or by electronic transmission to the Board, the Chairman or the Secretary; provided, however, that if such notice is given by electronic transmission, such electronic transmission must set forth (or be submitted with) information from which it can be determined by the Board that the electronic transmission was authorized by the director. Such resignation shall take effect at the time specified in such notice or, if the time is not specified, upon receipt thereof by the Board, the Chairman or the Secretary, as the case may be. Unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective.

Section 3.04. ***Removal***. Any or all of the Directors may be removed, with or without cause, at any time by vote of the holders of record of a majority of the Shares then entitled to vote at an election of Directors, or by written consent of the holders of record of voting Shares pursuant to Section 2.14 hereof.

Section 3.05. ***Vacancies and Newly Created Directorships***. Vacancies occurring on the Board as a result of the removal of Directors without cause may be filled only by vote of the holders of record of a majority of the Shares then entitled to vote at an election of Directors, or by written consent of such holders of record pursuant to Section 2.14 hereof. Vacancies occurring on the Board for any other reason, including, without limitation, vacancies occurring as a result of the creation of new directorships that increase the number of Directors, may be filled only by a majority of the Directors then in office, even if less than a quorum. Unless earlier removed pursuant to Section 3.04 hereof, each Director chosen in accordance with this Section 3.05 shall hold office until the next annual election of Directors by the stockholders and until his successor shall be elected and qualified.

Section 3.06. ***Chairman or Co-Chairmen***. A Chairman or Co-Chairman of the Board may also be the Chief Executive Officer or any other officer of the Corporation. A Chairman or Co-Chairmen shall be appointed by a majority of the Directors of the Board and each shall be designated by the Board as either a Non-Executive Chairman or, in accordance with the provisions of Section 4.01 of these By-laws, an Executive Chairman of the Board. (References in these By-laws to the "Chairman" shall mean either a Chairman or the Co-Chairmen of the Board, as applicable, whether they singly or collectively are a Non-Executive Chairman or Executive Chairman, as designated by the Board). The Chairman shall have the power to call special meetings of stockholders, to call special meetings of the Board and, if present, to preside at all meetings of stockholders and all meetings of the Board. The Chairman shall perform all duties incident to the office of Chairman and all such other duties as may from time to time be assigned by the Board or these By-laws.

Section 3.07. ***Meetings***.

(a) Annual Meetings. As soon as practicable after each annual election of Directors by the stockholders, the Board shall meet for the purpose of organization and the transaction of other business, unless it shall have transacted all such business by written consent pursuant to Section 3.08 hereof.

(b) Regular Meetings. The Board may provide for regular stated meetings of the Board.

(c) Special Meetings. Special meetings of the Board shall be held at such times as determined by the Chairman, Chief Executive Officer, the President or the Secretary acting under instructions from the Chairman, Chief Executive Officer or President or shall be held upon the call of a majority of the Board. Special meetings of the Board may be held at any date, time and place, if any.

(d) Notice of Meetings. No notice need be given of any annual or regular meeting of the Board for which the date, hour and place have been fixed by the Board. The Secretary shall give notice to each Director of each other annual or regular meeting and of all special meetings of the Board, which notice shall state the place, date, time and purpose of such meeting. Notice of each such meeting shall be given to each Director at least twenty-four hours before the time at which such meeting is to be held. Such notice may be communicated, without limitation, in person; by telephone, by facsimile telecommunication, electronic mail or other form of electronic transmission, or by mail or private carrier. Written notice of a meeting is effective at the earliest of the following:

(i) when received;

(ii) upon its deposit in the United States mail, as evidenced by the postmark, if mailed with postage thereon prepaid and correctly addressed;

(iii) if sent by facsimile telecommunication, on the date such facsimile is sent to the facsimile transmission number at which the Director has consented to receive notice;

(iv) if sent by electronic mail, when sent to the electronic mail address for such Director appearing on the records of the Corporation or at which the Director has consented to receive notice;

(v) if sent by any other form of electronic transmission, when sent in the manner pursuant to which the Director has consented to receive notice; or

(vi) on the date shown on the confirmation of delivery issued by a private carrier, if sent by private carrier to the address of the Director last known to the Corporation.

Oral notice is effective when actually communicated to the Director. Notice of an adjourned meeting of Directors need not be given if the time and place are fixed at the meeting being adjourned. The notice of any meeting of Directors need not describe the purpose of the meeting unless otherwise required by the DGCL.

A written waiver of notice, signed by the Director entitled to notice, or a waiver by electronic transmission by the Director entitled to notice, whether before or after the time of the meeting referred to in such waiver, shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of any meeting of the Board need be specified in any written waiver of notice thereof. Attendance of a Director at a meeting of the Board shall constitute a waiver of notice of such meeting, except as provided by law.

(e) Place of Meetings. The Board may hold its meetings at such place or places within or without the State of Delaware as the Board or the Chairman may from time to time determine, or as shall be designated in the respective notices or waivers of notice of such meetings.

(f) Quorum and Manner of Acting. A majority of the total number of Directors then in office (but in no event less than three Directors) shall be present in person at any meeting of the Board in order to constitute a quorum for the transaction of business at such meeting, and the vote of a majority of those Directors present at any such meeting at which a quorum is present shall be necessary for the passage of any resolution or act of the Board, except as otherwise expressly required by law, the Certificate of Incorporation or these By-laws. In the absence of a quorum for any such meeting, a majority of the Directors present thereat may adjourn such meeting from time to time until a quorum shall be present.

(g) Conduct of Meetings. At each meeting of the Board, one of the following shall act as the presiding officer of the meeting and preside, in the following order of precedence:

(i) the Chairman;

(ii) the Chief Executive Officer;

(iii) any Director chosen by a majority of the Directors present.

The Secretary or, in the case of his or her absence, any person (who shall be an Assistant Secretary, if an Assistant Secretary is present) whom the presiding officer shall appoint shall act as secretary of such meeting and keep the minutes thereof.

(h) The Board may adopt such rules and regulations not inconsistent with the Certificate of Incorporation, these By-laws, or applicable law for the conduct of its meetings and management of the affairs of the Corporation as the Board may deem proper.

Section 3.08. ***Directors' Consent in Lieu of Meeting***. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, without prior notice and without a vote, if all the members of the Board or such committee, as the case may be, consent thereto in writing or by electronic transmission, setting forth the action so taken. After an action is taken, the consent or consents relating thereto shall be filed with the minutes of the proceedings of the Board or such committee, in the same paper or electronic form as the minutes are maintained.

Section 3.09. ***Action by Means of Telephone or Other Communications Equipment***. Anyone or more members of the Board, or of any committee thereof, may participate in a meeting of the Board or such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

Section 3.10. ***Compensation***. Unless otherwise restricted by the Certificate of Incorporation, the Board may determine the compensation of Directors. In addition, as determined by the Board, Directors may be reimbursed by the Corporation for their expenses, if any, in the performance of their duties as Directors. No such compensation or reimbursement shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 3.11. ***Committees of the Board***. The Board may designate one or more committees and appoint one or more members of the Board to serve on each committee at the pleasure of the Board. The Board shall have the power at any time to create additional committees, to change the membership of, to increase or decrease the membership of, to fill all vacancies in and to discharge any such committee, or any member thereof, either with or without cause. The Board shall periodically approve a charter describing the duties of each committee. Meetings of any committee may be held at such times and places (if any) as shall be fixed by the chairman of the committee or by resolution adopted by a majority of the members thereof, or in such other manner as provided by the Board in the committee's charter, unless the Board otherwise provides. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. A majority of the members of any committee of the Board shall be present in person at any meeting of the committee in order to constitute a quorum for the transaction of business at such meeting, and the act of a majority of the members present at any such meeting at which a quorum is present shall be the act of the committee. In the absence of a quorum for any such meeting, a majority of the members present thereat may adjourn such meeting from time to time until a quorum shall be present. Any committee of the Board, to the extent provided in the resolution of the Board designating such committee, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; provided, however, that no such committee shall have such power or authority in reference to the following matters: (i) approving or adopting, or recommending to the stockholders, any action or matter (other than the election or removal of Directors) expressly required by

the DGCL to be submitted to stockholders for approval or (ii) adopting, amending or repealing these By-laws. In addition, each committee of the Board so appointed may appoint a sub-committee of the Board in furtherance of the duties delegated to it by the Board. Each committee of the Board shall keep regular minutes of its proceedings and report the same to the Board when so requested by the Board.

ARTICLE IV.

Section 4.01. ***Officers***. The officers of the Corporation may include an Executive Chairman, Chief Executive Officer, a President, Chief Financial Officer, one or more Senior Managing Directors, Managing Directors, First Vice Presidents, Vice Presidents, a Secretary, a Treasurer, and such other officers, assistant or otherwise as may be elected or appointed from time to time by the Board or under the authority of the Board. Any two or more offices may be held by the same person provided that the office of President and Secretary shall not be held by the same person. Without limiting the generality of the foregoing, the Board may designate the Chairman of the Board, as an Executive Chairman, in which case such person shall be an officer of the Corporation and shall have, in addition to the duties set forth in these By-laws, such powers and authority as determined by the Board. If the Chief Executive Officer is absent or incapacitated, the Board or any committee designated by the Board for such purpose shall determine the person who shall have all the power and authority of the Chief Executive Officer.

Section 4.02. ***Authority and Duties***. All officers shall have such authority and perform such duties in the management of the Corporation as may be provided in these By-laws or, to the extent not so provided, by resolution of the Board. The Board, by resolution from time to time, may confer like powers upon any other person or persons. Subject to applicable law, compensation of all officers shall be fixed by the Board.

Section 4.03. ***Term of Office, Resignation and Removal***.

(a) Term. Each officer shall be appointed by the Board and shall hold office for such term as may be determined by the Board. Each officer shall hold office until his successor has been appointed and qualified or his earlier death or resignation or removal in the manner hereinafter provided. The Board may require any officer to give security for the faithful performance of his duties.

(b) Resignation. Any officer may resign at any time by giving notice in writing or by electronic transmission to the Board, the President or the Secretary; provided, however, that if such notice is given by electronic transmission, such electronic transmission must set forth (or be submitted with) information from which it can be determined by the Board that the electronic transmission was authorized by the officer. Such resignation shall take effect at the time specified in such notice or, if the time be not specified, upon receipt thereof by the Board, the President or the Secretary, as the case may be. Unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective.

(c) Removal. All officers and agents appointed by the Board shall be subject to removal, with or without cause, at any time by the Board or by the action of the holders of record of a majority of the Shares entitled to vote thereon.

Section 4.04. ***Vacancies***. Any vacancy occurring in any office of the Corporation, for any reason, shall be filled by action of the Board. Unless earlier removed pursuant to Section 4.03 hereof, any officer appointed by the Board to fill any such vacancy shall serve only until such time as the unexpired term of his predecessor expires unless reappointed by the Board.

Section 4.05. ***Chief Executive Officer***. The Chief Executive Officer shall supervise and control the business and affairs of the Corporation, subject to the direction and control of the Board, and shall see that all orders and resolutions of the Board are carried into effect. The Chief Executive Officer shall perform all duties incident to the office of Chief Executive Officer and all such other duties as may from time to time be assigned to him by the Board or these By-laws.

Section 4.06. ***The President***. The President shall be the chief operating officer of the Corporation and shall perform the duties and exercise the powers of that office and, in addition, the President shall have such other duties and shall have such other authority as may be prescribed by the Board or these By-laws.

Section 4.07. ***Vice Chairmen, Senior Managing Directors, Managing Directors, First Vice Presidents and Vice Presidents***. The Board may appoint one or more Vice Chairmen, Senior Managing Directors, Managing Directors, First Vice Presidents or Vice Presidents and create categories of same. Each Vice Chairman, Senior Managing Director, Managing Director, First Vice Presidents and Vice President shall have such duties and authorities as may be described by the Board or by the officer to whom such officers reports.

Section 4.08. ***Chief Financial Officer***. The Chief Financial Officer shall be the principal financial officer of the Corporation. He or she shall render such accounts and reports as may be required by the Board or any committee of the Board. The financial records, books and accounts of the Corporation shall be maintained subject to his or her direct or indirect supervision.

Section 4.09. ***Secretary***. The Secretary shall, to the extent practicable, attend all meetings of the Board and all meetings of stockholders and shall record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform the same duties for any committee of the Board when so requested by such committee. The Secretary shall give or cause to be given notice of all meetings of stockholders and of the Board, shall perform such other duties as may be prescribed by the Board, the Chairman or the President and shall act under the supervision of the Chairman and the President. He or she shall keep in safe custody the seal of the Corporation and affix the same to any instrument that requires that the seal be affixed to it and which shall have been duly authorized for signature in the name of the Corporation and, when so affixed, the seal shall be attested by his or her signature or by the signature of the Treasurer of the Corporation (the "Treasurer") or an Assistant Secretary of the Corporation. The Secretary shall keep in safe custody such books and records of the Corporation as the Board, the Chairman or the President may direct and shall perform all other duties incident to the office of Secretary and such other duties as from time to time may be assigned to him or her by the Board, the Chairman or the President.

Section 4.10. ***Assistant Secretaries***. Assistant Secretaries of the Corporation ("Assistant Secretaries"), if any, in order of their seniority or in any other order determined by the Board, shall generally assist the Secretary and perform such other duties as the Board or the Secretary shall prescribe, and, in the absence or disability of the Secretary, shall perform the duties and exercise the powers of the Secretary.

Section 4.11. ***Treasurer***. The Treasurer shall have the care and custody of all the funds and securities of the Corporation and shall deposit such funds and securities in such banks or other depositories as the Board, or any officer or officers, or any officer and agent jointly, duly authorized by the Board, shall, from time to time, direct or approve. The Treasurer shall disburse the funds of the Corporation under the direction of the Board and the President. The Treasurer shall keep a full and accurate account of all moneys received and paid on account of the Corporation and shall render a statement of his accounts whenever the Board, the Chairman or the President shall so request. The Treasurer shall perform all other necessary actions and duties in connection with the administration of the financial affairs of the Corporation and shall generally perform all the duties usually appertaining to the office of treasurer of a corporation. When required by the Board, the Treasurer shall give bonds for the faithful discharge of his duties in such sums and with such sureties as the Board shall approve.

Section 4.12. ***Assistant Treasurers***. Assistant Treasurers of the Corporation ("Assistant Treasurers"), if any, in order of their seniority or in any other order determined by the Board, shall generally assist the Treasurer and perform such other duties as the Board or the Treasurer shall prescribe, and, in the absence or disability of the Treasurer, shall perform the duties and exercise the powers of the Treasurer.

ARTICLE V.
SHARES AND TRANSFERS OF SHARES

Section 5.01. ***Certificates Evidencing Shares***. Shares of the Corporation may but need not be evidenced by certificates. Upon request, every holder of uncertificated shares shall be entitled to have a duly executed certificate of stock. If certificates of stock are issued, the Corporation shall issue such certificates in such form as shall be required by the DGCL and as determined by the Board, to every stockholder for the fully paid shares owned by such stockholder. Each certificate representing the number of shares registered in certificate form shall be signed by the Chairman, the President or any Vice Chairman or Vice President and by the Secretary, any Assistant Secretary, or the Treasurer. No certificate for a fractional share of common stock of the Corporation shall be issued. Any or all signatures on the certificate may be a facsimile.

Section 5.02. **Transfers of Shares**. Subject to Article XII of the Certificate of Incorporation, Transfers (as such term is defined in Article XII of the Certificate of Incorporation) of shares shall be made upon the books of the Corporation: (i) upon presentation of the certificates by the registered holder in person or by duly authorized attorney, or upon presentation of proper evidence of succession, assignment or authority to transfer the stock, and upon surrender of the appropriate certificate(s); or (ii) in the case of uncertificated shares, upon receipt of proper transfer instructions from the registered owner of such uncertificated shares, or from a duly authorized attorney or from an individual presenting proper evidence of succession, assignment or authority to transfer the stock. All certificates surrendered for transfer shall be cancelled before new certificates for the transferred shares shall be issued. The Corporation may impose such additional conditions to the transfer of its shares as may be necessary or appropriate for compliance with applicable law or to protect the Corporation, a transfer agent or the registrar from liability with respect to such transfer.

Section 5.03. **Holder of Record**. The Corporation shall be entitled to treat the holder of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share or on the part of any other person whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of Delaware.

Section 5.04. **Addresses of Stockholders**. Each stockholder shall designate to the Corporation an address (or electronic mail address) at which notices of meetings and all other corporate notices may be served, mailed, or given to such stockholder, and, if any stockholder shall fail to so designate such an address (or electronic mail address), corporate notices may be served upon such stockholder by mail directed to the mailing address (or electronic mail address), if any, as the same appears in the stock ledger of the Corporation or at the last known mailing address (or electronic mail address) of such stockholder.

Section 5.05. ***Lost, Destroyed and Mutilated Certificates***. Each holder of record of shares shall promptly notify the Corporation of any loss, destruction or mutilation of any certificate or certificates evidencing any share or shares of which he is the holder of record. The Board, in its discretion, or any transfer agent thereunto duly authorized by the Board, may authorize the issue of a new certificate in place of any certificate theretofore issued and alleged to have been mutilated, lost, stolen or destroyed, upon the surrender of the mutilated certificate or, in the case of loss, theft or destruction of the certificate, upon receipt of an affidavit of such fact from the person claiming such loss, theft or destruction, and any other documentation satisfactory to the Board. In addition, the Board may, in its discretion, require, and its transfer agents and registrars may so require, the holder of record of the shares evidenced by the lost, stolen or destroyed certificate or his legal representative to give the Corporation a bond sufficient to indemnify the Corporation against any claim made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 5.06. ***Regulations***. The Board may make such other rules and regulations as it may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of certificates evidencing shares.

ARTICLE VI.
INDEMNIFICATION OF DIRECTORS, OFFICERS AND OTHERS, AND INSURANCE

Section 6.01. ***Indemnification***.

(a) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the Corporation, by reason of the fact that he is or was a Director, officer or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person seeking indemnification did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Notwithstanding the foregoing, except as provided in Section 6.01(d) with respect to proceedings to enforce rights to indemnification or advancement, the Corporation shall indemnify any person in connection with an action, suit or proceeding (or part thereof) initiated by such person only if such action, suit or proceeding (or part thereof) was authorized by the Board.

(b) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a Director, officer or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation, unless, and only to the extent that, the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(c) Notwithstanding, and without limitation of, any other provision of this Article VI, to the extent that a Director, officer or employee of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 6.01(a) and (b) of these By-laws, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) If a claim for indemnification or advancement under Sections 6.01(a), 6.01(b), 6.01(c), or 6.01(f) is not paid in full by the Corporation within 60 days after a written claim has been received by the Corporation, the person who has made such claim (the "indemnitee") may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. To the fullest extent permitted by law, if the indemnitee is successful in whole or in part in any such suit, the indemnitee shall be entitled to be paid

also the expense of prosecuting or defending such suit. In any suit brought by the indemnitee to enforce a right to indemnification hereunder it shall be a defense that the indemnitee has not met any applicable standard for indemnification set forth in the DGCL. Neither the failure of the Corporation (including its Directors who are not parties to such action, a committee of such Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its Directors who are not parties to such action, a committee of such Directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification hereunder, the burden of proving that the indemnitee is not entitled to be indemnified under this Article VI or otherwise shall be on the Corporation.

(e) Any indemnification under Section 6.01(a) and (b) of these By-laws (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer or employee is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 6.01(a) and (b) of these By-laws. Such determination shall be made with respect to a person who is a Director or officer of the Corporation at the time of such determination (i) by the Board by a majority vote of Directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (ii) a committee of such directors designated by a majority vote of such Directors, even though less than a quorum, or (iii) if there are no such Directors or if such Directors so direct, by independent legal counsel in a written opinion, or (iv) by the stockholders of the Corporation.

(f) Expenses (including attorneys' fees) incurred by a current or former Director or officer of the Corporation in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding; provided, however, that if the DGCL requires, an advancement of expenses incurred by such a person in his capacity as a Director or officer of the Corporation shall only be made upon receipt of an undertaking by or on behalf of such Director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article. The Corporation may grant rights to the advancement of expenses (including attorneys' fees) to other persons upon such terms and conditions, if any, as the Corporation deems appropriate.

(g) The indemnification and advancement of expenses provided by, or granted pursuant to, other Sections of this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any law, provision of the Certificate of Incorporation, by-law, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office.

(h) For purposes of this Article, references to the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers or employees so that any person who is or was a director, officer or employee of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(i) For purposes of this Article, references to "other enterprises" shall include employee benefit plans, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a Director, officer or employee of the Corporation which imposes duties on, or involves service by, such Director, officer or employee with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article.

(j) The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 6.02. ***Insurance***. The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any expense, liability or loss and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such expense, liability or loss under the provisions of Section 145 of the DGCL.

ARTICLE VII.
MISCELLANEOUS

Section 7.01. ***Seal***. The Board may approve and adopt a corporate seal, which shall be in the form of a circle and shall bear the full name of the Corporation, the year of its incorporation and the words "Corporate Seal Delaware."

Section 7.02. ***Fiscal Year***. The fiscal year of the Corporation shall end on the thirty-first day of December of each year unless changed by resolution of the Board.

Section 7.03. ***Checks, Drafts and Notes***. All checks, drafts and other orders for the payment of money, notes and other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall be determined from time to time, by resolution of the Board.

Section 7.04. ***Amendments***. Any By-law may be adopted, amended or repealed by vote of the Board or by a written consent of Directors pursuant to Section 3.08 hereof. The stockholders, at a meeting at which a quorum of stockholders is present, may also adopt, amend or repeal any By-law, whether adopted by them or otherwise, but only upon the affirmative vote of the holders of record of a majority of the voting power of the Shares, present at such meeting in person or represented by proxy.

Section 7.05. ***Forum Selection***. Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation against one or more Directors or officers of the Corporation alleging breaches of fiduciary duty or other wrongdoing by such Directors or officers, (ii) any action asserting a claim of breach of a fiduciary duty owed by any Director or officer of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim against the Corporation or any Director or officer of the Corporation arising pursuant to, or seeking to enforce any right or remedy under, any provision of the DGCL, the Certificate of Incorporation, or these By-laws, (iv) any action to interpret, apply, enforce, or determine the validity of the Certificate of Incorporation or the By-laws, or (v) any action asserting a claim against the Corporation or any Director or officer of the Corporation governed by the internal affairs doctrine shall be a state or federal court located within the State of Delaware, in all cases subject to the court's having personal jurisdiction over the indispensable parties named as

defendants. The provisions of this Section 7.05 shall be in effect from and after March 4, 2014. Any person or entity purchasing, otherwise acquiring, or continuing to own any interest in shares of capital stock of the Corporation from or after March 4, 2014, shall be deemed to have notice of and consented to the provisions of this Section 7.05.

Section 7.06. ***Electronic Transmission***. For purposes of these By-laws, "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, including the use of, or participation in, one or more electronic networks or databases (including one or more distributed electronic networks or databases), that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Section 7.07. ***Electronic Mail***. For purposes of these By-laws, "electronic mail" means an electronic transmission directed to a unique electronic mail address (which electronic mail shall be deemed to include any files attached thereto and any information hyperlinked to a website if such electronic mail includes the contact information of an officer or agent of the Corporation who is available to assist with accessing such files and information).

Section 7.08. ***Electronic Mail Address***. For purposes of these By-laws, "electronic mail address" means a destination, commonly expressed as a string of characters, consisting of a unique user name or mailbox (commonly referred to as the "local part" of the address) and a reference to an internet domain (commonly referred to as the "domain part" of the address), whether or not displayed, to which electronic mail can be sent or delivered.

Section 7.09. ***Document***. For purposes of these By-laws, "document" means (i) any tangible medium on which the information is inscribed, and includes handwritten, typed, printed or similar instruments, and copies of such instruments and (ii) an electronic transmission. Except as otherwise provided in the Certificate of Incorporation, these By-laws, or applicable law, any act or transaction contemplated or governed by these By-laws may be provided for in a document, and an electronic transmission shall be deemed the equivalent of a written document.

January 26, 2023

/s/ William J. White
Secretary

Exhibit 10.5

AMENDED AND RESTATED
EXPENSE SHARING AND COST ALLOCATION AGREEMENT

This Amended and Restated Expense Sharing and Cost Allocation Agreement (this "Agreement"), is entered into as of May 1, 2021 (the "Effective Date") by and among Ambac Assurance Corporation, a Wisconsin stock insurance corporation ("Ambac"), Ambac Financial Group, Inc. ("AFGI") and their respective subsidiaries and affiliates listed on Schedule A attached hereto and made a part hereof, as such Schedule A may be amended from time to time (together with Ambac and AFGI, the "Affiliates").

WHEREAS, certain of the Affiliates incur costs and expenses in support of certain service departments or functions, which service departments or functions are necessary or beneficial for certain other Affiliates;

WHEREAS, the costs and expenses incurred in support of each service department or function should be allocated among the Affiliates benefiting from such service department or function according to a defined allocation methodology; and

WHEREAS, this Agreement terminates and supersedes all prior expense sharing and cost allocation agreements among the Affiliates, including, but not limited to, that certain Expense Sharing and Cost Allocation Agreement effective as of March 14, 2012, as amended.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Direct Expenses. Each Affiliate shall be responsible for all of its own direct and other non-allocated expenses, other than expenses in a *de minimis* amount incurred by it, including, but not limited to, compensation expenses (consisting of base salary, bonus and other compensation expenses, each regardless of the employing entity), severance expenses, payroll taxes and third-party expenses, including travel, legal and consulting expenses.

2. Expense Allocation and Methodology.

(a) Shared Services Departments. Compensation costs and accruals for compensation costs (including, but not limited to, base compensation, bonuses, severance and payroll taxes) for each shared services department shall be allocated among all Affiliates benefiting from such service department based on the percentage of time spent supporting the activities of each Affiliate. Shared services departments include, but are not limited to, legal, treasury, tax, finance, accounting, risk management, investment portfolio management, investor relations, corporate services and executive officers.

(b) Overhead Departments. Overhead department costs (including, but not limited to, premises, depreciation and corporate insurance other than D&O insurance, as well as the total expenses of overhead departments) shall be allocated among all Affiliates based on the percentage of time spent by the shared services departments supporting the activities of each Affiliate provided, however, that, when appropriate (e.g., when supported by the nature of the service provided, business, or operations), management may elect to use an alternative cost allocation method, such as percentage of total headcount or cost per square foot. Overhead departments include, but are not limited to, administration, technology, internal audit and human resources.

(c) Notwithstanding Sections 2(a) and 2(b) above, expenses incurred by any Affiliate relating to public disclosure (including compensation costs and all expenses arising from AFGI's disclosure obligations as a publicly traded company, including but not limited to operational and accounting expenses arising from the preparation of financial statements and other reporting requirements), D&O insurance, and director fees shall be allocated among all Affiliates benefiting from such matters in accordance with the methodologies set forth in Schedule B attached hereto.

3. Reimbursement of Expenses. Within a reasonable period of time consistent with financial reporting and operational requirements and capacities, but in no event later than 30 days after each month end, each Affiliate shall provide to other Affiliates the amount of any direct and other non-allocated expenses paid on their behalf during such month and shall be paid within five (5) days or receipt. In no event shall any funds be advanced except to pay for services defined in this Agreement.

4. Reimbursement of Allocated Costs. Within a reasonable period of time consistent with financial reporting and operational requirements and capacities, Ambac shall calculate monthly expense allocations and prepare reports which provide the individual and aggregate expense allocations for all items noted in Section 2 above. The expense allocations for each Affiliate will be recorded to each Affiliate's intercompany account. All intercompany account balances will be paid within 45 days after the end of each calendar quarter, and at all times in compliance with the requirements in the National Association of Insurance Commissioners Accounting Practices and Procedures Manual. Before any expense payments are due, management of each Affiliate shall be presented with any reports prepared in accordance with this subsection and afforded the opportunity to discuss with Ambac any adjustments management may wish Ambac to consider regarding the allocations presented in such reports.

5. Reimbursement of AFGI Operating Expenses.

(a) Within fifty-five (55) days of March 1 of each year (the "Anniversary Date") and in which this Section 5 is in effect, AFGI shall provide to Ambac a report of the amount of expenses incurred by AFGI (pursuant to Sections 1 and 2) during the twelve months preceding such Anniversary Date. Within five (5) days of the receipt of such report, Ambac shall reimburse AFGI for such expenses to the extent that such amount does not exceed the per annum cap set forth in subsection (b) below.

(b) Ambac shall, only with the approval of the Wisconsin Office of the Commissioner of Insurance ("OCI"), reimburse such expenses incurred by AFGI pursuant to subsection (a), subject to a $4 million per annum cap.

(c) The provisions of this Section 5 shall have no further force or effect, upon the occurrence of any of the following:

(i) AFGI's taking or refraining from taking any action which impairs the ability of Ambac to continue to use net operating loss carryovers ("NOLs") made available for use by Ambac as set forth in the intercompany tax sharing agreement (the "Tax Sharing Agreement");

(ii) the imposition, under Section 382(a) of the Internal Revenue Code of 1986 (the "Code"), of an annual "section 382 limitation" (within the meaning of Section 382(b) of the Code) of $37.5 million or less on the use of NOLs available to the AAC Subgroup (as defined in the Tax Sharing Agreement);

(iii) AFGI's material breach of, or its noncompliance with material obligations under, this Section 5 determined in accordance with procedures set forth in Section 9(b), or its material breach of, or its noncompliance with material obligations under the Tax Sharing Agreement, determined in accordance with procedures set forth in such agreement; provided, however, that any noncompliance by AFGI with its material obligations under this Section 5 or the aforementioned agreements which is primarily the result of any material breach of this Agreement or such other agreements by Ambac shall be excepted from the provisions of this subsection (d)(iii);

(iv) at the option of Ambac, to the extent that none of the NOLs included in the Allocated NOLs Amount (as defined in the Tax Sharing Agreement) remains available for use by the AAC Subgroup; or

(v) OCI declining to approve the payment by Ambac to AFGI of reasonable operating expenses.

6. Right of Offset. Each Affiliate has the right to offset any amounts due to/from any other Affiliate against cash or other assets owed from/to such Affiliate without notice.

7. Binding Effect: Successors. This Agreement shall be binding upon the Affiliates and each Affiliate consents to the terms hereof and guarantees the performance of the agreements contained herein. Ambac and AFGI may cause each of their affiliates or subsidiaries to assent to the terms of and become party to this Agreement. Each Affiliate hereby assents to any other affiliate or subsidiary becoming a party to this Agreement and to each such affiliate or subsidiary being deemed to be an Affiliate hereunder. This Agreement shall inure to the benefit of and be binding upon any successors or assigns of the parties hereto.

8. Compliance; Books and Records. Each Affiliate will maintain oversight for functions provided to the Affiliate by Ambac or any other Affiliate and will monitor services annually for quality assurance. All funds and invested assets of each Affiliate are the exclusive property of the Affiliate, held for the benefit of the Affiliate and are subject to the control of the Affiliate. All books and records developed or maintained under or related to the Agreement ("Records") are and remain the property of the Affiliate and are subject to control of the Affiliate.

9. Indemnification. Each party shall be indemnified for all loss in the event of gross negligence or willful misconduct on the part of the entity providing the services.

10. Receivership. If an Affiliate is placed in receivership or seized by a regulator pursuant to due statutory authority, (a) all of the rights of the Affiliate under the Agreement extend to the receiver or the commissioner, director, or superintendent of insurance of the Affiliate's state of domicile ("Commissioner") and (b) all books and records will immediately be made available to the receiver or the Commissioner, and shall be turned over to the receiver or Commissioner immediately upon the receiver or Commissioner's request. Further, neither AFGI, Ambac, nor any other Affiliate has an automatic right to terminate this Agreement if an Affiliate is placed in receivership pursuant to applicable law. Ambac, AFGI and any other Affiliate, as applicable, will continue to maintain any systems, programs, or other infrastructure notwithstanding a seizure by the Commissioner under the relevant law applicable to insurance company receiverships or insolvencies, and will make them available to the receiver, for so long as Ambac and AFGI continue to receive timely payment for services rendered.

11. Effective Date. This Agreement shall be effective upon the soonest of (i) the Effective Date; and (ii) upon the approval or non-disapproval by each relevant regulatory authority following any required filing of the Agreement.

12. Termination and Enforcement.

(a) This Agreement shall be terminated on the happening of any of the following events:

(i) If each of the Affiliates agrees, in writing, to terminate this Agreement;

(ii) With respect to any Affiliate, if such Affiliate ceases to be an affiliate or subsidiary of AFGI for any reason; or

(iii) By each of the Affiliates if Ambac or AFGI materially breach any provision of this Agreement.

Notwithstanding the termination of this Agreement, its provisions will remain in effect with respect to amounts outstanding under this Agreement prior to its termination.

13. Severability. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions and terms and shall in no way affect the validity or enforceability of the other provisions of this Agreement.

14. Transfers and Assigns. Neither this Agreement nor any interest or obligation in or under this Agreement may be transferred or assigned by any Affiliate without the prior written consent of both Ambac and AFGI.

15. Amendments. This Agreement, including any schedules, appendices and exhibits hereto, may be amended from time to time; provided, however, that any amendment shall not be effective unless it is in writing and signed by Ambac and AFGI.

16. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Wisconsin (without reference to choice of law doctrine).

17. Counterparts. This Agreement may be executed in more than one counterpart, each of which shall be deemed to be an original and all of which shall, together, constitute one and the same instrument.

18. Notices. Any notice or communication in respect of this Agreement shall be sufficiently given to a party if in writing and delivered in person, sent by recorded delivery, registered post or the equivalent (with return receipt requested) or by overnight courier, or given by facsimile or email. A notice or communication shall be deemed to be given:

(i) if delivered by hand or sent by overnight courier, on the day and at the time it is delivered or, if that day is not a business day, or if delivered after the close of business on a business day, at 9:00 a.m. (local time to the recipient) on the immediately following business day;

(ii) if sent by facsimile or email, on the day and at the time the transmission is received or, if that is not a business day, or if received after the close of business on a business day, at 9:00 a.m. (local time to the recipient) on the immediately following business day; or

(iii) if sent by recorded delivery or registered post or the equivalent (return receipt requested), three business days after being sent.

19. Parties to this Agreement. Nothing herein shall in any manner create any obligations or establish any rights against any party to this Agreement in favor of any person not a party to this Agreement.

20. Other Agreements. This Agreement supersedes all prior expense sharing and cost allocation agreements among the Affiliates, including the Expense Sharing and Cost Allocation Agreement effective as of March 14, 2012, as amended, and such prior agreements are hereby terminated with any outstanding obligations subsumed hereunder.

[Remainder of page intentionally left blank. Signatures to follow.]

IN WITNESS WHEREOF, the Affiliates have caused this Agreement to be duly executed and delivered as of the day and year first above written.

AMBAC ASSURANCE CORPORATION

By: /s/ David Trick
Name: David Trick
Title: EVP, Chief Financial Officer

AMBAC FINANCIAL GROUP, INC.

By: /s/ Stephen M. Ksenak
Name: Stephen M. Ksenak
Title: Sr. Managing Director, General Counsel

EVERSPAN INSURANCE COMPANY

By: /s/ Steven Murray
Name: Steven Murray
Title: Managing Director, Chief Financial Officer

EVERSPAN INDEMNITY INSURANCE COMPANY

By: /s/ Steven Murray
Name: Steven Murray
Title: Managing Director, Chief Financial Officer

ALEUTIAN SOLUTIONS, LLC

By: /s/ David Trick
Name: David Trick
Title: EVP, Chief Financial Officer

AMBAC FINANCIAL SERVICES, LLC

By: /s/ David Trick
Name: David Trick
Title: EVP, Chief Financial Officer

SCHEDULE A

AFFILIATES

Ambac Financial Group, Inc.
Everspan Insurance Company
Everspan Indemnity Insurance Company
Ambac Assurance Corporation
Aleutian Solutions, LLC
Ambac Financial Services, LLC

SCHEDULE B

NON-COMPENSATION EXPENSE ALLOCATION METHODOLOGY

The expenses incurred by any Affiliate with respect to the matters set forth below shall be allocated among the Affiliates benefitting from such matter as follows, with calculations made as of the first business day of the applicable quarter:

Matter	**Allocation Basis**
Public Disclosure Costs	Allocated among Affiliates based on the assets, reserves, and revenues of each Affiliate in relation to the aggregate amount of assets, reserves, and revenues from the consolidated financial statements of AFGI under GAAP, with 40% of the allocation based on assets, 40% based on reserves, and 20% based on revenue; provided that no more than 50% of public disclosure costs shall be allocated to Ambac. "Assets" shall include cash, investments and VIE assets. "Reserves" shall be gross of rep & warranty subrogation and net of reinsurance.

D&O Insurance	Ambac shall request an independent broker to estimate pricing for: (i) a policy for Ambac directors and officers solely in their capacity as Ambac directors and officers, and (ii) a policy for Ambac and AFGI directors and officers in their respective capacities as both Ambac and AFGI directors and officers, as applicable. To the extent that pricing for (ii) exceeds the pricing for (i), such excess shall be allocated to AFGI. In the event that such pricing is not available for any policy year, costs shall be allocated on the same percentage basis as the prior policy year.
Director Fees	With respect to the annual retainer, (i) for Ambac directors who do not serve on the board of AFGI, 100% allocated to Ambac and, (ii) for Ambac directors who serve on the board of AFGI, 50% allocated to Ambac and 50% allocated to AFGI. With respect to any meeting fees, each of Ambac and AFGI shall pay the fees relating to its respective board and committee meetings; provided, that in the case of a joint meeting of the boards or committees of Ambac and AFGI, (i) for Ambac directors who do not serve on the board of AFGI, 100% allocated to Ambac and, (ii) for Ambac directors who serve on the board of AFGI, 50% allocated to Ambac and 50% allocated to AFGI. With respect to committee chair fees, (i) for joint committee chair fees between Ambac and AFGI, 50% allocated to Ambac and 50% allocated to AFGI, (ii) for Ambac-only committee chair fees, 100% allocated to Ambac, and (iii) for AFGI-only committee chair fees, 100% allocated to AFGI.

Exhibit 10.34

Certain identified information has been excluded from the exhibit because it is both not material and is the type that the registrant treats as confidential.

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release (together with the exhibits hereto, this "Agreement" or "Settlement Agreement") signed and effective as of October 6, 2022 (the "Execution Date") is entered into by and among Bank of America Corporation ("BAC") and Bank of America, N.A. ("BANA," and together with BAC, "Bank of America"), and Countrywide Financial Corporation ("CFC"), Countrywide Home Loans, Inc. ("CHL") and Countrywide Securities Corporation ("CSC," and together with CFC and CHL, "Countrywide"), and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), Merrill Lynch Mortgage Lending, Inc. ("MLML"), and Merrill Lynch Mortgage Investors, Inc. ("MLMI," and together with MLPF&S and MLML, "Merrill Lynch"), and First Franklin Financial Corporation ("FFFC" or "First Franklin," and together with Bank of America, Countrywide, and Merrill Lynch, "Defendants") on the one hand, and Ambac Assurance Corporation (on its own behalf and as successor to The Segregated Account of Ambac Assurance Corporation, referred to herein collectively as "Ambac"), on the other (BAC, BANA, CFC, CHL, CSC, MLPF&S, MLML, MLMI, FFFC, and Ambac are referred to herein individually as a "Party" and collectively as the "Parties").

WHEREAS, Bank of America, Countrywide, Merrill Lynch, First Franklin and/or their Affiliates (as defined hereafter) served or serve as originator, servicer, sponsor, underwriter, or in other roles with respect to certain asset-backed and mortgage-backed securities, and Ambac invested in, insured, and/or continues to insure certain of those securities;

WHEREAS, Ambac filed an action against CHL, CSC, CFC, and BAC, styled *Ambac Assurance Corp., et al. v. Countrywide Home Loans, Inc., et al.*, Index No. 651612/2010 (N.Y. Sup. Ct., N.Y. Cnty.) (the "Ambac I Action");

WHEREAS, Ambac filed an action against CHL, CSC, CFC, and BAC, styled *Ambac Assurance Corp., et al. v. Countrywide Home Loans, Inc., et al.*, Index No. 653979/2014 (N.Y. Sup. Ct., N.Y. Cnty.) (the "Ambac II Action");

WHEREAS, Ambac filed an action against CHL, styled *The Segregated Account of Ambac Assurance Corp., et al. v. Countrywide Home Loans, Inc.*, Case No. 14CV3511 (Wis. Cir. Ct., Dane Cnty.) (the "Ambac III Action");

WHEREAS, Ambac filed an action against CHL, styled *Ambac Assurance Corp., et al. v. Countrywide Home Loans, Inc.*, Index No. 652321/2015 (N.Y. Sup. Ct., N.Y. Cnty.) (the "Ambac IV Action");

WHEREAS, Ambac filed an action against FFFC, BANA, MLPF&S, MLML, and MLMI, styled *Ambac Assurance Corp., et al. v. First Franklin Financial Corp., et al.*, Index No.

651217/2012 (N.Y. Sup. Ct., N.Y. Cnty.) (the "Ambac FF Action," and together with the Ambac I Action, the Ambac II Action, the Ambac III Action, and the Ambac IV Action, the "Ambac Suits");

WHEREAS, the Parties have engaged in arm's-length settlement negotiations that included the exchange of confidential materials;

WHEREAS, the Parties desire to settle all of the aforementioned actions, together with any claims Ambac ever had, may currently have, or may have in the future against the BAC-Related Persons as more fully set forth in this Agreement;

WHEREAS, each of the Parties acknowledges that in asserting, defending, and settling the matters herein, no Party is acting at the direction of a Governmental Authority in relation to the violation of any law or the investigation or inquiry by a Governmental Authority into a potential violation of any law;

WHEREAS, each of the Parties acknowledges that the settlement consideration set forth herein is fair and reasonable in exchange for the releases provided herein; and

NOW, THEREFORE, in consideration of the releases and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties hereby agree as follows:

1. Definitions. As used in this Agreement, in addition to the terms otherwise defined herein, the following terms shall have the meanings set forth below:

(a) "**Affiliate**" shall mean any entity which directly or indirectly controls or controlled, is or was controlled by or is or was under common control with a Party to this Agreement; the term "control" as used herein shall mean the possession of the power to direct or cause the direction of the management and the policies of an entity, whether through the ownership of a majority of the outstanding voting rights or otherwise; for the avoidance of doubt, Affiliate shall not include any third-party entity the investments of which are managed by the Parties;

(b) "**Ambac Parties**" shall mean (i) Ambac and any of its past or present direct or indirect Affiliates or divisions, and (ii) each of the respective general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re-insurers, and other representatives of the entities described in the foregoing clause (i) (for the avoidance of doubt, such general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re-insurers, and other representatives only constitute "Ambac Parties" in their capacity as such of (and for) any entity described in the foregoing clause (i) and not otherwise), and (iii) the predecessors, successors, heirs, and assigns of each of the Persons described in the foregoing clauses (i) and (ii);

(c) "**Bank of America Parties**" shall mean (i) BAC, BANA, and any of their past or present direct or indirect Affiliates or divisions (including BAC Home Loans Servicing, LP, Banc of America Mortgage Securities, Inc., Banc of America Funding Corp., Banc of America

Securities LLC, NB Holdings Corporation, and LaSalle Bank, N.A.), and (ii) each of the respective general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re- insurers, and other representatives of the entities described in the foregoing clause (i) (for the avoidance of doubt, such general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re-insurers, and other representatives only constitute "Bank of America Parties" in their capacity as such of (and for) any entity described in the foregoing clause (i) and not otherwise), and (iii) the predecessors, successors, heirs, and assigns of each of the Persons described in the foregoing clauses (i) and (ii);

(d) "**BAC-Related Person**" means a Bank of America Party, a Countrywide Party, a Merrill Lynch Party, or a First Franklin Party;

(e) "**Countrywide Parties**" shall mean (i) CFC, CHL, CSC, and any of their past or present direct or indirect Affiliates or divisions (including Countrywide Capital Markets LLC, Countrywide Bank, FSB, Countrywide Home Loans Servicing, LP, CWMBS, Inc., CWABS, Inc., CWALT, Inc., CWHEQ, Inc., Park Granada LLC, Park Monaco Inc., and Park Sienna LLC), and (ii) each of the respective general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re-insurers, and other representatives of the entities described in the foregoing clause (i) (for the avoidance of doubt, such general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co- insurers, re-insurers, and other representatives only constitute "Countrywide Parties" in their capacity as such of (and for) any entity described in the foregoing clause (i) and not otherwise), and (iii) the predecessors, successors, heirs, and assigns of each of the Persons described in the foregoing clauses (i) and (ii);

(f) "**First Franklin Parties**" shall mean (i) First Franklin and any of its past or present direct or indirect Affiliates or divisions, and (ii) each of the respective general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re-insurers, and other representatives of the entities described in the foregoing clause (i) (for the avoidance of doubt, such general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re-insurers, and other representatives only constitute "First Franklin Parties" in their capacity as such of (and for) any entity described in the foregoing clause (i) and not otherwise), and (iii) the predecessors, successors, heirs, and assigns of each of the Persons described in the foregoing clauses (i) and (ii);

(g) **"Global Bank of America RMBS Trust"** means any residential mortgage-backed securitization trust created before the Execution Date and (1) with a Bloomberg issuer ticker listed on Exhibit A; (2) for which publicly filed documents, including disclosure documents filed with the Securities and Exchange Commission, indicate that a BAC-Related Person acted as originator, sponsor, seller, transferor, depositor, trustee, master servicer, servicer, underwriter, or securities administrator; or (3) for which any Ambac Party knows or

reasonably should know that a BAC-Related Person acted as originator, sponsor, seller, transferor, depositor, trustee, master servicer, servicer, underwriter, or securities administrator;

(h) "**Governmental Authority**" shall mean any United States or foreign government, any state or other political subdivision thereof, any Person exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to the foregoing, or any other authority, agency, department, board, commission, or instrumentality of the United States, any State of the United States or any political subdivision thereof or any foreign jurisdiction, and any court, tribunal, or arbitrator(s) of competent jurisdiction, and any United States or foreign governmental or non-governmental entity, organization, or authority that exercises self-regulatory powers, including adopting, administering, or enforcing rules or imposing sanctions (e.g. the New York Stock Exchange, and the Financial Industry Regulatory Authority);

(i) "**Law**" shall mean, collectively, all laws (including common law), statutes, ordinances, codes, rules, regulations, directives, decrees, and orders of Governmental Authorities;

(j) "**Losses**" shall mean any and all claims, suits, liabilities (including strict liabilities), actions, proceedings, obligations, debts, damages, losses, costs, expenses (including attorneys' fees actually incurred), fines, penalties, assessments, demands, charges, fees, judgments, awards, disbursements, and amounts paid in settlement, punitive, exemplary or multiple damages, foreseeable and unforeseeable damages, incidental or consequential damages, of whatever kind or nature (including reasonable attorneys' fees and other costs of defense and disbursements);

(k) "**Merrill Lynch Parties**" shall mean (i) MLPF&S, MLML, MLMI, and any of their past or present direct or indirect Affiliates or divisions (including Merrill Lynch & Co., Inc., Merrill Lynch Credit Corporation, and BofA Securities, Inc.), and (ii) each of the respective general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re-insurers, and other representatives of the entities described in the foregoing clause (i) (for the avoidance of doubt, such general partners, limited partners, officers, directors, trustees, members, employees, agents, servants, attorneys, accountants, independent contractors, insurers, co-insurers, re-insurers, and other representatives only constitute "Merrill Lynch Parties" in their capacity as such of (and for) any entity described in the foregoing clause (i) and not otherwise), and (iii) the predecessors, successors, heirs, and assigns of each of the Persons described in the foregoing clauses (i) and (ii);

(l) "**Mortgage Servicing Rights**" shall mean the rights of Defendants as master servicer, servicer, or sub-servicer, to service any loans held in trusts insured by Ambac; for avoidance of doubt, all such trusts for which a Defendant holds Mortgage Servicing Rights as of the Execution Date are set forth in Exhibit B hereto;

(m) "**Person**" shall mean any individual, corporation, company, partnership, limited liability company, joint venture, association, trust, or other entity, including a Governmental Authority;

(n) **"RMBS Claims"** means representation and warranty claims, loan documentation-related claims, servicing-related claims, trustee claims, indemnification claims, contract claims, tort claims, or any other claims against a BAC-Related Person with respect to a trust or the mortgage loans held thereby;

(o) "**Senior Management**" means (a) for Defendants, the Chief Executive Officer, Chief Financial Officer, and Global General Counsel of Bank of America Corporation, together with such personnel who report directly to any of them, and (b) for Ambac, the Chief Executive Officer, Chief Financial Officer, and General Counsel of Ambac Financial Group, Inc. together with such personnel who report directly to any of them; and

(p) **"Servicing Claims"** means claims based in whole or in part on any actions, inactions, or practices of a BAC-Related Person serving as master servicer, servicer, or sub-servicer.

2. Settlement Payment. Defendants shall pay to Ambac the sum of $1,840,000,000 (one billion eight hundred forty million dollars) in cash by wire transfer (the "Settlement Payment") within ten (10) calendar days after all of the following conditions have been satisfied: (a) receipt by Defendants of both a fully executed copy of this Settlement Agreement and an executed Form W-9 for Ambac Assurance Corporation, (b) performance by Ambac of all of the obligations set forth in Sections 10(a) and 10(c) (other than the second sentence thereof), and (c) entry of final dismissals with prejudice by the respective courts in each of the Ambac I Action, the Ambac II Action, and the Ambac FF Action. For avoidance of doubt, the condition set forth in clause (c) above will be deemed satisfied if the NYSCEF docket indicates that each such action is "Disposed." The Settlement Payment shall be wired to Ambac Assurance Corporation pursuant to the wire instructions Ambac will separately provide to Defendants for purposes of the Settlement Payment no later than five calendar days after the Execution Date (the "Wire Details"). Upon request from Defendants, Ambac will promptly confirm at any time after the Execution Date and before transmittal of the Settlement Payment that its wire instructions for the Settlement Payment remain as set forth in the Wire Details. For the avoidance of doubt, the Defendants shall be jointly and severally responsible to make the Settlement Payment as set forth in this Section 2.

3. [Omitted in reliance on Regulation S-K Item 601(b)(10)(iv)]

4. Releases.

(a) Ambac, on its own behalf and on behalf of the Ambac Parties, hereby irrevocably and unconditionally grants a full, final, and complete release, waiver, and discharge of all alleged or actual claims, counterclaims, defenses, rights of setoff, rights of rescission, liens, disputes, liabilities, Losses, rights, and causes of action of any kind or nature whatsoever, whether asserted or unasserted, known or unknown, suspected or unsuspected, fixed or contingent, in contract, statutory, tort, or otherwise, secured or unsecured, accrued or unaccrued, whether direct, derivative, or brought in any other capacity, (i) that the Ambac Parties asserted or could have asserted against any or all of the BAC-Related Persons in the Ambac Suits, or (ii) that the Ambac Parties ever had, may currently have, or may have in the future against the BAC-Related Persons, without limitation to the nature or subject matter thereof, except that with respect to Servicing

Claims, Ambac releases only (x) all claims that the Ambac Parties may have as of the Execution Date, together with (y) all claims that the Ambac Parties may have in the future against the BAC-Related Persons arising out of actions, inactions, or practices by a BAC-Related Person serving as master servicer, servicer, or sub-servicer after the Execution Date, to the extent those actions, inactions, or practices are consistent with (or improvements over) the applicable master servicer, servicer, or sub-servicer's course of conduct prior to the Execution Date (the claims released under this Section 4(a) are referred to collectively as the "Ambac Released Claims").

(b) Defendants, on their own behalf and on behalf of the BAC-Related Persons, hereby irrevocably and unconditionally grant a full, final, and complete release, waiver, and discharge of all alleged or actual claims, counterclaims, defenses, rights of setoff, rights of rescission, liens, disputes, liabilities, Losses, rights, and causes of action of any kind or nature whatsoever, whether asserted or unasserted, known or unknown, suspected or unsuspected, fixed or contingent, in contract, statutory, tort, or otherwise, secured or unsecured, accrued or unaccrued, whether direct, derivative, or brought in any other capacity, arising out of or relating to the institution, assertion, defense, prosecution, litigation, settlement, or resolution of the Ambac Suits (the "BAC Released Claims").

5. Rights and Claims Not Released. No Party releases any rights or claims created by or arising out of (i) this Settlement Agreement or (ii) transactions involving any of the Ambac Parties (other than Ambac Assurance Corporation and Ambac Assurance UK Limited) and any BAC-Related Person entered into after the Execution Date.

6. Release of Unknown Claims. Each Party fully understands that facts relating to any matter covered by this Agreement might be found hereafter to be other than or different from the facts now believed by it to be true. With respect to the releases set forth in this Agreement, each Party expressly accepts and assumes the risk of such possible differences in fact and agrees that this Agreement will nevertheless remain in effect. Ambac (on its own behalf and on behalf of the Ambac Parties) and Defendants (on their own behalf and on behalf of the BAC-Related Persons), each expressly waives any and all provisions, rights, and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable, or equivalent to the provisions of the California Civil Code Section 1542, including that provision itself, which reads as follows:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

The Parties acknowledge that inclusion of the provisions of this Section 6 to this Settlement Agreement was a material and separately bargained for element of this Settlement Agreement.

7. Representations and Warranties by Each Party. Except as to Section 7(i), each Party to this Settlement Agreement represents, warrants, and agrees as to itself as of the date hereof as follows:

(a) It is duly organized, validly existing, and (to the extent applicable) in good standing under the Laws of the jurisdiction in which it is organized. It has the requisite corporate or other power and authority to own, lease, and operate its properties and assets and to carry on its business as now conducted. It has the corporate or other power and authority necessary to execute, deliver, and perform its obligations under this Settlement Agreement, and to complete the transactions contemplated hereby. The execution, delivery, and performance of this Settlement Agreement and the completion of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate or other action. Assuming due authorization, execution, and delivery of this Settlement Agreement by the other Parties, this Settlement Agreement constitutes the legal, valid, and binding obligations of it, enforceable against it in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws now or hereafter in effect affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by general principles of equity (whether considered in a proceeding at law or in equity));

(b) No other Party has made any statement or representation to such Party regarding any fact relied upon by such Party in entering into this Settlement Agreement, and such Party has not relied upon any statement, representation, or promise of any other Party (or of any representative or attorney of or for the other Party), in executing this Settlement Agreement, or in making the settlement provided for herein, except as expressly set forth in this Settlement Agreement;

(c) Such Party is not entering into this Settlement Agreement with the intent of hindering, delaying, or defrauding any of its respective current or future creditors; nor with the intent of giving to any creditor of such Party or enabling any creditor of such Party to obtain a greater percentage of that creditor's debt than any other creditor of the same class; nor with the intention or belief that entry into and performance of this Settlement Agreement will cause such Party to incur debts beyond its ability to pay as they mature; nor with the intention or belief that any part of this Settlement Agreement (or any transfer or release effectuated in accordance herewith) constitutes a preference or an otherwise voidable conveyance, or that the other Party is insolvent;

(d) Such Party has no present plan to cause, or present intention of causing, itself or any other Party that is its Affiliate to file for bankruptcy protection or to commence a liquidation proceeding within 90 days of the date the Settlement Payment is made in accordance with Section 2;

(e) Such Party has made such investigation of the facts pertaining to this settlement and this Settlement Agreement and of all the matters pertaining thereto as it deems necessary;

(f) Such Party has read this Settlement Agreement and understands the contents hereof, and has executed this Settlement Agreement voluntarily and without duress or undue influence on the part of or on behalf of any other Party;

(g) Such Party has not heretofore assigned, transferred, or granted, or purported to assign, transfer, or grant, any of the claims, demands, or causes of action released or waived by this Settlement Agreement; and

(h) No Governmental Authority or other third-party consents (including approvals, licenses, registrations, or declarations) are required to be obtained by such Party or any of its Affiliates in connection with the execution, delivery, effectiveness or performance of this Settlement Agreement other than such consents as have been duly obtained and are in full force and effect.

(i) Defendants represent and warrant to the Ambac Parties that neither they nor any BAC-Related Person has any present plan to pursue, or present intention of pursuing, any claim or cause of action against any Ambac Party.

8. Confidentiality.

(a) This Settlement Agreement as well as all discussions, correspondence, and communications of any nature whatsoever leading up to or in connection with this Agreement and this settlement (including any such discussions, correspondence, or communications exchanged under different confidentiality terms, all of which are hereby superseded) shall be "Confidential Information" for purposes of this Settlement Agreement; provided, however, that the amount of the Settlement Payment shall not be deemed "Confidential Information." Confidential Information" shall not be disclosed by any Party, except that, subject to the obligations described below, disclosure of such information shall be permitted in the following limited circumstances: (i) in an action by any Party to enforce the provisions of this Agreement, to the extent reasonably required for the purposes of such enforcement; (ii) in response to a court order, subpoena, or other demand made in accordance with applicable law; (iii) (A) communications with a Governmental Authority having jurisdiction over such Party, so that nothing in this Agreement shall prohibit or restrict a Party or its attorney from initiating communications directly with, responding to any inquiry from, or otherwise cooperating in any criminal or other investigation or proceeding by any such administrative agency, legislative body, or regulatory authority (including any taxing authority) without notice to any other Party, or (B) as that Party may elect in its reasonable discretion as part of its filings with the Securities and Exchange Commission on Form 8-K, 10-Q, or 10-K or related disclosures (including financial supplements substantially consistent with past practice), or similar public disclosures and reports under non-U.S. reporting regimes, with other Governmental Authorities, or other financial reporting obligations, including statutory financial reporting requirements, GAAP reporting requirements, and federal, state, or local tax returns; (iv) to such Party's subsidiaries, affiliates, their respective directors, officers, external or internal agents, representatives, professional advisers, attorneys, accountants, auditors, successors, assigns, and employees, who have a need to know and are under a duty to implement appropriate measures to maintain the confidentiality, security, and integrity of such information and who have been expressly advised of the confidentiality restrictions under this Agreement, and to qualified bidders or investors in connection with the sale of such Party or its assets, who have a need to know and

agree to be bound by this provision; and (v) by the Bank of America Parties, in their discretion, to enforce any and all rights to contribution and indemnity against third parties in connection with the Settlement Payment. For the avoidance of doubt, Ambac has concluded that it is required to disclose, and therefore intends to disclose, the terms of this Settlement Agreement pursuant to clause (iii)(B) of this subsection.

(b) Should any Party, or any Party's respective affiliates, receive a request for disclosure or become required by law to disclose any Confidential Information pursuant to Section 8(a)(ii) herein after the execution of this Agreement (and excluding any subpoena, document request, or other discovery served prior to the execution of this Agreement, and any disclosure covered under Sections 8(a)(i), (iii) or (iv) herein), the Party receiving such a request shall promptly, and in no case more than five (5) business days following receipt of such a request (so long as it is legally permitted to provide such notification), notify the other Parties (other than its own affiliates) to afford them the opportunity to object or seek a protective order prior to the disclosure of any such information. Each Party agrees that it shall use commercially reasonable efforts to obtain assurance that confidential treatment will be accorded to any Confidential Information that is provided to any Governmental Authority or any other person.

(c) Defendants, on the one hand, and Ambac, on the other hand, agree that prior to making any public disclosure or statement relating to this Settlement Agreement, other than as provided for in Section 8(a)(i) through 8(a)(v), they shall provide a copy to the other Party and shall consult with the other Party as to the content of such public disclosure, and obtain the consent of the other Party, which consent shall not be unreasonably withheld; provided, that the content of any public disclosure that has been previously consented to by the other Party under this Section 8(c) or any substantially similar release, public announcement, or other public disclosure that has been made in compliance with this Section 8, shall not be subject to the foregoing consent process. Nothing in this Section 8(c) shall require the Parties to obtain consent from another Party in connection with the disclosure of Confidential Information pursuant to Section 8(a)(i) through 8(a)(v).

(d) The Parties agree that neither they nor any of their representatives, agents (acting on their behalf), corporate communications personnel, or members of Senior Management shall make any public statement after the Execution Date disparaging another Party, or, for a period of five (5) years following the Execution Date, stating or implying that another Party acted improperly with respect to the claims released herein, or stating or implying that another Party is subject to any additional claims or liabilities by any other potential claimants relating in any respect to the nature of the claims released herein.

(e) The Parties agree that irreparable harm would result to the Parties if any part of the covenant contained in this Section 8 is not performed in accordance with the terms hereof and that any relevant non-breaching Party shall be entitled to an injunction or injunctions to prevent breaches of this provision or to enforce it specifically in addition to any other remedy to which that Party is entitled at law or in equity; provided, however, that the foregoing shall not apply to the extent the granting of any right to specific performance would contravene the terms of any binding order of any Governmental Authority. The Parties acknowledge that legal damages arising out of this covenant would not adequately compensate the other Parties for the harm

caused by any breach of it, including due to the uncertain risks and liabilities to which such a breach could potentially expose the non-breaching Parties.

(f) For purposes of this Agreement, Confidential Information shall not include information that (i) is or becomes generally available to and known by the public other than as a result of disclosure by a Party in violation of this Agreement; (ii) becomes available to a Party from a source other than the disclosing Party, provided that the receiving Party has no knowledge that such source is prohibited from disclosing such information to the receiving Party by a contractual, legal, or fiduciary obligation; or (iii) is independently developed by a Party without reference to, or use of, the Confidential Information.

(g) Each Party agrees that when making a disclosure permitted hereunder to a nonparty to this Agreement, such Party shall disclose only the minimum amount of information reasonably required under the circumstances.

(h) For any disclosure pursuant to Section 8(a)(iii)(B), Ambac will advise Defendants, either orally or in writing, of the language they intend to use for this purpose with a reasonable amount of time for Defendants to review before Ambac makes such disclosure.

9. Treatment of Documents after the Execution Date.

(a) Promptly (in no event later than ninety (90) days) following the Execution Date, Ambac shall (i) either destroy or return all documents delivered by or on behalf of a BAC-Related Person to Ambac in connection with any of the Ambac Suits or any repurchase demands, loan file requests, or otherwise, including all loan files (the "Loan File Materials," which shall include any documents purporting to identify or schedule breaches in the loans by any BAC-Related Person, any materials containing information derived from the loan files created during or reflecting the results of any reunderwriting process, and any financial analysis incorporating, applying, or derived from any alleged breach rates) that are in the possession of Ambac or any of its Affiliates, divisions, representatives, agents, directors, officers, or employees and (ii) certify to Defendants that it has complied with those obligations; provided, however, that Ambac and its Affiliates, divisions, representatives, agents, attorneys, directors, officers, or employees shall be entitled to retain electronic mail messages and such other documentation (A) to the extent required by Law or legal process, any court order or discovery obligation, or subpoenas of any kind that are received or set forth at any time prior to the return or destruction of the materials, (B) to the extent required to comply with bona fide internal document retention requirements or litigation holds, or (C) that otherwise are maintained on backup tapes or in archived files. Ambac shall prevent any disclosure or use (other than as expressly permitted in this Settlement Agreement) of any materials it prepared or instructed its Affiliates, representatives, agents, or attorneys to prepare based on the documents delivered by any BAC-Related Person described in this Section 9(a). Nothing in this Settlement Agreement shall be construed as requiring the Parties to destroy or return any attorney work product.

(b) Loan File Materials shall not be used after the Execution Date by Ambac or any of its respective Affiliates, representatives, agents, attorneys, directors, officers, or employees for any purpose, including in or with respect to any actual or contemplated action or proceeding adverse to any BAC-Related Person except to the extent any Loan File Materials are required to

be produced pursuant to subpoena or otherwise in other actions in accordance with the requirements of Section 8(a).

10. Dismissals and Withdrawals.

(a) Promptly, and in no event more than three (3) business days after the Execution Date, Ambac shall file in each of the respective Ambac Suits (other than the Ambac III Action and the Ambac IV Action, which have been finally dismissed and are no longer pending) a stipulation of dismissal in substantially the forms attached hereto as Exhibits E, F, and G, dismissing with prejudice all claims asserted in the respective Ambac Suit. (As used in this Section 10, "business days" exclude weekends and Monday, October 10, 2022.)

(b) In the event Ambac's motion for reconsideration of the denial of its petition for certiorari in *Ambac Assurance Corp. v. Merrill Lynch, Pierce, Fenner & Smith Incorporated et al*., Puerto Rico Supreme Court Case No. CC-2022-346 is successful, or Ambac is otherwise permitted to continue prosecution of the underlying action, Ambac shall dismiss with prejudice all claims in that action against any BAC-Related Person.

(c) Promptly, and in no event more than three (3) business days after the Execution Date, Ambac will, and will cause the relevant Ambac Parties to, withdraw their objections, including any pending appeals, concerning the settlements that are the subject of trust proceedings with the following captions: (i) *In the Matter of the Application of Deutsche Bank National Trust Company, Solely in its Capacity as Trustee of the Harborview Mortgage Loan Trust, Mortgage Loan Pass-Through Certificates, Series 2006-9*, Index No. 654208/2018 (N.Y. Supreme Court, New York County), and (ii) *In the Matter of HarborView Mortgage Loan Trust 2005-10*, File No. 27-TR-CV-17-32 (Dist. Ct., Hennepin County, Minn.). From and after the Execution Date, the Ambac Parties shall not take any action to oppose those settlements or seek any form of recovery in those proceedings or relating to those settlements; *provided*, *however,* that Ambac may participate in the proceeding identified in clause (i) solely for purposes of its position as to the manner in which the settlement funds should be allocated and or distributed via the trust waterfall.

(d) As of the Execution Date, Ambac, on its own behalf on and on behalf of the Ambac Parties, hereby (i) withdraws and rescinds any and all notices relating to mortgage loan defects or representation and warranty breaches and any and all repurchase or "put-back" requests, in each case that were issued or delivered by or on behalf of any of the Ambac Parties with respect to any Global Bank of America RMBS Trust (each a "Notice"), (ii) agrees to treat as null and void and without legal effect any and all of such Notices, and (iii) withdraws any claim that such Notices commenced the running of any time period for compliance with any of its requests or demands or set forth or triggered any obligations or duties on behalf of any recipient of the documents or any of its Affiliates. Promptly, and in no event more than five (5) business days after the Execution Date, Ambac will cause to be delivered to Defendants at the address for notices specified pursuant to Section 28 and the trustee for each Global Bank of America Trust in which an Ambac Party previously gave such Notice alleging a breach of representations and warranties by any BAC-Related Person a letter in the form attached hereto as Exhibit D (each a "Letter"). In the event that any Notice not withdrawn pursuant to the preceding sentence results in the assertion, or threatened assertion, of any claim that a BAC-Related Person is required, directly or through

indemnification of a third party, to pay money damages in respect of an RMBS Claim or repurchase mortgage loans from any Global Bank of America RMBS Trust, Ambac shall promptly withdraw such Notice upon written request of a Defendant. If Ambac breaches its obligations set forth in the immediately preceding two sentences, Ambac agrees to indemnify the BAC-Related Persons for all costs, fees (including attorney's fees), Losses, damages, expenses and liability any BAC-Related Person may incur as a result of such breach.

11. Right to Transfer Mortgage Servicing Rights. Attached hereto as Exhibit C is a mutually agreed upon list of mortgage servicers (the "Mortgage Servicer List"). Defendants, on the one hand, and Ambac, on the other, may add by mutual assent additional mortgage servicers to the Mortgage Servicer List, and such consent shall not be unreasonably withheld or delayed by any Party. Should Defendants decide, in their sole discretion, that they wish to transfer any or all of the Mortgage Servicing Rights to any mortgage servicer on the Mortgage Servicer List, Ambac, or any affiliate or subsidiary thereof, as appropriate, to the extent its approval of such a transfer is necessary, shall agree to such transfer, execute any documents as are reasonably necessary or appropriate to effect the transfer of all or part of such Mortgage Servicing Rights, and reasonably cooperate in good faith with the transfer of such Mortgage Servicing Rights, so long as the terms of servicing following such transfer or transfers are not materially different from those that are in effect immediately before the transfer.

12. Covenant Not to Sue.

(a) Ambac, on its own behalf and on behalf of the Ambac Parties, agrees and covenants not to sue in court or in any other forum any BAC-Related Person based in whole or in part on the Ambac Released Claims, including but not limited to any claim that the Ambac Parties may have in the future against the BAC-Related Persons arising out of actions, inactions, or practices by a BAC-Related Party serving as master servicer, servicer, or sub-servicer after the Execution Date, to the extent those actions, inactions, or practices are consistent with (or improvements over) the applicable master servicer, servicer, or sub-servicer's course of conduct prior to the Execution Date. Notwithstanding the foregoing, nothing in this Settlement Agreement shall prohibit any Party from enforcing any rights or claims created by or arising out of this Settlement Agreement itself.

(b) Defendants, on their own behalf and on behalf of the BAC-Related Persons, agree and covenant not to sue in court or in any other forum any Ambac Party based in whole or in part on the BAC Released Claims. Notwithstanding the foregoing, nothing in this Settlement Agreement shall prohibit any Party from enforcing any rights or claims created by or arising out of this Settlement Agreement itself.

13. Covenant Not to Agitate.

(a) With respect to Global Bank of America RMBS Trusts, Ambac, on behalf of itself and each of the Ambac Parties, agrees not to:

(i) direct, encourage, influence or otherwise agitate any trustee, master servicer, monoline insurer, sponsor, seller, investor, or any other person with a potential

repurchase right or other right based on any RMBS Claim to assert, or take any other action with respect to, any such RMBS Claim;

(ii) assert any claims against a third party where it is reasonably foreseeable that a BAC-Related Person would be required, directly or through indemnification of such third party, to pay money damages in respect of an RMBS Claim or repurchase mortgage loans from any Global Bank of America RMBS Trust (and Ambac shall promptly withdraw any such claims against a third party upon written notification by a Defendant that a claim for damages or repurchase against a BAC-Related Person has been made, threatened, or is otherwise reasonably foreseeable);

(iii) take any other action that could reasonably be expected to lead any other person to assert, or otherwise take any action with respect to, any RMBS Claim or claim that would be an RMBS Claim if asserted by an Ambac Party against a BAC-Related Person;

(iv) interfere with, object to, advise on, or impede any discussions, actions, proceedings, agreements, or settlements between a BAC-Related Person, on the one hand, and any certificateholders and/or trustees of the Global Bank of America RMBS Trusts, on the other hand (including without limitation any settlement between BAC-Related Persons and U.S. Bank with respect to the LXS 2007-7N trust, as to which settlement Ambac will, promptly upon request from a BAC-Related Person, confirm in writing to U.S. Bank that Ambac does not object);

(v) exercise or cause to be exercised any votes, voting rights, consent, or control rights in a manner that could reasonably be expected to cause any of the foregoing actions; or

(vi) join, aggregate or cooperate with any Person (including certificateholders) with respect to any of the foregoing actions.

(b) **[Omitted in reliance on Regulation S-K Item 601(b)(10)(iv)]**

(c) For avoidance of doubt, Ambac's continued prosecution of *Ambac Assurance Corporation v. U.S. Bank National Association,* No. 17-cv-2614 (S.D.N.Y.) and *Ambac Assurance Corp. et al., v. Nomura Credit & Capital, Inc. et al., Index No*. 651359/2013 (N.Y. Sup. Ct., N.Y. Cnty.), in each instance within the present scope of such action, shall not constitute a violation of this Section 13. .

14. [Omitted in reliance on Regulation S-K Item 601(b)(10)(iv)]

15. No Admission. In no event shall this Settlement Agreement or the settlement contemplated hereby, the activities performed in contemplation of, in connection with, or in furtherance of this Settlement Agreement, public statements made by any Party or any of its representatives concerning or relating to the Settlement Agreement, or any communications or negotiations with respect thereto be construed, deemed, used, asserted, or admitted as evidence of an admission or a concession on the part of any Party on any subject whatsoever; provided that

nothing in this Section 15 shall preclude the use of this Settlement Agreement and the circumstances surrounding its execution to enforce this Settlement Agreement. To the contrary, the Parties have denied and continue to deny any and all wrongdoing of any kind whatsoever and retain, and do not waive, any and all defenses they may have with respect to such matters.

16. Binding Agreement on Successors and Assigns. This Settlement Agreement shall be binding upon and inure to the benefit of the Parties' successors and assigns. Neither this Settlement Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by any of the Parties without the prior written consent of each of the other Parties hereto and any attempted assignment in violation of this provision shall be null and void.

17. Governing Law; Consent to Jurisdiction. This Settlement Agreement shall be governed by, and construed in accordance with, the laws of the State of New York and the laws of the United States applicable to contracts entered into and completely performed in New York. This Section 17 applies to this Settlement Agreement only, and does not affect or change the terms or the applicable law of any other agreement. The Parties hereby irrevocably submit to the non-exclusive jurisdiction of any court in the state of New York located in the City and County of New York, and any appellate court from any thereof, in any action, suit or proceeding brought against it and in connection with this Agreement pertaining to any matter that is not subject to arbitration in accordance with Section 18, or for recognition or enforcement of any judgment, and the Parties hereby irrevocably and unconditionally agree that all claims in respect of any such action or proceeding may be heard or determined in such New York state court. The Parties agree that a final unappealable judgment in any such action, suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. To the extent permitted by applicable law, the Parties hereby waive and agree not to assert by way of motion, as a defense or otherwise in any such suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such courts, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that the related documents or the subject matter thereof may not be litigated in or by such courts. EACH PARTY HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY OF ANY DISPUTE ARISING UNDER OR RELATING TO THIS SETTLEMENT AGREEMENT AND AGREES THAT ANY SUCH DISPUTE SHALL BE TRIED BEFORE A JUDGE SITTING WITHOUT A JURY.

18. Arbitration. Any controversy or claim arising out of or relating to this Agreement, other than a dispute pertaining to the payment of the Settlement Payment, shall be settled by confidential binding arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules. The number of arbitrators shall be three (3), with one (1) chosen by each Party and the third chosen by the two selected by the Parties. The place of arbitration shall be New York, New York. Judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Any mediation or arbitration shall be confidential and subject to the confidentiality requirements of Section 8. The arbitration panel shall issue a written decision within sixty (60) days after the conclusion of the arbitration panel hearing, or as soon as practicable thereafter.

19. **Irreparable Harm**. The Parties agree that irreparable harm would result to, and that legal damages would not adequately compensate, the Parties if any part of this Settlement Agreement is not performed in accordance with the terms hereof, and that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Settlement Agreement or to enforce it specifically in addition to any other remedy to which such Party is entitled at Law or in equity; provided, however, that the foregoing shall not apply to the extent the granting of any right to specific performance would contravene the terms of any binding order of any Governmental Authority (it being agreed that a binding order of a Governmental Authority shall not include any action taken by any rehabilitator, liquidator, conservator, or receiver).

20. **Construction.** The terms, provisions and conditions of this Settlement Agreement represent the results of negotiations among Defendants, on the one hand, and Ambac, on the other hand. The terms, provisions, and conditions of this Settlement Agreement shall be interpreted and construed in accordance with their usual and customary meanings. Each of the Parties expressly, knowingly, and voluntarily waives the application, in connection with the interpretation and construction of this Settlement Agreement, of any rule of law or procedure to the effect that ambiguous or conflicting terms, conditions, or provisions shall be interpreted or construed against the Party whose legal counsel prepared the executed version or any prior drafts of this Settlement Agreement. The headings contained in this Settlement Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Settlement Agreement. Whenever the words "include," "includes," or "including" are used in this Settlement Agreement, they shall be deemed to be followed by the words "without limitation."

21. **Severability**. If any provision of this Settlement Agreement other than Sections 2, 4, and 10 above shall, for any reason or to any extent, be invalidated or unenforceable, the remainder of this Settlement Agreement shall be enforced to the fullest extent permitted by law.

22. **No Third-Party Rights or Obligations**. No Person not a Party to this Settlement Agreement shall have any third-party beneficiary or other rights under this Settlement Agreement; provided, however that any Person released under Section 4 shall be expressly entitled to enforce the provisions of Sections 4, 10, 12, and 13 hereof.

23. **Multiple Counterparts**. This Settlement Agreement may be executed in a number of identical counterparts, each of which for all purposes is deemed an original, and all of which constitute collectively one agreement. The Parties intend that faxed signatures and electronically imaged signatures such as PDF files shall constitute original signatures and are binding on all Parties. An executed counterpart signature page delivered by facsimile or by electronic mail shall have the same binding effect as an original signature page. This Settlement Agreement shall not be binding until all Parties have signed and delivered a counterpart of this Settlement Agreement whether by mail, facsimile, or electronic mail.

24. **Modification and Waiver**. This Settlement Agreement may not be amended, altered or modified, and no provision hereof may be waived, except by written instrument executed by the Parties. No waiver shall constitute a waiver of, or estoppel with respect to, any subsequent or other inaccuracy, breach or failure to comply strictly with the provisions of this Settlement Agreement.

25. **Further Assurances**. The Parties agree to execute and deliver all additional documents and instruments and to do all acts not specifically referred to herein which are reasonably necessary to fully effectuate the intent, terms, and conditions of this Settlement Agreement.

26. **Entire Agreement**. This Settlement Agreement constitutes the entire agreement of the Parties hereto with respect to the subject matter hereof, except as expressly provided herein, and supersedes all prior agreements and understandings, discussions, negotiations and communications, written and oral, among the Parties with respect to the subject matter hereof.

27. **Expenses**. Except as expressly agreed otherwise, all costs and expenses, including fees and disbursements of counsel, incurred in connection with preparing for, entering into and carrying out this Settlement Agreement and performing and consummating the transactions contemplated by this Settlement Agreement shall be paid by the Person incurring such costs and expenses.

28. **Notices**. Any notice or other communication required or permitted under this Settlement Agreement shall be in writing and shall be deemed to have been duly given when (a) mailed by United States registered or certified mail, return receipt requested, (b) mailed by overnight express mail or other nationally recognized overnight or same-day delivery service, or (c) delivered in person, to the parties at the notices addresses to be provided by Ambac and Defendants to each other within one business day after the Execution Date. A Party may change the names or addresses where notice is to be given to it by providing notice to the other Parties of such change in accordance with this Section 28.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Settlement Agreement on the Execution Date indicated above.

AMBAC ASSURANCE CORPORATION

By:	/s/ Claude LeBlanc
Name:	Claude LeBlanc
Title	President & CEO

BANK OF AMERICA CORPORATION

By:	/s/ Amanda Vaughn
Name:	Amanda Vaughn
Title	Deputy General Counsel

BANK OF AMERICAN N.A.

By:	/s/ Elizabeth Chen
Name:	Elizabeth Chen
Title	Senior Vice President

COUNTRYWIDE FINANCIAL CORPORATION

By:	/s/ Elizabeth Chen
Name:	Elizabeth Chen
Title	Senior Vice President

COUNTRYWIDE HOME LOANS, INC.

By:	/s/ Elizabeth Chen
Name:	Elizabeth Chen
Title	Senior Vice President

COUNTRYWIDE SECURITIES CORPORATION

By:	/s/ Elizabeth Chen
Name:	Elizabeth Chen
Title	Senior Vice President

FIRST FRANKLIN FINANCIAL CORPORATION

By:	/s/ Elizabeth Chen
Name:	Elizabeth Chen
Title	Senior Vice President

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By:	/s/ Brendon Dowd
Name:	Brendon Dowd
Title	Attorney-In-Fact

MERRILL LYNCH MORTGAGE LENDING, INC.

By: /s/ Adam Gadsby
Name: Adam Gadsby
Title Vice President

MERRILL LYNCH MORTGAGE INVESTORS, INC.

By: /s/ Adam Gadsby
Name: Adam Gadsby
Title Vice President

EXHIBIT A

Bloomberg Issuer Tickers

Ticker
Omitted in reliance on Regulation S-K Item 601(a)(v)

EXHIBIT B

Ambac-Wrapped Trusts Serviced By Defendants

Omitted in reliance on Regulation S-K Item 601(a)(v)

EXHIBIT C

Mutually Agreed Mortgage Servicers

Omitted in reliance on Regulation S-K Item 601(a)(v)

EXHIBIT D

Form of Letter Withdrawing and Rescinding Notices of Representation and Warranty Breaches and Repurchase Requests

Omitted in reliance on Regulation S-K Item 601(a)(v)

EXHIBIT E

Form of Stipulation of Discontinuance and Order of Dismissal With Prejudice for Ambac I Action

Omitted in reliance on Regulation S-K Item 601(a)(v)

EXHIBIT F

Form of Stipulation of Discontinuance and Order of Dismissal With Prejudice for Ambac II Action

Omitted in reliance on Regulation S-K Item 601(a)(v)

EXHIBIT G

Form of Stipulation of Discontinuance and Order of Dismissal With Prejudice for Ambac First Franklin Action

Omitted in reliance on Regulation S-K Item 601(a)(v)

Exhibit 10.35

Certain identified information has been excluded from the exhibit because it is both not material and is the type that the registrant treats as confidential

SETTLEMENT AGREEMENT AND RELEASE

This settlement agreement and release (the "Agreement") is made as of this 29th day of December, 2022 (the "Effective Date"), by and among Ambac Assurance Corporation ("Ambac") and Nomura Credit & Capital, Inc. ("NCCI"), to resolve all disputes in any way related to the Covered Securities and the Action (each as defined below). Ambac and NCCI are each a "Party" and, together, the "Parties" to this Agreement.

WHEREAS, the Parties are presently parties to the action titled *Ambac Assurance Corporation et al. v. Nomura Credit & Capital Inc. et al.*, Index No. 651359/2013 (Sup. Ct. N.Y. Cnty.) (the "Action");

WHEREAS, NCCI denies all allegations made by Ambac and any liability in the Action;

WHEREAS, the Parties wish to settle, compromise and finally resolve all disputes between them arising from Ambac's provision of financial guaranty insurance for, ownership of, and all interests in the Covered Securities and the Covered Trusts (each as defined below) without the burden, distraction, expense, and uncertainty of further litigation on the terms set forth herein; and

WHEREAS, subject to the terms set forth herein, Ambac agrees to dismiss the Action with prejudice;

NOW, THEREFORE, in consideration of the promises and undertakings set forth herein, and for other good and valuable consideration, the adequacy and sufficiency of which are hereby acknowledged, the Parties agree as follows:

CERTAIN DEFINITIONS

1. As used in this Agreement, the following terms shall have the following meanings:

a. "Affiliate" means with respect to any Person, any Person directly or indirectly controlling, controlled by or under common control with, such other Person, including parents, divisions, subsidiaries, and managed funds. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with") when used with respect to any Person, means the possession, directly or

indirectly, of the power to cause the direction of management and/or policies of such Person, whether through the ownership of voting securities, by contract, or otherwise.

b. "Ambac Released Parties" means Ambac, any past or present subsidiary or Affiliate thereof, and the Segregated Account of Ambac (the "Segregated Account"), together with their respective predecessors, successors, divisions and assigns, and, solely in their capacities as such, any and all present or former officers, directors, managers, employees, agents, attorneys, and representatives of any of the foregoing.

c. "Covered Securities" means any residential mortgage-backed securities that were issued in connection with the Covered Trusts.

d. "Covered Trusts" means the NAAC 2007-1 Trust and the NAAC 2007-3 Trust.

e. "Insurance Policies" means any and all financial guaranty insurance policies issued by Ambac in connection with the Covered Securities and Covered Trusts.

f. "NAAC 2007-1 Trust" means the Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2007-1.

g. "NAAC 2007-3 Trust" means the Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2007-3.

h. "NCCI Released Parties" means NCCI and any past or present subsidiary or Affiliate of NCCI, together with their respective predecessors, successors, divisions and assigns, and, solely in their capacities as such, any and all present or former officers, directors, managers, employees, agents, attorneys, and representatives of any of the foregoing.

i. "Person" means any individual, corporation, company, partnership, limited liability company, joint venture, association, trust, firm, fund, or other entity, including a governmental authority.

j. "Released Claims" means any claims concerning and/or relating to the Insurance Policies, the Covered Trusts, the Covered Securities, and/or the mortgage loans included in the Covered Trusts, including all demands to cure or repurchase, disputes, liabilities, losses, debts, fees, costs, expenses, obligations, demands, damages, rights, claims, and causes of action of any kind or nature whatsoever, whether asserted or unasserted, known or Unknown, suspected or unsuspected, fixed or contingent, accrued or unaccrued, in contract, tort, or otherwise, arising under law or equity. Notwithstanding anything in this Agreement to the contrary, Released Claims shall not include any claim or cause of action (x) arising under this Agreement or (y) in favor of NCCI against Ambac pertaining to Ambac's obligation to pay any and all valid and noticed claims as and when due under the Insurance Policies after the Effective Date.

k. The inclusion of "Unknown" claims means that the definition of Released Claims includes claims that a Party does not know or suspect to exist in its favor at the time of the releases given under this Agreement, which if known by it might have affected its decisions with

respect to the matters released herein. With respect to any and all Released Claims, the Parties stipulate and agree that upon the Effective Date, the Parties expressly waive, and each of the Ambac Released Parties and the NCCI Released Parties shall be deemed to have waived, any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

The Parties acknowledge, and the Ambac Released Parties and the NCCI Released Parties by operation of law shall be deemed to have acknowledged, that the inclusion of "Unknown" claims in the definition of Released Claims was separately bargained for and was an essential element of this Agreement.

THE SETTLEMENT CONSIDERATION

2. NCCI shall pay to Ambac the sum of One Hundred and Forty Million U.S. Dollars ($140,000,000) (the "Settlement Amount"), in full and complete settlement of the Released Claims, to be wired to the account or accounts designated in writing by Ambac, within ten (10) business days following the later of (i) the Effective Date, and (ii) receipt by NCCI from Ambac of an executed Form W-9 and all wire and payment instructions needed to effectuate transfer of the funds.

SCOPE AND EFFECT OF SETTLEMENT

3. The obligations incurred pursuant to this Agreement shall be in full and final disposition and release of Ambac's claims in the Action and any and all Released Claims.

4. Effective upon payment of the Settlement Amount, Ambac, on behalf of itself and each of the Ambac Released Parties, hereby irrevocably and unconditionally grants a full, final, and complete release, waiver, and discharge of all Released Claims to the NCCI Released Parties. Effective upon payment of the Settlement Amount, NCCI, on behalf of itself and each of the NCCI Released Parties, hereby irrevocably and unconditionally grants a full, final, and complete release, waiver, and discharge of all Released Claims to the Ambac Released Parties.

5. Ambac agrees not to directly or indirectly sponsor, endorse, or support, or to act as part of a quorum of certificate holders to direct, any action seeking any recovery against any of the NCCI Released Parties with respect to any Released Claim.

DISMISSAL OF CLAIMS

6. Within two (2) business days after payment of the Settlement Amount, the Parties shall execute and Ambac shall file in the Action a Stipulation of Dismissal, substantially in the form attached hereto as Exhibit A. Ambac shall also take all other steps as necessary to effect dismissal of the Action in its entirety and all claims asserted therein with prejudice.

CERTAIN REPRESENTATIONS AND WARRANTIES

7. Each Party hereby makes the following representations and warranties for the benefit of the other Party:

a. Each Party is duly organized, validly existing, and in good standing under the laws of the jurisdiction in which it is organized. It has the requisite corporate or other power and authority to carry on its business as now conducted. It has the corporate or other power and authority necessary to execute, deliver, and perform its obligations under this Agreement, and to complete the transactions contemplated hereby. The execution, delivery, and performance of this Agreement and the completion of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate or other action. This Agreement constitutes the legal, valid, and binding obligations of it, enforceable against it in accordance with its terms.

b. Each Party is not entering into this Agreement with the intent of hindering, delaying, or defrauding any of its respective current or future creditors and it believes it is receiving reasonable equivalent value for the consideration it is providing pursuant to this Agreement.

c. Each Party has made such investigation of the facts pertaining to this settlement and this Agreement and of all the matters pertaining thereto as it deems necessary.

d. Each Party has read this Agreement and understands the contents hereof, and it has executed this Agreement voluntarily and without duress or undue influence on the part of or on behalf of any other Party.

e. No consent of a government agency, authority or other third party (including, but not limited to, approvals, licenses, registrations, or declarations) is required in connection with each Parties' execution, delivery, or performance of this Agreement other than such consents as have been duly obtained and are in full force and effect.

f. No Party has assigned, transferred, or granted, or purported to assign, transfer, or grant, any of the Released Claims for which it is giving a release pursuant to this Agreement.

8. Ambac represents to NCCI that Ambac is not aware of any facts that would give rise to a Released Claim by NCCI against Ambac.

9. Ambac represents to NCCI that the Segregated Account was merged into Ambac and no longer exists. Ambac further represents that the Segregated Account has not assigned, transferred, or granted, or purported to assign, transfer, or grant, any of the Released Claims, other than to Ambac by operation of law.

REPURCHASE DEMANDS

10. Ambac acknowledges that, upon the effectiveness of the release set forth in Section 4, it shall have provided to the NCCI Released Parties a full and final release, waiver, and discharge of all of its cure, repurchase, or "put-back" rights, if any, or claims relating to the Covered Securities, Covered Trusts, and Insurance Policies. Consistent therewith, Ambac covenants and agrees that from the date hereof, all cure, repurchase or "put-back" claims made by Ambac relating to the Covered Securities, Covered Trusts, and Insurance Policies, shall herewith be deemed withdrawn and rendered null and void. Ambac further covenants that, following the Effective Date, it will not give notice of any actual or alleged breaches of any representation and warranty made by any of the NCCI Released Parties relating to the Covered Securities, Covered Trusts, and/or Insurance Policies to any of the NCCI Released Parties or to any other Person.

11. **[Omitted in reliance on Regulation S-K Item 601(b)(10)(iv)]**

12. **[Omitted in reliance on Regulation S-K Item 601(b)(10)(iv)]**

13. **[Omitted in reliance on Regulation S-K Item 601(b)(10)(iv)]**

NO ADMISSION OF WRONGDOING

14. This Agreement is entered into as a compromise and for the purpose of avoiding the costs and uncertainties of litigation and does not constitute an admission by any Party of liability for any matter. Nothing in this Agreement nor any act or omission relating thereto is or shall be considered an admission, concession, acknowledgment, or determination of any alleged liability. Rather, this Agreement will have been entered into without any admission, concession, acknowledgement or determination of any liability or non-liability whatsoever and have no precedential or evidentiary value whatsoever. The Parties intend that this Agreement and its terms be subject to the full protection provided by Section 4547 of the New York Civil Practice Law and Rules, Federal Rule of Evidence 408, and all similar provisions of law (whether by statute, rule or common law of any U.S. or non-U.S. jurisdiction) that protect settlements or settlement communications.

NON-DISCLOSURE OF CONFIDENTIAL INFORMATION

15. This Agreement, as well as all discussions, correspondence, and communications of any nature whatsoever leading up to or in connection with this Agreement and this settlement (including any such discussions, correspondence, or communications exchanged under different confidentiality terms, all of which are hereby superseded), shall be "Confidential Information" for purposes of this Agreement. Confidential Information shall not be disclosed by any Party, except that, subject to the obligations described below, disclosure of such information shall be permitted in the following limited circumstances: (i) in an action by any Party to enforce the provisions of this Agreement, to the extent reasonably required for the purposes of such enforcement; (ii) to the extent legally required in response to a court order, subpoena, or other demand made in accordance with applicable law; (iii) in communications with a governmental authority having jurisdiction over such Party, so that nothing in this Agreement shall prohibit or restrict a Party or its attorney from initiating communications directly with, responding to any inquiry from, or otherwise cooperating in any criminal or other investigation or proceeding by any such administrative agency, legislative body, or regulatory authority (including any taxing authority) without notice to the other Party; (iv) to such Party's subsidiaries, Affiliates, their respective directors, officers, external or internal agents, representatives, professional advisers, attorneys, accountants, auditors, successors, assigns, and employees, who have a need to know and are under a duty to implement appropriate measures to maintain the confidentiality, security, and integrity of such information and who have been expressly advised of the confidentiality of such information; and (v) a Party may (A) publicly disclose the Settlement Amount and material terms of this Agreement, and, (B) if required under applicable law or regulation, file this Agreement in its filings with the Securities and Exchange Commission. For the avoidance of doubt, Ambac has concluded that (a) it is required to disclose, and therefore intends to disclose, the material terms of this Agreement pursuant to clause (v)(A) of this Section and (b) it is required under applicable law or regulation, and therefore intends to, file this Agreement in its filings with the Securities and Exchange Commission pursuant to clause (v)(B) of this Section.

16. Should either Party, or either Party's respective Affiliates, receive a request for disclosure or become required by law to disclose any Confidential Information pursuant to Section 15(ii) after the execution of this Agreement (and excluding any disclosure covered under Sections 15(i), (iii), (iv) or (v)), the Party receiving such a request shall promptly, and in no case more than five (5) business days following receipt of such a request (so long as it is legally permitted to provide such notification), notify the other Party to afford it the opportunity to object or seek a protective order prior to the disclosure of any such information.

17. For purposes of this Agreement, Confidential Information shall not include information that (i) is or becomes generally available to and known by the public other than as a result of disclosure by a Party in violation of this Agreement; (ii) becomes available to a Party from a source other than the disclosing Party, provided that the receiving Party has no knowledge that such source is prohibited from disclosing such information to the receiving Party by a contractual, legal, or fiduciary obligation; or (iii) is independently developed by a Party without reference to, or use of, the Confidential Information.

18. Each Party agrees to give reasonable notice to the other Party prior to any disclosure of Confidential Information via a filing with the Securities and Exchange Commission pursuant to Section 15(v)(B). Absent prior written consent of the other Party, each Party agrees not to issue any press release, public announcement or other public disclosure relating to this Agreement or any Party's involvement under this Agreement or the Action that (i) characterizes this settlement in any way that suggests that the Parties have settled their differences on other than mutually acceptable terms or (ii) disparages the other Party.

19. The Parties agree that irreparable harm would result if any part of the covenants set forth in Sections 15, 16, 17 and 18 are not performed in accordance with their terms and that the non-breaching Party shall be entitled to seek an injunction or injunctions to prevent breaches of these provisions or to enforce them specifically in addition to any other remedy to which that Party is entitled at law or in equity. The Parties acknowledge that legal damages arising out of these covenants will not adequately compensate the other Party for the harm caused by any breach, including due to the uncertain risks and liabilities to which such a breach could potentially expose the non-breaching Party.

20. The Parties agree that nothing in this Agreement relieves any Party of its obligations with respect to any protective order entered into in connection with the Action. Each Party agrees to comply fully and timely with any obligation it may have under any such order to destroy or return information.

MISCELLANEOUS PROVISIONS

21. This Agreement shall not in any way affect Ambac's irrevocable obligation to pay insurance claims in connection with the Insurance Policies.

22. The Parties intend this Agreement to be a final and complete resolution of all disputes asserted or which could be asserted by one another with respect to the Released Claims. The Parties agree that the amount paid and the other terms of this Agreement were negotiated at arm's-length in good faith by the Parties and reflect a settlement that was reached voluntarily after consultation with experienced legal counsel.

23. This Agreement may not be modified or amended, nor may any of its provisions be waived, except by a writing signed by the Parties.

24. The headings herein are used for the purpose of convenience only and are not meant to have legal effect.

25. The waiver by one Party of any breach of this Agreement by the other Party shall not be deemed a waiver of any other prior or subsequent breach of this Agreement.

26. The Parties acknowledge that they have not executed this Agreement in reliance on any promise, representation, or warranty made prior to the execution hereof.

27. This Agreement may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument. Facsimile and .pdf signatures shall have the same force and effect as original signatures.

28. This Agreement is binding upon and shall inure to the benefit of the Parties and their respective agents, successors, executors, heirs and assigns. No Party may assign its rights or delegate its duties under this Agreement without the prior written consent of the other Party, and any purported assignment or delegation without such prior written consent shall be null and void. Each of the NCCI Released Parties and the Ambac Released Parties shall be a third-party beneficiary of this Agreement with the right to directly enforce the releases in Section 4 of this Agreement. No other Person shall have any third-party beneficiary or other rights under this Agreement or have any right to sue under or directly enforce this Agreement.

29. The construction, interpretation, operation, effect and validity of this Agreement, and all documents necessary to effectuate it, shall be governed by the Laws of the State of New York, without giving effect to its conflict-of-law rules.

30. Should there be a dispute between the Parties concerning any of the terms contained within this Agreement, the Parties agree that the Honorable Layn Phillips shall (if agreeable to him) mediate the issue. Failing resolution via such mediation within 45 days after identification of a dispute, the Parties shall be deemed to have submitted to the exclusive jurisdiction of the U.S. Federal or New York State courts in New York County with respect to any disputes relating to this Agreement. Each side shall bear its own fees, costs, and expenses (including, without limitation, attorneys' fees) in connection with any dispute relating to this Agreement.

31. This Agreement shall not be construed more strictly against one Party than the other merely by virtue of the fact that it, or any part of it, may have been prepared by counsel for one of the Parties, it being recognized that it is the result of arm's-length negotiations between the Parties, and both Parties have contributed substantially and materially to the preparation of this Agreement.

32. Each Party shall be responsible for its own fees, costs, and expenses (including, without limitation, attorneys' fees) in connection with the Action, this Agreement and other matters referred to herein.

33. All notices or demands given or made by one Party to the other Party relating to this Agreement shall be in writing and either personally served or sent by overnight delivery service (and, in either such case, with a copy by electronic mail transmission), or by electronic mail transmission, and shall be deemed to be given for purposes of this Agreement on the earlier of the date of actual receipt or three (3) days after personal delivery or the deposit thereof with the overnight delivery service (if sent in such manner) or the electronic transmission of the message. Unless a different or additional address for subsequent notices is specified in a notice provided in accordance with this Section, such notices or demands shall be sent as follows:

If to NCCI:

Nancy Prahofer
Nomura Holding America Inc.

309 West 49th Street
New York, New York 10019
Email: nancy.prahofer@nomura.com

With a copy to:

Matthew Craner
Shearman & Sterling LLP
599 Lexington Ave
New York, NY 10022
Email: matthew.craner@shearman.com

If to Ambac:

General Counsel
Ambac Assurance Corporation
One World Trade Center, 41st Floor
New York, New York 10007
Email: legalnotices@ambac.com

With a copy to:

Patterson Belknap Webb & Tyler LLP
1133 Avenue of the Americas
New York, New York 10036
Attention: Peter W. Tomlinson and Alex Shapiro
Email: pwtomlinson@pbwt.com
Email: ashapiro@pbwt.com

Remainder of this page is intentionally left blank – signatures follow

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the Effective Date.

AMBAC ASSURANCE CORPORATION

By: /s/ Stephen M. Ksenak
Name: Stephen M. Ksenak
Title: General Counsel

NOMURA CREDIT & CAPITAL, INC.

By: /s/ Juliet Buck
Name: Juliet Buck
Title: Chief Executive Officer

EXHIBIT A

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

AMBAC ASSURANCE CORPORATION and THE SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION, Plaintiffs, - against – NOMURA CREDIT & CAPITAL, INC. and NOMURA HOLDING AMERICA INC., Defendants.	Index No. 651359/2013 IAS Part 60 Hon. Melissa A. Crane **STIPULATION OF DISCONTINUANCE WITH PREJUDICE**

IT IS HEREBY STIPULATED AND AGREED, by and between the undersigned attorneys for the parties, that this action is hereby voluntarily discontinued in its entirety with prejudice pursuant to CPLR 3217(a)(2) and that no party is an infant, incompetent person for whom a committee has been appointed or conservatee and no person not a party has an interest in the subject matter of this action. This stipulation may be filed with the Clerk of the Court without further notice.

Each party shall bear its own costs and attorneys' fees.

STIPULATED AND AGREED:

Dated: New York, New York
[Date]

PATTERSON BELKNAP WEBB & TYLER LLP

By: */s Peter W. Tomlinson*
Peter W. Tomlinson
Jason Vitullo
1133 Avenue of the Americas
New York, New York 10036
(212) 336-2000

Counsel for Plaintiff Ambac Assurance Corp.

SHEARMAN & STERLING LLP
By: */s Matthew L. Craner*
Matthew L. Craner
Jeffrey D. Hoschander
Daniel Kahn
599 Lexington Avenue
New York, New York 10022
(212) 848-4000

Counsel for Defendant Nomura Credit & Capital, Inc.

Exhibit 21.1

List of Subsidiaries of Ambac Financial Group, Inc.

The following is a list of significant and other subsidiaries of Ambac Financial Group, Inc. The state of incorporation of each subsidiary is included in parentheses after its name.

Name	State of Incorporation
All Trans Risk Solutions, LLC	(New Jersey)
Ambac Asset Management, Inc.	(Delaware)
Ambac Assurance Corporation	(Wisconsin)
Ambac Assurance UK Limited	(United Kingdom Insurance Company)
Ambac Capital Corporation	(Delaware)
Ambac Credit Products, LLC	(Delaware)
Ambac Financial Services, LLC	(Delaware)
Ambac Investments, Inc.	(Delaware)
Capacity Marine Corporation	(New Jersey)
Cirrata Group LLC	(Cayman Islands)
Cirrata Partners Insurance Agency, LLC	(Delaware)
Cirrata IV, LLC	(Delaware)
Consolidated National Insurance Company	(Colorado)
Everspan Holdings, LLC	(Delaware)
Everspan Indemnity Insurance Company	(Arizona)
Everspan Insurance Company	(Arizona)
Greenwood Insurance Company	(Pennsylvania)
PenPoint Specialty Insurance Services, LLC	(Delaware)
Providence Washington Insurance Company	(Rhode Island)
PWIC Holdings, Inc.	(Delaware)
Redgrove Capital Group LLC	(Delaware)
Sitka Holdings, LLC	(Cayman Islands)
22° Business Services LLC	(Delaware)
21st Century Auto Insurance Company of New Jersey	(New Jersey)
Xchange Benefits, LLC	(Delaware)
Xchange Re Holdings LLC	(Delaware)
Xchange Re Bermuda Ltd.	(Bermuda)

Exhibit 23.1

Consent of lndependent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements Nos. 333-195913 and 333-245008 on Form S-8 of our reports dated February 28, 2023, with respect to the consolidated financial statements and financial statement schedules I, II and III of Ambac Financial Group, Inc. and the effectiveness of internal control over financial reporting.

/s/ **KPMG LLP**

New York, New York
February 28, 2023

Exhibit 24.1

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints each of Stephen M. Ksenak and William J. White, as such person's true and lawful attorney-in-fact and agent, each with full power of substitution and resubstitution, for such person and in their name, place and stead, in any and all capacities, to sign Ambac Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2022 to be filed with the Securities and Exchange Commission and any and all amendments thereto, and any and all instruments and documents filed as a part of or in connection with said Form 10-K or amendments thereto, and does hereby grant unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent shall do or cause to be done by virtue hereof.

Signature	Title	Date
/S/ JEFFREY S. STEIN Jeffrey S. Stein	Chairman of the Board and Director	February 28, 2023
/S/ CLAUDE LeBLANC Claude LeBlanc	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2023
/S/ DAVID TRICK David Trick	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2023
/S/ ROBERT B. EISMAN Robert B. Eisman	Senior Managing Director and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2023
/S/ IAN D. HAFT Ian D. Haft	Director	February 28, 2023
/S/ DAVID L. HERZOG David L. Herzog	Director	February 28, 2023
/S/ LISA G. IGLESIAS Lisa G. Iglesias	Director	February 28, 2023
/S/ JOAN LAMM -TENNANT Joan Lamm-Tennant	Director	February 28, 2023

EXHIBIT 31.1

Ambac Financial Group, Inc.
Certifications

I, Claude LeBlanc, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2022 of Ambac Financial Group, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2023

By: /s/ Claude LeBlanc

Claude LeBlanc
President and Chief Executive Officer

EXHIBIT 31.2

Ambac Financial Group, Inc.
Certifications

I, David Trick, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2022 of Ambac Financial Group, Inc (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2023

By: /s/ David Trick
David Trick
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

Certification of CEO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Ambac Financial Group, Inc. (the "Company") for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Claude LeBlanc, as Chief Executive Officer of the Company, and David Trick, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Claude LeBlanc

Name: Claude LeBlanc
Title: President and Chief Executive Officer

By: /s/ David Trick
Name: David Trick
Title: Executive Vice President and Chief Financial Officer

Dated: February 28, 2023