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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2023

☐ **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 Symbol	Name of each exchange on which registered
Common stock par value $0.01 per share	AMBC	New York Stock Exchange

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

As of November 3, 2023, 45,194,537 shares of common stock, par value $0.01 per share, of the Registrant were outstanding.

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

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

Management has included in Parts I and II of this Quarterly Report on Form 10-Q, 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 of the 2022 Annual Report on Form 10-K and in Part II, Item 1A of this quarterly Report on Form 10-Q.

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 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 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. FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements of Ambac Financial Group, Inc. and Subsidiaries

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Dollars in millions, except share data) (September 30, 2023 (Unaudited))	September 30, 2023	December 31, 2022
Assets:		
Investments:		
Fixed maturity securities - available-for-sale, at fair value (amortized cost of $1,651 and $1,469)	$ 1,556	$ 1,395
Fixed maturity securities - trading, at fair value	28	59
Short-term investments, at fair value (amortized cost of $421 and $507)	421	507
Short-term investments pledged as collateral, at fair value (amortized cost of $27 and $64)	27	64
Other investments (includes $449 and $556 at fair value)	461	568
Total investments (net of allowance for credit losses of $2 and $0)	2,492	2,593
Cash and cash equivalents (including $13 and $14 of restricted cash)	46	44
Premium receivables (net of allowance for credit losses of $4 and $5)	278	269
Reinsurance recoverable on paid and unpaid losses (net of allowance for credit losses of $0 and $0)	172	115
Deferred ceded premium	205	124
Deferred acquisition costs	8	3
Subrogation recoverable	179	271
Derivative assets	15	27
Intangible assets, less accumulated amortization	312	326
Goodwill	70	61
Other assets	94	84
Variable interest entity assets:		
Fixed maturity securities, at fair value	1,948	1,967
Restricted cash	256	17
Loans, at fair value	1,551	1,829
Derivative and other assets	220	241
Total assets	**$ 7,847**	**$ 7,973**
Liabilities and Stockholders' Equity:		
Liabilities:		
Unearned premiums	$ 407	$ 372
Loss and loss adjustment expense reserves	850	805
Ceded premiums payable	95	39
Deferred program fees and reinsurance commissions	7	5
Long-term debt	505	639
Accrued interest payable	462	427
Derivative liabilities	22	38
Other liabilities	168	163
Variable interest entity liabilities:		
Long-term debt (includes $2,535 and $2,788 at fair value)	2,699	3,107
Derivative liabilities	1,038	1,048
Other liabilities	255	5
Total liabilities	**6,507**	**6,647**
Commitments and contingencies (See Note 14)		
Redeemable noncontrolling interest	22	20
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 $0.01 per share; 130,000,000 shares authorized; issued shares: 46,659,144 and 46,658,990	—	—
Additional paid-in capital	286	274
Accumulated other comprehensive income (loss)	(262)	(253)
Retained earnings	1,257	1,245
Treasury stock, shares at cost: 1,471,817 and 1,685,233	(17)	(15)
Total Ambac Financial Group, Inc. stockholders' equity	**1,265**	**1,252**
Nonredeemable noncontrolling interest	53	53
Total stockholders' equity	**1,318**	**1,305**
Total liabilities, redeemable noncontrolling interest and stockholders' equity	**$ 7,847**	**$ 7,973**

See accompanying Notes to Unaudited Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Total Comprehensive Income (Loss) (Unaudited)

(Dollars in millions, except share data)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Revenues:				
Net premiums earned	$ 18	$ 11	$ 47	39
Commission income	15	7	39	22
Program fees	2	1	6	2
Net investment income (loss)	30	11	100	(6)
Net investment gains (losses), including impairments	1	14	(7)	31
Net gains (losses) on derivative contracts	4	37	1	124
Net realized gains on extinguishment of debt	—	—	—	57
Other income	2	—	7	3
Income (loss) on variable interest entities	1	(1)	—	14
Total revenues and other income	**74**	**80**	**194**	**286**
Expenses:				
Losses and loss adjustment expenses	(76)	(353)	(51)	(341)
Amortization of deferred acquisition costs, net	2	1	5	2
Commission expense	8	4	22	13
General and administrative expenses	49	31	122	90
Intangible amortization	7	6	21	34
Interest expense	16	49	48	138
Total expenses	**6**	**(262)**	**166**	**(66)**
Pretax income	**68**	**342**	**28**	**352**
Provision for income taxes	1	2	7	4
Net income	**66**	**340**	**21**	**348**
Less: net (gain) loss attributable to noncontrolling interest	—	—	(1)	(1)
Net income attributable to common stockholders	**$ 66**	**$ 340**	**$ 19**	**$ 347**
Other comprehensive income (loss), after tax				
Net income	**$ 66**	**$ 340**	**$ 21**	**$ 348**
Unrealized gains (losses) on securities, net of income tax provision (benefit) of $0, $(3), $(2) and $(8)	(23)	(59)	(19)	(236)
Gains (losses) on foreign currency translation, net of income tax provision (benefit) of $0, $0, $0 and $0	(29)	(58)	8	(136)
Credit risk changes of fair value option liabilities, net of income tax provision (benefit) of $0, $0, $0 and $0	—	(1)	—	—
Changes to postretirement benefit, net of income tax provision (benefit) of $0, $0, $0 and $0	—	—	2	(1)
Total other comprehensive income (loss), net of income tax	(53)	(118)	(9)	(372)
Total comprehensive income (loss), net of income tax	14	222	11	(24)
Less: comprehensive (gain) loss attributable to the noncontrolling interest	—	—	(1)	(1)
Total comprehensive income (loss) attributable to common stockholders	**$ 13**	**$ 222**	**$ 10**	**$ (25)**
Net income (loss) per share attributable to common stockholders:				
Basic	$ 1.44	$ 7.50	$ 0.42	$ 7.56
Diluted	$ 1.41	$ 7.41	$ 0.41	$ 7.48
Weighted average number of common shares outstanding:				
Basic	45,635,373	45,307,019	45,652,555	45,847,306
Diluted	46,810,735	45,846,405	46,786,443	46,356,094

See accompanying Notes to Unaudited Consolidated Financial Statements

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

Three months ended September 30, 2023 and 2022

		Ambac Financial Group, Inc.						
(Dollars in millions)	Total	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Common Stock Held in Treasury, at Cost	Nonredeemable Noncontrolling Interest
Balance at June 30, 2023	$ 1,303	$ —	$ —	$ 283	$ (209)	$ 1,191	$ (15)	$ 53
Total comprehensive income (loss)	13	—	—	—	(53)	66	—	—
Stock-based compensation	4			4				
Cost of shares repurchased	(2)						(2)	
Cost of shares (acquired) issued under equity plan	—	—	—	—	—	—	—	—
Changes to noncontrolling interest	—					—		—
Balance at September 30, 2023	**$ 1,318**	**$ —**	**$ —**	**$ 286**	**$ (262)**	**$ 1,257**	**$ (17)**	**$ 53**
Balance at June 30, 2022	$ 846	$ —	$ —	$ 267	$ (196)	$ 728	$ (16)	$ 62
Total comprehensive income (loss)	222	—	—	—	(118)	340	—	—
Stock-based compensation	4			4				
Cost of shares (acquired) issued under equity plan	—	—	—		—	(1)	—	
Changes to noncontrolling interest	—					—		—
Balance at September 30, 2022	**$ 1,071**	**$ —**	**$ —**	**$ 270**	**$ (315)**	**$ 1,068**	**$ (15)**	**$ 62**

Nine months ended September 30, 2023 and 2022

		Ambac Financial Group, Inc.						
(Dollars in millions)	Total	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Common Stock Held in Treasury, at Cost	Nonredeemable Noncontrolling Interest
Balance at January 1, 2023	$ 1,305	$ —	$ —	$ 274	$ (253)	$ 1,245	$ (15)	$ 53
Total comprehensive income (loss)	10	—	—	—	(9)	19	—	—
Stock-based compensation	12			12				
Cost of shares repurchased	(5)						(5)	
Cost of shares (acquired) issued under equity plan	(5)	—	—	—	—	(8)	3	—
Changes to noncontrolling interest	—					—		—
Balance at September 30, 2023	**$ 1,318**	**$ —**	**$ —**	**$ 286**	**$ (262)**	**$ 1,257**	**$ (17)**	**$ 53**
Balance at January 1, 2022	$ 1,098	$ —	$ —	$ 257	$ 58	$ 726	$ (3)	$ 60
Total comprehensive income (loss)	(25)	—	—	—	(372)	347	—	—
Stock-based compensation	13			13				
Cost of shares repurchased	(14)						(14)	
Cost of shares (acquired) issued under equity plan	(4)	—	—	—	—	(5)	2	—
Changes to noncontrolling interest	—					—		—
Issuance of common stock	—		—					
Sale of noncontrolling interest in subsidiary	2							2
Balance at September 30, 2022	**$ 1,071**	**$ —**	**$ —**	**$ 270**	**$ (315)**	**$ 1,068**	**$ (15)**	**$ 62**

See accompanying Notes to Unaudited Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
(Dollars in millions)	**2023**	**2022**
Cash flows from operating activities:		
Net income attributable to common stockholders	$ 19	$ 347
Redeemable noncontrolling interest	(1)	(1)
Net income	21	348
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1	1
Amortization of bond premium and discount	(10)	(8)
Share-based compensation	12	13
Unearned premiums, net	(46)	(47)
Losses and loss expenses, net	66	(328)
Ceded premiums payable	56	—
Premium receivables	(8)	57
Accrued interest payable	(13)	72
Amortization of intangible assets	21	34
Net investment gains (losses), including impairments	7	(31)
(Gain) loss on extinguishment of debt	—	(57)
Variable interest entity activities	—	(14)
Derivative assets and liabilities	21	(62)
Other, net	(14)	83
Net cash provided by (used in) operating activities	**112**	**59**
Cash flows from investing activities:		
Proceeds from sales of bonds	113	454
Proceeds from matured bonds	58	83
Purchases of bonds	(291)	(273)
Proceeds from sales of other invested assets	189	142
Purchases of other invested assets	(62)	(99)
Change in short-term investments	125	(58)
Change in cash collateral	(29)	60
Change in consolidated VIE cash collateral	254	—
Proceeds from paydowns of consolidated VIE assets	161	126
Acquisitions, net of cash acquired	(7)	—
Other, net	8	—
Net cash provided by (used in) investing activities	**521**	**435**
Cash flows from financing activities:		
Payments for purchases of common stock	(5)	(14)
Payments for purchase of surplus notes	—	(58)
Payments for redemption of Tier 2 Notes	(97)	—
Tax payments related to shares withheld for share-based compensation plans	(5)	(4)
Distributions to noncontrolling interest holders	(1)	1
Payments of consolidated VIE liabilities	(285)	(404)
Net cash used in financing activities	**(392)**	**(479)**
Effect of foreign exchange on cash, cash equivalents and restricted cash	—	(1)
Net cash flow	241	14
Cash, cash equivalents, and restricted cash at beginning of period	61	23
Cash, cash equivalents, and restricted cash at end of period	**$ 302**	**$ 38**

See accompanying Notes to Unaudited Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND AND BUSINESS DESCRIPTION

The following description provides an update of *Note 1. Background and Business Description* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, and should be read in conjunction with the complete descriptions provided in the Form 10-K. Capitalized terms used, but not defined herein, and in the other footnotes to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q shall have the meanings ascribed thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

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 principal businesses 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 (the "Legacy Financial Guarantee Companies") have financial guarantee insurance portfolios that have been in runoff since 2008. AFS provided interest rate derivatives to financial guarantee customers and used derivatives to hedge interest rate risk in AAC's insurance and investment portfolios. Since June 2023, AFS' only remaining derivative positions include a limited number of legacy customer swaps and their associated hedges.

- **Specialty Property & Casualty Insurance** — Ambac's Specialty Property & Casualty Insurance program business. Currently includes five admitted carriers and an excess and surplus lines (“E&S” or “nonadmitted”) insurer (collectively, “Everspan”). Everspan carriers have an AM Best rating of 'A-' (Excellent) that was affirmed on June 13, 2023.

- **Insurance Distribution —** Ambac's specialty property and casualty ("P&C") insurance distribution business, which could include Managing General Agents and Underwriters (collectively "MGAs"), insurance 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 specializing in specialty commercial automobile insurance for specific "for-hire" auto clauses; Capacity Marine Corporation ("Capacity Marine"), a wholesale and retail brokerage and reinsurance intermediary specializing in marine and international risk and Riverton Insurance Agency, Corp. ("Riverton"), which was acquired on August 1, 2023, is an insurance services business specializing in professional liability lines and consisting of an MGA and a retail agency.

The Company reports these three business operations as segments; see *Note 3. Segment Information* for further information.

Strategies to Enhance Shareholder Value

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

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.

F2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Company has disclosed its significant accounting policies in *Note 2. Basis of Presentation and Significant Accounting Policies* in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022. The following significant accounting policies provide an update to those included in the Company’s Annual Report on Form 10-K.

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

(Dollar Amounts in Millions, Except Share Amounts)

Codification ("ASC"). All significant intercompany balances have been eliminated. See *Note 9. 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 and deconsolidated.

Basis of Presentation:

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for annual periods. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2022. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments necessary for the fair presentation of the Company's consolidated financial position and results of operations. The results of operations for the three and nine months ended September 30, 2023, may not be indicative of the results that may be expected for the year ending December 31, 2023. The December 31, 2022, consolidated balance sheet was derived from audited financial statements.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results.

Foreign Currency:

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 $(2) and $14 for the nine months ended September 30, 2023 and 2022, respectively. Foreign currency transactions gains/(losses) are primarily the result of remeasuring Ambac UK's assets and liabilities denominated in currencies (primarily the U.S. dollar and the Euro) other than its functional currency (the British Pound Sterling).

Redeemable Noncontrolling Interest:

The All Trans, Capacity Marine and Xchange acquisitions, further described in the in the Notes to Consolidated Financial Statements included in Part II, Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, resulted in 85%, 80% and 80%, respectively, ownership of the acquired entities by Ambac. The Riverton acquisition resulted in Ambac owning 80%. Under the terms of all the acquisition agreements, Ambac has call options to purchase the remaining interests from the minority owners (i.e., noncontrolling interests) and the minority owners have put options to sell their interests 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 12. Net Income Per Share*.

Following is a rollforward of redeemable noncontrolling interest.

Nine Months Ended September 30,	2023	2022
Beginning balance	$ 20	$ 18
Fair value of redeemable noncontrolling interest at acquisition date	2	—
Net income attributable to redeemable noncontrolling interest (ASC 810)	1	1
Distributions	(1)	(1)
Adjustment to redemption value (ASC 480)	—	—
Ending balance	**$ 22**	**$ 18**

(Dollar Amounts in Millions, Except Share Amounts)

Supplemental Disclosure of Cash Flow Information	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash paid during the period for:		
Income taxes	$ 9	$ 6
Interest on long-term debt	50	51
Non-cash investing and financing activities:		
Exchange of investments in Puerto Rico bonds for new securities issued in the restructuring transactions	$ —	$ 185
Securities acquired (transferred) in transactions related to Puerto Rico restructurings	(1)	—
Decrease in VIE loans as a result of de-consolidations	133	—
Decrease in VIE long-term debt as a result of de-consolidations	133	—

	September 30, 2023	September 30, 2022
Reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets to the Consolidated Statements of Cash Flows:		
Cash and cash equivalents	$ 32	$ 29
Restricted cash	13	6
Variable Interest Entity restricted cash	256	2
Total cash, cash equivalents, and restricted cash shown on the Consolidated Statements of Cash Flows	$ 302	$ 38

Restricted cash is cash that we do not have the right to use for general purposes and includes fiduciary cash held by Ambac's insurance distribution subsidiaries, and consolidated variable interest entity cash to support the obligations of the consolidated VIEs and cash received as collateral under their derivatives agreements.

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:

There have been no new accounting standards adopted during 2023.

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.

Notes to Unaudited Consolidated Financial Statements

Ambac Financial Group, Inc. and Subsidiaries

(Dollar Amounts in Millions, Except Share Amounts)

	Three Months Ended September 30, 2023					Three Months Ended September 30, 2022				
	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consoli-dated (2)	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consoli-dated (2)
Revenues:										
Net premiums earned	$ 6	$ 12			$ 18	$ 7	$ 4			$ 11
Commission income			$ 15		15			$ 7		7
Program fees		2			2		1			1
Net investment income (loss)	27	1		$ 3	30	9	—	—	$ 1	11
Net investment gains (losses), including impairments	1	—		—	1	14	—		—	14
Net gains (losses) on derivative contracts	4			—	4	37			—	37
Other (1)	3	—	—	—	3	(1)	—	—	—	(1)
Total revenues (2)	41	16	15	3	74	**67**	**6**	**7**	**1**	**80**
Expenses:										
Losses and loss adjustment expenses	(86)	10			(76)	(356)	3			(353)
Amortization of deferred acquisition costs, net	—	2			2	—	1			1
Commission expenses			8		8			4		4
General and administrative expenses (3)	35	4	3	7	49	20	3	1	6	31
Depreciation expense (3)	—	—	—	—	—	—	—	—	—	—
Intangible amortization	6		1		7	5		1		6
Interest expense	16				16	49				49
Total expenses (2)	(28)	15	12	7	6	**(282)**	**7**	**6**	**6**	**(262)**
Pretax income	$ 69	$ —	$ 2	$ (4)	$ 68	**$ 349**	**$ (1)**	**$ 1**	**$ (6)**	**$ 342**
Total assets (2)	$ 7,018	$ 457	$ 160	$ 213	$ 7,847	**$ 8,902**	**$ 259**	**$ 94**	**$ 157**	**$ 9,412**

	Nine Months Ended September 30, 2023					Nine Months Ended September 30, 2022				
	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consoli-dated (2)	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consoli-dated (2)
Revenues:										
Net premiums earned	$ 20	$ 27			$ 47	31	8			39
Commission income			39		39			22		22
Program fees		6			6		2			2
Net investment income (loss)	90	3		7	100	(9)	1		2	(6)
Net investment gains (losses), including impairments	(7)	—		—	(7)	31	—		—	31
Net gains (losses) on derivative contracts	2			—	1	123			1	124
Net realized gains on extinguishment of debt	—				—	57				57
Other (1)	7	—	—	—	7	17	—	—	—	17
Total revenues (2)	112	35	39	7	194	**250**	**11**	**22**	**2**	**286**
Expenses:										
Losses and loss adjustment expenses	(71)	20			(51)	(347)	5			(341)
Amortization of deferred acquisition costs, net	—	5			5	**—**	**1**			**2**
Commission expenses			22		22			13		13
General and administrative expenses (3)	87	12	7	14	120	64	10	4	11	88
Depreciation expense (3)	1	—	—	—	1	1	—	—	—	1
Intangible amortization	18		3		21	32		2		34
Interest expense	48				48	138				138
Total expenses (2)	83	36	33	14	166	**(112)**	**16**	**19**	**11**	**(66)**
Pretax income (loss)	29	(1)	7	(8)	28	**362**	**(5)**	**3**	**(8)**	**352**

(1) Other revenues include the following line item on the Consolidated Statements of Total Comprehensive Income: Income (loss) on variable interest entities and other income.

(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 $— and $69 at September 30, 2023 and 2022.

(3) The Consolidated Statements of Comprehensive Income presents the sum of these items as General & Administrative Expenses.

(Dollar Amounts in Millions, Except Share Amounts)

4. INVESTMENTS

Ambac's non-VIE invested assets are primarily comprised of fixed maturity securities classified as either available-for-sale or trading securities, and interests in pooled investment funds, 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 obligations of Puerto Rico issuing entities that are part of the the PROMESA restructuring process as described further in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Fixed Maturity Securities:

The amortized cost and estimated fair value of available-for-sale investments, excluding VIE investments, at September 30, 2023 and December 31, 2022, were as follows:

	September 30, 2023:					December 31, 2022:				
	Amortized Cost	Allowance for Credit Losses [2]	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturity securities:										
Municipal obligations	$ 70	$ —	$ —	$ 3	$ 67	$ 44	—	$ —	$ 2	$ 43
Corporate obligations	736	—	—	65	671	659	—	1	63	598
Foreign obligations	101	—	—	9	92	85	—	—	9	76
U.S. government obligations	77	—	—	4	73	68	—	—	4	65
Residential mortgage-backed securities	234	2	23	28	227	230	—	28	19	238
Commercial mortgage-backed securities	18	—	—	1	18	15	—	—	—	15
Collateralized debt obligations	143	—	—	1	142	141	—	—	4	137
Other asset-backed securities [1]	273	—	3	11	265	227	—	2	5	224
	1,653	2	27	122	1,556	1,469	—	31	106	1,395
Short-term	421	—	—	—	421	507	—	—	—	507
	2,074	2	27	122	1,977	1,977	—	31	106	1,902
Fixed maturity securities pledged as collateral:										
Short-term	27	—	—	—	27	64	—	—	—	64
	27	—	—	—	27	64	—	—	—	64
Total available-for-sale investments	$ 2,100	$ 2	$ 27	$ 122	$ 2,004	$ 2,041	$ —	$ 31	$ 106	$ 1,966

(1) Consists primarily of military housing and student loan securities.
(2) For the three and nine months ended September 30, 2023, the allowance for credit losses increased $1 and $2 on residential mortgage-backed securities on which credit losses were not previously recorded, respectively.

The amortized cost and estimated fair value of available-for-sale investments, excluding VIE investments, at September 30, 2023, by contractual maturity, were as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 514	$ 512
Due after one year through five years	562	529
Due after five years through ten years	292	255
Due after ten years	65	54
	1,432	1,351
Residential mortgage-backed securities	234	227
Commercial mortgage-backed securities	18	18
Collateralized debt obligations	143	142
Other asset-backed securities	273	265
Total	$ 2,100	$ 2,004

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 September 30, 2023 and 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 September 30, 2023 and December 31, 2022:

(Dollar Amounts in Millions, Except Share Amounts)

	September 30, 2023						December 31, 2022					
	Less Than 12 Months		12 Months or More		Total		Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Fixed maturity securities:												
Municipal obligations	$ 50	$ 1	$ 16	$ 2	$ 65	$ 3	$ 21	$ 1	$ 7	$ 1	$ 28	$ 2
Corporate obligations	150	5	497	60	648	65	280	21	279	42	559	63
Foreign obligations	25	1	52	9	77	9	27	2	47	7	73	9
U.S. government obligations	28	2	37	3	64	4	40	3	19	1	58	4
Residential mortgage-backed securities	58	2	107	25	165	28	132	19	—	—	132	19
Commercial mortgage-backed securities	18	1	—	—	18	1	3	—	—	—	3	—
Collateralized debt obligations	7	—	107	1	114	1	90	3	36	1	126	4
Other asset-backed securities	120	9	34	2	154	11	198	4	5	1	203	5
	456	20	849	102	1,306	122	791	53	392	53	1,183	106
Short-term	19	—	—	—	19	—	78	—	8	—	86	—
Total temporarily impaired securities	$ 476	$ 20	$ 849	$ 102	$ 1,325	$ 122	$ 869	$ 53	$ 400	$ 53	$ 1,269	$ 106

Management has determined that the securities in the above table do not have credit impairment as of September 30, 2023 and December 31, 2022, 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 September 30, 2023, 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 September 30, 2023, 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 September 30, 2023, resulted from an increase in interest rates and, to a lesser extent, market spreads since the securities were purchased. Unrealized losses of $64 related to 803 investment grade securities with an average unrealized loss equal to 9% of amortized cost at September 30, 2023. Securities that have below investment grade credit ratings or are unrated comprise $1 of the gross unrealized loss and have an average unrealized loss equal to 4% of amortized cost at September 30, 2023. Management believes that the full and timely receipt of all principal and interest payment on corporate obligations with unrealized losses as of September 30, 2023, is probable.

Residential mortgage-backed securities and Other asset-backed securities

As of September 30, 2023, $28 of the unrealized loss on residential mortgage-backed securities related to 16 Ambac insured securities. Six of these account for $26 of the unrealized loss and have an average unrealized loss equal to 17% of amortized cost. The $11 unrealized loss on other asset backed securities related to 16 Ambac-insured securities that have an average unrealized loss equal to 7% 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. 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.

(Dollar Amounts in Millions, Except Share Amounts)

Investment Income (Loss)

Net investment income (loss) was comprised of the following for the affected periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Fixed maturity securities	$ 20	$ 16	$ 55	$ 45
Short-term investments	5	3	16	4
Investment expense	(1)	(2)	(4)	(4)
Securities available-for-sale and short-term	24	17	67	44
Fixed maturity securities - trading	—	(1)	5	(22)
Other investments	6	(5)	28	(28)
Total net investment income (loss)	**$ 30**	**$ 11**	**$ 100**	**$ (6)**

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Gross realized gains on securities	$ —	$ 6	$ 1	$ 29
Gross realized losses on securities	(1)	(1)	(4)	(17)
Foreign exchange gains (losses)	2	9	(2)	20
Credit impairments	(1)	—	(2)	—
Intent / requirement to sell impairments	—	—	—	—
Net investment gains (losses), including impairments	**$ 1**	**$ 14**	**$ (7)**	**$ 31**

Ambac had an allowance for credit losses of $2 and $0 at September 30, 2023 and 2022, respectively.

Ambac did not purchase any financial assets with credit deterioration for the three and nine months ended September 30, 2023 and 2022.

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 $27 and $64 at September 30, 2023 and December 31, 2022, 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 "Short-term investments pledged as collateral, at fair value." Refer to *Note 7. 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 $24 and $23 at September 30, 2023 and December 31, 2022, 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 and $1 at September 30, 2023 and December 31, 2022, were deposited as security in connection with a letter of credit issued for an office lease. Fiduciary funds held by Ambac's insurance distribution subsidiaries, carried at $2 and $0 at September 30, 2023 and December 31, 2022, respectively, are included in the invested assets.

Guaranteed Securities:

Ambac's fixed maturity portfolio includes securities covered by guarantees issued by AAC or Ambac UK ("insured securities"). The following table represents the fair value and weighted-average underlying rating of insured securities in Ambac's investment portfolio at September 30, 2023 and December 31, 2022, respectively:

	Municipal Obligations	Mortgage and Asset-backed Securities	Total	Weighted Average Underlying Rating (1)
September 30, 2023	$ 9	$ 419	$ 427	B-
December 31, 2022	$ 10	$ 394	$ 403	B

(1) Ratings are based on the lower of Standard & Poor's or Moody's rating. If unavailable, Ambac's internal rating is used.

(Dollar Amounts in Millions, Except Share Amounts)

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 $48 to private credit and private equity funds at September 30, 2023.

	Fair Value			
Class of Funds	**September 30, 2023**	**December 31, 2022**	**Redemption Frequency**	**Redemption Notice Period**
Hedge funds [1]	$ 109	$ 186	quarterly or semi-annually	90 days
Private credit [2]	85	84	quarterly if permitted	180 days if permitted
High yields and leveraged loans [3] [10]	78	80	daily	0 - 30 days
Equity market investments [4] [10]	53	64	daily or quarterly	0 - 90 days
Investment grade floating rate income [5]	40	63	weekly	0 days
Private equity [6]	62	47	quarterly if permitted	90 days if permitted
Real estate properties [7]	21	22	see footnote [7]	see footnote [7]
Convertible bonds [8][10]	—	8	daily	0 days
Insurance-linked investments [9]	1	1	see footnote [9]	see footnote [9]
Total equity investments in pooled funds	**$ 449**	**$ 556**		

(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 aims to obtain high long-term returns primarily through credit and preferred equity investments with low liquidity and defined term.

(3) 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.

(4) This class of funds aim to achieve long term growth through diversified exposure to global equity-markets.

(5) This class of funds includes investments in high quality floating rate debt securities including ABS and corporate floating rate notes.

(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. On October 17, 2023, the fund manager notified investors of its intention to terminate the fund effective December 31, 2023. Beginning December 31, 2023, distributions will be made to investors, pro-rata to the number of fund units held, from available proceeds of property sales as soon as possible following completion of such sales.

(8) This class seeks to generate total returns from portfolios focused primarily on convertible securities.

(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) These categories include fair value amounts totaling $87 and $61 at September 30, 2023 and December 31, 2022, respectively, that are readily determinable and are priced through pricing vendors, including for Equity market investments $53 and $53, High yield and leveraged loans products $35 and $—, and Convertible bonds investments $0 and $8.

Other investments also include preferred equity investments with a carrying value of $12 and $12 as of September 30, 2023 and December 31, 2022, 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:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**
Net gains (losses) recognized during the period on trading and equity securities	$ —	$ (7)	$ 16	$ (49)
Less: net gains (losses) recognized during the reporting period on trading and equity securities sold during the period	—	(1)	10	(27)
Unrealized gains (losses) recognized during the reporting period on trading and equity securities still held at the reporting date	**$ —**	**$ (6)**	**$ 6**	**$ (22)**

5. 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.

The following table sets forth the carrying amount and fair value of Ambac’s financial assets and liabilities as of September 30, 2023 and December 31, 2022, 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.

(Dollar Amounts in Millions, Except Share Amounts)

	September 30, 2023					December 31, 2022				
	Carrying Amount	Total Fair Value	Fair Value Measurements Categorized as: Level 1	Level 2	Level 3	Carrying Amount	Total Fair Value	Fair Value Measurements Categorized as: Level 1	Level 2	Level 3
Financial assets:										
Fixed maturity securities:										
Municipal obligations	$ 95	$ 95	$ —	$ 95	$ —	$ 102	$ 102	$ —	$ 102	$ —
Corporate obligations	671	671	—	652	19	598	598	—	585	12
Foreign obligations	92	92	92	—	—	76	76	76	—	—
U.S. government obligations	73	73	73	—	—	65	65	65	—	—
Residential mortgage-backed securities	227	227	—	227	—	238	238	—	238	—
Commercial mortgage-backed securities	18	18	—	18	—	15	15	—	15	—
Collateralized debt obligations	142	142	—	142	—	137	137	—	137	—
Other asset-backed securities	265	265	—	197	68	224	224	—	157	67
Fixed maturity securities, pledged as collateral:										
Short-term	27	27	27	—	—	64	64	64	—	—
Short term investments	421	421	415	5	—	507	507	506	1	—
Other investments (1)	461	449	87	—	—	568	556	61	—	—
Cash, cash equivalents and restricted cash	46	46	46	—	—	44	44	43	1	—
Derivative assets:										
Interest rate swaps—asset position	14	14	—	—	14	27	27	—	1	26
Warrants	1	1	—	—	1	1	1	—	—	1
Other assets-Loans	2	2	—	—	2	10	10	—	—	10
Variable interest entity assets:										
Fixed maturity securities: Corporate obligations, fair value option	1,857	1,857	—	—	1,857	1,828	1,828	—	—	1,828
Fixed maturity securities: Municipal obligation, trading	—	—	—	—	—	43	43	—	43	—
Fixed maturity securities: Municipal obligations, available-for-sale	91	91	—	91	—	96	96	—	96	—
Restricted cash	256	256	256		—	17	17	17	—	—
Loans	1,551	1,551	—	—	1,551	1,829	1,829	—	—	1,829
Derivative assets: Interest rate swaps—asset position	177	177	—	177	—	190	190	—	190	—
Derivative assets: Currency swaps—asset position	42	42	—	42	—	49	49	—	49	—
Total financial assets	$ 6,530	$ 6,518	$ 997	$ 1,647	$ 3,512	$ 6,726	$ 6,715	$ 833	$ 1,615	$ 3,772
Financial liabilities:										
Long term debt, including accrued interest	$ 967	$ 769	$ —	$ 754	$ 15	$ 1,065	$ 878	$ —	$ 864	$ 14
Derivative liabilities:										
Interest rate swaps—liability position	22	22	—	22	—	38	38	—	38	—
Liabilities for net financial guarantees written (2)	238	646	—	—	646	159	476	—	—	476
Variable interest entity liabilities:										
Long-term debt	2,699	2,662	—	2,558	104	3,107	3,145	—	2,992	154
Derivative liabilities: Interest rate swaps—liability position	1,038	1,038	—	1,038	—	1,048	1,048	—	1,048	—
Total financial liabilities	$ 4,964	$ 5,137	$ —	$ 4,372	$ 765	$ 5,418	$ 5,586	$ —	$ 4,942	$ 644

(1) Excluded from the fair value measurement categories in the table above are investment funds of $362 and $494 as of September 30, 2023 and December 31, 2022, respectively, which are measured using NAV as a practical expedient. Also excluded from the fair value amounts in the table above are equity securities with a carrying value of $12 and $12 as of September 30, 2023 and December 31, 2022, 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 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, financial instruments valued using significant unobservable inputs typically 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.

(Dollar Amounts in Millions, Except Share Amounts)

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 September 30, 2023, approximately 2%, 94% 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, 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.

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 $68 and $67 at September 30, 2023 and December 31, 2022, 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 September 30, 2023 and December 31, 2022 include the following:

September 30, 2023:	
a. Coupon rate:	**5.98%**
b. Average Life:	**12.97 years**
c. Yield:	**12.00%**
December 31, 2022:	
a. Coupon rate:	5.98%
b. Average Life:	13.46 years
c. Yield:	12.60%

Corporate obligations: This includes certain investments in convertible debt securities. The fair value classified as Level 3 was $19 and $12 at September 30, 2023 and December 31, 2022, respectively. Fair value was calculated by discounting cash flows with a weighted average maturity of 1.08 years and yield of 10.1% at September 30, 2023 and a weighted average maturity of 1.75 years and yield of 11.3% at December 31, 2022. 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 4. 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 (terminated during the second quarter of 2023). 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 may 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 September 30, 2023 or December 31, 2022.

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.

Ambac holds warrants to purchase preferred stock of a development stage company. These warrants have a fair value of $1 and $1 as of September 30, 2023 and December 31, 2022, respectively. Fair value was 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:

Long-term debt includes AAC surplus notes, the Tier 2 Notes issued in connection with the Rehabilitation Exit Transactions (fully redeemed during the first quarter of 2023) and the Ambac UK debt issued in connection with the Ballantyne commutation. The fair values of surplus notes 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 9. 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 7.4% and 6.8% at September 30, 2023 and December 31, 2022, respectively. At September 30, 2023, the range of these discount rates was between 6.3% and 8.8%. At December 31, 2022, the range of these discount rates were between 5.8% and 8.5%.

(Dollar Amounts in Millions, Except Share Amounts)

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 2023 and 2022. 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		
	Investments	Derivatives	Investments	Loans	Total
Three Months Ended September 30, 2023:					
Balance, beginning of period	$ 81	$ 25	$ 1,952	$ 1,772	$ 3,831
Total gains/(losses) realized and unrealized:					
Included in earnings	—	(11)	(21)	48	17
Included in other comprehensive income	—	—	(74)	(62)	(137)
Purchases	6	—	—	—	6
Settlements	—	—	—	(73)	(73)
Deconsolidation of VIEs	—	—	—	(133)	(133)
Balance, end of period	**$ 87**	**$ 15**	**$ 1,857**	**$ 1,551**	**$ 3,510**
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	$ —	$ (11)	$ (21)	$ 48	$ 17
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	$ —	$ —	$ (74)	$ (62)	$ (137)
Three Months Ended September 30, 2022:					
Balance, beginning of period	$ 81	$ 38	$ 2,533	$ 2,144	$ 4,795
Total gains/(losses) realized and unrealized:					
Included in earnings	—	(11)	(312)	(231)	(553)
Included in other comprehensive income	(4)	—	(194)	(162)	(360)
Settlements	—	(1)	—	(69)	(71)
Balance, end of period	**$ 78**	**$ 26**	**$ 2,026**	**$ 1,682**	**$ 3,812**
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	$ —	$ (11)	$ (312)	$ (231)	$ (553)
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	$ (4)	$ —	$ (194)	$ (162)	$ (360)

(Dollar Amounts in Millions, Except Share Amounts)

Level 3 - Financial Assets and Liabilities Accounted for at Fair Value

			VIE Assets		
	Investments	Derivatives	Investments	Loans	Total
Nine Months Ended September 30, 2023:					
Balance, beginning of period	$ 79	$ 26	$ 1,828	$ 1,829	$ 3,762
Total gains/(losses) realized and unrealized:					
Included in earnings	1	(11)	59	40	89
Included in other comprehensive income	3	—	(18)	30	15
Purchases	6	—	—	—	6
Settlements	(1)	—	(12)	(214)	(228)
Deconsolidation of VIEs	—	—	—	(133)	(133)
Balance, end of period	$ 87	$ 15	$ 1,857	$ 1,551	$ 3,510
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	$ (11)	$ 59	$ 37	$ 86
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	$ 3	$ —	$ (18)	$ 28	$ 13
Nine Months Ended September 30, 2022:					
Balance, beginning of period	$ 91	$ 70	$ 3,320	$ 2,718	$ 6,199
Total gains/(losses) realized and unrealized:					
Included in earnings	1	(39)	(770)	(409)	(1,217)
Included in other comprehensive income	(13)	—	(505)	(413)	(932)
Purchases	1	—	—	—	1
Settlements	(1)	(5)	(18)	(214)	(239)
Balance, end of period	$ 78	$ 26	$ 2,026	$ 1,682	$ 3,812
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	$ (40)	$ (770)	$ (409)	$ (1,218)
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	$ (13)	$ —	$ (505)	$ (413)	(932)

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:

	Three Months Ended September 30, 2023				Three Months Ended September 30, 2022			
	Net Investment Income	Net Gains (Losses) on Derivative Contracts	Income (Loss) on Variable Interest Entities	Other Income or (Expense)	Net Investment Income	Net Gains (Losses) on Derivative Contracts	Income (Loss) on Variable Interest Entities	Other Income or (Expense)
Total gains (losses) included in earnings for the period	$ —	$ (11)	$ 27	$ —	$ —	$ (11)	$ (543)	$ —
Changes in unrealized gains (losses) relating to financial instruments still held at the reporting date	—	(11)	27	—	—	(11)	(543)	—

	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
	Net Investment Income	Net Gains (Losses) on Derivative Contracts	Income (Loss) on Variable Interest Entities	Other Income or (Expense)	Net Investment Income	Net Gains (Losses) on Derivative Contracts	Income (Loss) on Variable Interest Entities	Other Income or (Expense)
Total gains or losses included in earnings for the period	$ 1	$ (11)	$ 99	$ —	$ 1	$ (39)	$ (1,179)	$ —
Changes in unrealized gains or losses included in earnings relating to the assets and liabilities still held at the reporting date	—	(11)	96	—	—	(40)	(1,179)	—

(Dollar Amounts in Millions, Except Share Amounts)

6. 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:

	Three Months Ended September 30,			
	2023		2022	
	Written	Earned	Written	Earned
Direct	$ 65	$ 59	$ 16	$ 30
Assumed	14	3	—	—
Ceded	52	45	17	19
Net premiums	$ 27	$ 18	$ —	$ 11

	Nine Months Ended September 30,			
	2023		2022	
	Written	Earned	Written	Earned
Direct	$ 181	$ 157	$ 83	$ 83
Assumed	14	3	—	—
Ceded	195	113	63	43
Net premiums	$ —	$ 47	$ 21	$ 39

The following table summarizes net premiums earned by location of risk:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
United States	$ 15	$ 7	$ 38	$ 27
United Kingdom	3	3	8	10
Other international	—	1	2	2
Total	**$ 18**	**$ 11**	**$ 47**	**$ 39**

Premium Receivables, including credit impairments:

Premium receivables at September 30, 2023 and December 31, 2022 were $278 and $269, respectively.

- Legacy financial guarantee premium receivables are discounted using an appropriate risk-free rate corresponding to the weighted average life of each policy and currency to discount the future premiums contractually due or expected to be collected. The weighted average risk-free rate at September 30, 2023 and December 31, 2022, was 3.2% and 3.0%, respectively, and the weighted average period of future premiums used to estimate the premium receivable at September 30, 2023 and December 31, 2022, was 7.8 years and 8.0 years, respectively.

- Specialty property and casualty premium receivables are not discounted and are typically paid upfront. Any receivables for such amounts are generally collected in the following period. Non-payment of premium by the policyholder may lead to policy cancellation. Premium receivables related to assumed reinsurance are paid on an installment basis.

Management evaluates premium receivables for expected credit losses ("credit impairment") in accordance with the CECL standard, which is further described in *Note 2. Basis of Presentation and Significant Accounting Policies* in the Notes to Consolidated Financial Statements included in Ambac's Annual Report on Form 10-K for the year ended December 31, 2022.

Below is the amortized cost basis of financial guarantee premium receivables by risk classification code and asset class as of September 30, 2023 and December 31, 2022:

	Surveillance Categories as of September 30, 2023						Surveillance Categories as of December 31, 2022					
Type of Guaranteed Bond	**I**	**IA**	**II**	**III**	**IV**	**Total**	**I**	**IA**	**II**	**III**	**IV**	**Total**
Public Finance:												
Housing revenue	$ 134	$ 3	$ 5	$ —	$ —	$ 142	$ 140	$ 3	$ 5	$ —	$ —	$ 148
Other	1	—	—	—	—	1	2	—	—	—	—	2
Total Public Finance	136	3	5	—	—	143	**142**	**3**	**5**	**—**	**—**	**150**
Structured Finance:												
Mortgage-backed and home equity	—	—	—	—	10	11	—	—	—	—	11	11
Student loan	—	—	—	7	—	8	1	1	—	7	—	8
Other	4	—	—	—	—	4	4	—	—	—	—	4
Total Structured Finance	4	—	—	7	10	22	**5**	**1**	**—**	**7**	**11**	**24**
International:												
Sovereign/sub-sovereign	50	14	—	—	—	64	49	7	—	9	—	64
Investor-owned and public utilities	17	—	—	—	—	17	18	—	—	—	—	18
Other	3	—	—	—	—	3	2	—	—	—	—	2
Total International	70	14	—	—	—	84	**70**	**7**	**—**	**9**	**—**	**85**
Total (1) (2)	$ 209	$ 18	$ 5	$ 7	$ 10	$ 249	**$ 217**	**$ 10**	**$ 5**	**$ 16**	**$ 11**	**$ 259**

(1) Excludes specialty property and casualty premium receivables of $33 and $16 at September 30, 2023 and December 31, 2022, respectively.

(2) The underwriting origination dates for all policies included are greater than five years prior to the current reporting date.

Notes to Unaudited Consolidated Financial Statements
Ambac Financial Group, Inc. and Subsidiaries
(Dollar Amounts in Millions, Except Share Amounts)

Below is a rollforward of the premium receivable allowance for credit losses as of September 30, 2023 and 2022:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Beginning balance	$ 5	$ 6	$ 5	$ 9
Current period provision (benefit)	—	(1)	(1)	(3)
Write-offs of the allowance	—	—	—	—
Recoveries of previously written-off amounts	—	—	—	—
Ending balance (1)	$ 4	$ 6	$ 4	$ 6

(1) At September 30, 2023 and 2022, $2 and $0 of premiums were past due.

Legacy Financial Guarantee Premium Receivables:

Below is the gross premium receivable roll-forward, net of the allowance for credit losses, for the affected periods:

Nine Months Ended September 30,	2023	2022
Beginning premium receivable	$ 254	$ 320
Premium receipts	(22)	(30)
Adjustments for changes in expected and contractual cash flows for contracts (1)	6	(21)
Accretion of premium receivable discount for contracts	6	6
Changes to allowance for credit losses	1	3
Other adjustments (including foreign exchange) (2)	1	(20)
Ending premium receivable (3)	$ 245	$ 259

(1) Adjustments for changes in expected and contractual cash flows are primarily due to indexation offset by reductions in insured exposure as a result of early policy terminations and unscheduled principal paydowns.

(2) Includes foreign exchange gains (losses) of $1 and $(19) for 2023 and 2022, respectively.

(3) Premium receivable includes premiums to be received in foreign denominated currencies most notably in British Pounds and Euros. At September 30, 2023 and 2022, premium receivables include British Pounds of $71 (£58) and $73 (£66), respectively, and Euros of $13 (€13) and $14 (€14), respectively.

The following table summarizes the future gross undiscounted premiums to be collected and future premiums earned, net of reinsurance at September 30, 2023:

	Future Premiums to be Collected (1)	Future Premiums to be Earned Net of Reinsurance (2)
Three months ended:		
December 31, 2023	6	4
Twelve months ended:		
December 31, 2024	26	15
December 31, 2025	25	15
December 31, 2026	24	15
December 31, 2027	24	14
Five years ended:		
December 31, 2032	99	57
December 31, 2037	62	32
December 31, 2042	29	11
December 31, 2047	14	4
December 31, 2052	4	1
December 31, 2057	—	—
Total	$ 313	$ 169

(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 in the Notes to Consolidated Financial Statements included in Ambac's Annual Report on Form 10-K for the year ended December 31, 2022. 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.

Loss and Loss Expense Reserves:

Ambac's loss and loss 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 expense reserves and the subrogation recoverable asset at September 30, 2023 and December 31, 2022:

	September 30, 2023					December 31, 2022				
	Specialty Property and Casualty	Legacy Financial Guarantee				Specialty Property and Casualty	Legacy Financial Guarantee			
		Present Value of Expected Net Cash Flows					Present Value of Expected Net Cash Flows			
Balance Sheet Line Item	Gross Loss and Loss Expense Reserves	Claims and Loss Expenses	Recoveries	Unearned Premium Revenue	Gross Loss and Loss Expense Reserves	Gross Loss and Loss Expense Reserves	Claims and Loss Expenses	Recoveries	Unearned Premium Revenue	Gross Loss and Loss Expense Reserves
Loss and loss expense reserves	$ 160	$ 769	$ (50)	$ (29)	$ 850	$ 90	$ 787	$ (44)	$ (28)	$ 805
Subrogation recoverable	—	4	(183)	—	(179)	—	5	(276)	—	(271)
Totals	$ 160	$ 773	$ (234)	$ (29)	$ 670	$ 90	$ 791	$ (319)	$ (28)	$ 534

(Dollar Amounts in Millions, Except Share Amounts)

Below is the loss and loss reserve expense roll-forward, net of subrogation recoverable and reinsurance, for the affected periods:

Nine Months Ended September 30,	2023	2022
Beginning gross loss and loss expense reserves	**$ 534**	**$ (522)**
Reinsurance recoverable	115	56
Beginning balance of net loss and loss expense reserves	419	(578)
Losses and loss expenses (benefit):		
Current year	20	6
Prior years	(71)	(347)
Total [1] [2]	(51)	(341)
Loss and loss expenses paid (recovered):		
Current year	2	(1)
Prior years	(139)	(195)
Total	(137)	(195)
Foreign exchange effect	—	(3)
Ending net loss and loss expense reserves	506	(727)
Impact of VIE consolidation	—	(292)
Reinsurance recoverable [3]	165	79
Ending gross loss and loss expense reserves	**$ 670**	**$ (940)**

(1) Total losses and loss expenses (benefit) includes $(75) and $(30) for the nine months ended September 30, 2023 and 2022, respectively, related to ceded reinsurance.

(2) Ambac recorded 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 incurred associated with changes in estimated R&W's for the nine months ended September 30, 2023 and 2022, was $0 and $80, respectively.

(3) Represents reinsurance recoverable on future loss and loss expenses. Additionally, the Balance Sheet line "Reinsurance recoverable on paid and unpaid losses" includes reinsurance recoverables (payables) of $7 and $1 as of September 30, 2023 and 2022, respectively, related to previously presented loss and loss expenses and subrogation.

For 2023, the positive development in prior years was largely driven by RMBS recoveries, the positive impact of discount rates on the RMBS portfolio and an assumption change in the international portfolio, all in the legacy financial guarantee segment.

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 Settlement Agreement with Bank of America Corporation and certain affiliates thereof, all in the legacy financial guarantee segment.

Legacy Financial Guarantee Loss Reserves:

The tables below summarize information related to policies currently included in Ambac's loss and loss expense reserves or subrogation recoverable at September 30, 2023 and December 31, 2022, 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 September 30, 2023 and December 31, 2022,was 4.6% and 3.9%, respectively.

Surveillance Categories as of September 30, 2023

	I	IA	II	III	IV	V	Total
Number of policies	27	12	10	13	95	5	162
Remaining weighted-average contract period (in years) [1]	9	10	13	14	12	7	12
Gross insured contractual payments outstanding:							
Principal	$ 492	$ 1,185	$ 455	$ 401	$ 1,516	$ 28	$ 4,076
Interest	115	354	275	143	607	18	1,512
Total	$ 606	$ 1,539	$ 730	$ 543	$ 2,123	$ 46	$ 5,588
Gross undiscounted claim liability	$ 2	$ 26	$ 42	$ 432	$ 778	$ 46	$ 1,325
Discount, gross claim liability	—	(4)	(8)	(172)	(363)	(10)	(557)
Gross claim liability before all subrogation and before reinsurance	1	22	34	259	415	36	769
Less:							
Gross other subrogation [2]	(13)	(2)	—	(28)	(257)	(12)	(313)
Discount, other subrogation	3	—	—	5	67	4	79
Discounted other subrogation, before reinsurance	(10)	(2)	—	(23)	(190)	(8)	(234)
Gross claim liability, net of all subrogation and discounts, before reinsurance	(9)	20	34	236	225	29	535
Less: Unearned premium revenue	(1)	(13)	(4)	—	(10)	(1)	(29)
Plus: Loss expense reserves	—	3	—	1	1	—	4
Gross loss and loss expense reserves	$ (10)	$ 9	$ 30	$ 236	$ 217	$ 28	$ 510
Reinsurance recoverable reported on Balance Sheet [3]	$ 1	$ —	$ 8	$ 20	$ 3	$ —	$ 32

(1) Remaining weighted-average contract period is weighted based on projected gross claims over the lives of the respective policies.
(2) Other subrogation represents subrogation related to excess spread and other contractual cash flows on public finance and structured finance transactions, including RMBS.
(3) Reinsurance recoverable reported on the Balance Sheet includes reinsurance recoverables of $32 related to future loss and loss expenses and $0 related to presented loss and loss expenses and subrogation.

Notes to Unaudited Consolidated Financial Statements
Ambac Financial Group, Inc. and Subsidiaries
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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**	**14**
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 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 expenses and $0 related to presented loss and loss expenses and subrogation.

Representation and Warranty Recoveries:

Ambac recorded RMBS R&W subrogation recoveries of $0 ($0 net of reinsurance) and $140 ($140 net of reinsurance) at September 30, 2023 and December 31, 2022, respectively. On December 29, 2022, AAC entered into a Settlement Agreement and Release with Nomura Credit & Capital, Inc. ("Nomura") 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 sponsors.

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 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 $378 at September 30, 2023. Credit exposure existed at September 30, 2023, 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 September 30, 2023, there were ceded reinsurance balances payable of $95 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.

(Dollar Amounts in Millions, Except Share Amounts)

To minimize its credit exposure to losses from reinsurer insolvencies, Ambac (i) is entitled to receive collateral from certain 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 $119 from its reinsurers at September 30, 2023. 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 Providence Washington Insurance Company ("PWIC") and 21st Century Company acquisitions 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. 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.

At September 30, 2023, our top three reinsurers represented 77.2% of our total reinsurance recoverables on paid and unpaid losses. These 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 September 30, 2023.

Reinsurers	Type of Insurance	Rating (1)	Reinsurance Recoverable (2)	Unsecured Recoverable (3)
General Reinsurance Company	Specialty P&C	A++	$ 67	$ 57
QBE Insurance Corporation	Specialty P&C	A	39	39
Assured Guaranty Re Ltd.	Financial Guarantee	AA	27	—
All other reinsurers			39	14
Total recoverables			$ 172	$ 110

(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.

Ambac has uncollateralized credit exposure of $110 and $60 and has recorded an allowance for credit losses of less than a million at September 30, 2023 and December 31, 2022. The uncollateralized credit exposure includes legacy liabilities obtained from the acquisitions of PWIC and the 21st Century Companies of $42 and $45 at September 30, 2023 and December 31, 2022, respectively. All legacy liabilities remain with affiliates of the sellers through reinsurance and contractual indemnities.

(Dollar Amounts in Millions, Except Share Amounts)

7. 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 September 30, 2023 and December 31, 2022:

	September 30, 2023					December 31, 2022				
	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	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
Derivative Assets:										
Interest rate swaps	$ 14	$ —	$ 14	$ —	$ 14	$ 27	$ —	$ 27	$ —	$ 27
Warrants	1	—	1	—	1	1	—	1	—	1
Total non-VIE derivative assets	$ 15	$ —	$ 15	$ —	$ 15	$ 28	$ —	$ 27	$ —	$ 27
Derivative Liabilities:										
Interest rate swaps	$ 22	$ —	$ 22	$ 21	$ —	$ 38	$ —	$ 38	$ 38	$ —
Total non-VIE derivative liabilities	$ 22	$ —	$ 22	$ 21	$ —	$ 38	$ —	$ 38	$ 38	$ —
Variable Interest Entities Derivative Assets:										
Interest rate swaps	$ 177	$ —	$ 177	$ 177	$ —	$ 190	$ —	$ 190	$ —	$ 190
Currency swaps	42	—	42	42	—	49	—	49	—	49
Total VIE derivative assets	$ 219	$ —	$ 219	$ 219	$ —	$ 239	$ —	$ 239	$ —	$ 239
Variable Interest Entities Derivative Liabilities:										
Interest rate swaps	$ 1,038	$ —	$ 1,038	$ —	$ 1,038	$ 1,048	$ —	$ 1,048	$ —	$ 1,048
Total VIE derivative liabilities	$ 1,038	$ —	$ 1,038	$ —	$ 1,038	$ 1,048	$ —	$ 1,048	$ —	$ 1,048

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 Unaudited Consolidated Balance Sheets. The amounts representing the right to reclaim cash collateral and posted margin, recorded in "Other assets" were $9 and $6 as of September 30, 2023 and December 31, 2022, respectively. Amounts representing an obligation to return cash collateral were $254 and $0 as of September 30, 2023 and December 31, 2022, respectively and are reported in "Variable interest entity liabilities: Other liabilities".

The following tables summarize the location and amount of gains and losses of derivative contracts in the Unaudited Consolidated Statements of Total Comprehensive Income (Loss) for the three and nine months ended September 30, 2023 and 2022:

	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)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Non-VIE derivatives:					
Interest rate swaps	Net gains (losses) on derivative contracts	4	16	2	63
Warrants	Net gains (losses) on derivative contracts	—	—	—	1
Futures contracts	Net gains (losses) on derivative contracts	—	22	—	59
Total Non-VIE derivatives		$ 4	$ 37	1	124
Variable Interest Entities:					
Currency swaps	Income (loss) on variable interest entities	$ 7	$ 17	4	37
Interest rate swaps	Income (loss) on variable interest entities	26	250	24	519
Total Variable Interest Entities		33	267	28	556
Total derivative contracts		$ 38	$ 304	$ 29	$ 680

Interest Rate Derivatives:

AFS provided interest rate derivatives to financial guarantee customers and used derivatives to provide a partial hedge against interest rate risk in AAC's insurance and investment portfolios. Additionally, AFS provided interest rate swaps to states, municipalities and their authorities, asset-backed issuers and other entities in connection with their financings. Since June 30, 2023, AFS's only remaining derivative positions include a limited number of legacy customer swaps and their associated hedges.

As of September 30, 2023 and December 31, 2022, the notional amounts of AFS's derivatives are as follows:

	Notional	
Type of Derivative	September 30, 2023	December 31, 2022
Interest rate swaps—pay-fixed/receive-variable	$ 141	$ 989
Interest rate swaps—receive-fixed/pay-variable	168	337

(Dollar Amounts in Millions, Except Share Amounts)

Other Derivatives:

As of September 30, 2023 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 amounts for VIE derivatives outstanding as of September 30, 2023 and December 31, 2022, were as follows:

	Notional	
Type of VIE Derivative	**September 30, 2023**	**December 31, 2022**
Interest rate swaps—receive-fixed/pay-variable	$ 1,592	$ 1,573
Interest rate swaps—pay-fixed/receive-variable	846	887
Currency swaps	156	176

Contingent Features in Derivatives Related to Ambac Credit Risk

Certain of Ambac's interest rate swaps remain with professional swap-dealer counterparties 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 September 30, 2023 and December 31, 2022, the net liability fair value of derivative instruments with contingent features linked to Ambac's own credit risk was $21 and $38, respectively, related to which Ambac had posted cash and securities as collateral with a fair value of $36 and $54, 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 September 30, 2023, 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.

8. 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.

	September 30, 2023	December 31, 2022
Beginning balance	$ 61	$ 46
Business acquisitions	9	15
Impairments	—	—
Ending balance	$ 70	$ 61

Intangible assets and accumulated amortization are included in the Consolidated Balance Sheets, as shown below.

	September 30, 2023	December 31, 2022
Finite-lived Intangible Assets:		
Insurance intangible:		
Gross carrying value	$ 1,249	$ 1,247
Accumulated amortization	1,000	981
Net insurance intangible asset	**249**	**266**
Other intangibles:		
Gross carrying value	57	52
Accumulated amortization	9	6
Net other intangible assets	**48**	**47**
Total finite-lived intangible assets	**298**	**312**
Indefinite-lived Intangible Assets:		
Insurance licenses	14	14
Total intangible assets	**$ 312**	**$ 326**

9. 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 they do 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 AAC or Ambac UK. 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 2018 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. Accordingly, AAC does not have the right to direct the most significant activities of those FG VIEs.

FG VIEs which are consolidated may include recourse and non-recourse liabilities. FG VIEs' liabilities that are insured by the AAC or Ambac UK are with recourse, because 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 AAC or Ambac UK are without recourse, because AAC or

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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.

The following table summarizes the carrying values of assets and liabilities, along with other supplemental information related to FG VIEs that are consolidated as a result of financial guarantees of Ambac UK and AAC:

	September 30, 2023			December 31, 2022		
	Ambac UK	Ambac Assurance	Total VIEs	Ambac UK	Ambac Assurance	Total VIEs
ASSETS:						
Fixed maturity securities, at fair value:						
Corporate obligations, fair value option	$ 1,857	$ —	$ 1,857	$ 1,828	$ —	$ 1,828
Municipal obligations, trading	—	—	—	—	43	43
Municipal obligations, available-for-sale (1)	—	91	91	—	96	96
Total FG VIE fixed maturity securities, at fair value	1,857	91	1,948	1,828	139	1,967
Restricted cash	255	1	256	1	16	17
Loans, at fair value (2)	1,551	—	1,551	1,829	—	1,829
Derivative assets	219	—	219	239	—	239
Other assets	—	1	1	—	2	2
Total FG VIE assets	$ 3,883	$ 94	$ 3,976	$ 3,896	$ 157	$ 4,054
LIABILITIES:						
Long-term debt:						
Long-term debt, at fair value (3)	$ 2,535	$ —	$ 2,535	$ 2,788	$ —	$ 2,788
Long-term debt, at par less unamortized discount	—	164	164	—	319	319
Total long-term debt	2,535	164	2,699	2,788	319	3,107
Derivative liabilities	1,038	—	1,038	1,048	—	1,048
Cash collateral payable	254	—	254	—	—	—
Other liabilities	—	—	1	—	5	5
Total FG VIE liabilities	$ 3,827	$ 165	$ 3,992	$ 3,836	$ 324	$ 4,160
Number of FG VIEs consolidated	3	4	7	5	4	9

(1) Available-for-sale FG VIE fixed maturity securities consist of municipal obligations with an amortized cost basis of $94 and $99 at September 30, 2023 and December 31, 2022, respectively. At September 30, 2023, there were $1 aggregate gross unrealized gains and $(4) aggregated gross unrealized losses. At December 31, 2022, there were $1 aggregate gross unrealized gains and $(4) aggregated gross unrealized losses. All such securities had contractual maturities due after ten years as of September 30, 2023.

(2) The unpaid principal balances of loan assets carried at fair value were $1,756 as of September 30, 2023 and $1,977 as of December 31, 2022.

(3) The unpaid principal balances of long-term debt carried at fair value were $2,857 as of September 30, 2023 and $3,064 as of December 31, 2022.

The following schedule details the components of Income (loss) on variable interest entities for the affected periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net change in fair value of VIE assets and liabilities reported under the fair value option	$ 1	$ (3)	$ 4	$ (2)
Less: Credit risk changes of fair value option long-term debt reported through other comprehensive income (loss)	—	1	—	(1)
Net change in fair value of VIE assets and liabilities reported in earnings under the fair value option	1	(2)	4	(3)
Investment income (loss)	1	1	6	(4)
Net realized investment gains (losses) on available-for-sale securities	—	1	—	2
Interest expense on long-term debt carried at par less unamortized cost	(2)	(1)	(10)	(8)
Other expenses	—	—	(1)	(1)
Gain (loss) from consolidating VIEs	—	—	—	28
Income (loss) on variable interest entities	**$ 1**	**$ (1)**	**$ —**	**$ 14**

(Dollar Amounts in Millions, Except Share Amounts)

As further discussed in *Note 6. Insurance Contracts*, on March 17, 2022, in connection with the Puerto Rico restructuring, two new trusts were established. Ambac was required to consolidate these trusts which resulted in a combined gain of $28 for the nine months ended September 30, 2022. Including these new trusts, Ambac consolidated zero and two FG VIEs for the nine months ended September 30, 2023 and 2022, respectively. Ambac consolidated zero and zero FG VIEs for the three months ended September 30, 2023 and 2022, respectively. Ambac de-consolidated one FG VIE for the three months ended September 30, 2023 and two FG VIE for nine months ended September 30, 2023, as a result of the termination of Ambac's insurance or retirement of all Ambac-insured bonds in the trust. There was no gain or loss resulting from the de-consolidations for nine months ended September 30, 2023. Ambac did not deconsolidate any FG VIEs for the three and nine months ended September 30, 2022.

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 September 30, 2023 and December 31, 2022:

	September 30, 2023:				December 31, 2022:			
		Carrying Value of Assets and Liabilities				Carrying Value of Assets and Liabilities		
	Maximum Exposure To Loss (1)	Insurance Assets (2)	Insurance Liabilities (3)	Net Derivative Assets (Liabilities) (4)	Maximum Exposure To Loss (1)	Insurance Assets (2)	Insurance Liabilities (3)	Net Derivative Assets (Liabilities) (4)
Global structured finance:								
Mortgage-backed—residential	$ 2,441	$ 175	$ 396	$ —	$ 2,559	$ 266	$ 400	$ —
Other consumer asset-backed	566	5	227	—	652	6	225	—
Other	421	2	2	—	430	2	2	1
Total global structured finance	3,428	182	624	—	3,642	274	628	1
Global public finance	17,543	210	208	—	17,997	216	212	—
Total	**$ 20,971**	**$ 392**	**$ 833**	**$ —**	**$ 21,639**	**$ 490**	**$ 840**	**$ 1**

(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 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 interest rate swaps on Ambac's Consolidated Balance Sheets.

10. REVENUES FROM CONTRACTS WITH CUSTOMERS

The following table presents the Insurance Distribution business operations revenues recognized in accordance with the Revenue from Contracts with Customers Topic of the ASC disaggregated by policy type for the affected periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Employer Stop Loss	$ 3	$ 2	$ 9	$ 7
Affinity Products	6	5	16	14
Specialty Commercial Auto	4	—	10	—
Other	2	—	4	—
Total	$ 15	$ 7	$ 39	$ 22

During the nine months ended September 30, 2023 and 2022, the amount of revenue recognized related to performance obligations satisfied in a previous period, inclusive of changes due to estimates was approximately $5 and $5, respectively.

Contract Assets and Liabilities

The balances of contract assets and contract liabilities with customers were as follows:

	September 30, 2023	December 31, 2022
Premiums and commissions receivable	$ 11	$ 7
Contract assets	9	5
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. The Company does not have the right to bill or collect payment on i) base commissions until the related premiums from policyholders has been collected nor ii) profit-sharing commissions until after the contract year is completed. Changes in contract assets during the nine months ended September 30, 2023, is primarily due to the timing of new or renewal policies, growth in the business, the acquisition of Riverton, reclassifications 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 21 months from contract inception. During the nine months ended September 30, 2023 and 2022, the Company recognized revenue that was included in the contract liability balance as of the beginning of the period of $1 and $1, respectively.

(Dollar Amounts in Millions, Except Share Amounts)

11. COMPREHENSIVE INCOME

The following tables detail the changes in the balances of each component of accumulated other comprehensive income for the affected periods:

	Three Months Ended September 30, 2023:					Three Months Ended September 30, 2022:				
	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	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
Beginning Balance	$ (67)	$ 6	$ (147)	$ (1)	$ (209)	$ (23)	$ 4	$ (177)	$ —	$ (196)
Other comprehensive income (loss) before reclassifications	(23)	—	(29)	—	(52)	(53)	—	(58)	—	(111)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	—	(1)	(6)	—	—	(1)	(7)
Net current period other comprehensive income (loss)	(23)	—	(29)	—	(53)	(59)	—	(58)	(1)	(118)
Ending Balance	**$ (90)**	**$ 5**	**$ (176)**	**$ (1)**	**$ (262)**	**$ (82)**	**$ 4**	**$ (235)**	**$ (1)**	**$ (315)**

	Nine Months Ended September 30, 2023					Nine Months Ended September 30, 2022				
	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	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
Beginning Balance	$ (71)	$ 3	$ (184)	$ (1)	$ (253)	$ 154	$ 4	$ (100)	$ (1)	$ 58
Other comprehensive income before reclassifications	(24)	3	8	—	(13)	(224)	—	(136)	—	(360)
Amounts reclassified from accumulated other comprehensive income	6	(1)	—	—	4	(12)	—	—	—	(12)
Net current period other comprehensive income	(19)	2	8	—	(9)	(236)	(1)	(136)	—	(372)
Ending Balance	$ (90)	$ 5	$ (176)	$ (1)	$ (262)	**$ (82)**	**$ 4**	**$ (235)**	**$ (1)**	**$ (315)**

(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: Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Affected Line Item in the Consolidated Statement of Total Comprehensive Income (Loss)
Unrealized Gains (Losses) on Available-for-Sale Securities					
	$ (1)	$ (8)	$ 7	$ (17)	Net realized investment gains (losses)
	—	2	(1)	5	Provision for income taxes
	$ —	**$ (6)**	$ 6	**$ (12)**	Net of tax and noncontrolling interest
Amortization of Postretirement Benefit					
Prior service cost	$ —	$ —	$ (1)	$ —	Other income
Actuarial (losses)	—	—	—	—	Other income
	—	—	(1)	—	Total before tax
	—	—	—	—	Provision for income taxes
	$ —	**$ —**	$ (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	$ (1)	**$ (7)**	$ 4	**$ (12)**	Net of tax and noncontrolling interest

(Dollar Amounts in Millions, Except Share Amounts)

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12. NET INCOME PER SHARE

As of September 30, 2023, 45,187,327 shares of AFG's common stock (par value $0.01) were issued and outstanding. Common shares outstanding increased by 213,570 during the nine months ended September 30, 2023, primarily due to settlements of employee restricted and performance stock units, partially offset by 325,068 shares of common stock repurchased under an approved share repurchase program. As of April 30, 2023, all of AFG's outstanding warrants expired without being exercised.

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 noncontrolling adjustment to redemption value under ASC 480. The redemption value adjustment is further described in the Redeemable Noncontrolling Interest 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (loss) attributable to common stockholders	**$ 66**	**$ 340**	**$ 19**	**347**
Adjustment to redemption value (ASC 480)	—	—	—	—
Numerator of basic and diluted EPS	**$ 66**	**$ 340**	**$ 19**	**347**
Per Share:				
Basic	**$ 1.44**	$ 7.50	**$ 0.42**	$ 7.56
Diluted	**$ 1.41**	$ 7.41	**$ 0.41**	$ 7.48

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 weighted average shares denominator used for basic net income per share to the denominator used for diluted net income per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Basic weighted average shares outstanding denominator	**45,635,373**	**45,307,019**	**45,652,555**	**45,847,306**
Effect of potential dilutive shares :				
Restricted stock units	**125,035**	179,293	**152,431**	105,114
Performance stock units [(1)]	**1,050,327**	360,093	**981,457**	403,674
Diluted weighted average shares outstanding denominator	**46,810,735**	**45,846,405**	**46,786,443**	**46,356,094**
Anti-dilutive shares excluded from the above reconciliation:				
Warrants	—	4,877,617	—	4,877,617
Restricted stock units	**125,035**	157,991	**127,149**	214,941
Performance stock units [(1)]	—	—	**51,909**	—

(1) 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.

13. 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

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 its deferred tax operating assets and therefore maintains a full valuation allowance.

(Dollar Amounts in Millions, Except Share Amounts)

Consolidated Pretax Income (Loss)

U.S. and foreign components of pre-tax income (loss) were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
U.S.	$ 59	$ 329	$ (7)	$ 338
Foreign	8	14	34	13
Total	**$ 68**	**$ 342**	**$ 28**	**$ 352**

Provision (Benefit) for Income Taxes

The components of the provision for income taxes were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Current taxes				
U. S. federal	$ —	$ —	$ 1	$ —
U.S. state and local	—	—	—	—
Foreign	4	4	6	6
Total Current taxes	**4**	**4**	**8**	**6**
Deferred taxes				
U.S.federal	(2)	—	(2)	—
Foreign	(1)	(2)	1	(2)
Total Deferred taxes	**(3)**	**(2)**	**(1)**	**(2)**
Provision for income taxes	**$ 1**	**$ 2**	**$ 7**	**$ 4**

As of September 30, 2023, the Company has (i) $3,462 of NOLs, which if not utilized will begin expiring in 2030, and will fully expire in 2043, and (ii) $303 of interest expense tax deduction carryover, which has an indefinite carryforward period but is limited in any particular year based on certain provisions.

14. COMMITMENTS AND CONTINGENCIES

The following commitments and contingencies provide an update of those discussed in *Note 20: Commitments and Contingencies* in the Notes to Consolidated Financial Statements included Part II, Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 and in *Note 14: Commitments and Contingencies* in the Notes to the Unaudited Consolidated Financial Statements included in Part I, Item 1 in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023 and June 30, 2023, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K and Form 10-Q.

Litigation Filed or Joined by Ambac

Puerto Rico

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"). The First Circuit previously denied the appeals of the Oversight Board, the Teachers' Unions, the individual creditors, and the Credit Unions and affirmed the order approving the Commonwealth Plan in each. On August 22, 2023, the First Circuit denied the Suiza appeal and affirmed the order approving 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-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") appealed the PRHTA POA confirmation order. On July 12, 2023, the First Circuit denied the appeal and affirmed the PRHTA POA confirmation order. On July 24, 2023, the Vazquez-Velazquez Group filed a petition for panel rehearing in the First Circuit, which petition the First Circuit denied on August 11, 2023.

RMBS Litigation

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). On October 18, 2022, the Court set a schedule for additional summary judgment briefing, which was concluded on February 10, 2023. On September 21, 2023, the Court granted AAC's motion for partial summary judgment and denied U.S. Bank's motion for partial summary judgment. The parties thereafter agreed to a briefing schedule regarding AAC's proposed use of statistical sampling in Phase 2 discovery. On November 7, 2023, the parties filed a stipulation of dismissal with prejudice. The action is concluded.

Item 2. 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 unaudited 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 Part I, Item 1 and the matters described under Part II, Item 1A Risk Factors in this Quarterly Report and under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2022. Refer to Item 1. 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:

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 September 30, 2023, AFG's stand alone net assets, excluding its equity investments in subsidiaries, were $209.

Cash and short-term investments	$ 159
Other investments [1]	31
Other net assets	19
Total	**$ 209**

(1) Includes strategic minority investments in insurance services businesses of $26.

Segments

AFG's subsidiaries/businesses are divided into three segments with results for the three and nine months ended September 30, 2023 and 2022 as follows:

	Three Months Ended September 30, 2023					Three Months Ended September 30, 2022				
($ in millions)	**Legacy Financial Guarantee Insurance**	**Specialty Property & Casualty Insurance**	**Insurance Distribution**	**Corporate & Other**	**Consoli-dated**	**Legacy Financial Guarantee Insurance**	**Specialty Property & Casualty Insurance**	**Insurance Distribution**	**Corporate & Other**	**Consoli-dated**
Premiums placed			$ 62		62			$ 28		28
Gross premiums written	$ 2	$ 77			$ 80	$ (13)	$ 30			$ 16
Net premiums written	2	25			27	(6)	6			—
Total revenues	41	16	15	$ 3	74	67	6	7	$ 1	80
Total expenses	(28)	15	12	7	6	(282)	7	6	6	(262)
Pretax income (loss)	69	—	2	(4)	68	349	(1)	1	(6)	342
Ambac Stockholders' Equity [1]	836	116	103	210	1,265	681	110	64	154	1,009
Non-redeemable noncontrolling interest	51	2			53	60	2			62
Total stockholders' equity	$ 887	$ 118	$ 103	$ 210	$ 1,318	$ 741	$ 112	$ 64	$ 154	$ 1,071

	Nine Months Ended September 30, 2023					Nine Months Ended September 30, 2022				
	Legacy Financial Guarantee Insurance	**Specialty Property & Casualty Insurance**	**Insurance Distribution**	**Corporate & Other**	**Consoli-dated**	**Legacy Financial Guarantee Insurance**	**Specialty Property & Casualty Insurance**	**Insurance Distribution**	**Corporate & Other**	**Consoli-dated**
Premiums placed			$ 180		$ 180			$ 97		$ 97
Gross premiums written	$ 12	$ 183			$ 195	$ (12)	$ 95			$ 83
Net premiums written	$ (43)	$ 43			$ —	$ 2	$ 19			$ 21
Total revenues	$ 112	$ 35	$ 39	$ 7	$ 194	$ 250	$ 11	$ 22	$ 2	$ 286
Total expenses	$ 83	$ 36	$ 33	$ 14	$ 166	$ (112)	$ 16	$ 19	$ 11	$ (66)
Pretax income (loss)	$ 29	$ (1)	$ 7	$ (8)	$ 28	$ 362	$ (5)	$ 3	$ (8)	$ 352

(1) Represents Ambac's stockholders equity for each segment, including intercompany eliminations.

Legacy Financial Guarantee:

Overall Strategy:

As further discussed in Note 1. Background and Business Description 1 to the Unaudited Consolidated Financial Statements, included in Part I, Item 1 in this Form 10-Q, Ambac has key strategic priorities for the Legacy financial Guarantee segment, including AAC.

The execution of Ambac's strategy to increase the value of its investment in AAC may be affected by a new capital framework being developed by the Office of the Commissioner of Insurance for the State of Wisconsin ("OCI") to assist OCI with making decisions related to capital management at AAC ("OCI's Runoff Capital Framework"). OCI's Runoff Capital Framework, which is substantially complete, applies risk-based and other adjustments to AAC's assets and insured liabilities, as determined by OCI in its sole discretion. OCI's Runoff Capital Framework allows AAC to understand the likely impact of various developments and actions now or in the future on AAC's capital position thereunder. No changes in AAC's current management of the business are required by OCI's Runoff Capital Framework. Furthermore, AAC's ability to use capital for potential future deleveraging transactions or distributions will continue to require AAC to improve its capital position and obtain OCI's approval, and there can be no assurance that OCI will approve any such use of capital. The results of OCI's Runoff Capital Framework are expected to vary over time based on changes in AAC's financial position, insured portfolio developments, the impact of strategic actions taken by AAC and, possibly, changes to the inputs and assumptions utilized by OCI.

With OCI's Runoff Capital Framework substantially completed, Ambac has finalized its internal evaluation of a range of strategic options for AAC, and as a result, has appointed an investment bank along with other advisors to actively discuss such strategic options with interested parties. There can be no assurance that we will ultimately complete any strategic initiative.

The execution of Ambac's strategy to increase the value of its investment in AAC is also 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 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. It is expected that the existing Stipulation and Order will be modified in connection with the final adoption of OCI's Runoff Capital Framework.

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.

Asset and Liability Management

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.

Asset Management

Investment portfolios are subject to internal investment guidelines, as well as limits on the types and quality of investments imposed by insurance laws and regulations. The investment portfolios of AAC and Ambac UK hold fixed maturity securities and various pooled investment funds. Refer to Note 4. Investments to the Unaudited Consolidated Financial Statements, included in Part I, Item 1 in this Form 10-Q for further details of fixed maturity investments by asset category and pooled investment funds by investment type.

At September 30, 2023, AAC and Ambac UK owned $318 of distressed Ambac-insured bonds, including significant concentrations of insured RMBS bonds. Subject to internal and regulatory guidelines, market conditions and other constraints, Ambac may continue to opportunistically purchase or sell Ambac-insured securities, surplus notes and/or other Ambac issued securities, and may consider opportunities to exchange securities issued or insured by it from time to time for other securities issued by it.

Liability and Insured Exposure Management

Ambac'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. Ambac completed risk reduction transactions equating to $130 and $350 of net par exposure for the three and nine months ended September 30, 2023, respectively. Ambac also reinsured, through an existing quota share reinsurance agreement, $2,069 of insured par, consisting primarily of military housing risk of $1,958, during the nine months ended September 30, 2023.

The following table provides a comparison of total, adversely classified ("ACC") and watch list credit net par outstanding in the insured portfolio at September 30, 2023 and December 31, 2022. 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.

	September 30, 2023	December 31, 2022	Decrease	
Total	$ 19,541	$ 22,613	$ (3,072)	(11)%
ACC	4,247	4,735	(488)	(10)%
Watch list	1,564	3,044	(1,480)	(49)%

The decrease in total, ACC and watch list credit net par outstanding resulted from active de-risking (primarily from the reinsurance cession noted above), scheduled maturities, amortizations, refundings and calls, partially offset by a weakening of the USD versus the GBP.

Banking Sector Crisis of 2023

The collapse of several banks in early 2023 precipitated a sudden loss of confidence in the banking system, prompting bank runs and the U.S. government to provide direct support to failed banks and, through an expansive emergency lending program, the system more broadly. In the U.S., this crisis was in part a consequence of rising interest rates, resulting in large declines in the market value of U.S. Treasury and government-backed debt held by banking institutions. The risk of additional bank financial stress and/or failures due to asset-liability mismatches or other risks, such as outsized exposure to commercial real estate, remains. Despite actions by government agencies and regulators to mitigate the consequences of these bank failures by providing liquidity and guaranteeing uninsured deposits, there is no guarantee that they will provide similar support in the event of additional bank failures. In Europe, regulators stepped in to facilitate mergers of stressed banks into more stable institutions. The ability or willingness of healthy banks to merge with stressed banks in the future is also subject to significant uncertainty.

Ambac's cash balances held at banks was $41 as of September 30, 2023 and $42 as of December 31, 2022. Substantially all of these cash balances were uninsured as of September 30, 2023 and December 31, 2022 because they either (i) exceeded the two hundred and fifty thousand FDIC insurance limit or (ii) were held in foreign banks. These cash balances were held primarily with Ambac's main operating banks which are large money center and/or global banks. Ambac actively manages its cash balances to reduce bank risk and to enhance yield by transferring most of its funds to government and prime money market funds. Included in the cash balances above is $17 of cash of companies Ambac has acquired within its insurance distribution businesses that are held in regional banks. The management of these balances and the associated bank exposure is under consideration as part of Ambac's ongoing integration of these acquired businesses.

Ambac also has exposure to banks through its fixed maturity investment portfolio totaling $151 and $119 as of September 30, 2023 and December 31, 2022, respectively. All of these investments are managed by third-party asset management firms which follow single and sector risk limits established by Ambac. The average rating of our fixed income investment in banks was A- as of September 30, 2023.

Financial Statement Impact of Foreign Currency:

The impact of foreign currency as reported in Ambac's Unaudited Consolidated Statement of Total Comprehensive Income for the nine months ended September 30, 2023, included the following:

Net income [(1)]	$ (2)
Gain (loss) on foreign currency translation (net of tax), included in other comprehensive income	8
Foreign currency impact on unrealized gains (losses) on non-functional currency available-for-sale securities (net of tax), included in other comprehensive income	(2)
Impact on total comprehensive income (loss)	$ 4

(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. Other than the foreign currency impact on unrealized gains (losses) on available-for-sale securities, which is included in Other comprehensive income, foreign currency transaction gains/(losses) as a result of changes to foreign currency rates are reported through Net income in the Unaudited Consolidated Statement of Total Comprehensive Income (Loss).

Future changes to currency rates may adversely affect our financial results. Refer to Part II, Item 7A in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, for further information on the impact of future currency rate changes on Ambac's financial instruments.

CRITICAL ACCOUNTING ESTIMATES

Ambac's Unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which require the use of material estimates and assumptions. For a discussion of Ambac's critical accounting policies and estimates, see "Critical Accounting Policies and Estimates" in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Ambac's Annual Report on Form 10-K for the year ended December 31, 2022.

FINANCIAL GUARANTEES IN FORCE
($ in millions)

Financial guarantee products were sold in three principal markets: U.S. public, U.S. structured and international finance. The following table provides a breakdown of guaranteed net par outstanding by market at September 30, 2023 and December 31,

2022. 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.

	September 30, 2023	December 31, 2022
Public Finance [(1)]	$ 7,820	$ 10,547
Structured Finance	3,380	3,612
International Finance	8,341	8,454
Total net par outstanding	**$ 19,541**	**$ 22,613**

(1) Includes $3,387 and $5,400 of Military Housing net par outstanding at September 30, 2023 and December 31, 2022, respectively.

The table below shows Ambac's ten largest insured exposures, by repayment source, as a percentage of total financial guarantee net par outstanding at September 30, 2023:

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	$ 856	4.4 %
IF	AUK	PFI - Hospitals	UK-Infrastructure	BBB+	2046	708	3.6 %
IF	AUK	PFI - Accommodation	UK-Infrastructure	A-	2040	708	3.6 %
IF	AUK	Other Asset Securitizations	UK-Asset Securitizations	BBB	2033	693	3.5 %
IF	AUK	Investor Owned Utility Other - unsecured	UK-Utility	A-	2035	652	3.3 %
IF	AUK	Investor Owned Utility Electric - unsecured	UK-Utility	BBB+	2036	591	3.0 %
IF	AUK	Sub-Sovereign	Italy-Sub-Sovereign	BIG	2035	568	2.9 %
IF	AUK	PFI - Accommodation	UK-Infrastructure	A-	2038	458	2.3 %
PF	AAC	US State Lease/Appropriation	US-Lease and Tax-backed Revenue	BBB-	2036	428	2.2 %
IF	AUK	PFI - Roads	UK-Infrastructure	BIG	2039	301	1.5 %
Total						**$ 5,963**	**30.3 %**

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 decreased $153 from December 31, 2022. Exposures are impacted by changes in foreign exchange rates ($42 increase during the nine months ended September 30, 2023), certain indexation rates, reinsurance transactions and scheduled and unscheduled paydowns. As a result of high current inflation, such indexation 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) was 30% at September 30, 2023, and 27% at December 31, 2022. Excluding the top ten exposures, the remaining insured portfolio of financial guarantees has an average net par outstanding of $28 per single risk, with insured exposures ranging up to $298 and a median net par outstanding of $5.

Given that Ambac has not written any new financial guaranty insurance policies since 2008, the legacy financial guarantee insured portfolio is expected to become increasingly concentrated to large and/or below investment grade exposures.

Exposure Currency

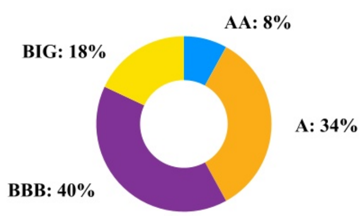
The table below shows the distribution by currency of AAC's insured exposure as of September 30, 2023:

Currency	Net Par Amount Outstanding in Base Currency	Net Par Amount Outstanding in U.S. Dollars
U.S. Dollars	$ 11,369	$ 11,369
British Pounds	£ 5,777	7,052
Euros	€ 822	869
Australian Dollars	A$ 391	251
Total		**$ 19,541**

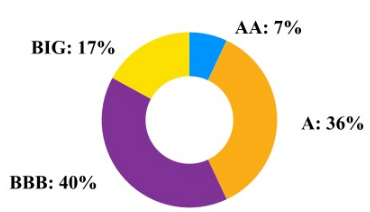
Ratings Distribution

The following charts provide a rating distribution of net par outstanding based upon internal Ambac credit ratings[(1)] and a distribution by bond type of Ambac's below investment grade ("BIG") net par exposures at September 30, 2023 and December 31, 2022. BIG is defined as those exposures with an Ambac internal credit rating below BBB-:

September 30, 2023



December 31, 2022



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:

	Net Par Outstanding	
Bond Type	**September 30, 2023**	**December 31, 2022**
Public Finance:		
Military Housing	$ 362	$ 366
General Obligations	95	151
Lease and Tax-Backed Revenue	83	252
Other	37	54
Total Public Finance	577	823
Structured Finance:		
RMBS	1,687	1,841
Student Loans	267	275
Total Structured Finance	1,954	2,117
International Finance:		
Sovereign/sub-sovereign	680	701
Transportation	301	310
Other	1	2
Total International Finance	982	1,013
Total	$ 3,513	$ 3,953

The net decline in below investment grade exposures is primarily due de-risking activities, including Puerto Rico of $162 and the above mentioned reinsurance transaction of $50.

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 increase in the future.

Results of Operations ($ in millions)

Consolidated Results

A summary of our financial results is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Gross premiums written	$ 80	$ 16	$ 195	$ 83
Revenues:				
Net premiums earned	$ 18	$ 11	$ 47	$ 39
Commission income	15	7	39	22
Program fees	2	1	6	2
Net investment income (loss)	30	11	100	(6)
Net investment gains (losses), including impairments	1	14	(7)	31
Net gains (losses) on derivative contracts	4	37	1	124
Net realized gains on extinguishment of debt	—	—	—	57
Income (loss) on variable interest entities	1	(1)	—	14
Other income	2	—	7	3
Expenses:				
Losses and loss adjustment expenses	(76)	(353)	(51)	(341)
Amortization of deferred acquisition costs, net	2	1	5	2
Commission expense	8	4	22	13
General and administrative expenses	49	31	122	90
Intangible amortization	7	6	21	34
Interest expense	16	49	48	138
Provision for income taxes	1	2	7	4
Net income	66	340	21	348
Less: net (gain) loss attributable to noncontrolling interest	—	—	(1)	(1)
Net income attributable to common stockholders	**$ 66**	**$ 340**	**$ 19**	**$ 347**

Significant items impacting Ambac's results for the nine months ended September 30, 2023 and 2022 include the following:

- AAC successfully implemented the restructuring of a significant portion of its Puerto Rico exposures, following the occurrence of the effective dates for the Plan of Adjustment related to AAC-insured Puerto Rico General Obligation bonds ("GO") and Public Buildings Authority ("PBA") bonds, and Qualifying Modifications for AAC-insured Puerto Rico Infrastructure Authority ("PRIFA") and Convention Center District Authority ("CCDA") bonds, all effective March 15, 2022. As a result of these successful restructurings, Ambac recorded a gain in the amount of $198 as part of its first quarter 2022 consolidated financial results. This gain included (i) a net benefit in losses and (ii) a gain on the consolidation of newly established variable interest entities; partially offset by losses from sales and changes to the fair value of securities received in the restructuring and accelerated amortization of the insurance intangible asset. In the second quarter 2022, the newly created VIEs combined with changes to the fair value of securities received by AAC resulted in losses totaling $17.
- During the three and nine months ended September 30, 2022 management recorded an increase to AAC's estimated R&W subrogation recoveries in the amount of $319 and $80, respectively. The change in recorded RMBS R&W recoveries is primarily attributable to the impact of the Settlement Agreement with Bank of America Corporation and certain affiliates thereof.

The following paragraphs describe the consolidated results of operations of Ambac and its subsidiaries for the three and nine months ended September 30, 2023 and 2022, respectively.

Gross Premiums Written. Gross premiums written increased $63 and $112 for the three and nine months ended September 30, 2023, compared to the same period in the prior year, as shown by segment below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Legacy Financial Guaranty Insurance	$ 2	$ (13)	$ 12	$ (12)
Specialty Property & Casualty Insurance	77	30	183	95
Total	$ 80	$ 16	$ 195	$ 83

Legacy Financial Guarantee Insurance gross written premiums relate to changes in expected and contractual premium cash flows for existing financial guarantees in force.

Specialty Property & Casualty Insurance growth in gross premiums written was driven by new programs, including assumed premium written with Everspan as a reinsurer, and growth in existing programs.

Net Premiums Earned. Net premiums earned increased $8 and $8 for the three and nine months ended September 30, 2023, compared to the same period in the prior year as shown by segment below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Legacy Financial Guaranty Insurance	$ 6	$ 7	$ 20	$ 31
Specialty Property & Casualty Insurance	12	4	27	8
Total	**$ 18**	**$ 11**	**$ 47**	**$ 39**

The reduction in Legacy Financial Guarantee Insurance segment was primarily due to de-risking activities, including the 2023 reinsurance transaction and the Puerto Rico restructurings, and run-off of the insured portfolio. Growth of Specialty Property & Casualty Insurance net premiums earned was due to both new programs, which includes assumed reinsurance of a workers compensation program, and growth in existing programs.

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 Unaudited Consolidated Balance Sheets, which consists primarily of pooled fund investments in diversified asset classes. For further information about investment funds held, refer to Note 4. Investments to the Unaudited Consolidated Financial Statements, included in Part I, Item 1 in this Form 10-Q. Net investment income for the periods presented were driven by the Legacy Financial Guarantee segment; other segments' results were not significant.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Securities available-for-sale and short-term other than Ambac-insured	**$ 18**	$ 11	**50**	26
Other investments (includes trading securities)	**6**	(7)	**33**	(50)
Securities available-for-sale: Ambac-insured (including secured notes)	**6**	6	**$ 17**	$ 19
Net investment income (loss)	**$ 30**	**$ 11**	**$ 100**	**$ (6)**

Net investment income (loss) increased $20 and $105 and for the three and nine months ended September 30, 2023 compared to the prior year periods.

- Net investment income from available-for-sale and short-term securities, other than Ambac-insured increased for the three and nine months ended September 30, 2023, compared to the same periods in the prior year due primarily to higher portfolio yields.
- Other investments income (loss) increased $13 and $83 for the three and nine months ended September 30, 2023, compared to the same periods in the prior year. Pooled fund investments results increased $11 and $56 for the three and nine months ended September 30, 2023, compared to the prior year periods. The increase for the three months ended September 30, 2023, was driven primarily by improved performance on hedge funds, high-yield and leveraged loans, floating rate income, equities and real estate. For the nine month period of 2023, the majority of the increase resulted from equities, hedge funds, and high yield and leverage loans. Investments in pooled funds may be volatile, but are generally expected to produce higher returns over the long-term than available-for-sale investments. Changes in fair value of securities received in the Puerto Rico restructurings and classified as trading, resulted in increased investment income of $2 and $27 for the three and nine months ended September 30, 2023, compared to the same periods in the prior year.
- Net investment income from Ambac-insured securities for the three and nine months ended September 30, 2023, decreased less than $1 and $1, respectively, compared to prior year periods, as additional purchases of AAC-insured RMBS and student loan securities offset the impact of the 2022 settlements of insured Puerto Rico bonds and the redemption of Sitka Senior Secured Notes held in the portfolio in 2022.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net gains (losses) on securities sold or called	$ (1)	$ 5	$ (3)	$ 12
Net foreign exchange gains (losses)	2	9	(2)	20
Credit impairments	(1)	—	(2)	—
Intent / requirement to sell impairments	—	—	—	—
Net investment gains (losses), including impairments	$ 1	$ 14	$ (7)	$ 31

Net gains (losses) on securities sold or called for the three and nine months ended September 30, 2022, included $4 from the distribution of residual assets of a legacy financial guarantee student loan restructuring vehicle. Net gains for the nine months ended September 30, 2022 also included a recovery of $9 from a class-action settlement relating to certain RMBS securities previously held in the investment portfolio. Other net realized gains (losses) on securities sold or called during both periods were 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. When credit impairments are recorded, 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 driven primarily by results from the Company's interest rate derivatives portfolio. Through the first quarter of 2023, the interest rate derivatives portfolio was positioned to benefit from rising rates as a partial economic hedge against interest rate exposure in the financial guarantee insurance and investment portfolios. This economic hedge was substantially reduced since September 30, 2022 and was fully removed during the three months ended June 30, 2023. Net gains (losses) on interest rate derivatives 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. The removal of the economic hedge will not change the exposure of future results to counterparty credit adjustments. Results from other derivatives were not significant to the periods presented.

Net gains (losses) on interest rate derivatives for the three and nine months ended September 30, 2023, were $4 and $1 compared to $37 and $123 for the three and nine months ended September 30, 2022. Results for the three and nine months ended September 30, 2023, reflect the net impact of interest rate shifts and counterparty credit adjustments described below. The net gains in 2022 were driven primarily by the significant rate increases in the periods.

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 $4 and $4 for the three and nine months ended September 30, 2023, respectively, and $2 and $6 for the three and nine months ended September 30, 2022, respectively. The counterparty credit adjustments for all periods were driven primarily by changes to the underlying asset values.

Net Realized Gains on Extinguishment of Debt. Net realized gains on extinguishment of debt was $— and $57 for three and nine months ended September 30, 2022, resulting from repurchases of surplus notes below their carrying values.

Commission Income and Commission Expense. Commission income for the three and nine months ended September 30, 2023, was $15 and $39 compared to $7 and $22, for the three and nine months ended September 30, 2022. Commissions include both base and profit sharing commissions of the Insurance Distribution segment. The increase was driven by (i) commissions earned on All Trans and Capacity Marine, which were purchased in November 2022 (ii) commissions earned on Riverton which was purchased in August 2023 and (iii) greater premiums placed by Xchange Benefits. Gross commission income has an accompanying expense, commission expense, which will largely track changes in gross commission. For the three and nine months ended September 30, 2023, commission expense of $8 and $22 compared to $4 and $13 in three and nine months ended September 30, 2022, driven primarily by the same factors as commission income.

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 FG 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 FG VIEs which are attributable to Ambac's insurance subsidiaries in the form of financial guarantee insurance premiums, fees and losses. In the case of FG 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 $1 and $0 for the three and nine months ended September 30, 2023, compared to $(1) and $14 for the three and nine months ended September 30, 2022. Results for the three months ended September 30, 2023, reflect gains from higher valuation of certain FG VIE net assets, partially offset by net interest and other expenses of the Puerto Rico restructuring VIEs. The loss for the nine months ended September 30, 2023, include accelerated discount accretion within interest expense resulting from partial redemption of certain Puerto Rico VIE trust units, partially offset by gains on higher valuation of net assets on other FG VIEs. Results for the three months ended September 30, 2022, relate to the decline in fair value of net assets on VIEs driven by higher market discount rates. Results for the nine months ended September 30, 2022, related primarily to two VIE trusts created in connection with the Puerto Rico restructurings in March 2022, including the initial $28 gain upon consolidation of these VIEs, offset by subsequent interest expense and declines in fair value of these VIEs' assets.

Refer to *Note 9. Variable Interest Entities* to the Unaudited Consolidated Financial Statements, included in Part I, Item 1 in this Form 10-Q for further information on the accounting for FG VIEs.

Losses and Loss Expenses. Loss and loss expense benefit decreased $277 and $290 for the three and nine months ended September 30, 2023, compared to the same period in the prior year. The below provides the breakout of loss and loss expenses by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Legacy financial guarantee	$ (86)	(356)	$ (71)	(347)
Specialty property and casualty insurance	10	3	20	5
	(76)	(353)	(51)	(341)

The large variance within legacy financial guarantee was driven by activities in the RMBS portfolio in both years, including the impact of the Settlement Agreement with Bank of America Corporation in the three months ended September 30, 2022. Refer to discussion of each segment's results below for further details.

Intangible Amortization. Insurance intangible amortization for the three and nine months ended September 30, 2023, was $6 and $18, an increase of $1 and a decrease of $14 as compared to the the three and nine months ended September 30, 2022. The decrease for the nine months ended September 30, 2023, was driven primarily by the timing of de-risking (including Puerto Rico in the nine months ended September 30, 2022) and the reduced size of the financial guarantee insured portfolio. Insurance intangible amortization will decline after policies mature or they are de-risked. Other intangible amortization for the three and nine months ended September 30, 2023, was $1 and $3, and $1 and $2 for the three and nine months ended September 30, 2022, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Compensation	$ 18	$ 17	$ 52	$ 49
Non-compensation	31	14	70	41
Total G&A expenses	49	31	122	90

The increase in Compensation G&A expenses during the three and nine months ended September 30, 2023 was due to higher compensation costs from a net increase in staffing from the development and growth, both organic and via acquisitions, of the Specialty Property & Casualty Insurance and Insurance Distribution segments. For the nine months ended September 30, 2023, these factors were further affected by lower incentive compensation expense including the impact of performance factor adjustments.

The increase in Non-Compensation G&A expenses during the three and nine months ended September 30, 2023, as compared to the three and nine months ended September 30, 2022, was due to higher Legacy Financial Guarantee Insurance segment's legal defense costs of $17 and $26, respectively.

Interest Expense. All interest expense relates to the Legacy Financial Guarantee Insurance segment and includes accrued interest on the Sitka AAC Note (fully redeemed during the fourth quarter of 2022), Tier 2 Notes (fully redeemed during the first quarter of 2023), 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Surplus notes	$ 16	$ 20	$ 47	$ 61
Sitka AAC note	—	21	—	55
Tier 2 Notes	—	7	1	22
Other	—	—	1	1
Total interest expense	**$ 16**	**$ 49**	**$ 48**	**$ 138**

The decrease in interest expense for the three and nine months ended September 30, 2023, compared to the three and nine months ended September 30, 2022, reflects the impact of the 2022 redemption of secured notes as further described in *Note 1. Background and Business Description,* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. Interest expense for 2023 also declined as a result of repurchases of surplus notes during 2022. These benefits were partially offset by the effects of interest compounding on surplus notes.

Surplus note principal and interest payments require the approval of OCI. In May 2023, 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, 2023. As a result, the scheduled payment date for interest, and the scheduled maturity date for payment of principal of the surplus notes, were 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 $462 at September 30, 2023. 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 primarily relates to international operations and was $1 and $7 for the three and nine months ended September 30, 2023, compared to $2 and $4 for the three and nine months ended September 30, 2022, a decrease of $1 for the quarter and an increase of $3 for the year-to-date period.

Results of Operations by Segment

Legacy Financial Guarantee Insurance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Net premiums earned	$ 6	$ 7	$ 20	$ 31
Net investment income	27	9	90	(9)
Net investment gains (losses), including impairments	1	14	(7)	31
Net gains on derivative contracts	4	37	2	123
Net realized gains on extinguishment of debt	—	—	—	57
Other income	3	(1)	7	17
Total	41	67	112	250
Expenses:				
Loss and loss expenses (benefit)	(86)	(356)	(71)	(347)
General and administrative expenses	35	20	87	64
Total	(50)	(336)	16	(283)
Earnings before interest, taxes, depreciation and amortization [(1)]	91	403	96	533
Interest expense	16	49	48	138
Depreciation	—	—	1	1
Intangible amortization	6	5	18	32
Pretax income (loss)	$ 69	$ 349	$ 29	$ 362
Stockholders equity [(2)]	$ 836	$ 681		

(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 declining premiums earned, investment income, G&A expenses and intangible amortization. The variability in the segment financial results are primarily driven by (i) change in loss and loss expenses resulting from, amongst other items, credit developments, interest rates and de-risking transactions; and (ii) volatility from Other investments income (loss) resulting from changes in market conditions and other performance factors. Key variances not discussed above in the Consolidated Results section are as follows:

Net premiums earned. Net premiums earned decreased $1 and $11 for the three and nine months ended September 30, 2023, 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 $0 and $1 for the three and nine months ended September 30, 2023, as compared to $1 and $3 for the three and nine months ended September 30, 2022.
- 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 deminimis for the three and nine months ended September 30, 2023, as compared to ($2) and $5 for the three and nine months ended September 30, 2022.

Investment and Derivative Results. Net investment income increased $18 and $99 for the three and nine months ended September 30, 2023, respectively, compared to the prior year periods, driven by higher yields in fixed income and improved performance from pooled fund investments. Net investment gains (losses), including impairments declined $13 and $38 for the three and nine months ended September 30, 2023, respectively, compared to the prior year periods, primarily as a result of foreign exchange gains and certain recoveries in 2022. Derivative gains declined $33 in the third quarter 2023 and $121 year-to-date, compared the prior year periods which experienced significant gains from rising interest rates. Ambac has exited the derivative positions that led to the gains in 2022. See Consolidated Results above for further information about investment and derivative results.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Structured Finance	$ (80)	$ (351)	$ (59)	$ (150)
Domestic Public Finance	(8)	(1)	(7)	(194)
Other, including International Finance	2	(4)	(5)	(3)
Totals	**$ (86)**	**$ (356)**	**$ (71)**	**$ (347)**

Loss and loss expenses (benefit) for the three and nine months ended September 30, 2023, was largely driven by RMBS recoveries, the positive impact of discount rates on the RMBS portfolio and assumption changes in the international portfolio (nine months only). Changes in RMBS recoveries impacting loss and loss expenses can be volatile and therefore each period's results are not indicative of potential future results.

Loss and loss expenses (benefit) for the three months ended September 30, 2022, were largely driven by the impact of the Settlement Agreement with Bank of America Corporation and certain affiliates thereof of approximately $319.

Losses and loss expenses (benefit) for the nine months ended September 30, 2022, were driven by favorable loss development in domestic public finance (primarily due to the Puerto Rico restructuring), favorable RMBS development due to the positive impact of discount rates, and the impact of the Settlement Agreement with Bank of America Corporation and certain affiliates thereof of $80.

G&A Expenses.

Segment G&A expenses increased during the three and nine months ended September 30, 2023, as compared to the three and nine months ended September 30, 2022, primarily due to higher legal defense costs in the 2023 periods, partially offset by lower compensation costs due to reduced headcount and the timing of incentive compensation performance factor adjustments.

Specialty Property and Casualty Insurance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Gross premiums written	$ 77	$ 30	$ 183	$ 95
Net premiums written	25	6	43	19
Revenues:				
Net premiums earned	$ 12	$ 4	$ 27	$ 8
Program fees	2	1	6	2
Investment income	1	—	3	1
Net investment gains (losses), including impairments	—	—	—	—
Total	16	6	35	11
Expenses:				
Losses and loss expenses incurred	10	3	20	5
Amortization of deferred acquisition costs, net	2	1	5	1
General and administrative expenses	4	3	12	10
Total	15	7	36	16
EBITDA	—	$ (1)	(1)	$ (5)
Pretax income (loss)	$ —	$ (1)	$ (1)	$ (5)
Retention Ratio (1)	32.0%	18.9%	23.6%	19.6%
Loss and LAE Ratio (2)	78.0%	65.2%	73.8%	65.7%
Combined Ratio (3)	106.5%	147.8%	112.3%	178.8%
Ambac's stockholders equity (4)	$ 116	$ 110		

(1) Retention ratio is defined as net premiums written divided by gross premiums written

(2) Loss and LAE ratio is defined as losses and loss expenses incurred divided by net premiums earned

(3) Combined ratio is defined as Loss and LAE ratio plus Expense Ratio. Expense Ratio is defined as acquisition costs and general and administrative expenses, reduced by program fees divided by net premiums earned.

(4) 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. Twenty programs were authorized to issue policies as of September 30, 2023. This includes Everspan participating on one primary workers compensation program as a reinsurer. 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 expenses incurred.

Consistent with its strategy to generate sustainable and profitable, long-term specialty property and casualty program insurance business with a focus on diverse classes of risks, Everspan may source programs as a reinsurer. Accessing programs as a reinsurer provides Everspan the ability to diversify its risk profile, efficiently manage its exposure limits and underwrite programs in a cost efficient manner, amongst other benefits. Everspan may participate as a reinsurer on up to 30% of a program, which is in line with its strategy to generally retain up to 30% per program. Participation as a reinsurer will affect the retention ratio as Everspan's portion of assumed premiums is reflected fully in both Gross and Net Premiums Written.

Loss and loss expenses incurred increased for the three and nine months ended September 30, 2023, relative to the three and nine months ended September 30, 2022, as a result of a number of factors, including growth of the business and the impact of prior period development from reserve strengthening on certain programs (mostly due to an increase in frequency of claim in commercial auto). Everspan's selected loss ratio (including ULAE) was 70.9% at September 30, 2023 versus 64.0% at September 30, 2022. Everspan's loss ratio may shift as the inforce book of business grows and diversifies. The increase in the Loss and LAE ratio for the three months ended September 30, 2023, compared to September 30, 2022, was partially offset by a benefit to acquisition costs as a result of sliding scale commission arrangements. Certain Everspan programs were structured to include sliding scale commission arrangements within a loss ratio range. These sliding scale arrangements mitigate net income volatility.

Loss and loss 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. In addition, on a going forward basis, 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 judicial decisions, claimants and policyholders, including 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 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.

General and administrative costs increased for the three and nine months ended September 30, 2023, relative to the three and nine months ended September 30, 2022, primarily resulting from the ramp up in Everspan's staffing and operations. The impact of growing operations was partially offset for the nine month comparison by costs associated with the acquisition of additional shell insurance companies in January 2022.

Insurance Distribution

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Premiums placed	$ 62	$ 28	$ 180	$ 97
Commission income	$ 15	$ 7	$ 39	$ 22
Commission expense	8	4	22	13
Net commissions	6	3	17	9
Expenses:				
General and administrative expenses (1)	3	1	7	4
EBITDA	4	2	10	5
Depreciation (1)	—	—	—	—
Intangible amortization	1	1	3	2
Pretax income (loss)	$ 2	$ 1	$ 7	$ 3
Ambac's stockholders equity (2)	$ 103	$ 64		

(1) The Consolidated Statements of Comprehensive Income presents the sum of these items as 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 businesses are compensated for their services primarily by commissions paid by insurance carriers for underwriting, structuring and/or administering polices. Commission revenues are usually based on a percentage of the premiums placed. In addition, we are eligible to receive profit sharing contingent commissions on certain programs based on the underwriting results of the policies placed with carriers, which may cause some variability in revenue and earnings.

On August 7, 2023, Ambac acquired a controlling interest (80%) in Riverton Insurance Agency, Corp. ("Riverton") which is expected to add approximately $40 of annual premiums placed to the Insurance Distribution segment. Riverton is an MGA and retail agency specializing in professional liability insurance programs to licensed architects, engineers, construction managers and real estate professionals.

The Insurance Distribution segment placed premiums for its carriers of approximately $62 and $180 for the three and nine months ended September 30, 2023, up $34 and $83 or 119% and 85.8%, respectively, as compared to the three and nine months ended September 30, 2022. Higher premiums placed were driven by organic growth at Xchange, the acquisition of All Trans, Capacity Marine and Riverton, and the Employer Stop Loss renewal rights acquisition on April 29, 2022. The increase in premiums placed and changes to the mix of business written led to the growth in commission income and commission expense of 107% and 101%, respectively.

Employer Stop Loss business underwritten by Xchange has seasonality in January and July, which results in revenue and earnings concentrations in the first and third quarters each calendar year. Employer Stop Loss is Xchange's largest business. Other lines of business placed by our Insurance Distribution business may also experience seasonality that may cause some volatility of results from period to period.

G&A Expenses. G&A expenses for the three and nine months ended September 30, 2023, increased compared to the three and nine months ended September 30, 2022, primarily as a result of the All Trans, Capacity Marine and Riverton acquisitions.

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 $209 as of September 30, 2023, 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 2022 and 2021 expenses was approved by OCI and paid to AFG during March of 2023 and April of 2022, respectively.
- 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 $5.3 and $4.2 during the nine months ended September 30, 2023 and 2022.

AFG's principal uses of liquidity are: (i) the payment of G&A expenses, including costs to explore opportunities to grow and diversify Ambac, (ii) the making of strategic investments, which are generally illiquid and (iii) making capital investments to acquire, grow and/or capitalize new and/or existing businesses. AFG may also provide short-term financial support, primarily in the form of loans, to its operating subsidiaries to support their operating requirements.

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 on claim payments; reinsurance recoveries; fees; investment income and maturities and sales of investments.

- See Note 6. Insurance Contracts to the Consolidated Financial Statements included in Part I, Item 1., in this Form 10-Q 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 and acquisition costs (Specialty Property & Casualty Insurance segment only), debt service on outstanding debt (Legacy Financial Guarantee segment only), G&A expenses, reinsurance payments and purchases of securities and other investments, some of which may not be immediately convertible into cash.

- 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, 2023. Current principal outstanding on AAC's long-term debt consisted of $519 of surplus notes. AAC's future interest obligations on long-term debt include $496 of accrued and unpaid interest all or a portion of which would be payable on surplus notes if approved by OCI on the next scheduled payment date of June 7, 2024.

- AFS's remaining derivatives 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 G&A 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, G&A 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.

Nine Months Ended September 30,	2023	2022
Cash provided by (used in):		
Operating activities	**$ 112**	$ 59
Investing activities	**521**	435
Financing activities [1]	**(392)**	(479)
Foreign exchange impact on cash and cash equivalents	—	(1)
Net cash flow	**$ 241**	**$ 14**

(1) Because the trusts established under the Puerto Rico restructurings are consolidated VIEs, certain payments made by AAC to accelerate AAC-insured bonds that were deposited into trusts are reflected as payments of VIE liabilities within financing activities. Cash used in financing activities includes $113 and $274 from such AAC payments, for the nine months ended September 30, 2023 and 2022, respectively.

Operating activities

The following represents the significant cash operating activity during the nine months ended September 30, 2023 and 2022:

- Cash provided by (i) gross premiums were $146 and $100 for the nine months ended September 30, 2023 and 2022, respectively; (ii) interest rate derivatives were $22 and $61 for the nine months ended September 30, 2023 and 2022, respectively; (iii) investment portfolio income was $69 and $59 for the nine months ended September 30, 2023 and 2022, respectively; and (iv) cash settlements from the Puerto Rico restructuring transactions to the consolidated trusts was $47 for the nine months ended September 30, 2022.
- Interest payments, including accumulated paid-in-kind interest on the Tier 2 Notes, were $50 for the nine months ended September 30, 2023, and $51 for the nine months ended September 30, 2022.
- Payments related to (i) G&A expenses were $94 and $75 for the nine months ended September 30, 2023 and 2022, respectively; and (ii) reinsurance premiums paid were $99 and $43 for the nine months ended September 30, 2023 and 2022, respectively
- Net Legacy Financial Guarantee Insurance loss and loss expenses paid, including commutation payments, during the nine months ended September 30, 2023 and 2022 are detailed below:

Nine Months Ended September 30,	2023	2022
Net loss and loss expenses paid (recovered):		
Net losses paid	**$ 23**	$ 239
Net subrogation received [1]	**(169)**	(233)
Net loss expenses paid	**7**	18
Net cash flow	**$ (139)**	**$ 24**

(1) 2023 includes Nomura R&W settlement proceeds of $140

Future operating flows will primarily be impacted by net premium collections and investment coupon receipts, G&A expenses, net claim and loss expense payments and interest payments on outstanding debt.

Financing Activities

Financing activities for the nine months ended September 30, 2023, included redemption of the Tier 2 Notes of $97, share repurchases of $5, and paydowns and maturities of VIE debt obligations of $285 (including payments for the accelerations of the VIE trusts created from the Puerto Rico restructuring).

Financing activities for the nine months ended September 30, 2022, included payments for extinguishment of surplus notes of $58, share repurchases of $14, and paydowns and maturities of VIE debt obligations of $404 (including payments for the accelerations of the VIE trusts created from the Puerto Rico restructuring).

Collateral

AFS hedged a portion of the interest rate risk in the Legacy Financial Guarantee Insurance segment financial guarantee and investment portfolios, along with legacy customer interest rate swaps, with standardized derivative contracts, which contain collateral or margin requirements. As of June 30, 2023, AFS's only remaining derivative positions include a limited number of legacy customer swaps and their associated hedges. Under these hedge agreements, AFS is required to post collateral in excess of the derivative unrealized loss amount. All AFS derivative contracts containing ratings-based downgrade triggers that could result in collateral posting or a termination have been triggered. AFS may look to re-establish hedge positions resulting in additional collateral obligations. The amount of additional collateral 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 obligations are currently met. Collateral posted by AFS totaled a net amount of $36 (cash and securities collateral of $9 and $27, respectively), including independent amounts, under these contracts at September 30, 2023.

BALANCE SHEET ($ in millions)

Total assets decreased by approximately $125 from December 31, 2022, to $7,847 at September 30, 2023, primarily due to: (i) the decrease in asset values of VIEs of $77 and (ii) lower non-VIE invested assets of $101, partially offset by increases in premium receivables, reinsurance recoverables and deferred premiums as a result of growth in the specialty P&C businesses.

- During 2023, VIE assets were reduced by maturities / paydowns, the deconsolidation of one VIE and sales of Puerto Rico restructuring VIE assets to fund debt redemptions. Offsetting these decreases was cash collateral received by FG VIEs.
- Reduction in non-VIE investments from December 31, 2022 included the impact of $113 of payments from Ambac Assurance to support partial redemptions of HTA Trust Certificates.

Total liabilities decreased by approximately $141 from December 31, 2022, to $6,507 as of September 30, 2023, primarily due to decreases in the value of VIE liabilities of $168 (consistent factors as noted above in assets, including redemptions of HTA Trust Certificates, and increase in cash collateral payable). Additional liability increases were driven by higher loss and loss adjustment expense reserves, unearned premiums and ceded premium payables from the specialty P&C businesses. These increases to total liabilities were partially offset by the redemption of the Tier 2 Notes of $146.

As of September 30, 2023, total stockholders' equity was $1,318, compared with total stockholders' equity of $1,305 at December 31, 2022. This increase was primarily due to total comprehensive income for the nine months ended September 30, 2023.

Investment Portfolio

Ambac's investment portfolio is managed under established guidelines designed to meet the investment objectives of AAC, Everspan Group, Ambac UK and AFG. Refer to "Description of the Business – Investments and Investment Policy" located in Part I. Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2022, for further description of Ambac's investment policies and applicable regulations.

Ambac's investment policies and objectives do not apply to the assets of VIEs consolidated as a result of financial guarantees written by its insurance subsidiaries.

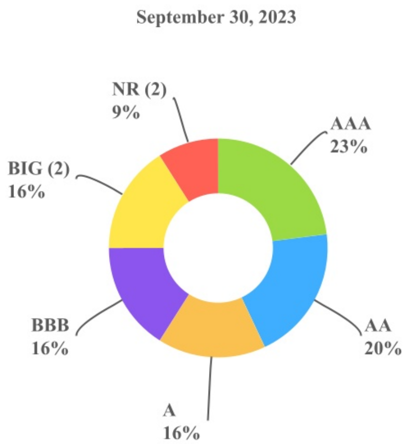
The following table summarizes the composition of Ambac's investment portfolio, excluding VIE investments, at carrying value at September 30, 2023 and December 31, 2022:

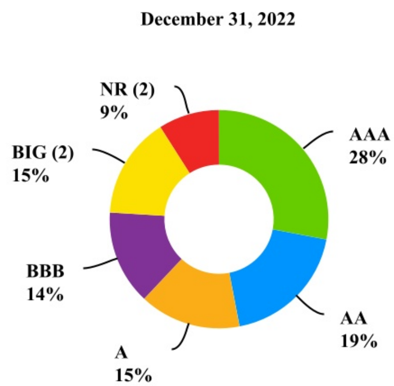
	September 30, 2023					December 31, 2022				
	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consolidated	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consolidated
Fixed maturity securities	$ 1,427	$ 115	$ —	$ 14	$ 1,556	$ 1,281	$ 102	$ —	$ 12	$ 1,395
Fixed maturity securities - trading	28	—	—	—	28	59	—	—	—	59
Short-term	231	33	4	152	420	303	29	—	175	507
Other investments	443	—	—	18	461	552	—	—	16	568
Fixed maturity securities pledged as collateral	27	—	—	—	27	64	—	—	—	64
Total investments [1]	**$ 2,156**	**$ 148**	**$ 4**	**$ 184**	**$ 2,492**	**$ 2,259**	**$ 131**	**$ —**	**$ 203**	**$ 2,593**

(1) Includes investments denominated in non-US dollar currencies with a fair value of £329 ($401) and €28 ($29) as of September 30, 2023 and £296 ($357) and €39 ($42) as of December 31, 2022.

Ambac invests in various asset classes in its fixed maturity securities portfolio. Other investments primarily consist of diversified interests in pooled funds. Refer to Note 4. Investments to the Unaudited Consolidated Financial Statements included in Part I, Item 1 in this Form 10-Q 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 September 30, 2023 and December 31, 2022:





(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 represent 20% and 19% of the September 30, 2023, and December 31, 2022, combined fixed maturity portfolio, respectively.

Premium Receivables

Ambac's premium receivables increased to $278 at September 30, 2023, from $269 at December 31, 2022. As further discussed in Note 6. Insurance Contracts, the increase is primarily due to growth in the Specialty P&C Insurance Segment, including receivables related to the workers compensation program where Everspan participates as a reinsurer. At September 30, 2023, Legacy Financial Guarantee Insurance and Specialty P&C premiums receivables were $245 and $33, respectively.

Premium receivables by payment currency were as follows:

Currency	Premium Receivable in Payment Currency		Premium Receivable in U.S. Dollars	
U.S. Dollars	$	194	$	194
British Pounds	£	58		71
Euros	€	13		13
Total			$	278

Reinsurance Recoverable on Paid and Unpaid Losses

Ambac has reinsurance in place pursuant to 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). Those reinsurance counterparties that do not currently post collateral are well capitalized, highly rated, authorized capacity providers. Ambac benefited from letters of credit and collateral amounting to approximately $119 from its reinsurers at September 30, 2023. Additionally, while legacy liabilities from the 21st Century Companies and PWIC acquisitions were fully ceded to certain reinsurers, Everspan also benefits from an unlimited, uncapped indemnity from the respective sellers to mitigate any residual risk to these reinsurers. As of September 30, 2023 and December 31, 2022, reinsurance recoverable on paid and unpaid losses were $172 and $115, respectively primarily due to growth in the Specialty P&C Insurance Segment.

Intangible Assets

Intangible assets primarily include (i) an insurance intangible asset that was established at AFG's emergence from bankruptcy (Legacy Financial Guarantee Insurance Segment) in 2013, representing the difference between the fair value and aggregate carrying value of the financial guarantee insurance and reinsurance assets and liabilities of $249 at September 30, 2023, (ii) intangible assets established as part of acquisitions in the Insurance Distribution business of $48 at September 30, 2023,

(iii) indefinite-lived intangible assets in the Specialty P&C business as part of its acquisitions of $14 at September 30, 2023.

As of September 30, 2023 and December 31, 2022, intangible assets were $312 and $326, respectively. The decline is driven by amortization; partially offset by translation gains from the consolidation of Ambac's foreign subsidiary (Ambac UK) and established intangibles from the acquisition of Riverton.

Derivative Assets and Liabilities

The interest rate derivative portfolio was positioned to benefit from rising rates, until the early part of the second quarter 2023, as a partial economic hedge against interest rate exposure in the Legacy Financial Guarantee insurance and investment portfolios. As of September 30, 2023, AFS' only remaining derivative positions include a limited number of legacy customer swaps and their associated hedges. Derivative assets decreased from $27 at December 31, 2022, to $15 as of September 30, 2023. Derivative liabilities decreased from $38 at December 31, 2022, to $22 as of September 30, 2023. Decreases in derivative asset and liability values since December 31, 2022 resulted from declines in fair value driven by rising interest rates.

Loss and Loss Expense Reserves and Subrogation Recoverable

Loss and loss expense reserves are based upon estimates of the ultimate aggregate losses inherent in insurance policies issued to beneficiaries, excluding consolidated 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, of the Consolidated Financial Statements included in Part II, Item 8 in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, for further information on loss and loss expenses.

The loss and loss expense reserves, net of subrogation recoverables and before reinsurance as of September 30, 2023 and December 31, 2022, were $670 and $534, respectively.

Loss and loss expense reserves are included in the Unaudited Consolidated Balance Sheets as follows:

	September 30, 2023:					December 31, 2022:				
	Specialty Property and Casualty	Legacy Financial Guarantee				Specialty Property and Casualty	Legacy Financial Guarantee			
		Present Value of Expected Net Cash Flows					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	Gross Loss and Loss Expense Reserves	Claims and Loss Expenses	Recoveries [1]	Unearned Premium Revenue	Gross Loss and Loss Expense Reserves
Loss and loss expense reserves	$ 160	$ 769	$ (50)	$ (29)	$ 850	$ 90	$ 787	$ (44)	$ (28)	$ 805
Subrogation recoverable	—	4	(183)	—	(179)	—	5	(276)	—	(271)
Totals	**$ 160**	**$ 773**	**$ (234)**	**$ (29)**	**$ 670**	**$ 90**	**$ 791**	**$ (319)**	**$ (28)**	**$ 534**

(1) Present value of future recoveries includes R&W subrogation recoveries of $0 and $140 at September 30, 2023 and December 31, 2022, respectively.

Legacy Financial Guarantee Insurance:

Ambac has exposure to various bond types issued in the debt capital markets. Our experience has shown that, for the majority of bond types, we have not experienced significant claims. The bond types that have experienced significant claims, including through commutations, are residential mortgage-backed securities (“RMBS”), student loan securities and public finance securities. These bond types represent 91% of our ever-to-date insurance claims recorded, with RMBS comprising 61%. The table below indicates gross par outstanding and the components of gross loss and loss expense reserves related to policies in Ambac’s gross loss and loss expense reserves at September 30, 2023 and December 31, 2022:

	September 30, 2023:					December 31, 2022:				
		Present Value of Expected Net Cash Flows					Present Value of Expected Net Cash Flows			
	Gross Par Outstanding [1]	Claims and Loss Expenses	Recoveries	Unearned Premium Revenue	Gross Loss and Loss Expense Reserves [1][2]	Gross Par Outstanding [1]	Claims and Loss Expenses	Recoveries	Unearned Premium Revenue	Gross Loss and Loss Expense Reserves [1][2]
Structured Finance	$ 1,918	$ 670	$ (213)	$ (10)	$ 447	$ 2,050	$ 664	$ (296)	$ (10)	$ 358
Domestic Public Finance	992	78	(8)	(8)	62	1,215	96	(11)	(10)	75
Other, including International finance	1,166	21	(13)	(11)	(3)	782	23	(12)	(8)	3
Loss expenses	—	4	—	—	4	—	8	—	—	8
Totals	**$ 4,076**	**$ 773**	**$ (234)**	**$ (29)**	**$ 510**	**$ 4,047**	**$ 791**	**$ (319)**	**$ (28)**	**$ 444**

(1) Ceded par outstanding on policies with loss reserves and ceded loss and loss expense reserves were $399 and $32 respectively, at September 30, 2023, and $472 and $33, respectively at December 31, 2022. Recoverable ceded loss and loss expense reserves are included in Reinsurance recoverable on paid and unpaid losses on the balance sheet.

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

Variability of Expected Losses and Recoveries

Ambac's management believes that the estimated future loss component of loss reserves (present value of expected net cash flows) are adequate to cover future claims presented, 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 September 30, 2023, 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 as well as the descriptions of "RMBS Variability," "Public Finance Variability," "Student Loan Variability," and "Other Credits, including Ambac UK, Variability" in Part II, Item 7 of the Company's 2022 Annual Report on Form 10-K, and Part II, Item1A "Risk Factors" of this Quarterly Report, for further discussion of the risks relating to future losses and recoveries that could result in more highly stressed outcomes, as well as the descriptions of "Structured Finance Variability," "Domestic Public Finance Variability," and "Other Variability" 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 Variability

***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 general effect of a weakened economy characterized by growing unemployment and wage pressures. During the first quarter of 2023, Ambac revised the model it uses to project RMBS collateral losses considering the seasoning of our RMBS exposure and management's view that the most relevant determinant of prospective collateral performance is borrower payment status. Individual home price appreciation/depreciation has become less critical a determinant of performance considering the general appreciation in home values over the past few years as well as the impact of loan modifications. The average estimated loan-to-values of the collateral related to insured exposures have declined to under 50% from peaks above 110%. Projected losses in our RMBS exposures and related loss reserves, may increase or decrease in the future. Possible stress case losses assume higher default rates, loss severities and lower prepayments.

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 also 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. During the second quarter of 2023, we revised our approach to projecting future defaults to reflect the student loan collateral's seasoning.

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 September 30, 2023, could be approximately $60. 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.

Domestic Public Finance Variability:

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 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 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.

For the public finance credits for which we have an estimate of expected loss at September 30, 2023, the sum of all the highest stress case loss scenarios is $125 and there can be no assurance that losses may not exceed such amounts.

Other Credits, including International Finance 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 $320 greater than the loss reserves at September 30, 2023. There can be no assurance that losses may not exceed such amounts.

Long-term Debt

Long-term debt includes AAC surplus notes and the Ambac UK debt issued in connection with a commutation. All long-term debt relates to the Legacy Financial Guarantee segment.

The carrying value of each of these as of September 30, 2023 and December 31, 2022 is below:

	September 30, 2023		December 31, 2022	
Surplus notes	$	488	$	477
Tier 2 notes		—		146
Ambac UK debt		17		16
Total Long-term Debt	**$**	**505**	**$**	**639**

The decrease in long-term debt from December 31, 2022, resulted from redemption of the Tier 2 Notes during the quarter ended March 31, 2023, partially offset by accretion on the carrying value of surplus notes and Ambac UK debt. See *Note 1. Background and Business Description* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, for further details on the redemption of the Tier 2 Notes.

VARIABLE INTEREST ENTITIES

Please refer to Note 9. Variable Interest Entities to the Unaudited Consolidated Financial Statements included in Part I, Item 1 in this Form 10-Q and Note 2. Basis of Presentation and Significant Accounting Policies and Note 12. Variable Interest Entities to the Consolidated Financial Statements, included in Part II, Item 8 in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, for information regarding variable interest entities.

ACCOUNTING STANDARDS

There are no new accounting standards applicable to Ambac that have been issued but not yet adopted.

U.S. INSURANCE STATUTORY BASIS FINANCIAL RESULTS ($ in million)

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 "Ambac Assurance Statutory Basis Financial Results," in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 9. Insurance Regulatory Restrictions to the Consolidated Financial Statements included in Part II, Item 8 in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

Ambac Assurance Corporation

AAC's statutory policyholder surplus and qualified statutory capital (defined as the sum of policyholders surplus and mandatory contingency reserves) were $575 and $1,176 at September 30, 2023, respectively, as compared to $598 and $1,191 at December 31, 2022, respectively. As of September 30, 2023, 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 (in addition to related accrued interest of $462 that is not recorded under statutory basis accounting principles); preferred stock; and all other liabilities, including insurance claims 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 drivers to the net decrease in policyholder surplus were the statutory net loss of $14 for the nine months ended September 30, 2023, a contingency reserve contribution of $8, and the investment valuation changes that are direct charges to surplus of $4.

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.

Everspan Indemnity Insurance Company

Everspan Indemnity Insurance Company's statutory policyholder surplus was $109 at September 30, 2023, as compared to $108 at December 31, 2022. The significant drivers to the increase were capital contributions of $6.5 partially offset by a net loss at Everspan Indemnity Insurance Company, including its subsidiaries, of $5.4 during the nine months ended September 30, 2023, primarily driven by loss reserve strengthening and by net acquisition costs. Acquisition costs, primarily commissions, are generally expensed immediately whereas the related premium is recognized over the life of the policy.

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 £489 at September 30, 2023, as compared to £468 at December 31, 2022. At September 30, 2023, the carrying value of cash and investments was £531, a increase from £508 at December 31, 2022. The increase in shareholders' funds and cash and investments was primarily due to the continued receipt of premiums and investment gains, partially offset by foreign exchange losses, general and administrative expenses and tax payments.

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 capital resources under Solvency II were £361 at June 30, 2023, the most recently published position, of which £355 were eligible to meet solvency capital requirements. Eligible capital resources at June 30, 2023, were in comparison to regulatory capital requirements of £217. Therefore, Ambac UK was in a surplus position in terms of compliance with applicable regulatory capital requirements by £138 at June 30, 2023. Despite, Ambac UK being in an surplus capital position as of June 30, 2023, there can be no guarantee that it will be able to pay any dividends or other capital distributions to AAC in the near term. All dividends and capital distributions from Ambac UK are subject to the judgement and approval of the Prudential Regulatory Authority.

NON-GAAP FINANCIAL MEASURES ($ in millions)

In addition to reporting the Company's quarterly financial results in accordance with GAAP, the Company is reporting non-GAAP financial measures: EBITDA, Adjusted Net Income and Adjusted Book Value. These amounts are derived from our consolidated financial information, but are not presented in our consolidated financial statements prepared in accordance with GAAP.We present non-GAAP supplemental financial information because we believe such information is of interest to the investment community, and that it provides greater transparency and enhanced visibility into the underlying drivers and performance 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 and they are presented to improve the comparability of our results between periods by eliminating the impact of the items that may not be representative of our core operating performance. 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.

Beginning January 1, 2023, Ambac replaced the non-GAAP measure Adjusted Earnings with a new non-GAAP measure Adjusted Net Income to better align with other participants in the Property & Casualty insurance industry, including insurance carriers and other peers in the insurance distribution business. We are presenting Adjusted Net Income for the current and prior periods contained within this Form 10-Q so this non-GAAP financial measure compares both periods on the same basis.

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

EBITDA — We define EBITDA as net income (loss) before interest expense, income taxes, depreciation and amortization of intangible assets. The following table reconciles net income (loss) to the non-GAAP measure, EBITDA on a consolidation and segment basis for all periods presented:

	Three Months Ended September 30, 2023					Three Months Ended September 30, 2022				
	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consoli-dated	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consoli-dated
Net income (loss)	$ 66	$ —	$ 2	$ (2)	$ 66	$ 346	$ (2)	$ 1	$ (6)	$ 340
Adjustments:										
Interest expense	16	—	—	—	16	49	—	—	—	49
Income taxes	3	—	—	(2)	1	2	—	—	—	2
Depreciation	—	—	—	—	—	—	—	—	—	—
Amortization of intangible assets	6	—	1	—	7	5	—	1	—	6
EBITDA (1)	$ 91	$ —	$ 4	$ (4)	$ 91	$ 403	$ (1)	$ 2	$ (6)	$ 397

(1) EBITDA is prior to the impact of noncontrolling interests, and relates to subsidiaries where Ambac does not own 100% in the amounts, of $1 and $0 for the three months ended September 30, 2023 and 2022, respectively. These noncontrolling interests are primarily in the Insurance Distribution segment.

	Nine Months Ended September 30, 2023					Nine Months Ended September 30, 2022				
	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consoli-dated	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consoli-dated
Net income (loss)	$ 21	$ (1)	$ 7	$ (6)	$ 21	$ 358	$ (6)	$ 3	$ (8)	$ 348
Adjustments:										
Interest expense	48	—	—	—	48	138	—	—	—	138
Income taxes	8	—	—	(1)	7	4	—	—	—	4
Depreciation	1	—	—	—	1	1	—	—	—	1
Amortization of intangible assets	18	—	3	—	21	32	—	2	—	34
EBITDA (1)	$ 96	$ (1)	$ 10	$ (8)	$ 98	$ 533	$ (5)	$ 5	$ (8)	$ 524

(1) EBITDA is prior to the impact of noncontrolling interests, and relates to subsidiaries where Ambac does not own 100% in the amounts, of $2 and $1 for the nine months ended September 30, 2023 and 2022, respectively. These noncontrolling interests are primarily in the Insurance Distribution segment.

Adjusted Net Income (Loss) — We define Adjusted Net Income (Loss) as net income (loss) attributable to common stockholders adjusted to reflect the following items: (i) net investment (gains) losses, including impairments; (ii) amortization of intangible assets; (iii) litigation costs, including attorneys fees and other expenses to defend litigation against the Company, excluding loss adjustment expenses; (iv) foreign exchange (gains) losses; (v) workforce change costs, which primarily include severance and other costs related to employee terminations; and (vi) net (gain) loss on extinguishment of debt. Adjusted Net Income is also adjusted for the effect of the above items on both income taxes and noncontrolling interests. The income tax effects are determined by applying the statutory tax rate in each jurisdiction that generate these adjustments. The noncontrolling interest adjustments relate to subsidiaries where Ambac does not own 100%

The following table reconciles net income (loss) attributable to common stockholders to the non-GAAP measure, Adjusted net income:

	Three Months Ended September 30,			
	2023		2022	
($ in millions, except share data)	**$ Amount**	**Per Share**	**$ Amount**	**Per Share**
Net income (loss) attributable to common shareholders	$ 66	$ 1.41	$ 340	7.41
Adjustments:				
Net investment (gains) losses, including impairments	(1)	(0.02)	(14)	(0.31)
Intangible amortization	7	0.15	6	0.13
Litigation costs	21	0.44	4	0.08
Foreign exchange (gains) losses	1	0.01	2	0.05
Workforce change costs	—	—	—	0.01
Pretax adjusted net income (loss)	94	$ 1.99	338	$ 7.37
Income tax effects	—	0.01	2	0.03
Net (gains) attributable to noncontrolling interests	—	—	—	—
Adjusted Net Income (Loss)	$ 94	$ 2.00	$ 339	$ 7.40

($ in millions, except share data)	Nine Months Ended September 30, 2023 $ Amount	2023 Per Share	2022 $ Amount	2022 Per Share
Net income (loss) attributable to common shareholders	**$ 19**	**$ 0.41**	**$ 347**	**$ 7.48**
Adjustments:				
Net investment (gains) losses, including impairments	**7**	**0.15**	(31)	(0.67)
Intangible amortization	**21**	**0.44**	34	0.73
Litigation costs	**37**	**0.79**	11	0.23
Foreign exchange (gains) losses	**—**	**—**	6	0.13
Workforce change costs	**1**	**0.02**	1	0.02
Net (gain) loss on extinguishment of debt	**—**	**—**	(57)	(1.23)
Pretax adjusted net income (loss)	**85**	**$ 1.81**	310	$ 6.69
Income tax effects	**(1)**	**(0.03)**	3	0.06
Net (gains) attributable to noncontrolling interests	**(1)**	**(0.01)**	—	(0.01)
Adjusted Net Income (Loss)	**$ 83**	**$ 1.77**	**$ 312**	**$ 6.74**

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"), net of income taxes.

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, tax planning strategies and other considerations, we utilized a 0% effective tax rate for non-GAAP operating adjustments to Adjusted Book.

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 share data)	September 30, 2023 $ Amount	September 30, 2023 Per Share	December 31, 2022 $ Amount	December 31, 2022 Per Share
Total Ambac Financial Group, Inc. stockholders' equity	**$ 1,265**	**$ 28.00**	**$ 1,252**	**$ 27.85**
Adjustments:				
Insurance intangible asset	**(249)**	**(5.51)**	(266)	(5.91)
Net unearned premiums and fees in excess of expected losses	**155**	**3.42**	214	4.76
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income	**90**	**1.99**	71	1.59
Adjusted book value	**$ 1,261**	**$ 27.90**	**$ 1,272**	**$ 28.29**

The decrease in Adjusted Book Value since December 31, 2022 was primarily attributable to Ambac's net income (excluding earned premium previously included in Adjusted Book Value) and the impact of the reinsurance de-risking transaction executed during the quarter ended June 30, 2023, at AAC, partially offset by the positive effect foreign exchange rates.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

As of September 30, 2023, there were no material changes in the market risks that the Company is exposed to since December 31, 2022.

Item 4. Controls and Procedures

In connection with the preparation of this third quarter Form 10-Q, an evaluation was carried out by Ambac's management, with the participation of Ambac's Chief Executive Officer and Chief Financial Officer, of 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 the end of the period covered by this Quarterly Report on Form 10-Q. 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 evaluation, Ambac's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2023, Ambac's disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2023, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Note 14. Commitments and Contingencies of the Unaudited Consolidated Financial Statements located in Part I, Item 1 in this Form 10-Q and Note 20: Commitments and Contingencies in Part II, Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 for a discussion on legal proceedings against Ambac and its subsidiaries.

Item 1A. Risk Factors

You should carefully consider the risk factors set forth in the "Risk Factors" section, Item 1A to Part I in our Annual Report on Form 10-K for the year ended December 31, 2022, which is hereby incorporated by reference. These important factors may cause our actual results to differ materially from those indicated by our forward-looking statements, including those contained in this report. Please also see the section entitled "Cautionary Statement Pursuant to the Private Securities Litigation Reform Act of 1995" in this quarterly report on Form 10-Q. There have been no material changes to the risk factors we have disclosed in the "Risk Factors" section of our aforementioned Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities — No matters require disclosure.

(b) Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table summarizes Ambac's share purchases during the third quarter of 2023. 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 2022, our Board of Directors approved a share repurchase program authorizing up to $35 million in share repurchases with an expiration date of March 31, 2024, which may be terminated at any time. As of September 30, 2023, AFG has repurchased 1,930,384 shares for $18.7 million at an average purchase price of $9.70 per share bringing the total unused authorized amount to $16.3 million.

	Jul-2023	Aug-2023	Sep-2023	Third Quarter 2023
Total Shares Purchased	—	120,068	1,908	121,976
Average Price Paid Per Share	$ —	$ 12.91	$ 13.16	$ 12.94
Total Number of Shares Purchased as Part of Publicly Announced Plan	—	120,068	—	120,068
Approximate Dollar Value of Shares That may Yet be Purchased Under the Plan (in millions)	$ 18	$ 16	$ 16	$ 16

Item 3. Defaults Upon Senior Securities — No matters require disclosure.

Item 5. Other Information — In the last fiscal quarter, none of our directors or executive officers adopted, terminated, or modified any Rule 10b5-1 trading arrangement, or any non-Rule 10b5-1 trading arrangement. No other matters require disclosure.

Item 6. Exhibits

Exhibit Number	Description
Other exhibits, filed or furnished, as indicated:	
10.1	Employment Agreement dated as of October 5, 2023, by and among Ambac Financial Group, Inc., Ambac Assurance Corporation and R. Sharon Smith.
10.2+	Employment Agreement dated as of October 5, 2023, by and among Ambac Financial Group, Inc., Ambac Assurance Corporation and Daniel McGinnis
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.
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.
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.
101.INS	XBRL Instance Document - the instance document does not appear in the interactive Data File because its XBRL tags are embedded within the Inline XBRL 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

+ Filed herewith. ++ Furnished herewith.

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:	November 7, 2023	By:	**/s/ DAVID TRICK**
		Name:	**David Trick**
		Title:	**Chief Financial Officer and Treasurer (Duly Authorized Officer and Principal Financial Officer)**

Exhibit 10.2

DANIEL MCGINNIS
EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT ("Agreement") is entered into as of the 5th day of October 2023, by and among Ambac Financial Group, Inc., a Delaware corporation ("AFG" or the "Company"), Daniel McGinnis, an individual (the "Executive") and solely for the limited purposes set forth in Section 24 of this Agreement, Ambac Assurance Corporation, a Wisconsin corporation ("AAC").

WHEREAS, the Executive is currently employed as the Senior Managing Director and Chief Operating Officer of both AFG and AAC; and

WHEREAS, AFG, AAC and the Executive desire to enter into this Agreement to set out the terms and conditions for the continued employment relationship of the Executive with the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties hereto agree as follows:

1. Employment Agreement. On the terms and conditions set forth in this Agreement, AFG agrees to employ the Executive and the Executive agrees to be employed by AFG for the Employment Period set forth in Section 2 and in the position and with the duties set forth in Section 3.

2. Term. The term of employment under this Agreement shall be for a period beginning on October 5, 2023 (the "Effective Date") and ending on the first anniversary thereof, unless sooner terminated as hereinafter set forth; provided that, on such first anniversary of the Effective Date and on each annual anniversary thereafter (such date and each annual anniversary thereof, a "Renewal Date"), the Agreement shall be deemed to be automatically extended upon the same terms and conditions (except for such terms and conditions that expire prior to any extension period), for successive periods of one year, unless the Company or the Executive provides written notice of its intention not to extend the term of the Agreement at least 90 days' prior to the applicable Renewal Date. The period during which the Executive is employed by AFG hereunder is hereinafter referred to as the "Employment Period."

3. Position and Duties. During the Employment Period, the Executive shall serve as Senior Managing Director and Chief Operating Officer of AFG. In such capacity, the Executive shall report directly to the President and Chief Executive Officer of AFG. During the Employment Period, the Executive shall have the duties, responsibilities and authority as shall be consistent with the Executive's position and such other duties, responsibilities and authority consistent with the Executive's position as may be assigned to the Executive by the Board of Directors of the Company (the "Board") or by the President and Chief Executive Officer of AFG. The Executive shall devote substantially all of the Executive's business efforts to the performance of the Executive's duties hereunder and the advancement of the business and affairs of the Company, provided that in no event shall this sentence prohibit the Executive from creating and managing his personal and family investments or participating in charitable activities, so long as such personal or family investments and charitable activities do not interfere with the Executive's duties under this Agreement and comply with the Company's Code of Business Conduct and Ethics and other policies of the Company as in effect from time to time.

4. Compensation and Benefits.

(a) Base Salary. Commencing as of the Effective Date and during the Employment Period, the Company shall pay to the Executive a base salary at the rate of no less than $425,000 per calendar year (the "Base Salary"), less applicable deductions, and prorated for any partial month or year, as applicable. The Base Salary shall be reviewed by the Compensation Committee of the Board (the "Compensation Committee") no less frequently than annually and may be adjusted in the discretion of the Compensation Committee (but subject to the Executive's right to resign for Good Reason in the event of certain reductions). Any such adjusted Base Salary shall constitute the "Base Salary" for purposes of this Agreement. The Base Salary shall be paid in substantially equal installments in accordance with AFG's regular payroll procedures.

(b) Annual Bonus. For each calendar year that ends during the Employment Period, the Executive shall be eligible to receive an annual bonus pursuant to the Company's annual bonus plan for senior executives. The amount of any such annual bonus paid to the Executive during the Employment Period shall be based on the achievement of pre-established performance goals that are established by the Compensation Committee. With respect to any performance goals that are subjective in nature, the Compensation Committee shall determine, in their discretion, whether and to what extent such performance goals are achieved. The Executive's target annual bonus amount shall be no less than 50% of the Base Salary, as determined by the Compensation Committee, in its discretion. For the avoidance of doubt, such target annual bonus opportunity does not constitute a guarantee of any bonus payment. Any annual bonus payable to the Executive hereunder shall be paid at the time bonuses are otherwise paid to other executive officers of AFG, but in any event, no later than March 15 of the calendar year following the year with respect to which such annual bonus is earned.

(c) Long-Term Incentives. During the Employment Period, the Executive shall be eligible to participate in AFG's Incentive Compensation Plan or any successor plan or additional plan of AFG, subject to the terms of any such plan, as determined by the Compensation Committee, in its discretion. Annual equity awards granted to the Executive under AFG's Incentive Compensation Plan shall be similar in form and shall have similar terms and conditions (other than amount) as annual equity awards granted to other senior executives of AFG. With respect to each calendar year that ends during the Employment Period, the Executive's target annual long-term incentive ("LTI") award amount shall be no less than 80% of the Base Salary, as determined by the Compensation Committee in its discretion. For the avoidance of doubt, such target annual LTI award opportunity does not constitute a guarantee of any LTI payment.

(d) Employee Benefits; Perquisites. During the Employment Period, the Executive shall be entitled to participate in all employee benefit plans, practices and programs maintained by the Company, as in effect from time to time, that are generally made available to senior executives of the Company. During the Employment Period, the Executive shall be entitled to fringe benefits and perquisites consistent with the practices and policies of the Company, and to the extent such fringe benefits or perquisites (or both) are generally made available to senior executives of the Company. The Company reserves the right to amend, modify or cancel any employee benefit plans, practices and programs, and any fringe benefits and perquisites, at any time and without the consent of the Executive.

(e) Company Compensation Plans. Except as otherwise provided herein, all compensation provided to the Executive pursuant to Section 4 shall be in accordance with the Company's and Company Affiliates' compensation plans and policies. For purposes of this Agreement, "Company Affiliate" means any entity controlled by, in control of, or under common control with, AFG, including without limitation its direct and indirect subsidiaries.

(f) Clawback/Recoupment. Notwithstanding any other provision in this Agreement to the contrary, any compensation paid to the Executive pursuant to this Agreement or any other agreement or arrangement with the Company shall be subject to (i) any "clawback" or recoupment policy that is applicable to all senior executives of AFG or that is adopted to comply with any applicable law, rule or regulation, or any other requirement, or (ii) any law, rule, requirement or regulation which imposes mandatory recoupment, under circumstances set forth in such law, rule, requirement or regulation.

(g) Stock Ownership Guidelines. The Executive shall be required to hold shares of AFG's common stock as required by any stock ownership policy adopted by the Board (or any committee thereof) from time to time.

5. Expenses. The Executive is expected and is authorized to incur reasonable expenses in the performance of his duties hereunder. The Company shall reimburse the Executive for all such expenses reasonably and actually incurred in accordance with reasonable policies which may be adopted from time to time by the Company promptly upon periodic presentation by the Executive of an itemized account, including reasonable substantiation, of such expenses.

6. Termination of Employment.

(a) Permitted Terminations. The Executive's employment is "at will" and may be terminated by either the Executive or the Company at any time and for any or no reason, subject to the following:

(i) Death. The Executive's employment hereunder shall terminate upon the Executive's death;

(ii) By the Company.

(A) Disability. The Company may terminate the Executive's employment due to the Executive's Disability while such Disability exists. For purposes of this Agreement, "Disability" means a "disability" that entitles the Executive to benefits under the applicable Company long-term disability plan covering the Executive and, in the absence of such a plan, that the Executive shall have been unable, due to physical or mental incapacity, to substantially perform the Executive's duties and responsibilities hereunder for 180 days out of any 365 day period or for 120 consecutive days. The Executive agrees, in the event of any question as to the existence, extent or potentiality of the Executive's Disability upon which the Company and the Executive cannot agree shall be resolved by a qualified, independent physician mutually agreed to by the Company and the Executive, the cost of such examination to be paid by the Company. The written medical opinion of such physician shall be conclusive and binding upon each of the parties hereto as to whether a Disability exists and the date when such Disability arose. This section shall be interpreted and applied so as to comply with the provisions of the Americans with Disabilities Act (to the extent applicable) and any applicable state or local laws. Until such termination, the Executive shall continue to receive his compensation and benefits hereunder, reduced by any benefits actually paid to him under any Company-provided disability insurance policy or plan applicable to him; or

(B) Cause. The Company may terminate the Executive's employment for Cause or without Cause.

For purposes of this Agreement, “Cause” shall be limited to the following events: (i) the Executive’s gross negligence or willful misconduct in the performance of his duties, (ii) the Executive’s conviction of, or plea of guilty or nolo contendere to, a misdemeanor involving moral turpitude that has a substantial adverse effect on the Executive’s qualifications or ability to perform his duties or any felony, (iii) the Executive’s failure to attempt to perform lawfully assigned duties consistent with his position or to materially comply with the Company’s written material policies, including the Company’s Code of Business Conduct and Ethics and any Delegation of Authority Policy of AFG, or (iv) the Executive’s material breach of this Agreement. Termination of the Executive’s employment shall not be deemed to be for Cause unless and until the Company delivers to the Executive a copy of the resolution duly adopted by the affirmative vote of not less than a majority of the Board (after reasonable written notice is provided to the Executive and the Executive is given a reasonable opportunity, together with counsel, to be heard before the Board), finding that the Executive has engaged in the conduct described in any of (i)-(iv) above. Except for a failure, breach or refusal which, by its nature, cannot reasonably be expected to be cured, or for a termination under clause (ii), the Executive shall have fourteen (14) days from the delivery of written notice by the Company within which to cure any acts constituting Cause.

(iii) By the Executive. The Executive may terminate his employment for any reason (including Good Reason) or for no reason. If the Executive terminates his employment without Good Reason, then he shall provide written notice to the Company at least forty-five (45) days prior to the Date of Termination.

For purposes of this Agreement, “Good Reason” means (i) any material diminution in the Executive’s title or reporting relationships, (ii) a substantial diminution in the Executive’s duties or responsibilities, (iii) the relocation of the Executive’s principal place of employment by more than thirty-five (35) miles, (iv) a reduction of the Executive’s Base Salary, target annual bonus opportunity or target annual LTI, other than a uniform reduction applied to substantially all senior executive officers of AFG that does not result in a reduction of more than five percent (5%) of any of the Executive’s Base Salary, target annual bonus opportunity or target annual LTI award opportunity, (v) a material decrease in the employee benefits made available to the Executive, in the aggregate, other than in connection with an across-the-board reduction applicable to substantially all senior executives, or (vi) a material breach by AFG of this Agreement. In order to invoke a termination for Good Reason, the Executive must deliver a written notice of the grounds for such termination within ninety (90) days of the initial existence of the event giving rise to Good Reason and the Company shall have thirty (30) days to cure the circumstances. In order to terminate his employment, if at all, for Good Reason, the Executive must terminate employment within sixty (60) days of the end of the cure period if the circumstances giving rise to Good Reason have not been cured. The Executive acknowledges that, as of the Effective Date, no event that would constitute Good Reason has occurred.

(b) Termination. Any termination of the Executive’s employment by the Company or the Executive (other than because of the Executive’s death) shall be communicated by a written Notice of Termination to the other party hereto in accordance with the requirements of this Agreement. For purposes of this Agreement, a “Notice of Termination” shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall, in the case of termination for “Cause” or for “Good Reason” set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment. Termination of the Executive’s employment shall take effect on the Date of Termination.

For purposes of this Agreement, “Date of Termination” means (i) if the Executive’s employment is terminated due to the Executive’s death, the date of the Executive’s death; (ii) if the Executive’s employment is terminated because of the Executive's Disability pursuant to Section 6(a)(ii)(A), 30 days after Notice of Termination, provided that the Executive shall not have returned to the performance of the Executive's duties on a full-time basis during such thirty (30)-day period with reasonable accommodation; (iii) if the Executive's employment is terminated due to the Company's or the Executive's failure to extend the term of the Agreement pursuant to Section 2, the applicable Renewal Date; or (iv) if the Executive's employment is terminated by the Company pursuant to Section 6(a)(ii)(B) or by the Executive pursuant to Section 6(a)(iii), the date specified in the Notice of Termination. Notwithstanding any provision of this Agreement to the contrary, for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment that are considered deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations and guidance promulgated thereunder (collectively "Section 409A"), references to the Executive's termination of employment (and corollary terms) with the Company shall be construed to refer to the Executive's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company.

(c) Resignation of All Other Positions. Upon termination of the Executive's employment for any reason, the Executive shall be deemed to have resigned from all positions that the Executive holds as a director, officer or employee of AFG or any Company Affiliate and as a fiduciary with respect to any benefit plan (or related trust) sponsored by AFG or any Company Affiliate. Executive agrees to execute any letter consistent with the foregoing that AFG or any Company Affiliate may reasonably request.

7. Compensation Upon Termination.

(a) Death. If the Executive's employment is terminated during the Employment Period as a result of the Executive's death, this Agreement and the Employment Period shall terminate without further notice or any action required by the Company or the Executive's legal representatives. Upon the Executive's death, the Company shall pay to the Executive's legal representative or estate, as applicable, (i) the Executive's Base Salary due through the Date of Termination, (ii) all Accrued Benefits, if any, to which the Executive is entitled as of the Date of Termination at the time such payments are due and (iii) an annual bonus for the year of termination, based on actual full-year performance (with any individual factor being rated at one hundred percent (100%)), pro-rated to reflect the time of service for such year through the Date of Termination, payable at the time the Company pays bonuses to active employees, but in any event, no later than March 15 of the calendar year following the year with respect to which such annual bonus is earned. The rights of the Executive's legal representative or estate, as applicable, with respect to the Executive's equity or equity-related awards shall be governed by the applicable terms of the related plan or award agreement. The Executive's outstanding equity awards granted on and after the Effective Date shall be governed by the terms of the award agreements evidencing such awards; *provided*, however, that the treatment upon a termination as a result of the Executive's death shall be no less favorable than such treatment as evidenced in Company equity-based awards granted to the Executive in 2023. Except as set forth herein, the Company and Company Affiliates shall have no further obligation to the Executive or his legal representatives, estate or heirs upon his death under this Agreement other than such obligations which by their terms continue following termination of the Executive's employment. For purposes of this Agreement, "Accrued Benefits" means (i) any compensation deferred by the Executive prior to the Date of Termination and not paid by the Company or otherwise specifically addressed by this Agreement; (ii) any earned but unpaid annual bonus for the year preceding the year of termination, (iii) any amounts or benefits owing to the Executive or to the Executive's beneficiaries under the then applicable benefit plans of the

Company; (iv) any amounts owing to the Executive for reimbursement of expenses properly incurred by the Executive prior to the Date of Termination and which are reimbursable in accordance with Section 5; and (v) any other benefits or amounts due and owing to the Executive under the terms of any plan, program or arrangement of the Company.

(a) (b) Disability. If the Company terminates the Executive's employment during the Employment Period because of the Executive's Disability pursuant to Section 6(a)(ii)(A), (A) the Company shall pay to the Executive (i) the Executive's Base Salary due through the Date of Termination, (ii) all Accrued Benefits, if any, to which the Executive is entitled as of the Date of Termination at the time such payments are due and (iii) an annual bonus for the year of termination, based on actual full-year performance (with any individual factor being rated at one hundred percent (100%)), pro-rated to reflect the time of service for such year through the Date of Termination, payable at the time the Company pays bonuses to active employees, but in any event, no later than March 15 of the calendar year following the year with respect to which such annual bonus is earned. The rights of the Executive with respect to the Executive's equity or equity-related awards shall be governed by the applicable terms of the related plan or award agreement. The Executive's outstanding equity awards granted on and after the Effective Date shall be governed by the terms of the award agreements evidencing such awards; *provided*, however, that the treatment upon a termination as a result of the Executive's Disability shall be no less favorable than such treatment as evidenced in Company equity-based awards granted to the Executive in 2023. Except as set forth herein, the Company and Company Affiliates shall have no further obligations to the Executive under this Agreement upon Executive's termination due to Disability pursuant to Section 6(a)(ii)(A) other than such obligations which by their terms continue following termination of the Executive's employment.

(c) Termination by the Company for Cause or by the Executive without Good Reason or by the Executive's Failure to Extend the Term. If, during the Employment Period, the Company terminates the Executive's employment for Cause pursuant to Section 6(a)(ii)(B) or the Executive terminates his employment without Good Reason pursuant to Section 6(a)(iii) or fails to extend the term of the Agreement pursuant to Section 2, the Company shall pay to the Executive the Executive's Base Salary due through the Date of Termination and all Accrued Benefits, if any, to which the Executive is entitled as of the Date of Termination, at the time such payments are due, provided that if the Company terminates the Executive's employment for Cause or the Executive terminates his employment without Good Reason, the Executive's Accrued Benefits shall not include any earned but unpaid annual bonus for the year preceding the year of termination unless otherwise determined by the Compensation Committee. Upon a termination of the Executive's employment by the Company for Cause or by the Executive without Good Reason, or due to the Executive's failure to extend the term of the Agreement, the Executive's rights with respect to then vested or exercisable equity or equity-related awards shall be governed by the applicable terms of the related plan or award agreements. Except as set forth herein, the Company and Company Affiliates shall have no further obligations to the Executive under this Agreement upon such termination.

(d) Termination by the Company without Cause or by the Company's Failure to Extend the Term or by the Executive with Good Reason. If, during the Employment Period, other than as set forth in Section 7(e), the Company terminates the Executive's employment other than for Cause pursuant to Section 6(a)(ii)(B) or fails to extend the term of the Agreement pursuant to Section 2 (assuming no Cause then exists), or the Executive terminates his employment with Good Reason pursuant to Section 6(a)(iii), the Company shall pay to the Executive (i) the Executive's Base Salary due through the Date of Termination and (ii) all Accrued Benefits, if any, to which the Executive is entitled as of the Date of Termination, in each case at the time such payments are due. The Executive shall also be entitled to receive, subject to his compliance with the restrictive covenants in Section 8 and the other requirements of this Agreement and his execution and non-revocation of the release described in Section 7(f), the following severance payments and benefits: (1) a lump sum payment equal to one and one-half (1.5) times the sum of (i) the Executive's Base Salary and (ii) the amount of the Executive's annual target bonus for the calendar year in which the Date of Termination occurs (the "Target Bonus"), (2) a lump sum payment equal to the product of (x) the Target Bonus and (y) a fraction, the numerator of which is the number of days the Executive was employed by the Company during the year of termination and the denominator of which is the number of days in such year, (3) for up to twelve (12) months following the Date of Termination, the Company shall provide the Executive with the customary outplacement services provided to senior executives of the Company whose employment terminates, which shall be provided by the Company's approved outplacement services vendor, and (4) provided the Executive and his eligible dependents timely and properly elect to continue health care coverage under COBRA, with regard to the medical program, the Executive and such eligible dependents shall be entitled to continue to participate in such basic medical and life insurance programs of the Company as in effect from time to time, on the same terms and conditions as applicable to active senior executives of the Company, for twelve months or, if earlier, until the date the Executive becomes eligible to receive comparable coverage from another Company or is otherwise no longer eligible to receive COBRA continuation coverage; provided, however, if such medical plan is "self-funded" within the meaning of Code Section 105(h) at the time of termination of employment, then, in lieu of such continued participation in the medical program, the Executive shall be entitled to receive a lump sum payment equal to the portion of the Executive's COBRA premiums equal to twelve (12) months of the Company subsidy of group health plan premiums for the Executive and his eligible dependents, subject to applicable withholdings. Subject to Section 7(h), the lump sum payments described in items (1), (2) and, if applicable, (4) in the preceding sentence shall be made within ten (10) business days of the Release Effective Date; provided, however, that if the Release Period spans two calendar years, no such amounts subject to Section 409A shall be paid prior to January 1 of the second calendar year. The Executive's rights with respect to equity or equity-related awards shall be governed by the applicable terms of the related plan or award agreements, subject to the next sentence. The Executive's outstanding equity awards granted on and after the Effective Date shall be governed by the terms of the award agreements evidencing such awards; *provided*, however, that the treatment upon a termination of the Executive's employment by the Company without Cause or by the Executive for Good Reason, or as a result of the Company's failure to extend the term of the Agreement pursuant to Section 2, shall be no less favorable than such treatment as evidenced in Company equity-based awards granted to the Executive in 2023.

(e) Termination by the Company without Cause or by the Executive with Good Reason in connection with a Change in Control. If, during the Employment Period, the Company terminates the Executive's employment other than for Cause pursuant to Section 6(a)(ii)(B) or fails to extend the term of the Agreement pursuant to Section 2 (unless coincidental with a termination for Cause), or the Executive terminates his employment with Good Reason pursuant to Section 6(a)(iii), in each case either (i) in contemplation of and no more than 90 days prior to a Change in Control (as defined below) or (ii) within one (1) year following the occurrence of a Change in Control, then, subject to his compliance with the restrictive covenants in Section 8 and the other requirements of this Agreement and his execution and non-revocation of the release described in Section 7(f), the Executive shall receive the payments set forth in Section 7(d) above, except that (i) the lump payment set forth in Section 7(d)(1) shall instead equal two (2) times the sum of (x) the Executive's Base Salary and (y) the amount of the Executive's Target Bonus, and (ii) the Executive's outstanding equity awards granted on and after the Effective Date shall be governed by the terms of the award agreements evidencing such awards; *provided*, however, that the treatment upon a termination of the Executive's employment as described in this Section 7(e) shall be no less favorable than such treatment as evidenced in Company equity-based awards granted to the Executive in 2023.

For purposes of this Agreement, "Change in Control" means the occurrence of one or more of the following events: (i) any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act of 1934 as amended (the "Act")) or "group" (as such term is used in Section 13(d)(3) of the Act) is or becomes a "beneficial owner" (as such term is used in Rule 13d-3 promulgated under the Act) of more than thirty percent (30%) of the Voting Stock of AFG; (ii) within any twenty-four (24) month period the majority of the Board consists of individuals other than "Incumbent Directors," which term means the members of the Board on the Effective Date; provided that any person becoming a director subsequent to such date whose election or nomination for election was supported by a majority of the directors who then comprised the Incumbent Directors shall be considered to be an Incumbent Director; (iii) AFG transfers all or substantially all of its assets or business (unless the shareholders immediately prior to such transaction beneficially own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company, all of the Voting Stock or other ownership interests of the entity or entities, if any, that succeed to the business of AFG or AFG's ultimate parent company if AFG is a subsidiary of another corporation); or (iv) any merger, reorganization, consolidation or similar transaction unless, immediately after consummation of such transaction, the shareholders of AFG immediately prior to the transaction hold, directly or indirectly, more than fifty percent (50%) of the Voting Stock of AFG or AFG's ultimate parent company if AFG is a subsidiary of another corporation (there being excluded from the number of shares held by such shareholders, but not from the Voting Stock of the combined company, any shares received by affiliates of such other company in exchange for stock of such other company). For purposes of this Change in Control definition, AFG shall include any entity that succeeds to all or substantially all of the business of AFG and "Voting Stock" shall mean securities or ownership interests of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

(f) Liquidated Damages. The parties acknowledge and agree that damages which will result to the Executive for termination of the Executive's employment by the Company without Cause under Section 6(a)(ii)(B) or by the Executive for Good Reason under Section 6(a)(iii) shall be extremely difficult or impossible to establish or prove, and agree that the severance payments and benefits pursuant to Sections 7(d) and (e) (the "Severance Payments"), shall constitute liquidated damages for any such termination. The Executive agrees that, except for such other payments and benefits to which the Executive may be entitled as expressly provided by the terms of this Agreement or any other applicable benefit plan, such liquidated damages shall be in lieu of all other claims that the Executive may make by reason of any such termination of his employment, other than with respect to the Executive's outstanding equity or equity-related awards, any vested payments or benefits under any plan, program or arrangement of AFG in which the Executive participated and any claim for coverage under AFG's indemnification and directors and officers liability coverage, and that, as a condition to receiving the Severance Payments, the Executive will execute a release of claims substantially in the form of the release attached hereto as Exhibit A (except as may be revised to reasonably reflect changes in applicable law) and such other instruments or documents as are required by the terms of this Agreement. Within two business days of the Date of Termination, the Company shall deliver to the Executive the release for the Executive to execute. The Executive will forfeit all rights to the Severance Payments unless, within forty-five (45) days of delivery of the release by the Company to the Executive, the Executive executes and delivers the release to the Company, and such release has become irrevocable by virtue of the expiration of the revocation period without the release having been revoked (the first such date, the "Release Effective Date" and the forty-five day consideration period plus the applicable revocation period, the "Release Period"). The Company's obligation to pay the Severance Payments is subject to the occurrence of the Release Effective Date, and if the Release Effective Date does not occur, then the Company shall have no obligation to pay the Severance Payments. If the Executive fails to materially comply with his obligations under Sections 6(c) or 8 and has not cured (if curable) any such failure within ten (10) days after being provided written notice of such failure in reasonable detail, the Executive shall, to the extent such amounts are paid, vested or distributed pursuant to Section 7 hereof, (i) forfeit outstanding equity awards, (ii) transfer the shares underlying any equity awards that were accelerated pursuant to the terms of the related plan or award agreements and settled in shares to AFG for no consideration and (iii) repay the after-tax amount of the Severance Payments and any equity awards that were accelerated pursuant to the terms of the related plan or award agreements and settled in cash or sold.

(g) No Offset. In the event of termination of his employment, the Executive shall be under no obligation to seek other employment or take any other action to mitigate any amounts owed to the Executive under this Agreement and, except as otherwise expressly provided herein, there shall be no offset against amounts due to him on account of any remuneration or benefits provided by any subsequent employment he may obtain. The Company's and Company Affiliates' obligation to make any payment pursuant to, and otherwise to perform its obligations under, this Agreement shall not be affected by any offset, counterclaim or other right that the Company or its affiliates may have against him for any reason.

(h) Section 409A. The payments and benefits to be provided to the Executive pursuant to this Agreement are intended to comply with, or be exempt from, Section 409A and will be interpreted, administered and operated in a manner consistent with that intent. If the Executive notifies the Company (with specificity as to the reason therefor) that the Executive believes that any provision of this Agreement (or of any award of compensation, including equity compensation or benefits) would cause the Executive to incur any additional tax or interest under Section 409A, and the Company concurs with such belief or the Company independently makes such determination, the Company shall, after consulting with the Executive, reform such provision to try to comply with Section 409A through good faith modification to the maximum extent reasonably appropriate to comply with Code Section 409A. To the extent that any provision hereof is modified in order to comply with Section 409A, such modification shall be made in good faith and shall, to the maximum extent reasonably possible, maintain the original intent and economic benefit to the Executive and the Company of the applicable provision without violating the provisions of Section 409A.

(i) For purposes of Section 409A, the Executive's right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments.

(ii) The Executive will be deemed to have a Date of Termination for purposes of determining the timing of any payments or benefits hereunder that are classified as deferred compensation only upon a "separation from service" within the meaning of Section 409A.

(iii) Notwithstanding any other provision of this Agreement to the contrary, if at the time of the Executive's separation from service, (x) the Executive is a specified employee (within the meaning of Section 409A and using the identification methodology selected by the

Company from time to time), and (y) the Company makes a good faith determination that an amount payable on account of such separation from service to the Executive constitutes deferred compensation (within the meaning of Section 409A) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A in order to avoid taxes or penalties under Section 409A (the "Delay Period"), then the Company will not pay such amount on the otherwise scheduled payment date but will instead pay it in a lump sum on the first business day after such six-month period (or upon the Executive's death, if earlier), together with interest for the period of delay, compounded annually, equal to the prime rate (as published in the Wall Street Journal) in effect as of the dates the payments should otherwise have been provided. To the extent that any benefits to be provided during the Delay Period are considered deferred compensation under Section 409A provided on account of a "separation from service," and such benefits are not otherwise exempt from Section 409A, the Executive shall pay the cost of such benefit during the Delay Period, and the Company shall reimburse the Executive, to the extent that such costs would otherwise have been paid by the Company or to the extent that such benefits would otherwise have been provided by the Company at no cost to the Executive, the Company's share of the cost of such benefits upon expiration of the Delay Period, and any remaining benefits shall be reimbursed or provided by the Company in accordance with the procedures specified herein.

(iv) (A) Any amount that the Executive is entitled to be reimbursed under this Agreement will be reimbursed to the Executive as promptly as practical and in any event not later than the last day of the calendar year after the calendar year in which the expenses are incurred, (B) any right to reimbursement or in kind benefits will not be subject to liquidation or exchange for another benefit, and (C) the amount of the expenses eligible for reimbursement during any taxable year will not affect the amount of expenses eligible for reimbursement in any other taxable year.

(v) Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty (30) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

8. Confidentiality, Non-Disclosure and Non-Competition Agreement. The Company and the Executive acknowledge and agree that during the Executive's employment with the Company, the Executive will have access to and may assist in developing Company Confidential Information and will occupy a position of trust and confidence with respect to the Company's affairs and business and the affairs and business of Company Affiliates. For purposes of this Agreement, "Company Confidential Information" means information known to the Executive to constitute confidential or proprietary information belonging to the Company or Company Affiliates or other non-public information, trade secrets, intellectual property, confidential financial information, operating budgets, strategic plans or research methods, personnel data, projects or plans, or non-public information regarding the terms of any existing or pending transaction between Company or any Company Affiliate and an existing or pending client or customer or other person or entity, in each case, received by the Executive in the course of his employment by the Company or in connection with his duties with the Company and Company Affiliates. Notwithstanding anything to the contrary contained herein, the general skills, knowledge and experience gained during the Executive's employment with the Company, information publicly available or generally known within the industry or trade in which the Company or any Company Affiliate operates and information or knowledge possessed by the Executive prior to his employment by the Company, shall not be considered Company Confidential Information. The Executive agrees that the following obligations are necessary to preserve the confidential and proprietary

nature of Company Confidential Information and to protect the Company and Company Affiliates against harmful solicitation of employees and customers, harmful effects on operations and other actions by the Executive that would result in serious adverse consequences for the Company and Company Affiliates:

(a) Non-Disclosure.

(i) During and after the Executive's employment with the Company or Company Affiliates, the Executive will not knowingly, directly or indirectly through an intermediary, use, disclose or transfer any Company Confidential Information other than as authorized in writing by the Company or Company Affiliates, or if such use, disclosure or transfer is during such employment and within the scope of the Executive's duties with the Company or Company Affiliates as determined reasonably and in good faith by the Executive. Anything herein to the contrary notwithstanding, the provisions of this Section 8(a) shall not apply (i) when disclosure is required by law or by any court, arbitrator, mediator or administrative or legislative body (including any committee thereof) with actual or apparent jurisdiction to order the Executive to disclose or make accessible any information; (ii) with respect to any other litigation, arbitration or mediation involving this Agreement, including, but not limited to, the enforcement of this Agreement; (iii) as to information that becomes generally known to the public or within the relevant trade or industry other than due to the Executive's violation of this Section 8(a); (iv) as to information that is or becomes available to the Executive on a non-confidential basis from a source which is entitled to disclose it to the Executive; or (v) as to information that the Executive possessed prior to the commencement of employment with the Company. In the event the Executive is required or compelled by legal process to disclose any Company Confidential Information, to the extent the Executive is legally permitted to do so, he will promptly inform the Company so that the Company may, at its own expense, present and preserve any objections that it may have to such disclosure and/or seek an appropriate protective order. Notwithstanding the foregoing, nothing contained in this Agreement shall prohibit the Executive from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation. The Executive does not need the prior authorization of AFG's legal department to make any such reports or disclosures and the Executive is not required to notify AFG that the Executive has made such reports or disclosures.

(ii) Pursuant to 18 U.S.C. § 1833(b), an individual may not be held liable under any criminal or civil federal or state trade secret law for disclosure of a trade secret: (A) made in confidence to a government official, either directly or indirectly, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law or (B) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Additionally, an individual suing an employer for retaliation based on the reporting of a suspected violation of law may disclose a trade secret to his or her attorney and use the trade secret information in the court proceeding, so long as any document containing the trade secret is filed under seal and the individual does not disclose the trade secret except pursuant to court order.

(b) Materials. The Executive will not remove, directly or indirectly through an intermediary, any Company Confidential Information or any other property of the Company or any Company Affiliate from the Company's or Company Affiliate's premises or make copies of such materials except for normal and customary use in the Company's or Company Affiliate's business as determined reasonably and in good faith by the Executive. The Executive will return to the Company all

Company Confidential Information and copies thereof and all other property of the Company or any Company Affiliate at any time upon the request of the Company and in any event promptly after termination of the Executive's employment. The Executive agrees to attempt in good faith to identify and return to the Company any copies of any Company Confidential Information after the Executive ceases to be employed by the Company. Anything to the contrary notwithstanding, nothing in this Section 8(b) shall prevent the Executive from retaining a home computer, papers and other materials of a personal nature, including diaries, calendars and Rolodexes (including his electronic address books), information relating to his compensation or relating to reimbursement of expenses, information that he reasonably believes may be needed for tax purposes, and copies of plans, programs and agreements relating to his employment.

(c) No Solicitation or Hiring of Employees. During the period commencing on the Effective Date and ending twelve (12) months after the Executive's Date of Termination (the "Non-Compete Period"), the Executive shall not, directly or indirectly through an intermediary, solicit, entice, persuade or induce any individual who is employed by, or who is an independent contractor or consultant to, the Company or any Company Affiliate (or who was so employed or retained within one year prior to the Executive's action, other than any such individual whose employment or engagement was involuntarily terminated by the Company or any Company Affiliate) to terminate or refrain from continuing such employment or engagement or to become employed by or enter into contractual relations with any other individual or entity other than the Company or Company Affiliates, and the Executive shall not hire, directly or indirectly, as an employee, consultant or otherwise, any such person. Anything to the contrary notwithstanding, the Company agrees that (i) the Executive's responding to an unsolicited request from any former employee, independent contractor or consultant of the Company or any Company Affiliate for advice on employment matters, (ii) the Executive's responding to an unsolicited request for a reference regarding any former employee, independent contractor or consultant of the Company or any Company Affiliate from such former employee, independent contractor or consultant, or from a third party, by providing a reference setting forth his personal views about such former employee, independent contractor or consultant, or (iii) hiring or retaining any current or former employee, independent contractor or consultant of the Company or any Company Affiliate who responds to a general advertisement for employment that was not specifically directed at such employees, independent contractors or consultants of the Company or any Company Affiliate, shall not be deemed a violation of this Section 8(c).

(d) Non-Competition. During the Non-Compete Period, the Executive shall not, directly or indirectly through an intermediary, (A) solicit or encourage any client, customer, supplier or vendor of the Company or any Company Affiliate, or any person or entity who was a client, customer, supplier or vendor within one year prior to Executive's action, to terminate, reduce or alter in a manner adverse to the Company or any Company Affiliate any existing business arrangements with the Company or any Company Affiliate or to transfer existing business from the Company or any Company Affiliate to any other person or entity, or (B) without the prior written consent of the Board, which consent shall not be unreasonably withheld, directly or indirectly own any interest in, manage, control, participate in, consult with, or render services similar to those that you performed on behalf of the Company or Company Affiliates during the last two (2) years of your employment, or otherwise be or be connected in any manner directly or indirectly, with, (i) any person or entity that is engaged in the same business as the business in which the Company or any Company Affiliate is engaged; or (ii) any person or entity that is engaged in a business which otherwise materially competes with any business that the Company or any Company Affiliate conducts or has taken substantial measures to conduct within the next six months (as determined at the time of your termination of employment) in any state in the United States of America and the District of Columbia or any other jurisdiction in which such business is conducted or in which the Company has taken substantial measures to conduct within the next six months (as applicable) at the time of your termination and with respect to which you provided services or Company Confidential; provided, however, that the Executive may own, as a passive investor, securities of any such entity that has outstanding publicly traded securities or is passively owned through an interest in a hedge fund or private equity fund, so long as his direct holdings in any such entity shall not in the aggregate constitute more than 5% of the voting power of such entity and, while employed by the Company does not otherwise violate any Company or Company Affiliate policy applicable to the Executive. The Executive agrees that, before providing services, whether as an employee or consultant, to any entity during the Non-Compete Period, he will provide a copy of this Agreement to such entity. The Executive acknowledges that this covenant has a unique, very substantial and immeasurable value to the Company and Company Affiliates, that the Executive has sufficient assets and skills to provide a livelihood for the Executive while such covenant remains in force and that, as a result of the foregoing, in the event that the Executive breaches such covenant, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper.

(e) Compliance with Company's Policies. The Executive agrees to observe and comply with the policies and rules of the Company and Company Affiliates unless such compliance is inconsistent with the terms of this Agreement.

(f) Non-Disparagement. During the period commencing on the Effective Date and continuing thereafter, the Executive, other than in the good faith performance of his duties for the Company, shall not initiate, participate or engage in any communication whatsoever that could reasonably be interpreted as derogatory or disparaging to the Company or any Company Affiliate, as applicable, including but not limited to the business, practices, policies, or, as such, shareholders, partners, members, directors, managers, officers and employees of the Company or any Company Affiliate. Similarly, the senior executives and directors of the Company shall not initiate, participate or engage in any communication whatsoever that could reasonably be interpreted as derogatory or disparaging to the Executive. The foregoing shall not be violated by (i) truthful statements by the Executive or the senior executives or directors of the Company in response to legal process, required governmental testimony or filings, or administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings) or (ii) the Executive or the senior executives and directors of the Company rebutting false or misleading statements made by others.

(g) Publicity. During the Employment Period, the Executive hereby grants to the Company the right to use, in a reasonable and appropriate manner, the Executive's name and likeness, without additional consideration, on, in and in connection with technical, marketing or disclosure materials, or any combination thereof, published by or for the Company or any Company Affiliate, and any documents or other matters to the extent legally required. If, in connection with the Executive's termination of employment with the Company, the Company determines to issue a press release, the Company agrees to consult with the Executive in good faith as to the wording of the press release.

(h) Cooperation. The parties agree that certain matters in which the Executive will be involved during the Employment Period may necessitate the Executive's cooperation in the future. Accordingly, during the five (5) year period following the termination of the Executive's employment for any reason, to the extent reasonably requested by AFG, the Executive shall cooperate with the Company, Company Affiliates and its or their counsel, including information requests relating to the business or affairs of the Company, as well as any investigation, litigation, arbitration or other proceeding related to the business or affairs of the Company, other than in connection with any dispute between the Executive and the Company or any Company Affiliate; provided that, the Company shall make reasonable efforts to minimize disruption of the Executive's business or personal affairs, including limiting Executive's travel to the extent reasonably possible. The cooperation includes the Executive making himself available for reasonable periods of time (with due regard for his other commitments) upon reasonable notice to the Executive in any such litigation or investigation and providing testimony before or during such litigation or investigation. The Company shall reimburse the Executive for reasonable out-of-pocket expenses incurred in connection with such cooperation (including legal counsel selected by the Executive and reasonably acceptable to the Company); provided that, if the Company requires the Executive to devote significant time to such cooperation, the Company and the Executive will establish in good faith a reasonable hourly or daily rate for the time spent by the Executive on such cooperation, based on the Executive's Base Salary as of the termination date.

(i) Enforcement. The Executive acknowledges that in the event of any breach of this Section 8, the business interests of the Company and the Company Affiliates will be irreparably injured, the full extent of the damages to the Company and the Company Affiliates will be impossible to ascertain, monetary damages will not be an adequate remedy for the Company and the Company Affiliates, and the Company will be entitled to enforce this Agreement by a temporary, preliminary and/or permanent injunction or other equitable relief, without the necessity of posting bond or security, which the Executive expressly waives. The Company and the Company Affiliates each acknowledge that in the event of any breach of this Agreement, the interests of the Executive will be irreparably injured, the full extent of damages to the Executive will be impossible to ascertain, monetary damages will not be an adequate remedy for the Executive, and the Executive will be entitled to enforce this Agreement by a temporary, preliminary and/or permanent injunction or other equitable relief, without the necessity of posting bond or security, which the Company expressly waives. If the Executive violates this Section 8, and not withstanding any language to the contrary in any LTI award agreement, it is agreed that (a) any compensation or benefits due to be received by the Executive pursuant to this Agreement or any other agreement, plan or instrument of or with the Company after such violation will immediately cease; (b) the Executive shall forfeit all outstanding, unvested equity awards; (c) the Executive shall repay the Company the after-tax amount of any severance payment or benefit received by him; (d) despite the cessation, forfeiture or repayment of such payment or benefits, the release provided by the Executive in connection with such benefits will remain in full force and effect; and (e) the Company's or any Company Affiliate's remedy of cessation or recoupment of severance payments or benefits to the Executive does not preclude any additional remedies available to the Company or Company Affiliates, including but not limited to injunctive relief. The Company and the Executive each understand that the other may waive some of the requirements expressed in this Agreement, but that such a waiver to be effective must be made in writing and should not in any way be deemed a waiver of the right of either party to enforce any other requirements or provisions of this Agreement. The Company and the Executive agree that each of their obligations specified in this Agreement are separate and independent covenants and that the unenforceability of any of them shall not preclude the enforcement of any other covenants in this Agreement. The Executive further agrees that any breach of this Agreement by the Company prior to the Date of Termination shall not release the Executive from compliance with his obligations under this Section 8, as long as the Company fully complies with Sections 7 and 10. The Company further agrees that any breach during the Employment Period of this Agreement by the Executive that does not result in the Executive being terminated for Cause shall not release the Company from compliance with its obligations under this Agreement. Notwithstanding the foregoing two sentences, neither the Company nor the Executive shall be precluded from pursuing judicial remedies as a result of any such breaches.

(j) Severability. If any of the restrictions or obligations contained in Section 8 shall be determined by any court of competent jurisdiction to be unenforceable by reason of their extending for too great a period of time or over too great a geographical area or by reason of their being too extensive in any other respect, such provision shall be modified to be effective for the maximum period of time for which it may be enforceable and over the maximum geographical area as to which it may be enforceable and to the maximum extent in all other respects as to which it may be enforceable.

9. Section 280G. If any payment or benefit (including payments and benefits pursuant to this Agreement) that the Executive would receive in connection with a transaction ("Transaction Payment") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this Section 9, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Company shall cause to be determined, before any amounts of the Transaction Payment are paid to the Executive, which of the following two alternative forms of payment would result in the Executive's receipt, on an after-tax basis, of the greater amount of the Transaction Payment notwithstanding that all or some portion of the Transaction Payment may be subject to the Excise Tax: (1) payment in full of the entire amount of the Transaction Payment (a "Full Payment"), or (2) payment of only a part of the Transaction Payment so that the Executive receives the largest payment possible without the imposition of the Excise Tax (a "Reduced Payment").

For purposes of determining whether to make a Full Payment or a Reduced Payment, the Company shall cause to be taken into account all applicable federal, state and local income and employment taxes and the Excise Tax. If a Reduced Payment is made, (x) the Executive shall have no rights to any additional payments and/or benefits constituting the Transaction Payment, and (y) reduction in payments and/or benefits shall occur in the manner that results in the greatest economic benefit to the Executive as determined in this paragraph. If more than one method of reduction will result in the same economic benefit, the portions of the Transaction Payment shall be reduced pro rata.

The independent registered public accounting firm engaged by AFG as of the day prior to the effective date of the transaction shall make all determinations required to be made under this Section 9. If the independent registered public accounting firm so engaged by AFG is serving as accountant or auditor for the individual, entity or group effecting the transaction, AFG shall appoint a nationally recognized independent registered public accounting firm that is reasonably acceptable to the Executive (and such acceptance shall not be unreasonably withheld) to make the determinations required hereunder. The Company shall bear all reasonable expenses with respect to the determinations by such independent registered public accounting firm required to be made hereunder. The independent registered public accounting firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to the Company and the Executive within fifteen (15) calendar days after the date on which the Executive's right to a Transaction Payment is triggered or such other time as reasonably requested by the Company or the Executive. If the independent registered public accounting firm determines that no Excise Tax is payable with respect to the Transaction Payment, either before or after the application of the Reduced Amount, it shall furnish the Company and the Executive with detailed supporting calculations of its determinations that no Excise Tax will be imposed with respect to such Transaction Payment. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Company and the Executive.

10. Indemnification. The Company shall indemnify the Executive to the maximum extent that its officers and employees are entitled to indemnification pursuant to the Company's certificate of incorporation and bylaws (which shall not be less than currently exists, except as required by applicable

law), subject to applicable law, and such indemnification shall continue after termination of employment with regard to actions or inactions prior to termination at a level that is no less than currently exists for officers and employees under the Company's certificate of incorporation and bylaws, subject to applicable law. In addition, both during the Employment Period and following his termination of employment, the Executive shall be entitled to liability insurance coverage pursuant to any directors' and officers' liability insurance policy maintained by AFG as of the Effective Date or put in place following the Effective Date on the same basis as other current or former officers of AFG with regard to actions or inactions during the period of service as an officer notwithstanding any ceasing of such service.

11. Legal Fees Incurred in Negotiating the Agreement. The Company shall pay or the Executive shall be reimbursed for the Executive's reasonable legal fees and costs incurred in connection with this Agreement up to a maximum of $25,000. Any payment required under this Section 11 shall be made within thirty (30) days following the Effective Date but in no event later than March 15 of the calendar year immediately following the Effective Date.

12. Notices. All notices, demands, requests, or other communications which may be or are required to be given or made by any party to any other party pursuant to this Agreement shall be in writing and shall be hand delivered, mailed by first-class registered or certified mail, return receipt requested, postage prepaid, delivered by overnight air courier, addressed as follows:

(i) If to AFG:

Ambac Financial Group, Inc.
One World Trade Center, 41st Floor
New York, New York 10007
Attn: General Counsel

With a copy (which shall not constitute notice) to:

Ambac Assurance Corporation
One World Trade Center, 41st Floor
New York, New York 10007
Attn: General Counsel

(ii) If to the Executive:
Daniel McGinnis
Address last shown on the Company's records

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be so given, served or sent. Each notice, demand, request, or communication that shall be given or made in the manner described above shall be deemed sufficiently given or made for all purposes at such time as it is delivered to the addressee (with the return receipt, the delivery receipt, or the affidavit of messenger being deemed conclusive but not exclusive evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

13. Severability. The invalidity or unenforceability of any one or more provisions of this Agreement shall not affect the validity or enforceability of the other provisions of this Agreement, which shall remain in full force and effect.

14. Effect on Other Agreements. This Agreement constitutes the entire agreement between the parties respecting the employment of the Executive and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter.

15. Survival. It is the express intention and agreement of the parties hereto that the provisions of Sections 4(f), 7, 8, 9, 10, 12, 13, 14, 16, 17, 18, 20, 21 and 23 hereof and this Section 15 shall survive the termination of employment of the Executive.

16. Assignment. The rights and obligations of the parties to this Agreement shall not be assignable or delegable, except that (i) in the event of the Executive's death, the personal representative or legatees or distributees of the Executive's estate, as the case may be, shall have the right to receive any amount owing and unpaid to the Executive hereunder, (ii) the rights and obligations of the Company hereunder shall be assignable and delegable in connection with any subsequent merger, consolidation, sale of all or substantially all of the assets or equity interests of the Company or similar transaction involving the Company or a successor entity, and (iii) the rights and obligations of the Company hereunder shall be assignable and delegable to AFG. The Company shall require any successor to the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

17. Binding Effect. Subject to any provisions hereof restricting assignment, this Agreement shall be binding upon the parties hereto and shall inure to the benefit of the parties and their respective heirs, devisees, executors, administrators, legal representatives and permitted successors and assigns.

18. Amendment; Waiver. This Agreement shall not be amended, altered or modified except by an instrument in writing duly executed by the party against whom enforcement is sought. Neither the waiver by either of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure of either of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall thereafter be construed as a waiver of any subsequent breach or default of a similar nature, or as a waiver of any such provisions, rights or privileges hereunder.

19. Headings. Section and subsection headings contained in this Agreement are inserted for convenience of reference only, shall not be deemed to be a part of this Agreement for any purpose, and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.

20. Governing Law. This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of New York (but not including any choice of law rule thereof that would cause the laws of another jurisdiction to apply).

21. Arbitration. Any dispute, controversy or claim arising out of or related to this Agreement or any breach of this Agreement shall be submitted to and decided by binding arbitration in the County of New York, New York before a single arbitrator selected jointly by the parties, or, if the parties cannot agree on the selection of the arbitrator, as selected by the American Arbitration Association. Arbitration shall be administered exclusively by the American Arbitration Association and shall be conducted in accordance with the rules for the resolution of employment disputes (previously titled the National Rules for the Resolution of Employment Disputes) as well as any requirements imposed by state law. Any arbitral award determination shall be final and binding upon the parties.

22. Counterparts. This Agreement may be executed in two counterparts, each of which shall be an original and all of which shall be deemed to constitute one and the same instrument.

23. Withholding. The Company may withhold from any benefit payment or any other payment or amount under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

24. Guarantor. AAC shall act as guarantor of all monetary obligations of AFG under this agreement until such time, if any, that AFG no longer holds, directly or indirectly, more than fifty percent (50%) of the Voting Stock of AAC.

IN WITNESS WHEREOF, the undersigned have duly executed and delivered this Agreement, or have caused this Agreement to be duly executed and delivered on their behalf.

AMBAC FINANCIAL GROUP, INC.
/s/ Claude LeBlanc
Claude LeBlanc
President and Chief Executive Officer

AMBAC ASSURANCE CORPORATION
/s/ Claude LeBlanc
Claude LeBlanc
President and Chief Executive Officer

EXECUTIVE
/s/ Daniel McGinnis
Daniel McGinnis

EXHIBIT A

General Release of Claims

Consistent with Section 7 of the Employment Agreement dated October 5, 2023 among me, Ambac Financial Group, Inc. and Ambac Assurance Corporation (the "Employment Agreement") and in consideration for and contingent upon my receipt of the Accrued Benefits and the Severance Payments set forth in Section 7 of the Employment Agreement, I, for myself, my attorneys, heirs, executors, administrators, successors, and assigns, do hereby fully and forever release and discharge Ambac Financial Group, Inc. ("Ambac") and its past, current and future affiliated entities, as well as its predecessors, successors, assigns, and its past, current and former directors, officers, partners, agents, employees, attorneys, and administrators from all suits, causes of action, and/or claims, demands or entitlements of any nature whatsoever, whether known, unknown, or unforeseen, which I have or may have against any of them arising out of or in connection with my employment by Ambac, the Employment Agreement, the termination of my employment with Ambac, or any event, transaction, or matter occurring or existing on or before the date of my signing of this General Release related to Ambac, except that I am not releasing (i) any claims arising under Section 10 of the Employment Agreement, any other right to indemnification or director and officer liability insurance coverage that I may otherwise have, (ii) any claims that I may have to vested payments or benefits pursuant to the Employment Agreement or any plan, program or arrangement of Ambac in which I participated, (iii) any claims relating to any rights I may have to payments pursuant to Section 7 of the Employment Agreement, (iv) any claims relating to any rights I may have pursuant to equity and equity-based awards granted to me by Ambac, provisions of the Employment Agreement that survive termination of employment, (v) any claims made under state unemployment compensation insurance or workers compensation laws and/or any claims that cannot be waived by law, or (vi) any claims arising after the date of my signing this General Release. I agree not to file or otherwise institute any claim, demand or lawsuit seeking damages or other relief and not to otherwise assert any claims, demands or entitlements that are released herein. I further hereby irrevocably and unconditionally waive any and all rights to recover any relief or damages concerning the claims, demands or entitlements that are released herein. I represent and warrant that I have not previously filed or joined in any such claims, demands or entitlements against Ambac or the other persons or entities released herein and that I will indemnify and hold them harmless from all liabilities, claims, demands, costs, expenses and/or attorney's fees incurred as a result of any such claims, demands or lawsuits.

This General Release specifically includes, but is not limited to, all claims of breach of contract, employment discrimination (including any claims coming within the scope of Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Equal Pay Act, the Americans with Disabilities Act, and the Family and Medical Leave Act, all as amended, or any other applicable federal, state, or local law), claims under the Employee Retirement Income Security Act, as amended, claims under the Fair Labor Standards Act, as amended (or any other applicable federal, state or local statute relating to payment of wages), wage orders, claims concerning recruitment, hiring, termination, salary rate, severance pay, stock options, wages or benefits due, sick leave, holiday pay, vacation pay, life insurance, group medical insurance, any other fringe benefits, worker's compensation, termination, employment status, libel, slander, defamation, intentional or negligent misrepresentation and/or infliction of emotional distress, together with any and all tort, contract, or other claims which might have been asserted by me or on my behalf in any suit, charge of discrimination, or claim against Ambac or the persons or entities released herein.

Ambac and I acknowledge that different or additional facts may be discovered in addition to what we now know or believe to be true with respect to the matters released in this General Release, and we agree that this General Release shall be and remain in effect in all respects as a complete and final release of the matters released, notwithstanding any different or additional facts.

Claims Excluded from this Release: However, notwithstanding the foregoing, nothing in this General Release shall be construed to waive any right that is not subject to waiver by private agreement, including, without limitation, any claims arising under state unemployment insurance or workers compensation laws. I understand that rights or claims under the Age Discrimination in Employment Act that may arise after I execute this General Release are not waived. Likewise, nothing in this General Release shall be construed to prohibit me from filing a charge with or participating in any investigation or proceeding conducted by the EEOC, NLRB, or any comparable state or local agency. Notwithstanding the foregoing, I agree to waive my right to recover individual relief in any charge, complaint, or lawsuit filed by me or anyone on my behalf. Notwithstanding the foregoing, to the extent that Ambac makes any claims against me, nothing in this General Release shall be construed to prohibit me from asserting counterclaims, making cross-claims, or otherwise defending myself, in any case solely with respect to such claims.

I acknowledge that I have been given an opportunity of twenty-one (21) days to consider this General Release and that I have been encouraged by Ambac to discuss fully the terms of this General Release with legal counsel of my own choosing. Moreover, for a period of seven (7) days following my execution of this General Release, I shall have the right to revoke the waiver of claims arising under the Age Discrimination in Employment Act, a federal statute that prohibits employers from discriminating against employees who are age 40 or over. If I elect to revoke this General Release in whole or in part within this seven-day period, I must inform Ambac by delivering a written notice of revocation to Ambac's General Counsel, One World Trade Center, 41st Floor, New York, New York 10007, no later than 11:59 p.m. on the seventh calendar day after I sign this General Release. I understand that, if I elect to exercise this revocation right, this General Release shall be voided in its entirety at the election of Ambac and Ambac shall be relieved of all obligations to make the Severance Payments described in Section 7 of the Employment Agreement. I may, if I wish, elect to sign this General Release prior to the expiration of the 21-day consideration period, and I agree that if I elect to do so, my election is made freely and voluntarily and after having an opportunity to consult counsel.

AGREED:

__________________ ________________

Daniel McGinnis Date

EXHIBIT 31.1

Ambac Financial Group, Inc.
Certifications

I, Claude LeBlanc, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: November 7, 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 Quarterly Report on Form 10-Q 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: November 7, 2023

By: /s/ David Trick
David Trick
Chief Financial Officer and Treasurer

EXHIBIT 32

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

In connection with the Quarterly Report of Ambac Financial Group, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Claude LeBlanc, Chief Executive Officer of the Company, and David Trick, 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: Chief Financial Officer and Treasurer

Dated: November 7, 2023