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 June 30, 2024

☐ **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 August 2, 2024, 47,440,995 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 2023 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) AAC's inability to generate the significant amount of cash needed to service its debt and financial obligations, and its inability to refinance its indebtedness; (8) AAC's substantial indebtedness could adversely affect the Company's financial condition and operating flexibility; (9) Ambac may not be able to obtain financing, refinance its outstanding indebtedness, 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; (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) factors that may negatively influence the amount of installment premiums paid to Ambac; (27) the risk of litigation, regulatory inquiries, investigations, claims or proceedings, and the risk of adverse outcomes in connection therewith; (28) the Company's ability to adapt to the rapid pace of regulatory change; (29) actions of stakeholders whose interests are not aligned with broader interests of Ambac's stockholders; (30) system security risks, data protection breaches and cyber attacks; (31) 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; (32) failures in services or products provided by third parties; (33) political developments that disrupt the economies where the Company has insured exposures; (34) our inability to attract and retain qualified executives, senior managers and other employees, or the loss of such personnel; (35) fluctuations in foreign currency exchange rates; (36) failure to realize our business expansion plans or failure of such plans to create value; (37) greater competition for our specialty property and casualty insurance business and/or our insurance distribution business; (38) loss or lowering of the AM Best rating for our property and casualty insurance company subsidiaries; (39) disintermediation within the insurance industry or greater competition from technology-based insurance solutions or non-traditional insurance markets; (40) changes in law or in the functioning of the healthcare market that impair the business model of our accident and health managing general underwriter; (41) failure to consummate the proposed sale of all of the common stock of AAC and the transactions contemplated by the related stock purchase agreement (the "Sale Transactions") in a timely manner or at all; (42) potential litigation relating to the proposed Sale Transactions; (43) disruptions from the proposed Sale Transactions that may harm Ambac's business, including current plans and operations; (44) potential adverse reactions or changes to business relationships resulting from the announcement or completion of the proposed Sale Transactions; (45) difficulties in integrating acquired businesses into our business; and (46) 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) (June 30, 2024 (Unaudited))		June 30, 2024		December 31, 2023
Assets:				
Investments:				
Fixed maturity securities - available-for-sale, at fair value (amortized cost of $ 1,737 and $ 1,744)	$	1,703	$	1,710
Fixed maturity securities pledged as collateral, at fair value (amortized cost of $ 27 and $ 0)		25		—
Fixed maturity securities - trading, at fair value		31		27
Short-term investments, at fair value (amortized cost of $ 314 and $ 426)		314		426
Short-term investments pledged as collateral, at fair value (amortized cost of $ 0 and $ 27)		—		27
Other investments (includes $ 533 and $ 463 at fair value)		558		475
Total investments (net of allowance for credit losses of $ 3 and $ 3)		2,632		2,664
Cash and cash equivalents (including $ 11 and $ 12 of restricted cash)		35		28
Premium receivables (net of allowance for credit losses of $ 3 and $ 4)		317		290
Reinsurance recoverable on paid and unpaid losses (net of allowance for credit losses of $ 0 and $ 0)		277		195
Deferred ceded premium		232		204
Deferred acquisition costs		12		11
Subrogation recoverable		128		137
Intangible assets, less accumulated amortization		285		307
Goodwill		70		70
Other assets		163		129
Variable interest entity assets:				
Fixed maturity securities, at fair value		2,101		2,167
Restricted cash		62		246
Loans, at fair value		1,567		1,663
Derivative and other assets		303		318
Total assets	$	8,184	$	8,428
Liabilities and Stockholders' Equity:				
Liabilities:				
Unearned premiums	$	445	$	422
Loss and loss adjustment expense reserves		890		893
Ceded premiums payable		140		90
Deferred program fees and reinsurance commissions		7		6
Long-term debt		515		508
Accrued interest payable		500		475
Other liabilities		203		199
Variable interest entity liabilities:				
Long-term debt (includes $ 2,599 and $ 2,710 at fair value)		2,853		2,967
Derivative liabilities		1,136		1,197
Other liabilities		59		240
Total liabilities		6,748		6,997
Commitments and contingencies (See Note 14)				
Redeemable noncontrolling interest		17		17
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 46,659,144		—		—
Additional paid-in capital		295		292
Accumulated other comprehensive income (loss)		(175)		(160)
Retained earnings		1,265		1,246
Treasury stock, shares at cost: 1,434,172 and 1,463,774		(17)		(17)
Total Ambac Financial Group, Inc. stockholders' equity		1,368		1,362
Nonredeemable noncontrolling interest		51		53
Total stockholders' equity		1,419		1,415
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$	8,184	$	8,428

See accompanying Notes to Unaudited Consolidated Financial Statements

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AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

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

(Dollars in millions, except share data)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Revenues:				
Net premiums earned	$ 33	$ 15	$ 66	29
Commission income	13	10	31	25
Program fees	3	2	6	4
Net investment income	36	35	78	69
Net investment gains (losses), including impairments	4	(3)	4	(8)
Net gains (losses) on derivative contracts	—	—	2	(3)
Other income	16	2	18	5
Income (loss) on variable interest entities	—	—	2	(1)
Total revenues and other income	**105**	**62**	**207**	**120**
Expenses:				
Losses and loss adjustment expenses (benefit)	18	7	16	25
Amortization of deferred acquisition costs, net	5	1	10	3
Commission expense	8	6	18	14
General and administrative expenses	47	36	83	72
Intangible amortization	8	7	21	13
Interest expense	16	16	32	32
Total expenses	**103**	**73**	**180**	**160**
Pretax income (loss)	**2**	**(11)**	**27**	**(40)**
Provision for income taxes	2	2	7	6
Net income (loss)	**(1)**	**(13)**	**20**	**(46)**
Less: net (gain) attributable to noncontrolling interest	—	—	(1)	(1)
Net income (loss) attributable to common stockholders	**$ (1)**	**$ (13)**	**$ 19**	**$ (47)**
Other comprehensive income (loss), after tax				
Net income (loss)	**$ (1)**	**$ (13)**	**$ 20**	**$ (46)**
Unrealized gains (losses) on securities, net of income tax provision (benefit) of $ 0 , $(3), $ 0 and $(1)	4	(13)	(3)	5
Gains (losses) on foreign currency translation, net of income tax provision (benefit) of $ 0 , $ 0 , $0 and $0	1	21	(7)	37
Credit risk changes of fair value option liabilities, net of income tax provision (benefit) of $ 0 , $ 0 , $0 and $0	—	—	—	—
Changes to postretirement benefit, net of income tax provision (benefit) of $ 0 , $ 0 , $0 and $0	(5)	—	(5)	2
Total other comprehensive income (loss), net of income tax	—	8	(15)	44
Total comprehensive income (loss), net of income tax	—	(5)	5	(2)
Less: comprehensive (gain) loss attributable to the noncontrolling interest	—	—	(1)	(1)
Total comprehensive income (loss) attributable to common stockholders	**$ —**	**$ (6)**	**$ 4**	**$ (3)**
Net income (loss) per share attributable to common stockholders:				
Basic	$ (0.02)	$ (0.29)	$ 0.42	$ (1.02)
Diluted	$ (0.02)	$ (0.29)	$ 0.41	$ (1.02)
Weighted average number of common shares outstanding:				
Basic	46,209,250	45,757,234	46,019,145	45,661,288
Diluted	46,209,250	45,757,234	46,568,862	45,661,288

See accompanying Notes to Unaudited Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Unaudited)

Three months ended June 30, 2024 and 2023

		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 March 31, 2024	$ 1,418	$ —	$ —	$ 291	$ (175)	$ 1,266	$ (17)	$ 53
Total comprehensive income (loss)	—	—	—	—	—	(1)	—	—
Stock-based compensation	2			2				
Changes to noncontrolling interest	—	—	—	—	—	—	—	—
Acquisition of noncontrolling interest in subsidiary	(1)	—	—	1	—	—	—	(2)
Balance at June 30, 2024	**$ 1,419**	**$ —**	**$ —**	**$ 295**	**$ (175)**	**$ 1,265**	**$ (17)**	**$ 51**
Balance at March 31, 2023	$ 1,307	$ —	$ —	$ 278	$ (217)	$ 1,206	$ (14)	$ 53
Total comprehensive income (loss)	(6)	—	—	—	8	(13)	—	—
Stock-based compensation	5			5				
Cost of shares (acquired) issued under equity plan	—	—	—		—	(2)	2	
Changes to noncontrolling interest	—					—		—
Balance at June 30, 2023	**$ 1,303**	**$ —**	**$ —**	**$ 283**	**$ (209)**	**$ 1,191**	**$ (15)**	**$ 53**

Six months ended June 30, 2024 and 2023

		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, 2024	$ 1,415	$ —	$ —	$ 292	$ (160)	$ 1,246	$ (17)	$ 53
Total comprehensive income (loss)	4	—	—	—	(15)	19	—	—
Stock-based compensation	2			2				
Cost of shares (acquired) issued under equity plan	(1)	—	—	—	—	(1)	—	—
Changes to noncontrolling interest	—					—		—
Acquisition of noncontrolling interest in subsidiary	(1)	—	—	1	—	—	—	(2)
Balance at June 30, 2024	**$ 1,419**	**$ —**	**$ —**	**$ 295**	**$ (175)**	**$ 1,265**	**$ (17)**	**$ 51**
Balance at January 1, 2023	$ 1,305	$ —	$ —	$ 274	$ (253)	$ 1,245	$ (15)	$ 53
Total comprehensive income (loss)	(3)	—	—	—	44	(47)	—	—
Stock-based compensation	8			8				
Cost of shares repurchased	(3)						(3)	
Cost of shares (acquired) issued under equity plan	(5)	—	—	—	—	(8)	3	—
Balance at June 30, 2023	**$ 1,303**	**$ —**	**$ —**	**$ 283**	**$ (209)**	**$ 1,191**	**$ (15)**	**$ 53**

See accompanying Notes to Unaudited Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
(Dollars in millions)	**2024**	**2023**
Cash flows from operating activities:		
Net income attributable to common stockholders	$ 19	$ (47)
Redeemable noncontrolling interest	(1)	(1)
Net income	20	(46)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1	1
Amortization of bond premium and discount	(8)	(6)
Share-based compensation	2	8
Unearned premiums, net	(5)	(51)
Losses and loss expenses, net	(15)	144
Ceded premiums payable	50	57
Premium receivables	(27)	(7)
Accrued interest payable	25	(26)
Amortization of intangible assets	21	13
Net investment gains (losses), including impairments	(4)	8
Variable interest entity activities	(2)	1
Other, net	(24)	4
Net cash provided by operating activities	32	**101**
Cash flows from investing activities:		
Proceeds from sales of bonds	26	107
Proceeds from matured bonds	76	31
Purchases of bonds	(215)	(226)
Proceeds from sales of other invested assets	41	108
Purchases of other invested assets	(94)	(42)
Change in short-term investments	139	170
Change in cash collateral	5	(37)
Change in consolidated VIE cash collateral	(180)	256
Proceeds from paydowns of consolidated VIE assets	84	113
Other, net	(1)	10
Net cash provided by (used in) investing activities	(120)	**489**
Cash flows from financing activities:		
Payments for redemption of Tier 2 Notes	—	(97)
Tax payments related to shares withheld for share-based compensation plans	(1)	(8)
Distributions to noncontrolling interest holders	(1)	(1)
Payments of consolidated VIE liabilities, net	(87)	(235)
Net cash used in financing activities	(89)	**(343)**
Effect of foreign exchange on cash, cash equivalents and restricted cash	—	1
Net cash flow	(178)	248
Cash, cash equivalents, and restricted cash at beginning of period	274	61
Cash, cash equivalents, and restricted cash at end of period	$ 97	**$ 309**

See accompanying Notes to Unaudited Consolidated Financial Statements

AMBAC FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND BASIS OF PRESENTATION

Business

The following description provides an update of *Note 1. Background and Business Description and Note 2. Basis of Presentation and Significant Accounting Policies* 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, 2023, 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, 2023.

Ambac Financial Group, Inc. ("AFG"), headquartered in New York City, is a specialty insurance 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:

- **Specialty Property & Casualty Insurance** — Ambac's Specialty Property & Casualty Insurance program business. Currently includes six carriers (collectively, "Everspan"). Everspan carriers have an A.M. Best rating of 'A-' (Excellent) that was affirmed on June 13, 2024.

- **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. At June 30, 2024 Ambac's insurance distribution platform includes five businesses that operate in the following lines of business: accident and health, specialty commercial automobile insurance for specific "for-hire" auto clauses, marine and international risk and professional liability.

- **Legacy Financial Guarantee Insurance** — Ambac's legacy 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. AFS' remaining derivative positions include a limited number of legacy customer swaps and their associated hedges.

The Company reports these three business operations as segments; see *Note 2. Segment Information* for further information.

Sale of Ambac Assurance Corporation ("AAC")

On June 4, 2024, AFG entered into a stock purchase agreement (the "Purchase Agreement") with American Acorn Corporation (the "Buyer"), a Delaware corporation owned by funds managed by Oaktree Capital Management, L.P., pursuant to which and subject to the conditions set forth therein, AFG will sell all of the issued and outstanding shares of common stock of AAC, a wholly-owned subsidiary of AFG, to Buyer for aggregate consideration of $ 420 in cash (the "Sale"). The terms of the Sale as contemplated by the Purchase Agreement provide that, at the closing of the Sale (the "Closing"), Buyer will acquire complete ownership of the common stock of AAC and all of its wholly owned subsidiaries, including Ambac UK.

The Purchase Agreement provides that AFG will seek the affirmative vote in favor of the Sale by the holders of a majority of the issued and outstanding shares of AFG common stock entitled to vote thereon (the "Stockholder Approval"). On August 2, 2024, AFG filed a preliminary proxy statement with the SEC, which proxy statement includes the recommendation of the board of directors of AFG that the Sale be approved by shareholders of AFG.

The Purchase Agreement contains certain customary termination rights for each of AFG and Buyer, including (i) by mutual written agreement, (ii) if the Sale has not been consummated on or before April 4, 2025 (the "End Date"), subject to certain extensions for 90 days, (iii) the other party is in breach of the Purchase Agreement in a manner that would result in a failure of an applicable closing condition and such breach cannot be cured or, if curable, has not been cured within 60 days after written notice to the other party of such breach, (iv) the Stockholder Approval is not received, or (v) if any applicable law makes the consummation of the Closing illegal or otherwise prohibited or any judgment, order or decree of any governmental authority enjoins Buyer and AFG from consummating the Closing. In addition, Buyer may terminate the Purchase Agreement if AFG changes its recommendation to AFG's stockholders regarding the Sale. AFG would pay Buyer an amount equal to $ 22 (the "Termination Fee") if all of the following occur: (i) the Purchase Agreement is terminated as a result of (a) not closing the Sale and other transactions contemplated by the Purchase Agreement by the End Date, subject to certain conditional extension for 90 days, (b) failure to obtain the Stockholder Approval or (c) an AFG breach of representations or covenants that would cause certain closing conditions not to be satisfied, (ii) AFG has received an alternative acquisition proposal prior to a valid termination of the Purchase Agreement, and (iii) within 12 months after termination of the Purchase Agreement, AFG enters into a definitive agreement for an alternative acquisition. AFG would also pay Buyer the Termination Fee if the Purchase Agreement is terminated for (x) AFG breach of certain covenants that would cause closing conditions not to be satisfied, (y) failure to obtain the Stockholder Approval at a time when Buyer could have terminated the Purchase Agreement for an AFG breach of certain covenants that would cause closing conditions not to be satisfied, or (z) AFG changing its recommendation to the Company's stockholders regarding the sale. In addition to the Termination Fee, AFG would pay Buyer up to $ 6 as a reimbursement of Buyer's reasonably documented out-of-pocket fees and expenses incurred in connection with the Sale and other transactions contemplated by the Purchase Agreement if (i) the Purchase Agreement is terminated as a result of not closing the Sale and other transactions by the End Date and the Termination Fee is also payable, (ii) there is a failure to obtain the Stockholder Approval when the Buyer could have terminated the Purchase Agreement because there is an AFG breach of representations or covenants related to regulatory efforts, non-solicitation or the AFG stockholders meeting that would cause certain closing conditions not to be satisfied, (iii) the Purchase Agreement is terminated as a result of AFG changing its recommendation to the AFG stockholders regarding the Sale, or (iv) there is an AFG breach of representations or covenants that would cause certain closing conditions not to be satisfied. The Closing is subject to customary closing conditions, including the receipt of specified regulatory approvals and the Stockholder Approval.

In connection with and pursuant to the Purchase Agreement, AFG has agreed to issue to Buyer a warrant exercisable for a number of shares of common stock, par value $ 0.01 , of AFG representing 9.9 % of the fully diluted shares of AFG's common stock as of March 31, 2024, pro forma for the issuance of the Warrant. The Warrant will have an exercise price per share of $ 18.50 with a 6.5 year term from the date of issuance and will be immediately exercisable. Payment of the exercise price may be settled, at AFG's option, by way of a cash exercise or by net share settlement.

While management and the Board have approved the Sale, the final commitment to sell AAC is subject to approval by our shareholders and regulators in both the US and UK. The Sale will have a major effect on AFG's operations and financial results and therefore at the date we meet the held-for-sale reporting requirements, we will report the pending sale as a discontinued operation.

At June 30, 2024, the carrying value of AFG's investment in AAC is approximately $ 939 . Once the shareholders vote is obtained and regulatory approval is probable, a loss on the transaction will be reflected in the Statement of Comprehensive Income equal to the difference between the sales proceeds (net of the value of the Warrants to be issued) and AAC's carrying value. Additionally, net income will be adversely impacted by a reclassification from Accumulated Other Comprehensive Income relating to unrealized losses on available-for-sale investment securities, foreign currency translation losses and credit risk changes of fair value option liabilities, which at June 30, 2024 amounted to $ 168 .

The Sale is expected to close in the fourth quarter of 2024 or the first quarter of 2025.

Acquisition of Beat Capital Partners Limited ("Beat")

On June 4, 2024, the Company, entered into a share purchase agreement (the "Beat Purchase Agreement"), by and among the Company, Cirrata V LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of AFG (the "Purchaser"), certain sellers set forth therein (the "Sellers") and Beat, pursuant to which, effective July 31, 2024, the Purchaser purchased from the Sellers approximately 60 % of the entire issued share capital of Beat for total consideration, as of the closing date, of approximately $ 278 , of which approximately $ 249 was paid in cash and the remainder of which was satisfied through the issuance of 2,216,023 shares of AFG common stock to certain Sellers (the "Beat Transaction"). Beat's management team and Bain Capital Credit LP ("Bain" and, together with certain members of Beat's management team, the "Rollover Shareholders") each retained approximately 20 % of Beat's issued share capital immediately after closing. AFG guaranteed the Purchaser's performance under the Beat Purchase Agreement and the Shareholders' Agreement (as defined below).

AFG issued the common stock free and clear of any liens or restrictions (other than those arising under state and federal securities laws of the United States) and bearing a restrictive legend. The common stock has not been registered under the Securities Act in reliance upon an exemption from registration pursuant to Section 4(a)(2) of the Securities Act.

AFG funded the cash portion of the consideration with a combination of available cash, approximately $ 65 of funding from AAC, and $ 150 of new indebtedness (the "Credit Facility") that was issued in the third quarter of 2024. Funding received from AAC and the Credit Facility are required to be repaid upon closing of the sale of AAC. To reduce its exposure to appreciation of the British Pound Sterling ("GBP") relative to the U.S. Dollar ("USD"), AFG entered into a foreign exchange futures contract under which it agreed to purchase an amount of GBP sufficient to cover the cash portion of the purchase price of Beat along with estimated GBP denominated expenses at an exchange rate of 1.2662 per USD.

At the closing of the Beat Transaction, AFG entered into a Shareholders' Agreement by and among AFG, the Purchaser, the Rollover Shareholders and Beat (the "Shareholders' Agreement").

The Shareholders' Agreement provides for, among other things, the granting of (i) put options to each Rollover Shareholder to require the Purchaser to purchase from such Rollover Shareholder, the Relevant Shares (as defined in the Shareholders' Agreement), and (ii) call options to the Purchaser to purchase from each Rollover Shareholder, the Relevant Shares.

Basis of Presentation

The Company has disclosed its significant accounting policies inthe Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. The following significant accounting policies provide an update to those included in the Company's Annual Report on Form 10-K.

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, 2023. 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 six months ended June 30, 2024, may not be indicative of the results that may be expected for the year ending December 31, 2024. The December 31, 2023, consolidated balance sheet was derived from audited financial statements.

(Dollar Amounts in Millions, Except Share Amounts)

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.

Consolidation

The consolidated financial statements include the accounts of AFG and all other entities in which AFG (directly or through its subsidiaries) has a controlling financial interest, including variable interest entities ("VIEs") for which AFG or an AFG subsidiary is deemed the primary beneficiary in accordance with the Consolidation Topic of the Accounting Standards Codification ("ASC"). All significant intercompany balances have been eliminated. See *Note 8. 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.

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 $(1) and $(3) for the six months ended June 30, 2024 and 2023, 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 Riverton, All Trans, Capacity Marine and Xchange acquisitions resulted in a majority ownership of the acquired entities by Ambac. 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 11. Net Income Per Share*.

Following is a rollforward of redeemable noncontrolling interest.

Six Months Ended June 30,	2024	2023
Beginning balance	$ 17	$ 20
Fair value of redeemable noncontrolling interest at acquisition date	—	—
Net income attributable to redeemable noncontrolling interest (ASC 810)	1	1
Distributions	(1)	(1)
Adjustment to redemption value (ASC 480)	—	—
Ending balance	**$ 17**	**$ 20**

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

Supplemental Disclosure of Cash Flow Information	Six Months Ended June 30,	
	2024	2023
Cash paid during the period for:		
Income taxes	$ 7	$ 6
Interest on long-term debt	—	50
Non-cash investing and financing activities:		
Securities acquired (transferred) in transactions related to Puerto Rico restructurings	—	(1)
Securities acquired (transferred) in connection with financial guarantee commutations	(65)	—

	June 30,	
	2024	2023
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	$ 24	$ 33
Restricted cash	11	10
Variable Interest Entity restricted cash	62	266
Total cash, cash equivalents, and restricted cash shown on the Consolidated Statements of Cash Flows	$ 97	$ 309

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, 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 2024.

Future Application of Accounting Standards and Required Disclosures

Segment Reporting

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures*. The ASU requires disclosure of the following:

- Significant segment expenses regularly provided to the chief operating decision maker (CODM) and included within the reported measure(s) of a segment's profit or loss.
- The amount and composition of "other segment items." This amount reconciles segment revenue, less significant expenses, to the reported measure(s) of a segment's profit or loss.
- The CODM's title and position.
- How the CODM uses the reported measure(s) of a segment's profit or loss to assess segment performance and decide how to allocate resources.
- All segment profit or loss and assets disclosures currently required annually by Topic 280, as well as those introduced by the ASU, to also be disclosed in interim periods.

The ASU also permits a public entity to report multiple measures of a segment's profit or loss as long as: i) all the reported measures of a segment's profit or loss are used by the CODM for purposes of assessing performance and allocating resources and ii) the measure closest to GAAP is also provided. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. Ambac will adopt this ASU for the annual reporting period ending December 31, 2024 and we are evaluating its impact on Ambac's financial statements.

Income Taxes

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures*. The enhancements in the ASU include the following:

- Within the rate reconciliation table, disclosure of additional categories of information about federal, state and foreign income taxes and providing more details about the reconciling items in some categories if the items meet a quantitative threshold.
- Annual disclosure of income taxes paid (net of refunds received) disaggregated by federal (national), state and foreign taxes and disaggregation of the information by jurisdiction based on a quantitative threshold.
- Other disclosures include: i) income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and ii) income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.

The ASU is effective for annual periods beginning after December 15, 2024, with early adoption permitted. Ambac will adopt this ASU on January 1, 2025 and we are evaluating its impact on Ambac's financial statements.

2. 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. Business and Basis of Presentation 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.

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Notes to Unaudited Consolidated Financial Statements

Ambac Financial Group, Inc. and Subsidiaries

(Dollar Amounts in Millions, Except Share Amounts)

	Three Months Ended June 30, 2024					Three Months Ended June 30, 2023				
	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	$ 27			$ 33	$ 8	$ 8			$ 15
Commission income			$ 13		13			$ 10		10
Program fees		3			3		2			2
Net investment income	32	1	—	$ 2	36	32	1	—	$ 2	35
Net investment gains (losses), including impairments	(1)	—		5	4	(3)	—		—	(3)
Net gains (losses) on derivative contracts	1			—	—	1			—	—
Other (1)	16	—	—	—	15	2	—	—	—	3
Total revenues (2)	53	32	13	6	105	**39**	**11**	**10**	**2**	**62**
Expenses:										
Losses and loss adjustment expenses (benefit)	(5)	23			18	2	6			7
Amortization of deferred acquisition costs, net	—	5			5	—	1			1
Commission expenses			8		8			6		6
General and administrative expenses (3)	22	5	3	17	47	23	4	2	6	36
Depreciation expense (3)	—	—	—	—	1	—	—	—	—	—
Intangible amortization	7		1		8	6		1		7
Interest expense	16				16	16				16
Total expenses (2)	40	33	12	17	103	**47**	**11**	**9**	**6**	**73**
Pretax income (loss)	$ 13	$ (1)	$ 1	$ (11)	$ 2	**$ (8)**	**$ —**	**$ 1**	**$ (4)**	**$ (11)**
Total assets (2)	$ 7,100	$ 713	$ 155	$ 216	$ 8,184	**$ 7,376**	**$ 395**	**$ 137**	**$ 225**	**$ 8,132**

	Six Months Ended June 30, 2024					Six Months Ended June 30, 2023				
	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	$ 13	$ 53			$ 66	$ 14	$ 15			$ 29
Commission income			$ 31		$ 31			$ 25		$ 25
Program fees		$ 6			$ 6		$ 4			$ 4
Net investment income (loss)	$ 70	$ 3	$ —	$ 4	$ 78	$ 63	$ 2		$ 4	$ 69
Net investment gains (losses), including impairments	$ —	$ —		$ 5	$ 4	$ (8)	$ —		$ —	$ (8)
Net gains (losses) on derivative contracts	$ 2			$ —	$ 2	$ (3)			$ —	$ (3)
Other (1)	$ 21	$ —	$ —	$ —	$ 21	$ 4	$ —	$ —	$ —	$ 4
Total revenues (2)	$ 107	$ 61	$ 31	$ 8	$ 207	**$ 71**	**$ 20**	**$ 25**	**$ 4**	**$ 120**
Expenses:										
Losses and loss adjustment expenses	$ (26)	$ 42			$ 16	$ 15	$ 10			$ 25
Amortization of deferred acquisition costs, net	$ —	$ 10			$ 10	**$ —**	**$ 3**			**$ 3**
Commission expenses			$ 18		$ 18			$ 14		$ 14
General and administrative expenses (3)	$ 44	$ 8	$ 6	$ 24	$ 82	$ 52	$ 8	$ 5	$ 7	$ 72
Depreciation expense (3)	$ —	$ —	$ —	$ 1	$ 1	$ 1	$ —	$ —	$ —	$ 1
Intangible amortization	$ 18		$ 2		$ 21	$ 11		$ 2		$ 13
Interest expense	$ 32				$ 32	$ 32				$ 32
Total expenses (2)	$ 69	$ 61	$ 26	$ 24	$ 180	**$ 111**	**$ 21**	**$ 20**	**$ 8**	**$ 160**
Pretax income (loss)	$ 38	$ 1	$ 5	$ (16)	$ 27	**$ (40)**	**$ (1)**	**$ 4**	**$ (3)**	**$ (40)**

(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.

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

(Dollar Amounts in Millions, Except Share Amounts)

3. 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, 2023.

Fixed Maturity Securities:

The amortized cost and estimated fair value of available-for-sale investments, excluding VIE investments, at June 30, 2024 and December 31, 2023, were as follows:

	June 30, 2024:					December 31, 2023:				
	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	$ 71	$ —	$ 1	$ 2	$ 71	$ 72	—	$ 1	$ 1	$ 72
Corporate obligations	786	—	2	46	742	785	—	4	44	745
Foreign obligations	111	—	—	7	105	105	—	1	6	100
U.S. government obligations	108	—	—	4	105	85	—	1	4	82
Residential mortgage-backed securities	240	3	28	13	253	239	3	28	14	250
Commercial mortgage-backed securities	46	—	—	—	46	19	—	—	—	19
Collateralized debt obligations	141	—	1	—	141	139	—	1	1	139
Other asset-backed securities [1]	234	—	12	5	241	301	—	3	1	303
	1,737	3	45	77	1,703	1,744	3	40	71	1,710
Short-term	314	—	—	—	314	426	—	—	—	426
	2,051	3	45	77	2,017	2,170	3	40	71	2,135
Fixed maturity securities pledged as collateral:										
U.S. government obligations	27	—	—	1	25	—	—	—	—	—
Short-term	—	—	—	—	—	27	—	—	—	27
	27	—	—	1	25	27	—	—	—	27
Total available-for-sale investments	$ 2,078	$ 3	$ 45	$ 78	$ 2,043	$ 2,197	3	$ 40	$ 71	$ 2,162

(1) Consists primarily of military housing and student loan securities.

(2) For the three and six months ended June 30, 2024, the allowance for credit losses changed by $ 0 on residential mortgage-backed securities for which credit losses were not previously recorded.

The amortized cost and estimated fair value of available-for-sale investments, excluding VIE investments, at June 30, 2024, by contractual maturity, were as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 439	$ 437
Due after one year through five years	543	521
Due after five years through ten years	304	279
Due after ten years	132	124
	1,418	1,361
Residential mortgage-backed securities	240	253
Commercial mortgage-backed securities	46	46
Collateralized debt obligations	141	141
Other asset-backed securities	234	241
Total	$ 2,078	$ 2,043

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 June 30, 2024 and December 31, 2023, did not have an allowance for credit losses This information is aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at June 30, 2024 and December 31, 2023:

Notes to Unaudited Consolidated Financial Statements

Ambac Financial Group, Inc. and Subsidiaries

(Dollar Amounts in Millions, Except Share Amounts)

	June 30, 2024						December 31, 2023					
	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	$ 21	$ —	$ 15	$ 1	$ 35	$ 2	$ 7	$ —	$ 16	$ 1	$ 23	$ 1
Corporate obligations	125	3	493	43	618	46	75	2	509	43	584	44
Foreign obligations	25	—	55	7	80	7	8	—	56	6	64	6
U.S. government obligations	58	1	37	3	95	4	27	1	37	2	63	4
Residential mortgage-backed securities	16	—	113	13	129	13	6	—	98	14	104	14
Commercial mortgage-backed securities	17	—	—	—	17	—	3	—	—	—	3	—
Collateralized debt obligations	18	—	3	—	22	—	1	—	93	1	95	1
Other asset-backed securities	45	1	72	4	117	5	57	1	35	1	92	1
	326	5	787	71	1,113	77	184	4	844	68	1,028	71
Short-term	46	—	—	—	46	—	4	—	—	—	4	—
	372	5	787	71	1,159	77	187	4	844	68	1,032	71
U. S. government obligations	25	1	—	—	25	1	—	—	—	—	—	—
Total collateralized investments	25	1	—	—	25	1	—	—	—	—	—	—
Total temporarily impaired securities	**$ 398**	**$ 7**	**$ 787**	**$ 71**	**$ 1,184**	**$ 78**	**$ 187**	**$ 4**	**$ 844**	**$ 68**	**$ 1,032**	**$ 71**

Management has determined that the securities in the above table do not have credit impairment as of June 30, 2024 and December 31, 2023, 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 June 30, 2024, 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 June 30, 2024, 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 June 30, 2024, resulted primarily from an increase in interest rates since the securities were purchased. Unrealized losses of $45 related to 733 investment grade securities with an average unrealized loss equal to 7 % of amortized cost at June 30, 2024. Securities that have below investment grade credit ratings or are unrated comprise less than a million of the gross unrealized loss and have an average unrealized loss equal to 8 % of amortized cost at June 30, 2024. Management believes that the full and timely receipt of all principal and interest payment on corporate obligations with unrealized losses as of June 30, 2024, is probable.

Residential mortgage-backed securities and Other asset-backed securities

As of June 30, 2024, $13 of the unrealized loss on residential mortgage-backed securities related to 15 Ambac insured securities. Five of these account for $ 13 of the unrealized loss and have an average unrealized loss equal to 12 % of amortized cost. The $5 unrealized loss on other asset backed securities related primarily to 13 Ambac-insured securities that have an average unrealized loss equal to 5 % 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 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 June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Fixed maturity securities	$ 22	$ 19	$ 45	$ 35
Short-term investments	5	5	10	10
Investment expense	(1)	(1)	(3)	(3)
Securities available-for-sale and short-term	26	22	52	43
Fixed maturity securities - trading	2	4	4	5
Other investments	8	9	21	22
Total net investment income (loss)	**$ 36**	**$ 35**	**$ 78**	**$ 69**

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 June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Gross realized gains on securities	$ 7	$ —	$ 7	$ 1
Gross realized losses on securities	(1)	(2)	(1)	(3)
Foreign exchange gains (losses)	(1)	(2)	—	(4)
Credit impairments	(2)	—	(1)	(1)
Intent / requirement to sell impairments	—	—	—	—
Net investment gains (losses), including impairments	**$ 4**	**$ (3)**	**$ 4**	**$ (8)**

Ambac had an allowance for credit losses of $ 3 and $ 1 at June 30, 2024 and 2023, respectively.

Ambac did not purchase any financial assets with credit deterioration for the three and six months ended June 30, 2024 and 2023.

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 $ 25 and $ 27 at June 30, 2024 and December 31, 2023, 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 either "Fixed maturity securities pledged as collateral, at fair value" or "Short-term investments pledged as collateral, at fair value." Refer to *Note 6. 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 $ 29 and $ 24 at June 30, 2024 and December 31, 2023, 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 June 30, 2024 and December 31, 2023, 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 $ 2 at June 30, 2024 and December 31, 2023, 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 June 30, 2024 and December 31, 2023,
respectively:

	June 30, 2024	December 31, 2023
Municipal obligations	$ 8	$ 9
Mortgage-backed securities	244	240
Asset-backed securities	151	232
Total	**$ 403**	**482**
Weighted average underlying rating	B-	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 $ 30 to private credit and private equity funds at June 30, 2024.

	Fair Value			
Class of Funds	**June 30, 2024**	**December 31, 2023**	**Redemption Frequency**	**Redemption Notice Period**
Hedge funds [1]	$ 117	$ 112	quarterly or semi-annually	90 days
Private credit [2]	83	84	quarterly if permitted	180 days if permitted
High yields and leveraged loans [3] [10]	137	85	daily	0 - 30 days
Equity market investments [4] [10]	40	38	daily	0 days
Investment grade floating rate income [5]	53	52	weekly	0 days
Private equity [6]	79	70	quarterly if permitted	90 days if permitted
Real estate properties [7]	—	21	see footnote [7]	see footnote [7]
Convertible bonds [8][10]	23	—	daily	0 days
Insurance-linked investments [9]	—	1	see footnote [9]	see footnote [9]
Total equity investments in pooled funds	**$ 533**	**$ 463**		

(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 consisted of UK property to generate income and capital growth. The fund in which Ambac was invested has terminated on May 30, 2024 and is in the process of distributing remaining capital. Amounts owed Ambac from the fund are included in Other assets on the Consolidated Balance Sheet as of June 30, 2024.

(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 was restricted in connection with the unwind of certain insurance linked exposures. Ambac's investment was fully redeemed by March 31, 2024.

(10) These categories include fair value amounts totaling $ 153 and $ 77 at June 30, 2024 and December 31, 2023, respectively, that are readily determinable and are priced through pricing vendors, including for Equity market investments $ 40 and $ 38 , High yield and leveraged loans products $ 89 and $ 39 , and Convertible bonds investments $ 23 and $ 0 .

Other investments also include preferred equity investments with a carrying value of $ 26 and $ 13 as of June 30, 2024 and December 31, 2023, 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. Impairments of $ 1 were recorded on these investments in the three and six months ended June 30, 2024. There were no adjustments to fair value to reflect observable price changes in identical or similar investments from the same issuer during the three and six months ended June 30, 2023.

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 June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Net gains (losses) recognized during the period on trading and equity securities	$ 5	$ 9	$ 12	$ 16
Less: net gains (losses) recognized during the reporting period on trading and equity securities sold during the period	3	6	3	10
Unrealized gains (losses) recognized during the reporting period on trading and equity securities still held at the reporting date	**$ 2**	**$ 2**	**$ 9**	**$ 6**

4. 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 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 June 30, 2024 and December 31, 2023, 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.

Notes to Unaudited Consolidated Financial Statements

Ambac Financial Group, Inc. and Subsidiaries

(Dollar Amounts in Millions, Except Share Amounts)

	June 30, 2024					December 31, 2023				
	Carrying	Total Fair	Fair Value Measurements Categorized as:			Carrying	Total Fair	Fair Value Measurements Categorized as:		
	Amount	Value	Level 1	Level 2	Level 3	Amount	Value	Level 1	Level 2	Level 3
ıncial assets:										
ːd maturity securities:										
unicipal obligations	$ 161	$ 161	$ —	$ 161	$ —	$ 99	$ 99	$ —	$ 99	—
orporate obligations	742	742	—	742	—	745	745	—	726	19
ɔreign obligations	105	105	105	—	—	100	100	100	—	—
.S. government obligations	105	105	105	—	—	82	82	82	—	—
esidential mortgage-backed securities	253	253	—	253	—	250	250	—	250	—
ommercial mortgage-backed securities	46	46	—	46	—	19	19	—	19	—
ollateralized debt obligations	141	141	—	141	—	139	139	—	139	—
ther asset-backed securities	241	241	—	164	77	303	303	—	235	68
ːd maturity securities, pledged as collateral:										
.S. government obligations	25	25	25	—	—	—	—	—	—	—
hort-term	—	—	—	—	—	27	27	27	—	—
rt term investments	314	314	313	1	—	426	426	421	5	—
ɐr investments [(1)]	558	533	153	—	—	475	463	77	—	—
h, cash equivalents and restricted cash	35	35	35	—	—	28	28	27	2	—
ɐr assets - Derivatives:										
terest rate swaps—asset position	18	18	—	—	18	25	25	—	—	25
/arrants	1	1	—	—	1	1	1	—	—	1
ɐr assets-Loans	2	1	—	—	1	2	2	—	—	2
able interest entity assets:										
ːxed maturity securities: Corporate obligations, fair value option	2,010	2,010	—	—	2,010	2,072	2,072	—	—	2,072
ːxed maturity securities: Municipal obligations, available-for-sale	91	91	—	91	—	95	95	—	95	—
estricted cash	62	62	62	—	—	246	246	246		—
ɔans	1,567	1,567	—	—	1,567	1,663	1,663	—	—	1,663
erivative assets: Interest rate swaps—asset position	174	174	—	174	—	190	190	—	190	—
erivative assets: Currency swaps—asset position	34	34	—	34	—	36	36	—	36	—
ıl financial assets	$ 6,686	$ 6,660	$ 797	$ 1,788	$ 3,675	$ 7,082	$ 7,010	$ 979	$ 1,795	3,850
ıncial liabilities:										
g term debt, including accrued interest	$ 1,015	$ 732	$ —	$ 753	$ 19	$ 983	$ 697	$ —	$ 679	18
ɐr liabilities - Derivatives:										
terest rate swaps—liability position	25	25	—	25	—	35	35	—	35	—
X forward	—	—	—	—	—	—	—	—	—	—
ɔilities for net financial guarantees ten [(2)]	229	488	—	—	488	292	788	—	—	788
able interest entity liabilities:										
ɔng-term debt	2,853	2,852	—	2,646	205	2,967	2,980	—	2,760	220
erivative liabilities: Interest rate swaps—liability position	1,136	1,136	—	1,136	—	1,197	1,197	—	1,197	—
ıl financial liabilities	$ 5,258	$ 5,233	$ —	$ 4,561	$ 712	$ 5,434	$ 5,697	$ —	$ 4,671	1,026

(1) Excluded from the fair value measurement categories in the table above are investment funds of $ 380 and $ 386 as of June 30, 2024 and December 31, 2023, 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 $ 26 and $ 13 as of June 30, 2024 and December 31, 2023, 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 June 30, 2024, 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, 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.

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 $ 77 and $ 68 at June 30, 2024 and December 31, 2023, 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 June 30, 2024 and December 31, 2023 include the following:

	June 30, 2024:	December 31, 2023:
a. Coupon rate:	5.98 %	5.97 %
b. Average Life:	12.47 years	12.80 years
c. Yield:	10.00 %	12.00 %

Corporate obligations: This includes certain investments in convertible debt securities. The fair value classified as Level 3 was $ 0 and $ 19 at June 30, 2024 and December 31, 2023, respectively. Fair value was calculated by discounting cash flows with weighted average maturity of 0.89 years and yield of 11.2 % at December 31, 2023. 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 3. 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 June 30, 2024 or December 31, 2023.

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 equity shares of development stage companies. These warrants have a fair value of $ 1 and $ 1 as of June 30, 2024 and December 31, 2023, 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 and the Ambac UK debt issued in connection with a policy commutation. The fair values of surplus notes is based on prices received from third-party sources and are classified as Level 2. The fair value of Ambac UK debt estimated based upon internal valuation models and 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 8. Variable Interest Entities*, these FG VIEs are securitization entities which have liabilities and/or assets guaranteed by AAC or Ambac UK.

The fair values of FG VIE long-term debt are based on price quotes received from independent market sources when available. Such quotes are considered Level 2 and generally consider a variety of factors, including recent trades of the same and similar securities. For those instruments where quotes were not available or cannot be reasonably corroborated, fair values are based on internal valuation models. Comparable to the sensitivities of investments in fixed maturity securities described above, longer (shorter) expected maturities or higher (lower) yields used in the valuation model will, in isolation, result in decreases (increases) in fair value liability measurement for FG VIE long-term debt.

FG VIE derivative asset and liability fair values are determined using vendor-developed valuation models, which incorporated observable market data related to specific derivative contractual terms including interest rates, foreign exchange rates and yield curves.

The fair value of FG VIE fixed maturity securities and loan assets are generally based on Level 2 market price quotes received from independent market sources when available. When FG VIE asset fair values are not readily available from market quotes, values are estimated internally. Internal valuations of FG VIE's fixed maturity securities or loan assets are derived from the fair values of the notes issued by the respective VIE and the VIE's derivatives, determined as described above, adjusted for the fair values of Ambac's financial guarantees associated with the VIE. The fair value of financial guarantees consist of: (i) estimated future premium cash flows discounted at a rate consistent with that implicit in the fair value of the VIE's liabilities and (ii) estimates of future claim payments discounted at a rate that includes Ambac's own credit risk. Estimated future premium payments to be paid by the VIEs were discounted at a weighted average rate of 6.6 % and 6.3 % at June 30, 2024 and December 31, 2023, respectively. At June 30, 2024, the range of these discount rates was between 5.8 % and 8.2 %. At December 31, 2023, the range of these discount rates were between 5.3 % and 7.8 %.

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 2024 and 2023. 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.

(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
Three Months Ended June 30, 2024:					
Balance, beginning of period	$ 87	$ 21	$ 2,070	$ 1,604	$ 3,782
Total gains/(losses) realized and unrealized:					
Included in earnings	7	(3)	(51)	29	(19)
Included in other comprehensive income	9	—	3	3	15
Settlements	(26)	—	(12)	(68)	(106)
Balance, end of period	$ 77	$ 18	$ 2,010	$ 1,567	$ 3,672
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	$ 7	$ (3)	$ (51)	$ 29	$ (19)
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	$ 9	$ —	$ 3	$ 3	$ 15
Three Months Ended June 30, 2023:					
Balance, beginning of period	$ 81	$ 31	$ 2,003	$ 1,856	$ 3,972
Total gains/(losses) realized and unrealized:					
Included in earnings	—	(5)	(53)	(66)	(124)
Included in other comprehensive income	—	—	14	50	64
Settlements	—	—	(12)	(69)	(81)
Balance, end of period	$ 81	$ 25	$ 1,952	$ 1,772	$ 3,831
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	$ —	$ (5)	$ (53)	$ (66)	$ (124)
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	$ —	$ —	$ 14	$ 50	$ 64

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

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

				VIE Assets		
		Investments	Derivatives	Investments	Loans	Total
Months Ended June 30, 2024:						
ance, beginning of period	**$**	**87**	**26**	**2,072**	**1,663**	**3,848**
litions of VIEs consolidated						**—**
al gains/(losses) realized and unrealized:						
ıcluded in earnings		**7**	**(8)**	**(32)**	**49**	**16**
ıcluded in other comprehensive income		**9**	**—**	**(18)**	**(14)**	**(23)**
chases		**—**	**—**	**—**	**—**	**—**
:lements		**(27)**	**—**	**(12)**	**(132)**	**(170)**
ance, end of period	**$**	**77**	**18**	**2,010**	**1,567**	**3,672**
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	**$**	**7**	**(8)**	**(32)**	**49**	**16**
amount of total gains/(losses) included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets and liabilities still held at the reporting date	**$**	**9**	**—**	**(18)**	**(14)**	**(23)**
Months Ended June 30, 2023:						
ance, beginning of period	$	79	26	1,828	1,829	3,762
litions of VIEs consolidated		—	—	—	—	—
al gains/(losses) realized and unrealized:						
ıcluded in earnings		1	—	80	(7)	73
ıcluded in other comprehensive income		3	—	57	92	152
chases		—	—	—	—	—
:lements		(1)	—	(12)	(141)	(155)
ance, end of period	**$**	**81**	**25**	**1,952**	**1,772**	**3,831**
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	—	80	(7)	73
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	—	57	92	152

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 June 30, 2024				Three Months Ended June 30, 2023			
	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	**$ 7**	**$ (3)**	**$ (22)**	**$ —**	$ —	$ (5)	$ (119)	$ —
Changes in unrealized gains (losses) relating to financial instruments still held at the reporting date	**9**	**(3)**	**(22)**	**—**	—	(5)	(119)	—

	Six Months Ended June 30, 2024				Six Months Ended June 30, 2023			
	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	**$ 7**	**$ (8)**	**$ 17**	**$ —**	$ 1	$ —	$ 72	$ —
Changes in unrealized gains or losses included in earnings relating to the assets and liabilities still held at the reporting date	**9**	**(8)**	**17**	**—**	—	—	72	—

(Dollar Amounts in Millions, Except Share Amounts)

5. 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 June 30,			
	2024		2023	
	Written	Earned	Written	Earned
Direct	$ 93	$ 79	$ 55	$ 52
Assumed	20	17	—	—
Ceded	79	64	100	37
Net premiums	$ 34	$ 33	$ (45)	$ 15

	Six Months Ended June 30,			
	2024		2023	
	Written	Earned	Written	Earned
Direct	$ 174	$ 154	$ 115	$ 98
Assumed	38	33	—	—
Ceded	150	121	142	69
Net premiums	$ 62	$ 66	$ (27)	$ 29

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
United States	$ 30	$ 12	$ 60	$ 23
United Kingdom	3	3	5	5
Other international	—	1	1	1
Total	**$ 33**	**$ 15**	**$ 66**	**$ 29**

Premium Receivables, including credit impairments:

Premium receivables at June 30, 2024 and December 31, 2023 were $ 317 and $ 290 , 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 June 30, 2024 and December 31, 2023, was 3.2 % and 3.2 %, respectively, and the weighted average period of future premiums used to estimate the premium receivable at June 30, 2024 and December 31, 2023, was 7.6 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.

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

Six Months Ended June 30,	2024	2023
Beginning premiums receivable	290	269
Premiums written on new business, net of commissions	159	83
Premium receipts	(134)	(90)
Adjustments for changes in expected and contractual cash flows for contracts (1)	(2)	6
Accretion of premium receivable discount for contracts	4	4
Changes in allowance for credit losses	1	1
Other adjustments (including foreign exchange) (2)	(1)	4
Ending premium receivable (3)	**317**	**276**

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

(2) Includes foreign exchange gains/(losses) of $ (1) and $ 4 for 2024 and 2023, respectively.

(3) Premium receivable includes premiums to be received in foreign denominated currencies most notably in British Pounds and Euros. At June 30, 2024 and 2023, premium receivables include British Pounds of $ 70 (£ 55) and $ 76 (£ 60), respectively, and Euros of $ 12 (€ 11) and $ 14 (€ 12), respectively.

Management evaluates premium receivables for expected credit losses ("credit impairment") in accordance with the CECL standard, which is further described in the Notes to Consolidated Financial Statements included in Ambac's Annual Report on Form 10-K for the year ended December 31, 2023. The key indicator management uses to assess the credit quality of legacy financial guarantee premium receivables is Ambac's internal risk classifications for the insured obligation determined by the Risk Management Group.

Below is the amortized cost basis of financial guarantee premium receivables by risk classification code and asset class as of June 30, 2024 and December 31, 2023:

(Dollar Amounts in Millions, Except Share Amounts)

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	Surveillance Categories as of June 30, 2024						Surveillance Categories as of December 31, 2023					
e of Guaranteed Bond	**I**	**IA**	**II**	**III**	**IV**	**Total**	**I**	**IA**	**II**	**III**	**IV**	**Total**
lic Finance:												
ousing revenue	$ 127	$ 3	$ 5	$ —	$ —	$ 134	$ 131	$ 3	$ 5	$ —	$ —	139
ther	1	—	—	—	—	1	1	—	—	—	—	1
otal Public Finance	128	3	5	—	—	135	**133**	**3**	**5**	**—**	**—**	**140**
ctured Finance:												
ortgage-backed and home equity	—	—	—	—	10	11	—	—	—	—	11	12
udent loan	—	—	—	3	1	4	—	—	—	7	—	7
ther	3	—	—	—	—	3	4	—	—	—	—	4
l Structured Finance	3	—	—	3	10	17	**4**	**—**	**—**	**7**	**11**	**22**
rnational:												
overeign/sub-sovereign	58	5	—	—	—	63	51	13	—	—	—	64
vestor-owned and public utilities	16	—	—	—	—	16	18	—	—	—	—	18
ther	3	—	—	—	—	3	3	—	—	—	—	3
l International	77	5	—	—	—	82	**72**	**13**	**—**	**—**	**—**	**85**
l (1) (2)	$ 209	$ 8	$ 5	$ 3	$ 10	$ 235	**$ 210**	**$ 16**	**$ 5**	**$ 7**	**$ 11**	**248**

(1) Excludes specialty property and casualty premium receivables of $ 85 and $ 46 at June 30, 2024 and December 31, 2023, respectively.

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

Below is a rollforward of the premium receivable allowance for credit losses as of June 30, 2024 and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Beginning balance	$ 3	$ 5	$ 4	$ 5
Current period provision (benefit)	—	(1)	(2)	(1)
Write-offs of the allowance	—	—	—	—
Recoveries of previously written-off amounts	—	—	—	—
Ending balance (1)	$ 3	$ 5	$ 3	$ 5

(1) At June 30, 2024 and 2023, $ 1 and $ 0 of premiums were past due.

The following table summarizes the future Legacy Financial Guarantee gross undiscounted premiums to be collected and future premiums earned, net of reinsurance at June 30, 2024:

	Future Premiums to be Collected (1)	Future Premiums to be Earned Net of Reinsurance (2)
ee months ended:		
eptember 30, 2024	$ 3	$ 4
ecember 31, 2024	5	4
elve months ended:		
ecember 31, 2025	25	15
ecember 31, 2026	24	15
ecember 31, 2027	23	15
ecember 31, 2028	22	14
e years ended:		
ecember 31, 2033	92	54
ecember 31, 2038	54	27
ecember 31, 2043	25	9
ecember 31, 2048	12	4
ecember 31, 2053	2	1
ecember 31, 2058	—	—
al	$ 293	$ 163

(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 the Notes to Consolidated Financial Statements included in Ambac's Annual Report on Form 10-K for the year ended December 31, 2023. 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.

(Dollar Amounts in Millions, Except Share Amounts)

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 June 30, 2024 and December 31, 2023:

	June 30, 2024					December 31, 2023				
	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	$ 286	$ 669	$ (51)	$ (14)	$ 890	$ 197	$ 779	$ (55)	$ (28)	$ 893
Subrogation recoverable	—	7	(136)	—	(128)	—	1	(139)	—	(137)
Totals	**$ 286**	**$ 676**	**$ (186)**	**$ (14)**	**$ 762**	**$ 197**	**$ 780**	**$ (194)**	**$ (28)**	**$ 756**

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

Months Ended June 30,	2024	2023
jinning gross loss and loss expense reserves	**$ 756**	**$ 534**
ısurance recoverable	186	115
jinning balance of net loss and loss expense reserves	570	419
ıses and loss expenses (benefit):		
urrent year	40	8
rior years	(23)	18
Total [(1)]	17	25
ıss and loss expenses paid (recovered):		
urrent year	3	1
rior years	63	(136)
Total	66	(135)
ıreign exchange effect	—	—
ling net loss and loss expense reserves	520	580
ısurance recoverable [(2)]	242	144
ling gross loss and loss expense reserves	**$ 762**	**$ 724**

(1) Total losses and loss expenses (benefit) includes $(98) and $(45) for the six months ended June 30, 2024 and 2023, respectively, related to ceded reinsurance.

(2) 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 $ 35 and $ 5 as of June 30, 2024 and 2023, respectively, related to previously presented loss and loss expenses and subrogation.

For 2024, the favorable development in prior years was largely driven by the positive impact of discount rates on the structured finance portfolio and assumption changes in the international portfolio, all in the legacy financial guarantee segment. This is partially offset by adverse development in prior years within the SPC segment, primarily related to commercial auto.

For 2023, the adverse development in prior years was largely driven by the impact of lower discount rates on the RMBS portfolio, partially offset by assumption changes in the international portfolio, both in the legacy financial guarantee segment.

Notes to Unaudited Consolidated Financial Statements

Ambac Financial Group, Inc. and Subsidiaries

(Dollar Amounts in Millions, Except Share Amounts)

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 June 30, 2024 and December 31, 2023, 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 June 30, 2024 and December 31, 2023,was 4.4 % and 4.6 %, respectively.

Surveillance Categories as of June 30, 2024

	I	IA	II	III	IV	V	Total
Number of policies	24	3	10	11	91	4	143
Remaining weighted-average contract period (in years) (1)	5	18	12	11	12	8	11
Gross insured contractual payments outstanding:							
Principal	$ 219	$ 194	$ 439	$ 269	$ 1,439	$ 21	$ 2,581
Interest	18	182	253	99	573	16	1,141
Total	$ 237	$ 376	$ 692	$ 368	$ 2,012	$ 37	$ 3,722
Gross undiscounted claim liability	$ —	$ 9	$ 39	$ 231	$ 809	$ 37	$ 1,126
Discount, gross claim liability	—	(2)	(7)	(77)	(359)	(8)	(452)
Gross claim liability before all subrogation and before reinsurance	—	7	32	155	450	29	674
Less:							
Gross other subrogation (2)	(13)	(3)	(1)	(25)	(211)	(11)	(263)
Discount, other subrogation	2	—	—	4	67	3	77
Discounted other subrogation, before reinsurance	(10)	(3)	—	(21)	(144)	(8)	(186)
Gross claim liability, net of all subrogation and discounts, before reinsurance	(10)	4	32	134	307	21	487
Less: Unearned premium revenue	—	(2)	(4)	2	(9)	(1)	(14)
Plus: Loss expense reserves	1	1	—	—	1	—	3
Gross loss and loss expense reserves	$ (9)	$ 2	$ 28	$ 136	$ 298	$ 21	$ 476
Reinsurance recoverable reported on Balance Sheet (3)	$ —	$ —	$ 8	$ 14	$ 4	$ —	$ 26

(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 $ 26 related to future loss and loss expenses and $ 0 related to presented loss and loss expenses and subrogation.

Surveillance Categories as of December 31, 2023

	I	IA	II	III	IV	V	Total
Number of policies	18	8	9	13	88	5	141
Remaining weighted-average contract period (in years) (1)	9	9	13	13	12	7	12
Gross insured contractual payments outstanding:							
Principal	$ 429	$ 1,084	$ 430	$ 394	$ 1,473	$ 27	$ 3,838
Interest	75	328	262	139	600	17	1,421
Total	$ 505	$ 1,412	$ 692	$ 534	$ 2,073	$ 44	$ 5,259
Gross undiscounted claim liability	$ 1	$ 19	$ 41	$ 324	$ 772	$ 44	$ 1,202
Discount, gross claim liability	—	(2)	(7)	(86)	(323)	(8)	(426)
Gross claim liability before all subrogation and before reinsurance	1	17	34	239	450	36	777
Less:							
Gross other subrogation (2)	(13)	(2)	—	(27)	(208)	(11)	(263)
Discount, other subrogation	2	—	—	4	60	3	69
Discounted other subrogation, before reinsurance	(11)	(2)	—	(23)	(149)	(8)	(194)
Gross claim liability, net of all subrogation and discounts, before reinsurance	(10)	15	34	215	301	28	583
Less: Unearned premium revenue	—	(12)	(4)	—	(10)	(1)	(28)
Plus: Loss expense reserves	—	3	—	—	1	—	4
Gross loss and loss expense reserves	$ (10)	$ 6	$ 30	$ 215	$ 292	$ 27	$ 559
Reinsurance recoverable reported on Balance Sheet (4)	$ 1	$ —	$ 8	$ 18	$ 3	$ —	$ 30

(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.

(Dollar Amounts in Millions, Except Share Amounts)

(3) Reinsurance recoverable reported on the Balance Sheet includes reinsurance recoverables of $ 30 related to future loss and loss expenses and $(1) related to presented loss and loss expenses and subrogation .

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 $ 509 at June 30, 2024. Credit exposure existed at June 30, 2024, 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 June 30, 2024, there were ceded reinsurance balances payable of $ 140 offsetting this credit exposure. Contractually ceded reinsurance payables can only be offset against amounts owed from the same reinsurer in the event that such reinsurer is unable to meet its obligations to reimburse Ambac.

To minimize its credit exposure to losses from reinsurer insolvencies, Ambac (i) is entitled to receive collateral from 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 $ 66 from its reinsurers at June 30, 2024 of which $ 38 relates to Legacy Financial Guarantee Insurance and $ 28 relates to Specialty Property and Casualty Insurance. 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 to determine whether an allowance is considered necessary.

At June 30, 2024, our top three reinsurers represented 66.1 % 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 June 30, 2024.

Reinsurers	Type of Insurance	Rating (1)	Reinsurance Recoverable (2)	Unsecured Recoverable (3)
General Reinsurance Company	Specialty P&C	A++	$ 123	$ 104
QBE Insurance Corporation	Specialty P&C	A	37	37
Assured Guaranty Re Ltd.	Financial Guarantee	AA	22	—
All other reinsurers			94	35
Total recoverables			$ 277	$ 176

(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 $ 176 and $ 128 and has recorded an allowance for credit losses of less than a million at June 30, 2024 and December 31, 2023. The uncollateralized credit exposure includes legacy liabilities obtained from the acquisitions of PWIC and the 21st Century Companies of $ 43 and $ 44 at June 30, 2024 and December 31, 2023, respectively. All legacy liabilities remain with affiliates of the sellers through reinsurance and contractual indemnities.

(Dollar Amounts in Millions, Except Share Amounts)

6. 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 June 30, 2024 and December 31, 2023:

	June 30, 2024					December 31, 2023				
	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
Other assets:										
Interest rate swaps	$ 18	$ —	$ 18	$ —	$ 18	$ 25	$ —	$ 25	$ —	$ 25
Warrants	1	—	1	—	1	1	—	1	—	1
Total non-VIE derivative assets	**$ 18**	**$ —**	**$ 18**	**$ —**	**$ 18**	**$ 26**	**$ —**	**$ 26**	**$ —**	**$ 26**
Other liabilities:										
Interest rate swaps	$ 25	$ —	$ 25	$ 25	$ —	$ 35	$ —	$ 35	$ 35	$ —
FX forward	—	—	—	—	—	—	—	—	—	—
Total non-VIE derivative liabilities	**$ 26**	**$ —**	**$ 26**	**$ 25**	**$ —**	**$ 35**	**$ —**	**$ 35**	**$ 35**	**$ —**
Variable interest entities assets:										
Derivative and other assets:										
Interest rate swaps	$ 174	$ —	$ 174	$ 174	$ —	$ 190	$ —	$ 190	$ 190	$ —
Currency swaps	34	—	34	34	—	36	—	36	36	—
Total VIE derivative assets	**$ 208**	**$ —**	**$ 208**	**$ 208**	**$ —**	**$ 226**	**$ —**	**$ 226**	**$ 226**	**$ —**
Variable Interest Entities Derivative Liabilities:										
Interest rate swaps	$ 1,136	$ —	$ 1,136	$ —	$ 1,136	$ 1,197	$ —	$ 1,197	$ —	$ 1,197
Total VIE derivative liabilities	**$ 1,136**	**$ —**	**$ 1,136**	**$ —**	**$ 1,136**	**$ 1,197**	**$ —**	**$ 1,197**	**$ —**	**$ 1,197**

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 $ 18 and $ 23 as of June 30, 2024 and December 31, 2023, respectively. Amounts representing an obligation to return cash collateral were $ 52 and $ 235 as of June 30, 2024 and December 31, 2023, 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 six months ended June 30, 2024 and 2023:

	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 June 30,		Six Months Ended June 30,	
		2024	2023	2024	2023
Non-VIE derivatives:					
Interest rate swaps	Net gains (losses) on derivative contracts	1	1	2	(3)
Warrants	Net gains (losses) on derivative contracts	—	—	—	—
FX Forward	Net gains (losses) on derivative contracts	—	—	—	—
Total Non-VIE derivatives		**$ —**	**$ —**	**2**	**(3)**
Variable Interest Entities:					
Currency swaps	Income (loss) on variable interest entities	$ —	$ (1)	2	(3)
Interest rate swaps	Income (loss) on variable interest entities	43	97	57	(2)
Total Variable Interest Entities		**44**	**96**	**59**	**(5)**
Total derivative contracts		**$ 44**	**$ 97**	**$ 61**	**$ (8)**

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. AFS's only remaining derivative positions include a limited number of legacy customer swaps and their associated hedges. As of June 30, 2024 and December 31, 2023, the notional amounts of AFS's derivatives are as follows:

	Notional	
Type of Derivative	**June 30, 2024**	**December 31, 2023**
Interest rate swaps—pay-fixed/receive-variable	$ 140	$ 141
Interest rate swaps—receive-fixed/pay-variable	159	167

(Dollar Amounts in Millions, Except Share Amounts)

Other Derivatives:

As of June 30, 2024 Ambac holds warrants to purchase equity shares of development stage companies and is party to a US dollar / British pound sterling foreign exchange forward contract to protect against currency fluctuations related to the purchase of Beat.

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 June 30, 2024 and December 31, 2023, were as follows:

	Notional	
Type of VIE Derivative	**June 30, 2024**	**December 31, 2023**
Interest rate swaps—receive-fixed/pay-variable	$ 1,648	$ 1,662
Interest rate swaps—pay-fixed/receive-variable	820	864
Currency swaps	136	149

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 June 30, 2024 and December 31, 2023, the net liability fair value of derivative instruments with contingent features linked to Ambac's own credit risk was $ 25 and $ 35 , respectively, related to which Ambac had posted cash and securities as collateral with a fair value of $ 44 and $ 50 , 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 June 30, 2024, 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.

7. GOODWILL AND INTANGIBLE ASSETS

The following table presents the Company's goodwill.

	June 30, 2024	December 31, 2023
Beginning balance	$ 70	$ 61
Business acquisitions	—	9
Impairments	—	—
Ending balance	$ 70	$ 70

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

	June 30, 2024	December 31, 2023
Finite-lived Intangible Assets:		
Insurance intangible:		
Gross carrying value	$ 1,256	$ 1,258
Accumulated amortization	1,030	1,013
Net insurance intangible asset	**226**	**245**
Other intangibles:		
Gross carrying value	57	57
Accumulated amortization	12	10
Net other intangible assets	**45**	**47**
Total finite-lived intangible assets	**271**	**292**
Indefinite-lived Intangible Assets:		
Insurance licenses	14	14
Total intangible assets	**$ 285**	**$ 307**

8. 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 ("LFG VIEs); 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.

LFG 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 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.

(Dollar Amounts in Millions, Except Share Amounts)

Accordingly, AAC does not have the right to direct the most significant activities of those LFG VIEs.

LFG VIEs which are consolidated may include recourse and non-recourse liabilities. LFG VIEs' liabilities that are insured by 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. LFG VIEs' liabilities that are not insured by AAC or Ambac UK are without recourse, because AAC or Ambac UK has not issued a financial guarantee and is under no obligation for the payment of principal and interest of these instruments. AAC or Ambac UK's economic exposure to consolidated LFG 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 LFG 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 because of financial guarantees of Ambac UK and AAC:

	June 30, 2024			December 31, 2023		
	Ambac UK	Ambac Assurance	Total VIEs	Ambac UK	Ambac Assurance	Total VIEs
SETS:						
‹ed maturity securities, at fair value:						
orporate obligations, fair value option	$ 2,010	$ —	$ 2,010	$ 2,072	$ —	$ 2,072
lunicipal obligations, available-for-sale (1)	—	91	91	—	95	95
al LFG VIE fixed maturity securities, at fair value	2,010	91	2,101	2,072	95	2,167
tricted cash	61	1	62	245	1	246
ns, at fair value (2)	1,567	—	1,567	1,663	—	1,663
ivative assets	208	—	208	226	—	226
er assets, including contract assets	93	2	95	90	2	92
al LFG VIE assets	$ 3,939	$ 94	$ 4,033	$ 4,296	$ 98	$ 4,394
BILITIES:						
g-term debt:						
ong-term debt, at fair value (3)	$ 2,599	$ —	$ 2,599	$ 2,710	$ —	$ 2,710
ong-term debt, at par less unamortized discount	97	156	253	99	159	258
al long-term debt	2,696	156	2,853	2,808	159	2,967
ivative liabilities	1,136	—	1,136	1,197	—	1,197
h collateral payable	52	—	52	235	—	235
er liabilities	6	1	7	4	1	5
al LFG VIE liabilities	$ 3,890	$ 157	$ 4,048	$ 4,244	$ 160	$ 4,404
nber of LFG VIEs consolidated	4	2	6	4	2	6

(1) Available-for-sale LFG VIE fixed maturity securities consist of municipal obligations with an amortized cost basis of $ 85 and $ 88 at June 30, 2024 and December 31, 2023, respectively. At June 30, 2024, there were $ 6 aggregate gross unrealized gains and $ 0 aggregated gross unrealized losses. At December 31, 2023, there were $ 7 aggregate gross unrealized gains and $ 0 aggregated gross unrealized losses. All such securities had contractual maturities due after ten years as of June 30, 2024.

(2) The unpaid principal balances of loan assets carried at fair value were $ 1,692 as of June 30, 2024 and $ 1,787 as of December 31, 2023.

(3) The unpaid principal balances of long-term debt carried at fair value were $ 2,854 as of June 30, 2024 and $ 2,952 as of December 31, 2023.

(Dollar Amounts in Millions, Except Share Amounts)

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

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net change in fair value of VIE assets and liabilities reported under the fair value option	$ —	$ —	$ 1	$ 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	3
Investment income (loss)	2	3	5	5
Contract revenue	3	—	8	—
Net realized investment gains (losses) on available-for-sale securities	—	—	—	—
Interest expense on long-term debt carried at par less unamortized cost	(4)	(3)	(6)	(8)
Other expenses	(3)	—	(7)	—
Gain (loss) from consolidating VIEs	—	—	—	—
Income (loss) on variable interest entities	$ —	$ —	$ 2	$ (1)

Ambac consolidated zero and zero FG VIEs for the six months ended June 30, 2024 and 2023, respectively. Ambac de-consolidated zero FG VIE for the three months ended June 30, 2024 and one FG VIE for the three and six months ended June 30, 2023, as a result of the retirement of all Ambac-insured bonds in the trust. There was no gain or loss resulting from the de-consolidation.

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 June 30, 2024 and December 31, 2023:

	June 30, 2024:				December 31, 2023:			
		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	$ 2,224	$ 123	$ 409	$ —	$ 2,391	$ 135	$ 432	$ —
Other consumer asset-backed	365	3	135	—	540	5	200	—
Other	418	2	2	—	433	2	2	—
Total global structured finance	3,007	127	546	—	3,364	141	634	—
Global public finance	17,101	204	196	—	17,498	209	202	—
Total	$ 20,109	$ 331	$ 742	$ —	$ 20,861	$ 351	$ 836	$ —

(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.

9. REVENUES FROM CONTRACTS WITH CUSTOMERS

The Insurance Distribution businesses and a consolidated VIE have contracts that are subject to the Revenue from Contracts with Customers Topic of the ASC.

Insurance Distribution revenues recognized, disaggregated by policy type, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Employer stop loss	$ 2	$ 2	$ 7	$ 7
Affinity products	5	5	10	10
Commercial auto	3	2	7	5
Marine	1	1	2	2
Professional liability	2	—	4	—
Other	—	—	—	—
Total	$ 13	$ 10	$ 31	$ 25

These revenues are reported within commission income on the Consolidated Statements of Total Comprehensive Income (Loss).

A VIE was consolidated on December 31, 2023. The consolidated VIE's revenues recognized during the three and six months ended

(Dollar Amounts in Millions, Except Share Amounts)

June 30, 2024 were $ 3 and $ 8 , which are reported within Income (loss) on variable interest entities on the Consolidated Statements of Total Comprehensive Income (Loss).

During the six months ended June 30, 2024 and 2023, the amount of revenue recognized related to performance obligations satisfied in a previous period, inclusive of changes due to estimates was approximately $ 9 and $ 5 , respectively.

Contract Assets and Liabilities

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

	June 30, 2024	December 31, 2023
Contract assets	101	95
Contract liabilities	—	1

Insurance Distribution

Contract assets of $ 11 and $ 7 as of June 30, 2024 and December 31, 2023, respectively, represent estimated future consideration related to base commissions and profit-sharing commissions that were recognized as revenue upon the placement of the policy, but are not yet due. 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 six months ended June 30, 2024, is primarily due to the timing of new or renewal policies, growth in the business, 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 20 months from contract inception. During the six months ended June 30, 2024 and 2023, the Company recognized revenue that was included in the contract liability balance as of the beginning of the period of less than a million dollars and $ 1 , respectively.

Consolidated VIE

Contract assets of $ 90 and $ 87 as of June 30, 2024 and December 31, 2023, respectively, represent future consideration related to service concession payments for already completed services that were recognized as revenue but are not yet due. There are no contract liabilities in either period.

10. 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 June 30, 2024:					Three Months Ended June 30, 2023:				
	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	$ (27)	$ 5	$ (152)	$ (1)	$ (175)	$ (54)	$ 6	$ (168)	$ (1)	$ (217)
Other comprehensive income (loss) before reclassifications	8	—	1	—	9	(15)	—	21	—	6
Amounts reclassified from accumulated other comprehensive income (loss)	(4)	(5)	—	—	(9)	3	—	—	—	2
Net current period other comprehensive income (loss)	4	(5)	1	—	—	(13)	—	21	—	8
Ending Balance	**$ (23)**	**$ —**	**$ (151)**	**$ (1)**	**$ (175)**	**$ (67)**	**$ 6**	**$ (147)**	**$ (1)**	**$ (209)**

	Six Months Ended June 30, 2024					Six Months Ended June 30, 2023				
	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	$ (20)	$ 5	$ (144)	$ (1)	$ (160)	$ (71)	$ 3	$ (184)	$ (1)	$ (253)
Other comprehensive income before reclassifications	1	—	(7)	—	(5)	(1)	3	37	—	39
Amounts reclassified from accumulated other comprehensive income	(5)	(5)	—	—	(10)	6	(1)	—	—	5
Net current period other comprehensive income	(3)	(5)	(7)	—	(15)	5	2	37	—	44
Ending Balance	**$ (23)**	**$ —**	**$ (151)**	**$ (1)**	**$ (175)**	**$ (67)**	**$ 6**	**$ (147)**	**$ (1)**	**$ (209)**

(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.

(Dollar Amounts in Millions, Except Share Amounts)

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 June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Affected Line Item in the Consolidated Statement of Total Comprehensive Income (Loss)
Unrealized Gains (Losses) on Available-for-Sale Securities					
	$ (4)	$ 3	$ (4)	$ 8	Net realized investment gains (losses)
	—	(1)	—	(2)	Provision for income taxes
	$ (4)	$ 3	$ (5)	$ 6	Net of tax and noncontrolling interest
Amortization of Postretirement Benefit					
Prior service cost	$ —	$ —	$ —	$ —	Other income
Actuarial (losses)	—	—	—	—	Other income
Curtailment gain	(5)	—	(5)	—	Other income
	(5)	—	(5)	(1)	Total before tax
	—	—	—	—	Provision for income taxes
	$ (5)	$ —	$ (5)	$ (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
	$ —	$ —	$ —	$ —	Net of tax and noncontrolling interest
Total reclassifications for the period	$ (9)	$ 2	$ (9)	$ 5	Net of tax and noncontrolling interest

11. NET INCOME PER SHARE

As of June 30, 2024, 45,224,972 shares of AFG's common stock (par value $ 0.01) were issued and outstanding. Common shares outstanding increased by 29,602 during the six months ended June 30, 2024, primarily due to settlements of employee restricted and performance stock units.

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 1. Business and Basis of Presentation.*

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 June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net income (loss) attributable to common stockholders	$ (1)	$ (13)	$ 19	(47)
Adjustment to redemption value (ASC 480)	—	—	—	—
Numerator of basic and diluted EPS	$ (1)	$ (13)	$ 19	(47)
Per Share:				
Basic	$ (0.02)	$ (0.29)	$ 0.42	$ (1.02)
Diluted	$ (0.02)	$ (0.29)	$ 0.41	$ (1.02)

The denominator of the basic earnings per share computation represents the weighted average common shares outstanding plus vested performance and 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:

(Dollar Amounts in Millions, Except Share Amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
ic weighted average shares outstanding denominator	46,209,250	45,757,234	46,019,145	45,661,288
ct of potential dilutive shares :				
estricted stock units	—	—	158,132	—
erformance stock units (1)	—	—	391,585	—
ted weighted average shares outstanding denominator	46,209,250	45,757,234	46,568,862	45,661,288
i-dilutive shares excluded from the above reconciliation:				
/arrants	—	—	—	—
estricted stock units	471,541	556,602	44,362	555,981
erformance stock units (1)	464,272	667,365	—	667,365

(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.

12. 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	2015
New York City	2018
United Kingdom	2020
Italy	2019

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.

Consolidated Pretax Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
U.S.	$ (11)	$ (18)	$ (1)	$ (66)
Foreign	13	7	28	26
Total	**$ 2**	**$ (11)**	**$ 27**	**$ (40)**

1

Provision (Benefit) for Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Current taxes				
U. S. federal	$ —	$ 1	$ —	$ 1
U.S. state and local	—	—	—	—
Foreign	2	—	7	2
Total Current taxes	**2**	**2**	**7**	**4**
Deferred taxes				
Foreign	—	—	1	2
Total Deferred taxes	**—**	**—**	**1**	**2**
Provision for income taxes	**$ 2**	**$ 2**	**$ 7**	**$ 6**

As of June 30, 2024, the Company has (i) $ 3,532 of NOLs, which if not utilized will begin expiring in 2030, and will fully expire in 2045, and (ii) $ 186 of interest expense tax deduction carryover, which has an indefinite carryforward period but is limited in any particular year based on certain provisions.

13. EMPLOYMENT BENEFIT PLANS

Postretirement Health Care Benefits

Ambac provided a discretionary postretirement health benefit for certain employees who met predefined age and service requirements. This postretirement benefit required retirees to purchase their own medical insurance policy with a portion of their premium being reimbursed by Ambac. The postretirement plan was terminated in May 2024. Ambac elected to make a final one-time payment to certain plan beneficiaries in connection with the termination and accordingly, recognized a gain on such termination of $ 13 in the three and six months ending June 30, 2024, representing the amount of the accrued and deferred liabilities in excess of the final payment. This gain is included within Other income on the Consolidated Statements of Total Comprehensive Income (Loss).

14. COMMITMENTS AND CONTINGENCIES

The following commitments and contingencies provide an update of those discussed in *Note 19: 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, 2023, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

Litigation Against Ambac - Pending Cases

Monterey Bay Military Housing, LLC, et al. v. Ambac Assurance Corporation, et al. (United States District Court, Southern District of New York, Case No. 1:19-cv-09193-PGG, transferred on October 4, 2019 from the United States District Court, Northern District of California, San Jose Division, Case No. 17-cv-04992-BLF, filed August 28, 2017). On April 6, 2022, certain co-defendants filed a motion to sever the plaintiffs' claims and to dismiss all claims except for claims asserted by the Monterey Bay plaintiffs. On January 26, 2024, the court granted the parties leave to file motions for summary judgment; opening briefs were due March 22, 2024, while oppositions are due May 31, 2024 and replies on July 12, 2024. On February 29, 2024, the court denied co-defendants' motion to sever plaintiffs' claims. On March 22, 2024, defendants served opening motions for summary judgment against plaintiffs' claims in their entirety on multiple grounds, and plaintiffs served cross-motions for summary judgment on defendants' unclean hands defenses. The parties' summary judgment motions were fully briefed as of July 12, 2024 and are currently awaiting a decision from the Court.

In re National Collegiate Student Loan Trusts Litigation(Delaware Court of Chancery, Consolidated C.A. No. 12111, filed November 1, 2019). The Vice Chancellor entered a series of stays to facilitate good-faith settlement discussions, the most recent of which was entered on May 2, 2023, and stayed the matter through May 5, 2023. On April 25, 2024, the Administrator filed a status report stating that certain parties continue to negotiate a resolution to the various pending claims.

Litigation Against Ambac - General

AAC's estimates of projected losses for RMBS transactions consider, among other things, the RMBS transactions' payment waterfall structure, including the application of interest and principal payments and recoveries, and depend in part on our interpretations of contracts and other bases of our legal rights. From time to time, bond trustees and other transaction participants have employed different contractual interpretations and have commenced, or threatened to commence, litigation to resolve these differences. It is not possible to predict whether additional disputes will arise, nor the outcomes of any potential litigation. It is possible that there could be unfavorable outcomes in this or other disputes or proceedings and that our interpretations may prove to be incorrect, which could lead to changes to our estimate of loss reserves.

The Company periodically receives various regulatory inquiries and requests for information with respect to investigations and inquiries that such regulators are conducting. The Company has complied with all such inquiries and requests for information.

The Company is involved from time to time in various routine legal proceedings, including proceedings related to litigation with present or former employees. Although such litigation routine and incidental to the conduct of its business, such litigation can potentially result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages.

Everspan may be subject to disputes with policyholders or other third parties regarding the scope and extent of coverage offered under Everspan's policies, including disputes relating to Everspan's course of conduct in the handling of claims and settling or failing to settle claims (which can lead to bad faith and other forms of extra-contractual liability); be required to defend claimants in suits against its policyholders for covered liability claims; or enter into commercial disputes with its reinsurers, MGA/Us or third party claims administrators regarding their respective contractual obligations and rights. Under some circumstances, the results of such disputes or suits may lead to liabilities beyond those which are anticipated or reserved, including liabilities in excess of applicable policy limits.

From time to time, Ambac is subject to allegations concerning its corporate governance that may lead to litigation, including derivative litigation, and while the monetary impacts may not be material, the matters may distract management and the Board of Directors from their principal focus on Ambac's business, strategy and objectives.

It is not reasonably possible to predict whether additional suits will be filed or whether additional inquiries or requests for information will be made, and it is also not possible to predict the outcome of litigation, inquiries or requests for information. It is possible that there could be unfavorable outcomes in these or other proceedings. Legal accruals for litigation against the Company with losses that are probable and reasonably estimable are not material to the operating results or financial position of the Company. For the litigation matters the Company is defending that do not meet the “probable and reasonably estimable” accrual threshold and where no loss estimates have been provided, management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes. Under some circumstances, adverse results in any such proceedings could be material to our business, operations, financial position, profitability or cash flows. The Company believes that it has substantial defenses to the claims above and, to the extent that these actions proceed, the Company intends to defend itself vigorously; however, the Company is not able to predict the outcomes of these actions.

Litigation Filed or Joined by Ambac

CFPB v. Nat'l Collegiate Master Student Loan Trust (United States District Court, District of Delaware, Case No. 1:17-cv-01323, filed September 18, 2017). The CFPB filed an amended complaint on April 30, 2021. On May 21, 2021, the Trusts and several intervenors, including AAC, moved to dismiss the CFPB's amended complaint for failure to state a claim. On December 13, 2021, the court denied the Trusts' and intervenors' motions to dismiss the amended complaint. On December 23, 2021, the Trusts and several intervenors, including AAC, filed a motion seeking (i) an order certifying for interlocutory appeal the court's December 13, 2021 order denying the motion to dismiss the amended complaint, and (ii) a stay of the action pending resolution of any appeal. On January 26, 2022, the Trusts and several intervenors, including AAC, answered the CFPB's amended complaint, asserting several affirmative defenses and denying that the CFPB is entitled to relief from the Trusts. On February 11, 2022, the court certified its ruling on the motion to dismiss for interlocutory appeal to the U.S. Court of Appeals for the Third Circuit, and stayed the case pending appeal. On February 21, 2022, the Trusts and several intervenors, including AAC, filed a petition with the Third Circuit for permission to appeal the District Court's order denying their motion to dismiss the amended complaint. On April 29, 2022, the Third Circuit granted the Trusts' and intervenors' petition. The Third Circuit heard oral argument in the matter on May 17, 2023. On March 19, 2024, the Third Circuit issued an opinion holding that (1) the Trusts are covered persons subject to the Consumer Financial Protection Act's enforcement authority, and (2) the CFPB did not need to ratify the action. Also on March 19, 2024, the Third Circuit entered a judgment remanding the matter to the District Court for further proceedings consistent with its opinion. On March 25, 2024, the CFPB moved (1) to strike all answers filed by parties other than the Trusts, including AAC, and (2) to exclude all intervenors, including AAC, from further participation in the litigation. On May 3, 2024, the Trusts and certain Intervenors, including AAC, filed a petition for rehearing and rehearing en banc of the Third Circuit's March 19, 2024 decision, which the Third Circuit denied on May 21, 2024. On June 20, 2024, the District Court referred the case to a magistrate judge for alternative dispute resolution.

Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Ambac Assurance Corporation v. Alejandro Garcia Padilla, et al. (United States District Court, District of Puerto Rico No. 3:16-cv-01037, filed January 7, 2016). On January 7, 2016, AAC, along with co-plaintiffs Assured, filed a complaint for declaratory and injunctive relief to protect its rights against the illegal clawback of certain revenue by the Commonwealth of Puerto Rico. Defendants moved to dismiss on January 29, 2016. On October 4, 2016, the court denied the Defendants' motions to dismiss. On October 14, 2016, Defendants filed a Notice of Automatic Stay, asserting that Plaintiffs' claims have been rendered moot and further asserting that the case was automatically stayed under section 405 of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). On May 3, 2017, the Oversight Board filed a petition to adjust the Commonwealth's debts under Title III of PROMESA, resulting in an automatic stay of litigation against the Commonwealth. On May 17, 2017, the court issued an order staying this case until further order of the court. The January 18, 2022 confirmation of the Commonwealth Plan resolved this litigation. On June 6, 2024, the court dismissed this case with prejudice.

Ambac Assurance Corporation v. Puerto Rico Highways and Transportation Authority (United States District Court, District of Puerto Rico, No. 16-cv-1893, filed May 10, 2016). AAC filed a complaint against the PRHTA on May 10, 2016, alleging breach of fiduciary duty and breach of contract in connection with PRHTA's extension of an existing toll road concession agreement. The complaint alleges that it was inappropriate for PRHTA to enter into the extension agreement in its current state of financial distress because PRHTA has no control over, and is unlikely to receive, the proceeds of the transaction. AAC also filed related motions seeking the appointment of a provisional receiver for PRHTA and expedited discovery. On May 21, 2017, the Oversight Board filed a petition to adjust PRHTA's debts under Title III of PROMESA, resulting in an automatic stay of litigation against PRHTA. On May 24, 2017, the court issued an order staying this case until further order of the court. The settlements reached between AAC and the Oversight Board resolved this litigation, and the January 20, 2022 PRIFA QM provided for dismissal of this case. On June 12, 2024, the court dismissed this case with prejudice.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ($ and £ in millions)

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, 2023. Refer to Item 1. Business and Note 1. Business and Basis of Presentation 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:

OVERVIEW

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 June 30, 2024, and December 31, 2023, AFG's stand alone net assets, excluding its equity investments in subsidiaries are shown in the following table:

	June 30, 2024	December 31, 2023
Cash and short-term investments	$ 171	$ 153
Other investments [(1)]	32	33
Other net (liabilities) assets	(1)	23
Total	**$ 202**	**$ 209**

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

The decrease in AFG net assets, excluding its equity investments in subsidiaries, during 2024 was driven by diligence and other costs associated with the purchase of Beat and sale of AAC and other operating expenses, partially offset by net realized gains on strategic investments, interest income and distributions received from subsidiaries.

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AFG's subsidiaries/businesses are divided into three segments with results for the three and six months ended June 30, 2024, and 2023, as follows:

	Three Months Ended June 30, 2024					Three Months Ended June 30, 2023				
($ 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			$ 53		$ 53			$ 41		$ 41
Gross premiums written	$ 2	$ 111			113	$ 1	$ 53			55
Net premiums written	2	32			34	(54)	9			(45)
Total revenues	53	32	13	$ 6	105	39	11	10	$ 2	62
Total expenses	40	33	12	17	103	47	11	9	6	73
Pretax income (loss)	13	(1)	1	(11)	2	(8)	—	1	(4)	(11)
EBITDA	36	(1)	2	(11)	27	14	—	2	(4)	12
Ambac Stockholders' Equity (1)	939	122	105	202	1,368	823	112	92	223	1,250
Non-redeemable noncontrolling interest	51	—			51	51	2			53
Total stockholders' equity	990	122	105	202	1,419	874	114	92	223	1,303
Redeemable noncontrolling interest			17		17			20		20

	Six Months Ended June 30, 2024					Six Months Ended June 30, 2023				
	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			$ 144		$ 144			$ 118		$ 118
Gross premiums written	$ 4	$ 208			$ 211	$ 10	$ 105			$ 115
Net premiums written	$ 3	$ 59			$ 62	$ (45)	$ 18			$ (27)
Total revenues	$ 107	$ 61	$ 31	$ 8	$ 207	$ 71	$ 20	$ 25	$ 4	$ 120
Total expenses	$ 69	$ 61	$ 26	$ 24	$ 180	$ 111	$ 21	$ 20	$ 8	$ 160
Pretax income (loss)	$ 38	$ 1	$ 5	$ (16)	$ 27	$ (40)	$ (1)	$ 4	$ (3)	$ (40)
EBITDA (1)	$ 89	$ 1	$ 7	$ (16)	$ 81	$ 5	$ (1)	$ 6	$ (3)	$ 7

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

Sale of Consolidated National Insurance Company

On January 12, 2024, Everspan Insurance Company entered into a Stock Purchase Agreement with Hagerty Insurance Holdings, Inc., to sell its ownership interests in Consolidated National Insurance Company which is one of Everspan's admitted carriers. The closing of this transaction is subject to customary closing conditions, including obtaining regulatory approval from the Colorado Division of Insurance (such request for approval having been filed on February 12, 2024). Subject to the satisfactory completion of closing conditions, the closing is expected to occur in the third quarter of 2024.

Sale of AAC

On June 4, 2024, AFG entered into a stock purchase agreement with American Acorn Corporation (the “Buyer”), a Delaware corporation owned by funds managed by Oaktree Capital Management, L.P., pursuant to which and subject to the conditions set forth therein, AFG will sell all of the issued and outstanding shares of common stock of AAC, a wholly-owned subsidiary of AFG, to Buyer for aggregate consideration of $420 in cash (the "Sale"). The terms of the Sale as contemplated by the stock purchase agreement provide that, at the closing of the Sale (the “Closing”), Buyer will acquire complete common equity ownership of AAC and all of its wholly owned subsidiaries, including Ambac UK. In connection with and pursuant to the stock purchase agreement, AFG has agreed to issue to Buyer a warrant exercisable for a number of shares of common stock, par value $0.01, of AFG representing 9.9% of the fully diluted shares of AFG’s common stock as of March 31, 2024, pro forma for the issuance of the warrant The warrant will have an exercise price per share of $18.50 with a six and a half-year term from the date of issuance and will be immediately exercisable. Payment of the exercise price may be settled, at AFG’s option, by way of a cash exercise or by net share settlement. Refer to Note 1. Business and Basis of Presentation for further details on the pending sale of AAC.

This pending transaction has had no impact on the financial statements at June 30, 2024, other than incurred transaction expenses of approximately $5 and $7 for the three and six months ended June 30, 2024.

If the transaction was completed on June 30, 2024, Ambac would have reflected the below:

Fair value of consideration received (cash less estimated value of warrants issued)	$	404
Carrying value of noncontrolling interest		51
		455
Less: carrying amount of AACs net assets		987
Less: estimated incremental transaction expenses		15
	$	(547)
Reclassification of Accumulated Other Comprehensive Income to earnings	$	(168)
Total gain (loss on disposal) recognized in net income	$	(715)

If the transaction was completed on June 30, 2024, the impact of the sale of AAC on stockholders' equity would have been a reduction of $547.

Purchase of Beat

On June 4, 2024, AFG entered into a share purchase agreement (the “Beat Purchase Agreement”), by and among AFG, Cirrata V LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of AFG (the “Purchaser”), certain sellers set forth therein (the “Sellers”) and Beat, pursuant to which the Purchaser purchased from the Sellers approximately 60% of the entire issued share capital of Beat, for total consideration, as of the closing date, of approximately $278, of which approximately $249 was paid in cash and the remainder of which was satisfied through the issuance of 2,216,023 shares of AFG common stock. The acquisition closed with an effective date of July 31, 2024. Beat’s management team and Bain Capital Credit LP (“Bain” and, together with certain members of Beat’s management team, the “Rollover Shareholders”) each retained approximately 20% of Beat’s issued share capital immediately after closing. Refer to Note 1. Business and Basis of Presentation for further details on the acquisition of Beat.

Banking Sector Crisis of 2023

The collapse of several banks in early 2023 and extending into 2024 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 $35 as of June 30, 2024 and $27 as of December 31, 2023. Substantially all of these cash balances were uninsured as of June 30, 2024 and December 31, 2023 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 are $14 and $16 as of June 30, 2024 and December 31, 2023, respectively, of cash from 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. In addition, cash balances held by variable interest entities ("VIEs") that are consolidated in Ambac's financial statements as a result of Ambac's financial guarantees totaled $62 and $246 as of June 30, 2024 and December 31, 2023, respectively. These amounts relate primarily to cash collateral posted against derivative assets and reserve balances maintained under the VIEs' governing documents and are not directly managed by Ambac.

Ambac also has exposure to banks through its fixed maturity investment portfolio totaling $156 and $169 as of June 30, 2024 and December 31, 2023, 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 BBB+ as of June 30, 2024.

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 six months ended June 30, 2024 and 2023, included the following:

Six Months Ended June 30,		2024		2023
Net income [(1)]	$	(1)	$	(3)
Gain (losses) on foreign currency translation (net of tax)		(7)		37
Unrealized gains (losses) on non-functional currency available-for-sale securities (net of tax)		1		(4)
Impact on total comprehensive income (loss)	$	(7)	$	30

(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, 2023, for further information on the impact of future currency rate changes on Ambac's financial instruments.

SEC Final Rules on Climate Related Information

On March 6, 2024, the U.S. Securities and Exchange Commission (“SEC”) adopted *The Enhancement and Standardization of Climate-Related Disclosures for Investors* ("Final Rule"), which will require registrants to disclose extensive climate-related information in their Form 10-K annual reports and registration statements. The Final Rule was scheduled to become effective May 28, 2024; however, the SEC has voluntarily stayed the rule's effective date pending judicial review of legal challenges.

The compliance dates for accelerated filers for annual reports or registration statements that include financial statements for the year ending December 31 are phased in from 2026 through 2031. Depending on when the legal challenges are resolved, the compliance dates may be retained or delayed.

Ambac is reviewing the Final Rule and is currently assessing our related compliance obligations and other effects on our operations.

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, 2023.

FINANCIAL GUARANTEES IN FORCE

Financial guarantee products were sold in three principal markets: U.S. public finance, U.S. structured finance and international finance. 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, pre-refunded or synthetically commuted.

The following table provides a comparison of total, adversely classified credits ("ACC") and watch list credit net par outstanding in the insured portfolio at June 30, 2024 and December 31, 2023.

($ in billions)	June 30, 2024	December 31, 2023	Variance	
Total	$ 18,668	$ 19,541	$ (873)	(4)%
ACC	$ 2,708	$ 3,504	$ (796)	(23)%
Watch List	$ 2,620	$ 2,181	$ 439	20 %

The decrease in total and ACC net par outstanding resulted from active de-risking, scheduled maturities, amortizations, refundings and calls and a strengthening of the USD versus the GBP of $93 on the total net par outstanding. Additionally, we upgraded (from ACC to Watch List) one credit that has net par outstanding of $542 at June 30, 2024.

The following table provides a breakdown of guaranteed net par outstanding by market at June 30, 2024 and December 31, 2023.

	June 30, 2024	December 31, 2023
Public Finance (1)	$ 7,197	$ 7,562
Structured Finance	2,922	3,315
International Finance	8,549	8,664
Total net par outstanding	**$ 18,668**	**$ 19,541**

(1) Includes $3,338 and $3,371 of Military Housing net par outstanding at June 30, 2024 and December 31, 2023, 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 June 30, 2024:

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	$ 910	4.9 %
IF	AUK	PFI - Hospitals	UK-Infrastructure	BBB+	2046	740	4.0 %
IF	AUK	PFI - Accommodation	UK-Infrastructure	A-	2040	721	3.9 %
IF	AUK	Investor Owned Utility Other - unsecured	UK-Utility	A-	2035	702	3.8 %
IF	AUK	Other Asset Securitizations	UK-Asset Securitizations	BBB+	2033	651	3.5 %
IF	AUK	Investor Owned Utility Electric - unsecured	UK-Utility	BBB+	2036	629	3.4 %
IF	AUK	Sub-Sovereign	Italy-Sub-Sovereign	BBB-	2035	542	2.9 %
IF	AUK	PFI - Accommodation	UK-Infrastructure	A-	2038	463	2.5 %
PF	AAC	US State Lease/Appropriation	US-Lease and Tax-backed Revenue	BBB	2036	357	1.9 %
IF	AUK	PFI - Hospitals	UK-Infrastructure	BBB-	2040	308	1.6 %
Total						$ 6,023	32.4 %

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.

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Net par related to the top ten exposures decreased $68 from December 31, 2023. Exposures are impacted by changes in foreign exchange rates ($59 decrease during the six months ended June 30, 2024), certain indexation rates linked to inflation measures in the United Kingdom (RPI) and scheduled and unscheduled paydowns. As a result of recent increases in inflation, such indexation-linked exposures have increased at a faster pace than they have historically.

The concentration of net par amongst the top ten (as a percentage of net par outstanding) was 32% at June 30, 2024, and 31% at December 31, 2023. 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 $292 and a median net par outstanding of $5.

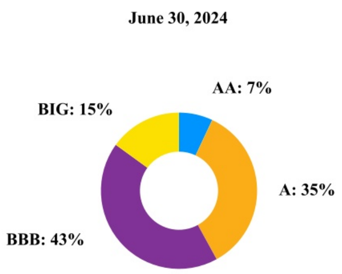
Exposure Currency

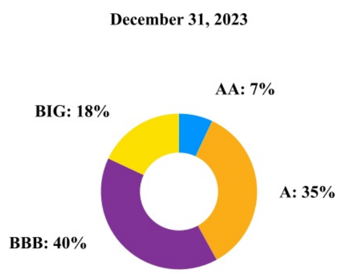
The table below shows the distribution by currency of Ambac's insured exposure as of June 30, 2024:

Currency		Net Par Amount Outstanding in Base Currency		Net Par Amount Outstanding in U.S. Dollars
U.S. Dollars	$	10,264	$	10,264
British Pounds	£	5,775		7,300
Euros	€	779		834
Australian Dollars	A$	405		270
Total			$	18,668

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 June 30, 2024 and December 31, 2023. BIG is defined as those exposures with an Ambac internal credit rating below BBB-:





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

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

Summary of Below Investment Grade Exposure:

	Net Par Outstanding			
Bond Type	June 30, 2024		December 31, 2023	
Public Finance:				
Military Housing	$	359	$	361
Lease and tax-backed revenue		78		80
General Obligations		77		85
Other		36		37
Total Public Finance		550		563
Structured Finance:				
RMBS		1,560		1,642
Student Loans		169		264
Total Structured Finance		1,729		1,906
International Finance:				
Transportation		292		307
Sovereign/sub-sovereign		116		693
Other		1		1
Total International Finance		409		1,001
Total	$	2,688	$	3,470

The net decline in below investment grade exposures is primarily due to de-risking activities and an upgrade of a sub-sovereign exposure.

Below investment grade exposures could increase as a relative proportion of the guarantee portfolio given that Ambac hasn't written any new financial guarantee business since 2008 and 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

Consolidated Results

A summary of our financial results is shown below:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023	
Gross premiums written	$	113	$	55	$	211	$	115
Net premiums written		34		(45)		62		(27)
Revenues:								
Net premiums earned	$	33	$	15	$	66	$	29
Commission income		13		10		31		25
Program fees		3		2		6		4
Net investment income		36		35		78		69
Net investment gains (losses), including impairments		4		(3)		4		(8)
Net gains (losses) on derivative contracts		—		—		2		(3)
Income (loss) on variable interest entities		—		—		2		(1)
Other income		16		2		18		5
Expenses:								
Losses and loss adjustment expenses (benefit)		18		7		16		25
Amortization of deferred acquisition costs, net		5		1		10		3
Commission expense		8		6		18		14
General and administrative expenses		47		36		83		72
Intangible amortization		8		7		21		13
Interest expense		16		16		32		32
Provision for income taxes		2		2		7		6
Net income (loss)		(1)		(13)		20		(46)
Less: net (gain) attributable to noncontrolling interest		—		—		(1)		(1)
Net income (loss) attributable to common stockholders	$	(1)	$	(13)	$	19	$	(47)

The following paragraphs describe the consolidated results of operations of Ambac and its subsidiaries for the three and six months ended June 30, 2024 and 2023, respectively.

Gross Premiums Written. Gross premiums written increased $58 and $96 for the three and six months ended June 30, 2024, compared to the same period in the prior year, as shown by segment below.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023	
Legacy Financial Guaranty Insurance	$	2	$	1	$	4	$	10
Specialty Property & Casualty Insurance		111		53		208		105
Total	$	113	$	55	$	211	$	115

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 Written. Net premiums written increased $79 and $89 for the three and six months ended June 30, 2024, compared to the same period in the prior year, as shown by segment below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Legacy Financial Guaranty Insurance	$ 2	$ (54)	$ 3	$ (45)
Specialty Property & Casualty Insurance	32	9	59	18
Total	**$ 34**	**$ (45)**	**$ 62**	**$ (27)**

Legacy Financial Guarantee Insurance net premiums written in the three and six months ended June 30, 2023 were impacted by a significant reinsurance cession as part of its de-risking activities.

Specialty P&C growth was driven by new programs, including assumed premium written by Everspan as a reinsurer, and growth in existing programs.

Net Premiums Earned. Net premiums earned increased $17 and $36 for the three and six months ended June 30, 2024, compared to the same period in the prior year as shown by segment below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Legacy Financial Guaranty Insurance	$ 6	$ 8	$ 13	$ 14
Specialty Property & Casualty Insurance	27	8	53	15
Total	**$ 33**	**$ 15**	**$ 66**	**$ 29**

The increase in Specialty Property & Casualty Insurance was driven by new programs, including premiums earned via assumed reinsurance, 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 3. 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Securities available-for-sale and short-term other than Ambac-insured	$ 20	$ 16	40	32
Other investments (includes trading securities)	10	14	26	27
Securities available-for-sale: Ambac-insured (including secured notes)	6	6	$ 12	$ 11
Net investment income (loss)	**$ 36**	**$ 35**	**$ 78**	**$ 69**

Net investment income (loss) increased $1 and $9 for the three and six months ended June 30, 2024 compared to the prior year period.

- Net investment income from available-for-sale and short-term securities, other than Ambac-insured increased $4 and $8 for the three and six months ended June 30, 2024, respectively, compared to the same periods in the prior year due primarily to higher portfolio yields.
- Other investments income (loss) decreased $3 and $1 for the three and six months ended June 30, 2024, respectively, compared to the same periods in the prior year due primarily to a smaller increase in fair value of securities received in the Puerto Rico restructurings and classified as trading. Income from pooled fund investments for the three and six months ended June 30, 2024, was also lower compared to the prior year periods, which benefited from above average equity market returns.
- Net investment income from Ambac-insured securities for the three and six months ended June 30, 2024, increased less than $1 and $2 compared to prior year periods due to additional purchases of AAC-insured student loan securities during 2023. A significant majority of these student loan securities were transferred to a non-consolidated trust in March 2024 in connection with the commutation of the associated AAC financial guarantees.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net gains (losses) on securities sold or called	$ 6	$ (1)	$ 6	$ (3)
Net foreign exchange gains (losses)	(1)	(2)	(1)	(4)
Credit impairments	(2)	—	(1)	(1)
Intent / requirement to sell impairments	—	—	—	—
Net investment gains (losses), including impairments	$ 4	$ (3)	$ 4	$ (8)

Net gains (losses) on securities sold or called for the three and six months ended June 30, 2024 were driven by gains from the conversion and early settlement of certain convertible notes, including make-whole payments.

Credit impairments on available-for-sale fixed maturity investments 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. Credit impairments for the three and six months ended June 30, 2024 also included a write-down in carrying value of $1 on an investment in preferred securities that do not have a readily determinable fair value and are carried at cost less impairments.

Net Gains (Losses) on Derivative Contracts. Net gains (losses) on derivative contracts are driven primarily by results from the Company's legacy 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 fully removed during the second quarter of 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 does 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 six months ended June 30, 2024, were $0 and $2, respectively, compared to $0 and $(3) for the three and six months ended June 30, 2023. Results for the three and six months ended June 30, 2024 and 2023 include the effect of changes to counterparty credit adjustments as described below. Additionally, the three and six months ended June 30, 2023, included losses of $(1) and $(3), respectively related to declines in interest rates during the period.

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 $1 and $2 for the three and six months ended June 30, 2024, respectively and $1 and $0 for the three and six months ended June 30, 2023, respectively. The counterparty credit adjustments for both periods were driven primarily by changes to the underlying asset values.

Commission Income and Commission Expense. Commission income for the three and six months ended June 30, 2024, was $13 and $31 compared to $10 and $25, for the three and six months ended June 30, 2023. Commissions include both base and profit sharing commissions of the Insurance Distribution segment. The increase was primarily driven by commissions earned by Riverton Insurance Agency, which was purchased in August 2023, and organic growth. Gross commission income has an accompanying expense, commission expense, which will largely track changes in gross commission. For the three and six months ended June 30, 2024, commission expense of $8 and $18 compared to $6 and $14 in three and six months ended June 30, 2023, 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 LFG-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 LFG-VIEs during the periods reported. Generally, the Company's consolidated LFG-VIEs are entities for which Ambac has provided financial guarantees on all of or a portion of its assets or liabilities.

Income (loss) on variable interest entities was $0 and $2 for the three and six months ended June 30, 2024, compared to $0 and $(1) for the three and six months ended June 30, 2023. Results for the six months ended June 30, 2024 increased from the prior year period due lower net interest expense on Puerto Rico VIEs and inclusion of contract revenues from a LFG-VIE initially consolidated in the fourth quarter 2023, partially offset by lower fair value gains on the net assets of other LFG-VIEs.

Refer to *Note 8. 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 LFG- VIEs.

Losses and Loss Adjustment Expenses (Benefit). Loss and loss expenses incurred increased $10 and decreased $9 for the three and six months ended June 30, 2024, compared to the same period in the prior year. The below provides the breakout of loss and loss expenses by segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Legacy financial guarantee	$ (5)	$ 2	$ (26)	15
Specialty property and casualty insurance	23	6	42	10
Total	$ 18	$ 7	16	25

The variance within legacy financial guarantee was driven by activities in the RMBS portfolio in both years. The primary driver was largely the positive impact of discount rates in 2024 compared to the negative impact of discount rates in 2023.

The higher loss and loss adjustment expenses in Specialty P&C is primarily due to an increase business production from new and existing programs as well as adverse development on its commercial auto program and the addition of personal nonstandard auto.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Compensation	$ 17	$ 18	$ 34	$ 34
Non-compensation	30	18	49	38
Total G&A expenses	$ 47	$ 36	83	72

The decrease in Compensation G&A expenses during the three and six months ended June 30, 2024, was due to lower current year period expenses for severance costs and incentive compensation expense, including the impact of performance factor adjustments on stock-based compensation; offset by 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.

The increase in Non-Compensation G&A expenses during the three and six months ended June 30, 2024, as compared to the three and six months ended June 30, 2023, was due to expenses associated with the strategic review of the Legacy Financial Guarantee Insurance segment and growth of the Specialty Property & Casualty Insurance and Insurance Distribution segments; offset by lower Legacy Financial Guarantee Insurance segment's legal defense costs. For the three and six months ended June 30, 2024, expenses attributable to the sale of AAC and the acquisition of Beat aggregated $16 and $18 compared to $0 and $1 for the three and six months ended June 30, 2023, respectively.

Intangible Amortization. Insurance intangible amortization for the three and six months ended June 30, 2024, was $7 and $18 an increase of $1 and $7 as compared to the the three and six months ended June 30, 2023. The increase for the three and six months ended June 30, 2024, was driven primarily by de-risking activities. Other intangible amortization for the three and six months ended June 30, 2024, was $1, and $1 and $1 and $2 for the three and six months ended June 30, 2023, respectively.

Interest Expense. All interest expense relates to the Legacy Financial Guarantee Insurance segment and includes accrued interest on the 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Surplus notes	$ 16	$ 16	$ 31	$ 31
Tier 2 Notes	—	—	—	1
Other (principally Ambac UK)	—	—	1	1
Total interest expense	$ 16	$ 16	$ 32	$ 32

Interest expense for the six months ended June 30, 2024 decreased compared to the six months ended June 30, 2023, due to the final redemption of Tier 2 secured notes in the first quarter of 2023.

As required by the terms of surplus notes and/or otherwise, AAC will continue to seek OCI's approval to make payments of principal and interest on its surplus notes. AAC intends to make these requests at least four times a year with respect to payment of a partial amount, as well as the full amount, of the principal and interest then due, unless otherwise directed by OCI. OCI's approval of AAC's requests for surplus note payments may be granted or denied in OCI's sole discretion. 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. Ambac can provide no assurance as to when or if surplus note principal and interest payments will be made. If OCI does not approve payments on or the acquisition of surplus notes over time, the ongoing accretion of interest on the notes may impair AAC's ability to extinguish the notes in full. Surplus notes are subordinated in right of payment to policyholder and other claims.

AAC's recent request to pay principal of, and interest on, surplus notes on the scheduled payment date of June 7, 2024, was denied by OCI. As a result, the scheduled payment date for interest, and the scheduled maturity date for payment of principal of the surplus notes, has been extended until OCI grants approval to make such 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 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. Interest on the outstanding surplus notes was 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 was $500 at June 30, 2024.

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Provision for Income Taxes. The provision for income taxes primarily relates to international operations and was $2 and $7 for the three and six months ended June 30, 2024, compared to $2 and $6 for the three and six months ended June 30, 2023, an increase of $1 for the quarter.

Results of Operations by Segment

Legacy Financial Guarantee Insurance

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenues:				
Net premiums earned	$ 6	$ 8	$ 13	$ 14
Net investment income	32	32	70	63
Net investment gains (losses), including impairments	(1)	(3)	—	(8)
Net gains (losses) on derivative contracts	1	1	2	(3)
Other income	16	2	21	4
Total	53	39	107	71
Expenses:				
Loss and loss expenses (benefit)	(5)	2	(26)	15
General and administrative expenses	22	23	44	52
Total	17	25	18	66
Earnings before interest, taxes, depreciation and amortization (1)	36	14	89	5
Interest expense	16	16	32	32
Depreciation	—	—	—	1
Intangible amortization	7	6	18	11
Pretax income (loss)	$ 13	$ (8)	$ 38	$ (40)
Stockholders equity (2)	$ 939	$ 823		

(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 is primarily driven by (i) change in loss and loss expenses resulting from, among other items, credit developments, interest rates and de-risking transactions (may also impact intangible amortization) 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 $2 and $1 for the three and six months ended June 30, 2024, 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 net premiums earned.

Other Revenue Items.

Net investment income increased $0 and $7 for the three and six months ended June 30, 2024, compared to the prior year period, driven by higher yields in fixed income, offset by lower fair value gains on other investments, including fixed maturity securities classified as trading.

Net investment gains (losses), including impairments improved $2 and $8 for the three and six months ended June 30, 2024, compared to the prior year periods, primarily as a result of lower foreign exchange losses on US dollar denominated securities held by Ambac UK and net losses on sales in the prior year periods.

Net gains (losses) on derivatives for the three and six months ended June 30, 2024 declined $1 and improved $4, respectively, compared to the prior year periods mostly driven by the impact of counterparty credit adjustments on certain derivative assets. Additionally, the six months ended June 30, 2023 included losses on positions held as partial hedges against interest rate risk elsewhere in the Legacy Financial Guarantee segment. Ambac has exited the derivative positions that led to the first half 2023 losses. See Consolidated Results above for further information about investment and derivative results.

Other income increased $13 and $17 for the three and six months ended June 30, 2024, respectively, primarily related to the termination of a postretirement plan. The gain represents the amount of the accrued and deferred liabilities in excess of the final payment made under the plan.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Structured Finance	$ (5)	$ 1	$ (21)	$ 21
Domestic Public Finance	4	(2)	1	1
Other, including International Finance	(4)	2	(6)	(7)
Totals	$ (5)	$ 2	$ (26)	$ 15

Loss and loss adjustment expenses (benefit) for the three and six months ended June 30, 2024, were largely driven by the positive impact of discount rates on the structured insurance portfolio, and assumption changes in the international portfolio, partially offset by adverse development in the public finance portfolio.

Loss and loss expenses (benefit) for the the six months ended June 30, 2023, were largely driven by the RMBS portfolio resulting from a first quarter 2023 decline in discount rates, partially offset by assumption changes in the international portfolio.

G&A Expenses. Segment G&A expenses decreased during the three and six months ended June 30, 2024, as compared to the three and six months ended June 30, 2023, primarily due to lower legal defense costs and compensation costs than the prior year period, partially offset by the timing of the reimbursement of $4 of expenses paid to the Corporate segment (2023 was paid in in the first quarter of 2023 and 2024 was paid in the second quarter of 2024). These relative reductions in expenses were also partially offset by expenses incurred in the first quarter of 2024 related to the strategic review of the Legacy Financial Guarantee segment.

Specialty Property and Casualty Insurance

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023	
Gross premiums written	$	111	$	53	$	208	$	105
Net premiums written		32		9		59		18
Revenues:								
Net premiums earned	$	27	$	8	$	53	$	15
Program fees		3		2		6		4
Investment income		1		1		3		2
Net investment gains (losses), including impairments		—		—		—		—
Total		32		11		61		20
Expenses:								
Losses and loss expenses incurred		23		6		42		10
Amortization of deferred acquisition costs, net		5		1		10		3
General and administrative expenses		5		4		8		8
Total		33		11		61		21
EBITDA		(1)	$	—		1	$	(1)
Pretax income (loss)	$	(1)	$	—	$	1	$	(1)
Retention Ratio (1)		29.0%		17.1%		28.2%		17.4%
Loss and LAE Ratio (2)		85.1%		73.7%		80.5%		70.4%
Expense Ratio (3)		24.3%		39.0%		23.5%		46.7%
Combined Ratio (4)		109.4%		112.7%		104.0%		117.1%
Ambac's stockholders equity (5)	$	122	$	112				

(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) Expense Ratio is defined as acquisition costs and general and administrative expenses, reduced by program fees divided by net premiums earned

(4) Combined ratio is defined as Loss and LAE ratio plus Expense Ratio

(5) 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-three programs were authorized to issue policies as of June 30, 2024, including Everspan participating on two programs 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 six months ended June 30, 2024, relative to the three and six months ended June 30, 2023. Everspan's loss ratio (including ULAE) was 85.1% at June 30, 2024, versus 73.7% at June 30, 2023, inclusive of prior accident years development of 6.9% and 4.2%, respectively and the impact of reserve strengthening in the current accident year of 4.2% for the three months ended June 30, 2024 primarily related to commercial auto. The shift in the loss ratio was driven by commercial auto losses, the addition of personal nonstandard auto (through assumed reinsurance), excess auto claims and other liability claims. Everspan's loss ratio may fluctuate as the still nascent inforce book of business scales and seeks to achieve benefits from diversification. The increase in the Loss and LAE ratio for the three months ended June 30, 2024, compared to June 30, 2023, was partially offset by a benefit to acquisition costs as a result of sliding scale commission arrangements with program partners. Such benefit reduced the Specialty Property and Casualty Insurance segments expense ratio by 5.6% and 4.2% for the three months ended June 30, 2024 and 2023, respectively. Certain Everspan programs were structured to include sliding scale commission arrangements within a loss ratio range. These sliding scale arrangements help mitigate losses, protect underwriting results and limit earnings volatility. In June 2024, one of Everspan's commercial auto program partners agreed with Everspan to temporarily suspend underwriting new business in order for the parties and Everspan's reinsurers to review pricing and loss controls in advance of considering the program's renewal.

Loss and loss expenses incurred may be adversely impacted by economic and social inflation. The impact of inflation on ultimate loss reserves is difficult to estimate, particularly in light of recent disruptions to the judicial system, supply chains and labor markets. In addition, going forward, we may not be able to offset the impact of inflation on our loss costs with sufficient price increases. The estimation of loss reserves may also be more difficult during extreme events, such as a pandemic, or during the persistence of volatile or uncertain economic conditions, due to, amongst other reasons, unexpected changes in behavior of 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 adjustment expenses will likely be higher or lower than the related loss reserves at the reporting date. In addition, our estimate of losses and loss expenses may change. These additional liabilities or increases in estimates, or a range of either, could vary significantly from period to period.

General and administrative costs were flat for the three and six months ended June 30, 2024, relative to the three and six months ended June 30, 2023, as increases from the ramp up in Everspan's staffing and operations was mostly offset by the timing of incentive compensation accruals.

Insurance Distribution

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Premiums placed	$ 53	$ 41	$ 144	$ 118
Commission income	$ 13	$ 10	$ 31	$ 25
Commission expense	8	6	18	14
Net commissions	5	4	13	11
Expenses:				
General and administrative expenses (1)	3	2	6	5
EBITDA	2	**2**	**7**	**6**
Depreciation (1)	—	—	—	—
Intangible amortization	1	1	2	2
Pretax income (loss)	$ 1	$ 1	$ 5	$ 4
Ambac's stockholders equity (2)	$ 105	$ 92		

(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.

The Insurance Distribution segment placed premiums for its carriers of approximately $53 and $144 for the three and six months ended June 30, 2024, up $12 and $25 or 31% and 21%, respectively, as compared to the three and six months ended June 30, 2023. Higher premiums placed were driven by the acquisition of Riverton Insurance Agency and organic growth. The increase in premiums placed and changes to the mix of business written led to the growth in commission income and commission expense of 32% and 31%, 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. 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 six months ended June 30, 2024, increased compared to the three and six months ended June 30, 2023, primarily as a result of the Riverton acquisition.

LIQUIDITY AND CAPITAL RESOURCES

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 at June 30, 2024. AFG's liquidity is primarily dependent on its net assets, excluding the operating subsidiaries that it owns, totaling $202 as of June 30, 2024, and secondarily on distributions, expense sharing payments from its operating subsidiaries and third party capital (credit facilities, equity issuance, etc.).

- Effective July 31, 2024, AFG closed the acquisition of a controlling 60% interest in Beat. In connection with the acquisition, Cirrata incurred $150 of debt maturing in 364 days funded by a global bank (the "Credit Facility"). Repayment of debt under the Credit Facility is guaranteed by AFG. It is AFG's intent to repay this debt upon the closing of the sale of AAC or otherwise refinance such short-term debt with longer-term debt.
- 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 was approved by OCI and was paid to AFG during the second quarter of 2024. As further described in Note 1. Business and Basis of Presentation, AFG entered into a stock purchase agreement, pursuant to which and subject to the conditions set forth therein, AFG will sell all of the issued and outstanding shares of common stock of AAC. The sale of AAC is expected to close in the fourth quarter of 2024 or the first quarter of 2025 and, accordingly, it is unlikely for AFG to receive this reimbursement in the future.
- If AFG were to not sell AAC, its ability to receive dividends from AAC and the timing of any such potential dividends would depend on the results of the OCI Capital Model, regulatory approval and the satisfaction of certain obligations senior to AFG's equity interest (e.g. surplus notes).
- Subject to the approvals required for the sale of AAC as described in Note 1. Business and Basis of Presentation, AFG will receive $420 of proceeds at closing less applicable legal, advisory and other expenses incurred in connection with the sale.
- 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 $4.7 and $3.6 during the six months ended June 30, 2024 and 2023.

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, including through the acquisition of noncontrolling interests as a result of the exercise of outstanding puts and/or calls. Including the acquisition of Beat, funding these puts, calls and other commitments could require payments from AFG, depending on the performance of the underlying businesses and other considerations, of approximately $350 through 2030. 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 and expected funding sources of AFG are currently sufficient to meet AFG's current liquidity requirements. However, events, opportunities, acquisitions, the exercise of puts and calls, the need to refinance outstanding debt, or other circumstances could require AFG to seek additional capital (e.g. through the issuance of debt, equity or hybrid securities).

The Credit Facility includes covenants that restrict our ability to manage capital resources by limiting, among other actions, the issuance of debt or capital stock; the creation of liens; the disposition of assets; engaging in transactions with affiliates; making restricted payments, including dividends and the purchase or redemption of capital stock; and making acquisitions and other investments. The Credit Facility also requires the prepayment of the borrowings thereunder with proceeds of certain debt or equity issuances and certain asset sales. These requirements will impact our financial and operational flexibility while the Credit Facility remains in place.

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 5. 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.

- As required by the terms of surplus notes and/or otherwise, AAC will continue to seek OCI's approval to make payments of principal and interest on its surplus notes. AAC intends to make these requests at least four times a year with respect to payment of a partial amount, as well as the full amount, of the principal and interest then due, unless otherwise directed by OCI. OCI's approval of AAC's requests for surplus note payments may be granted or denied in OCI's sole discretion. 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. Ambac can provide no assurance as to when or if surplus note principal and interest payments will be made. If OCI does not approve payments on or the acquisition of surplus notes over time, the ongoing accretion of interest on the notes may impair AAC's ability to extinguish the notes in full. Surplus notes are subordinated in right of payment to policyholder and other claims.
- As discussed more fully in "Results of Operations" above in this Management's Discussion and Analysis, AAC requested approval from OCI to pay principal of, and interest on, the surplus notes on June 7, 2024, but such request was declined. 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 $500 of accrued and unpaid interest all or a portion of which would be payable on surplus notes if approved by OCI on or before the next scheduled payment date of June 7, 2025.
- 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.

Six Months Ended June 30,	2024	2023
Cash provided by (used in):		
Operating activities	$ 32	$ 101
Investing activities	(120)	489
Financing activities (1)	(89)	(343)
Foreign exchange impact on cash and cash equivalents	—	1
Net cash flow	**$ (178)**	**$ 248**

(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 $0 and $108 from such AAC payments, for the six months ended June 30, 2024 and 2023, respectively.

Operating activities

Net cash provided by operating activities during the six months ended June 30, 2024 and 2023 was $32 and $101, respectively. During the six months ended June 30, 2023, Ambac received proceeds from a R&W settlement and repaid the remaining secured debt outstanding (net operating cash inflows of $90). Operating cash flows in the six months ended June 30, 2024 were positively impacted by the growth in the Specialty P&C Insurance business and higher investment portfolio inflows, partially offset by transaction related costs for the acquisition of Beat and the sale of AAC.

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 six months ended June 30, 2024, included paydowns and maturities of VIE debt obligations of $87.

Financing activities for the six months ended June 30, 2023, included payments for redemption of Tier 2 Notes of $97 and paydowns and maturities of VIE debt obligations of $235 (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. Since the second quarter of 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. All collateral obligations are currently met. Collateral posted by AFS totaled a net amount of $44 (cash and securities collateral of $25 and $18, respectively), including independent amounts, under these contracts at June 30, 2024.

BALANCE SHEET

Total assets decreased by $244 from December 31, 2023, to $8,184 at June 30, 2024, primarily due to lower VIE assets partially offset by increases in premium receivables, reinsurance recoverables and deferred ceded premiums as a result of growth in the specialty P&C businesses.

Total liabilities decreased by approximately $248 from December 31, 2023, to $6,748 as of June 30, 2024, primarily due to decreases in VIE liabilities; partially offset by higher unearned premiums, deferred program fees and ceded premium payables from the specialty P&C businesses.

As of June 30, 2024, total stockholders' equity was $1,419, compared with total stockholders' equity of $1,415 at December 31, 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, 2023, 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.

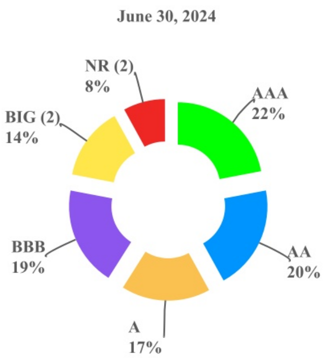
The following table summarizes the composition of Ambac's investment portfolio, excluding VIE investments, at carrying value at June 30, 2024 and December 31, 2023:

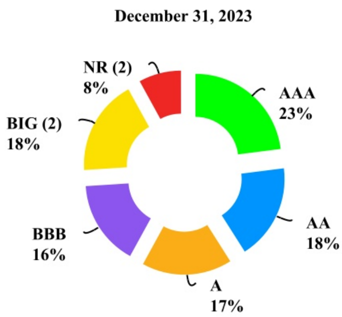
	June 30, 2024					December 31, 2023				
	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consolidated	Legacy Financial Guarantee Insurance	Specialty Property & Casualty Insurance	Insurance Distribution	Corporate & Other	Consolidated
Fixed maturity securities	$ 1,567	$ 137	$ —	$ —	$ 1,703	$ 1,575	$ 121	$ —	$ 14	$ 1,710
Fixed maturity securities - trading	31	—	—	—	31	27	—	—	—	27
Short-term	105	43	5	161	314	225	41	4	156	426
Other investments	526	—	—	32	558	457	—	—	18	475
Fixed maturity securities pledged as collateral	25	—	—	—	25	27	—	—	—	27
Total investments (1)	**$ 2,254**	**$ 180**	**$ 5**	**$ 193**	**$ 2,632**	**$ 2,310**	**$ 162**	**$ 4**	**$ 188**	**$ 2,664**

(1) Includes investments denominated in non-US dollar currencies with a fair value of £344 ($435) and €21 ($23) as of June 30, 2024 and £342 ($436) and €25 ($27) as of December 31, 2023.

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 3. 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 June 30, 2024 and December 31, 2023:





(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 17% and 21% of the June 30, 2024, and December 31, 2023, combined fixed maturity portfolio, respectively.

Premium Receivables

Ambac's premium receivables increased to $317 at June 30, 2024, from $290 at December 31, 2023. The increase is primarily due to growth in the Specialty P&C Insurance Segment, including receivables related to the programs where Everspan participates as a reinsurer. At June 30, 2024, Legacy Financial Guarantee Insurance and Specialty P&C premiums receivables were $232 and $85, respectively.

Premium receivables by payment currency were as follows:

Currency	Premium Receivable in Payment Currency	Premium Receivable in U.S. Dollars
U.S. Dollars	$ 235	$ 235
British Pounds	£ 55	70
Euros	€ 11	12
Total		$ 317

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 $66 from its reinsurers at June 30, 2024. Additionally, while legacy liabilities from the recent Specialty P&C 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 June 30, 2024 and December 31, 2023, reinsurance recoverable on paid and unpaid losses were $277 and $195, 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 $226 at June 30, 2024, (ii) intangible assets established as part of acquisitions in the Insurance Distribution business of $45 at June 30, 2024, (iii) indefinite-lived intangible assets in the Specialty P&C business as part of its acquisitions of $14 at June 30, 2024.

As of June 30, 2024 and December 31, 2023, intangible assets were $285 and $307, respectively. The decline is primarily driven by amortization during the six months ended June 30, 2024.

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, 2023, for further information on loss and loss expenses.

The loss and loss expense reserves, net of subrogation recoverables and before reinsurance as of June 30, 2024 and December 31, 2023, were $762 and $756, respectively.

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

	June 30, 2024:					December 31, 2023:				
	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	$ 286	$ 669	$ (51)	$ (14)	$ 890	$ 197	$ 779	$ (55)	$ (28)	$ 893
Subrogation recoverable	—	7	(136)	—	(128)	—	1	(139)	—	(137)
Totals	$ 286	$ 676	$ (186)	$ (14)	$ 762	$ 197	$ 780	$ (194)	$ (28)	$ 756

Legacy Financial Guarantee Insurance:

Ambac has exposure to various bond types issued in the debt capital markets. The bond types that have experienced significant claims, including through commutations, are 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 60%. 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 June 30, 2024 and December 31, 2023:

	June 30, 2024:					December 31, 2023:				
		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	$ 1,711	$ 596	$ (166)	$ (7)	$ 424	$ 1,860	$ 679	$ (172)	$ (10)	$ 497
Domestic Public Finance	726	76	(8)	(7)	61	834	82	(8)	(8)	66
Other, including International finance	144	1	(13)	—	(12)	1,144	15	(13)	(10)	(8)
Loss expenses	—	3	—	—	3	—	4	—	—	4
Totals	$ 2,581	$ 676	$ (186)	$ (14)	$ 476	$ 3,838	$ 780	$ (194)	$ (28)	$ 559

(1) Ceded par outstanding on policies with loss reserves and ceded loss and loss expense reserves were $279 and $26 respectively, at June 30, 2024, and $362 and $30, respectively at December 31, 2023. 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 June 30, 2024, 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 "Variability of Expected Losses and Recoveries" in Part II, Item 7 of the Company's 2023 Annual Report on Form 10-K, and Part II, Item 1A "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.

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. 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.

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 June 30, 2024, could be approximately $50 and there can be no assurance that losses may not exceed such amounts.

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 June 30, 2024, the sum of all the highest stress case loss scenarios is $185 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 $45 greater than the loss reserves at June 30, 2024. 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 June 30, 2024 and December 31, 2023 is below:

	June 30, 2024	December 31, 2023
Surplus notes	$ 495	$ 491
Ambac UK debt	17	17
Total Long-term Debt	**$ 512**	**$ 508**

The increase in long-term debt from December 31, 2023, resulted from accretion on the carrying value of surplus notes and Ambac UK debt.

VARIABLE INTEREST ENTITIES

Please refer to Note 8. 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, 2023, 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

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, 2023.

Ambac Assurance Corporation

AAC’s statutory policyholder surplus and qualified statutory capital (defined as the sum of policyholders surplus and mandatory contingency reserves) were $894 and $1,197 at June 30, 2024, respectively, as compared to $897 and $1,201 at December 31, 2023, respectively. As of June 30, 2024, 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 $500 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 $6 for the six months ended June 30, 2024.

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 $106 at June 30, 2024, as compared to $108 at December 31, 2023. The drivers within the period was net loss at Everspan Indemnity Insurance Company, including its subsidiaries, of $1 during the six months ended June 30, 2024, in addition to a reduction in policyholders surplus for changes in capital contributions, primarily related to incentive compensation awards.

AMBAC UK FINANCIAL RESULTS UNDER UK ACCOUNTING PRINCIPLES

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 £505 at June 30, 2024, as compared to £489 at December 31, 2023. At June 30, 2024, the carrying value of cash and investments was £546, a increase from £535 at December 31, 2023. The increase in shareholders’ funds and cash and investments was primarily due to the continued receipt of premiums, investment gains and foreign exchange gains, partially offset by 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 and eligible capital resources under Solvency II, to meet solvency capital requirements, were £448 at June 30, 2024, the most recently published position. Eligible capital resources at June 30, 2024, were in comparison to regulatory capital requirements of £213. Therefore, Ambac UK was in a surplus position in terms of compliance with applicable regulatory capital requirements by £235 at June 30, 2024.

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. In connection with the sale of AAC and the acquisition of Beat, management is considering making changes to the current non-GAAP measures which, if any, may occur in future reporting periods.

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 June 30, 2024					Three Months Ended June 30, 2023				
	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)	$ 11	$ (1)	$ 1	$ (11)	$ (1)	$ (9)	$ —	$ 1	$ (4)	$ (13)
Adjustments:										
Interest expense	16	—	—	—	16	16	—	—	—	16
Income taxes	3	—	—	—	2	2	—	—	—	2
Depreciation	—	—	—	—	1	—	—	—	—	—
Amortization of intangible assets	7	—	1	—	8	6	—	1	—	7
EBITDA (1)	$ 36	$ (1)	$ 2	$ (11)	$ 27	$ 14	$ —	$ 2	$ (4)	$ 12

(1) EBITDA is prior to the impact of noncontrolling interests, and relates to subsidiaries where Ambac does not own 100% in the amounts, of \$0.4 and \$0.3 for the three months ended June 30, 2024 and 2023, respectively. These noncontrolling interests are in the Insurance Distribution segment.

	Six Months Ended June 30, 2024					Six Months Ended June 30, 2023				
	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)	$ 31	$ 1	$ 5	$ (16)	$ 20	$ (45)	$ (1)	$ 4	$ (4)	$ (46)
Adjustments:										
Interest expense	32	—	—	—	32	32	—	—	—	32
Income taxes	7	—	—	—	7	5	—	—	—	6
Depreciation	—	—	—	1	1	1	—	—	—	1
Amortization of intangible assets	18	—	2	—	21	11	—	2	—	13
EBITDA	$ 89	$ 1	$ 7	$ (16)	$ 81	$ 5	$ (1)	$ 6	$ (3)	$ 7

(1) EBITDA is prior to the impact of noncontrolling interests, and relates to subsidiaries where Ambac does not own 100% in the amounts, of \$1.4 and \$1.2 for the six months ended June 30, 2024 and 2023, 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 June 30,	**2024**		**2023**	
($ in millions, except share data)	**$ Amount**	**Per Share**	**$ Amount**	**Per Share**
Net income (loss) attributable to common shareholders	**$ (1)**	**$ (0.02)**	**$ (13)**	**(0.29)**
Adjustments:				
Net investment (gains) losses, including impairments	**(4)**	**(0.08)**	3	0.07
Intangible amortization	**8**	**0.18**	7	0.14
Litigation costs	**5**	**0.10**	8	0.17
Foreign exchange (gains) losses	**—**	**0.01**	—	—
Workforce change costs	**—**	**—**	—	—
Pretax adjusted net income (loss)	**9**	**$ 0.19**	4	$ 0.09
Income tax effects	**—**	**(0.01)**	(1)	(0.02)
Net (gains) attributable to noncontrolling interests	**—**	**—**	—	—
Adjusted Net Income (Loss)	**$ 8**	**$ 0.18**	**$ 3**	**$ 0.07**

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Six Months Ended June 30,	2024		2023	
($ in millions, except share data)	$ Amount	Per Share	$ Amount	Per Share
Net income (loss) attributable to common shareholders	**$ 19**	**$ 0.41**	**$ (47)**	**$ (1.02)**
Adjustments:				
Net investment (gains) losses, including impairments	(4)	(0.09)	8	0.17
Intangible amortization	21	0.44	13	0.29
Litigation costs	11	0.24	16	0.36
Foreign exchange (gains) losses	1	0.02	—	(0.01)
Workforce change costs	—	—	1	0.02
Pretax adjusted net income (loss)	48	$ 1.02	(9)	$ (0.19)
Income tax effects	—	(0.01)	(2)	(0.03)
Net (gains) attributable to noncontrolling interests	—	(0.01)	—	(0.01)
Adjusted Net Income (Loss)	**$ 47**	**$ 1.00**	**$ (10)**	**$ (0.23)**

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:

	June 30, 2024		December 31, 2023	
($ in millions, except share data)	$ Amount	Per Share	$ Amount	Per Share
Total Ambac Financial Group, Inc. stockholders' equity	**$ 1,368**	**$ 30.25**	**$ 1,362**	**$ 30.13**
Adjustments:				
Insurance intangible asset	(226)	(5.00)	(245)	(5.43)
Net unearned premiums and fees in excess of expected losses	157	3.46	162	3.59
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income	23	0.52	20	0.45
Adjusted book value	**1,322**	**$ 29.23**	**$ 1,299**	**$ 28.74**

The increase in Adjusted Book Value since December 31, 2023, was primarily attributable to Ambac's net income (excluding earned premium previously included in Adjusted Book Value).

Item 3. Quantitative and Qualitative Disclosure About Market Risk

As of June 30, 2024 Ambac was party to a US dollar / British pound sterling foreign exchange forward contract to protect against currency fluctuations related to the purchase of Beat. This position was closed on July 26, 2024 resulting in a net gain to Ambac. As of June 30, 2024, there were no other material changes in the market risks that the Company is exposed to since December 31, 2023.

Item 4. Controls and Procedures

In connection with the preparation of this second 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 June 30, 2024, Ambac's disclosure controls and procedures were effective.

During the second quarter of 2024, the Company changed its investment accounting service provider and application. As part of its implementation, the Company evaluated the impact of this new application on its internal control over financial reporting and made changes to controls and procedures where necessary. There were no other changes in our internal control over financial reporting during the second quarter of 2024 that materially affected, or are reasonably likely to materially affect, our 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 19: Commitments and Contingencies in Part II, Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 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, 2023, 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, except as noted below.

The sale of the common stock of Ambac Assurance Corporation is subject to receipt of stockholder approval and other closing conditions, and may not be completed as anticipated, or at all.

We are seeking the approval of the sale of all of the issued and outstanding shares of common stock, par value $2.50 per share, of Ambac Assurance Corporation, a Wisconsin stock insurance company and wholly-owned subsidiary of AFG ("**AAC**"), for aggregate consideration of $420 million in cash, subject to certain adjustments (the "Sale"), by our stockholders in accordance with Section 271 of the Delaware General Corporation Law on the basis that the Sale could be considered to constitute the sale of substantially all of Ambac's property and assets within the meaning of that statute and related case law. The closing of the Sale is conditioned on, among other things, the receipt of specified regulatory approvals and AFG obtaining the affirmative vote of the holders of a majority of the outstanding shares of common stock, par value $0.01 per share, of AFG entitled to vote thereon at the special meeting called for such purpose, voting together as a single class in person or by proxy (the "Required Stockholder Approval").

In addition, the purchase agreement relating to the Sale (the "Purchase Agreement") provides for certain termination rights. Buyer and AFG may terminate the Purchase Agreement by mutual written agreement at any time prior to the closing date. In addition, either Buyer or AFG may terminate the Purchase Agreement at any time prior to the closing by giving written notice to the other party if

- the closing has not been consummated on or before April 4, 2025 (the "End Date"); provided, however, that if the closing has not occurred solely due to the failure to obtain applicable governmental and regulatory approvals from the authorities including, but not limited to, the OCI, the End Date will be automatically extended for an additional ninety (90) days and the parties agree to continue to use their respective reasonable best efforts to satisfy such conditions to closing; provided, further, that the right to terminate the Purchase Agreement for the foregoing is not available to any party whose breach of any provision of the Purchase Agreement results in the failure of the closing to be consummated
- (i) applicable law makes the consummation of the closing illegal or otherwise prohibited or (ii) any judgment, injunction, order or decree of any governmental authority enjoins Buyer and AFG from consummating the closing; or
- AFG fails to obtain the Required Stockholder Approval at the special meeting.

The Purchase Agreement may be terminated by Buyer by written notice to AFG if a breach of any representation or warranty or failure to perform any covenant or agreement shall have occurred that would cause certain conditions not to be satisfied, and such breach is not cured within sixty (60) days of written notice to AFG or is incapable of being cured by the End Date. Additionally, the Purchase Agreement may be terminated by Buyer if at any time the AFG Board of Directors effects an Ambac Board Recommendation Change (as defined in the Purchase Agreement).

The Purchase Agreement may be terminated by AFG by written notice if a breach of any representation or warranty or failure to perform any covenant or agreement shall have occurred that would cause certain conditions not to be satisfied, and such breach is not cured within sixty (60) days of written notice to Buyer or is incapable of being cured by the End Date.

The total proceeds realized from the Sale are contingent upon receiving the Required Stockholder Approval and other closing conditions. There can be no assurances that we will receive the vote and satisfy the conditions. Any delay in receiving the required stockholder vote and satisfying the other closing conditions may increase the risk that the Sale will be terminated, or reduce the benefits we expect to achieve.

The Sale and the other transactions contemplated by the Purchase Agreement, whether or not completed, may adversely affect the retained business.

Transactions such as the Sale are often subject to lawsuits by stockholders. It is possible that our common stockholders or other stakeholders will commence or seek to commence litigation against Ambac or the Ambac Board. Such litigation could result in substantial costs and divert management's attention from other business concerns, which could adversely affect Ambac's specialty property and casualty insurance business and its insurance distribution businesses that Ambac will continue to operate following the completion of the Sale (the "Retained Business").

In addition, our ability to execute on our business strategies for the Retained Business depends on the retention and recruitment of qualified executives and other professionals. We rely upon the services of our current executive and senior management teams.

In addition to these officers, we rely on key staff with insurance, underwriting, business development, risk management, investment, accounting, finance, legal, technology and other technical and specialized skills. The market for qualified executives, senior managers and other employees has become very competitive. As a result of the Sale, we may experience higher employee turnover and finding qualified replacements may be more difficult. The loss of the services of members of our executive and/or senior management teams or our inability to hire and retain other talented personnel could delay or prevent us from succeeding in executing our strategies, which could negatively impact the Retained Business. Further, while the completion of the Sale is pending, we may be unable to attract and retain key personnel and our management's focus and attention and employee resources may be diverted from operational matters.

If we fail to complete the Sale and the other transactions contemplated by the Purchase Agreement, our business and financial performance may be adversely affected, including in the event Ambac is required to pay the Termination Fee.

The completion of the Sale and the other transactions contemplated by the Purchase Agreement is subject to the satisfaction or waiver of various conditions, including the approval of the Sale by our stockholders, which may not be satisfied in a timely manner or at all.

If the Sale is not completed, we will not recoup the costs incurred in connection with negotiating the Sale and the other transactions. Our directors, executive officers and other employees will have expended extensive time and effort and will have experienced significant distractions from their work during the pendency of the Sale, and we will have incurred significant third-party transaction costs, in each case, without any commensurate benefit, which may have a material and adverse effect on our stock price and results of operations.

Furthermore, if the Sale and the other transactions contemplated by the Purchase Agreement are not completed, the announcement of the termination of the Purchase Agreement may adversely affect our relationships with our customers, business partners and employees, which could have a material adverse impact on our ability to effectively operate our business, and we may be required to pay the Termination Fee of $22 million under certain circumstances, each of which could have further adverse effects on our business, results of operations and the trading price of AFG's common stock.

Additionally, we intend to use the proceeds of the Sale to repay all or a portion of the debt used to fund the Beat Transaction. If we do not consummate the Sale then we will need to repay or refinance such debt with other sources of funds, which may not be available on favorable terms or at all. An inability to repay the debt used to fund the Beat Transaction from proceeds of the Sale or other sources, or an inability to refinance such debt on favorable terms or at all, may materially negatively affect our business and results of operations.

The Purchase Agreement contains provisions that limit our ability to pursue alternatives to the Sale.

The Purchase Agreement contains provisions that make it more difficult for us to sell AAC to any party other than Buyer. These provisions include the prohibition on our ability to solicit competing proposals and the requirement that we pay Buyer the Termination Fee of $22 million if we terminate the Purchase Agreement prior to the closing of the Sale as a result of our determining to accept a Company Acquisition Proposal (as defined in the Purchase Agreement) that we determine in good faith to be a Superior Proposal (as defined in the Purchase Agreement).

These provisions make it less advantageous for a third party that might have an interest in acquiring Ambac, or all or a significant part of AAC, to consider or propose an alternative transaction, even if that party were prepared to pay consideration with a higher value than the consideration to be paid by Buyer.

If the Purchase Agreement is not approved or if we fail to complete the Sale, there may not be any other offer from a potential acquiror that the AFG Board determines to be attractive.

If we fail to complete the Sale, the Board of Directors of AFG, in discharging its fiduciary obligations to our stockholders, may evaluate other strategic alternatives including, but not limited to, continuing to operate AAC and the Legacy Financial Guarantee Insurance business for the foreseeable future or an alternative transaction relating to AAC or Ambac. An alternative transaction, if available, may yield lower consideration or value than the proposed Sale, be on less favorable terms and conditions than those contained in the Purchase Agreement and involve significant delay. Any future sale of substantially all of Ambac's property and assets within the meaning of Section 271 of the Delaware General Corporation Law and related case law or other similar transaction may be subject to further stockholder approval, and there is no guarantee that Ambac would be able to obtain such stockholder approval in favor of any such sale or other transaction. If the Legacy Financial Guarantee Insurance business is not sold, there can be no assurance that we will realize value at least equivalent to the proceeds of the Sale from the operation of the Legacy Financial Guarantee Insurance business over time, or any value; nor can we predict the timeline for realizing value, if any, from the Legacy Financial Guarantee Insurance business in the absence of the Sale.

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

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

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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

When restricted stock unit awards issued by Ambac vest or settle, they become taxable compensation to employees. Shares may be withheld to cover the employee's portion of withholding taxes. In the second quarter of 2024, no employee equity settlements occurred and Ambac did not purchase shares from employees to meet employee tax withholdings.

On March 29, 2022, our Board of Directors approved a share repurchase program authorizing up to $20 million in share repurchases, and on May 5, 2022, the Board of Directors authorized an additional $15 million share repurchase. This program expired on March 31, 2024. The following table shows shares repurchased by year.

($ in millions, except per share)	2023	2022	Total
Shares repurchased	325,068	1,605,316	1,930,384
Total cost	$ 4.5	$ 14.2	$ 18.7
Average purchase price per share	$ 13.88	$ 8.86	$ 9.70

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:	
3.1+	Amended and Restated Certificate of Incorporation of Ambac Financial Group, Inc.
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:	August 5, 2024	By:	**/s/ DAVID TRICK**
		Name:	**David Trick**
		Title:	**Chief Financial Officer and Treasurer (Duly Authorized Officer and Principal Financial Officer)**

Exhibit 3.1

AMENDED AND RESTATED CERTIFICATE OF

INCORPORATION OF AMBAC FINANCIAL GROUP, INC.

Table of Contents

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF AMBAC FINANCIAL GROUP, INC.

Ambac Financial Group, Inc., a corporation organized and existing under the laws of the State of Delaware (the **"Corporation"**), DOES HEREBY CERTIFY as follows:

1. The present name of the Corporation is Ambac Financial Group, Inc. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on April 29, 1991, and the name under which the Corporation was originally incorporated was AMBAC Inc.

2. This Amended and Restated Certificate of Incorporation of the Corporation restates and integrates, and also further amends, the provisions of the Amended and Restated Certificate of Incorporation of the Corporation, as heretofore amended.

3. This Amended and Restated Certificate of Incorporation of the Corporation has been duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware (the **"General Corporation Law"**).

4. Pursuant to Sections 242 and 245 of the General Corporation Law, the text of the Amended and Restated Certificate of Incorporation of the Corporation, as heretofore amended, is hereby amended and restated to read in its entirety as follows:

ARTICLE I

NAME

The name of the corporation is Ambac Financial Group, Inc. (the **"Corporation"**).

ARTICLE II

REGISTERED OFFICE AND REGISTERED AGENT

The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, postal code 19801. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

ARTICLE III

CORPORATE PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law.

ARTICLE IV

CAPITAL STOCK

Section 4.01. *Authorized Capital.* The total number of shares of all classes of stock that the Corporation shall have authority to issue is one hundred fifty million shares (150,000,000) consisting of one hundred and thirty million (130,000,000) shares of common stock, par value $0.01 per share (the **"Common Stock"**), and twenty million (20,000,000) shares of preferred stock, par value $0.01 per share (the **"Preferred Stock"**).

Section 4.02. *Preferred Stock.* The designations and the powers, preferences and rights and the qualifications, limitations or restrictions thereof of the shares of each class as Preferred Stock are as follows:

(a) The Preferred Stock may be issued from time to time in one or more series, the shares of each series to have such voting powers, full or limited, and such designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof as are stated and expressed herein or in the resolution or resolutions providing for the issuance of such series, adopted by the Board of Directors as hereinafter provided; provided, however, that in the event the Board of Directors of the Corporation provides that any series of Preferred Stock shall be given voting powers, such series shall not be entitled to vote separately as a single class other than as expressly required by law and for the election of one or more additional directors of the Corporation in the case of dividend arrearages or other specified events and such series of Preferred Stock shall not be granted the right to cast in excess of one vote per share of Preferred Stock.

(b) Authority is hereby expressly granted to the Board of Directors, subject to the provisions of this Article IV and to the limitations prescribed by law, to authorize the issuance of one or more series of Preferred Stock and with respect to each such series to fix by resolution or resolutions providing for the issuance of such series the voting powers, full or limited, if any, of the shares of such series and the designations, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, the determination or fixing of the following:

(i) The designation of such series;

(ii) The dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of stock, and whether such dividends shall be cumulative or non-cumulative;

(iii) Whether the shares of such series shall be subject to redemption by the Corporation and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption;

(iv) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series;

(v) Whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes or of any other series of any class or classes of stock, or for debt securities, of the Corporation and, if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange;

(vi) The extent, if any, to which the holders of the shares of such series shall be entitled to vote with respect to the election of directors or otherwise;

(vii) The restrictions, if any, on the issue or reissue of any additional Preferred Stock; and

(viii) The rights of the holders of the shares of such series upon the dissolution of, or upon the distribution of assets of, the Corporation.

Section 4.03. *Common Stock.* Except as otherwise provided by this Amended and Restated Certificate of Incorporation or as otherwise from time to time provided by law, the holders of Common

Stock shall be entitled to one vote per share on all matters to be voted on by the stockholders of the Corporation.

Section 4.04. *Substantial Stockholder.*

(a) So long as any Person other than the Corporation or a Subsidiary thereof is (without giving effect to this Section 4.04(a)) the beneficial owner of capital stock representing 10% or more of the votes entitled to be cast by the holders of all Outstanding shares of capital stock (a **"Substantial Stockholder"** and the shares beneficially owned by a Substantial Stockholder, the **"Substantial Stockholder Shares"**), the record holders of the shares of capital stock beneficially owned by such Substantial Stockholder shall have, with respect to Substantial Stockholder Shares, limited voting rights on all matters, as follows: with respect to the Substantial Stockholder Shares that would entitle such record holders in the aggregate to cast less than 10% of the votes entitled to be cast by the holders of all Outstanding shares of capital stock (without giving effect to this Section 4.04(a)), such record holders shall be entitled to cast the vote per share specified in this Amended and Restated Certificate of Incorporation; and with respect to the Substantial Stockholder Shares that would otherwise entitle such record holders in the aggregate to cast 10% or more of the votes entitled to be cast by the holders of all Outstanding shares of capital stock (without giving effect to this Section 4.04(a)), such record holders shall not be entitled to cast any votes for such Substantial Stockholder Shares, so that such record holders shall be entitled to cast with respect to all Substantial Stockholder Shares held by such record holders in the aggregate only such number of votes that would equal (after giving effect to this Section 4.04(a)) one vote less than 10% of the votes entitled to be cast by all holders of Outstanding shares of capital stock; provided, however, that the restriction on voting contained in this Section 4.04(a) shall not apply to any Substantial Stockholder Shares if the Substantial Stockholder's acquisition or ownership of capital stock representing 10% or more of the votes entitled to be cast by the holders of all Outstanding shares of capital stock has been approved whether before or after such acquisition or first time of ownership by the relevant Insurance Commissioners of the states of domicile of the insurance companies controlled by the Corporation. The aggregate voting power of such record holders, so limited, for all shares of capital stock beneficially owned by the Substantial Stockholder shall be allocated proportionately among such record holders as follows: for each such record holder, this allocation shall be accomplished by multiplying the aggregate voting power (after giving effect to the provisions of this Section 4.04(a)) of the Outstanding shares of capital stock beneficially owned by the Substantial Stockholder by a fraction the numerator of which is the number of votes that the shares of capital stock owned of record by such record holder would have entitled such record holder to cast were no effect given to this Section 4.04(a), and the denominator of which is the total number of votes which all shares of capital stock beneficially owned by the Substantial Stockholder would have entitled their record holders to cast were no effect given to this Section 4.04(a). A person who is the record holder of shares of capital stock that are beneficially owned simultaneously by more than one person shall have, with respect to such shares, the right to cast the least number of votes that such person would be entitled to cast under this Section 4.04(a) by virtue of such shares being so beneficially owned by any of such persons.

(b) The Board of Directors shall have the power and duty to interpret and apply this Article IV, on the basis of information known to them after reasonable inquiry, including without limitation the power to determine (i) whether a Person is a Substantial Stockholder, (ii) the number of shares of capital stock beneficially owned by any Person, (iii) whether a Person is an Affiliate or Associate of another, (iv) the Persons who may be deemed to be the record holders of shares beneficially owned by a Substantial Stockholder and (v) such other matters with respect to which a determination is required under this Article IV. Any such interpretation, application or determination made in good faith by the Board of Directors shall be binding and conclusive on all persons.

(c) The Board of Directors shall have the right to demand that any Person who is reasonably believed to be a Substantial Stockholder (or to hold of record shares of capital stock beneficially owned by a

Substantial Stockholder) supply the Corporation with complete information as to (i) the record holder or holders of all shares beneficially owned by such Person, (ii) the number of shares of capital stock beneficially owned by such Person and held of record by each such record holder, and (iii) any other factual matter relating to the applicability or effect of this Article IV, as may reasonably be requested of such Person, and such Person shall furnish such information within ten days after the receipt of such demand.

(d) Nothing contained in this Article IV shall be construed to relieve any Substantial Stockholder from any fiduciary obligation imposed by law.

ARTICLE V

MEETINGS

Section 5.01. *Annual Meetings.* The annual meeting of stockholders of the Corporation for the election of directors of the Corporation, and for the transaction of such other business as may properly come before such meeting, shall be held at such place, date and time as shall be fixed by the Board of Directors and designated in the notice or waiver of notice of such annual meeting.

Section 5.02. *Special Meetings.* Special meetings of stockholders for any purpose or purposes may be called by the Board of Directors or the Chairman of the Board of the Corporation, the Chief Executive Officer of the Corporation, the President of the Corporation, or the Secretary of the Corporation upon the written request of the holders of record of 25% or more of the voting power of the shares of common stock of the Corporation issued and Outstanding. Any such meeting shall be held on a date, place, if any, and at a time and for the purposes set forth in the notice or waiver of notice thereof. Business transacted at all special meetings shall be confined to the objects stated in the notice of special meeting.

Section 5.03. *Consents to Corporate Action.* Any action which is required to be or may be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote if consents in writing, setting forth the action so taken, shall have been signed by the holders of the outstanding shares of capital stock having not less than the minimum number of votes that would be necessary to authorize or to take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided, however, that prompt notice of the taking of the corporate action without a meeting and by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE VI

DEFINITIONS

As used in this Amended and Restated Certificate of Incorporation, the following terms shall have the following meanings:

"Affiliate", with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this definition, **"Control"** (including, with correlative meanings, the terms **"Controlling," "Controlled By"** or **"Under Common Control With"**), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract, by common management or otherwise. A Person having a contract or arrangement giving that Person control is deemed to be in control despite any limitations placed by law on the validity of the contract or arrangement. A corporation is deemed to be under common control with any other corporation, regardless of ownership, if substantially the same group of persons manage the two corporations.

"Associate", used to indicate a relationship with a specified Person, shall mean (i) any Person (other than the Corporation or a Subsidiary) of which such specified Person is an officer or partner or is, directly or indirectly, the beneficial owner of 10% or more of the voting securities of such Person, (ii) any trust or other estate in which such specified Person has a substantial beneficial interest or as to which such specified Person serves as trustee or in a similar fiduciary capacity, (iii) any relative or such spouse of such specified Person or any relative of such spouse who has the same home as such specified Person or who is a director or officer of the Corporation or any Subsidiary, and (iv) any Person who is a director or officer of such specified Person or any of its parents or subsidiaries (other than the Corporation or a Subsidiary).

A Person shall be deemed a **"Beneficial Owner"** of any shares of capital stock of the Corporation (a) which such Person or any of its Affiliates or Associates beneficially owns, directly or indirectly; (b) which such Person or any of its Affiliates or Associates has, directly or indirectly, the right to vote pursuant to any agreement, contract, arrangement or understanding, or (c) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of its Affiliates or Associates has any contract, agreement, arrangement or understanding for the purpose of holding or voting of any capital stock of the Corporation.

"Outstanding", when used in reference to shares of stock, shall mean issued shares, excluding shares held in treasury.

"Person" shall mean any individual, firm, corporation or other entity and shall include any group comprised of any Person and any other Person with whom such Person or any Affiliate or Associate of such Person has any agreement, contract, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of any shares of capital stock of the Corporation; provided that a different definition of "Person" shall apply solely for purposes of Article XII, as set forth therein.

"Subsidiary" shall mean any corporation of which a majority of any class of equity securities is beneficially owned, directly or indirectly, by the Corporation.

"Substantial Stockholder" shall be defined as in Section 4.04 of this Amended and Restated Certificate of Incorporation.

ARTICLE VII

DIRECTORS AND OFFICERS

Section 7.01. *Exculpation.* To the fullest extent permitted by the General Corporation Law, no director or officer of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty as a director or officer, respectively, of the Corporation, except for liability of: (a) a director or officer for any breach of the duty of loyalty to the Corporation or its stockholders, (b) a director or officer for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) a director under Section 174 of the General Corporation Law, (d) a director or officer for any transaction from which the director or officer derived an improper personal benefit, or (e) an officer in any action by or in the right of the Corporation. If the General Corporation Law is amended after the effective date of this Amended and Restated Certificate of Incorporation to authorize corporate action further limiting the personal liability of directors or officers, then the liability of a director or officer of the Corporation shall be limited to the fullest extent permitted by the General Corporation Law as so amended. Any repeal or modification of this Article VII, and any amendment to this Amended and Restated Certificate of Incorporation inconsistent with this Article VII, shall not affect the rights under this Article VII in effect at the time of the alleged occurrence of any act or omission to act giving rise to liability.

ARTICLE VIII

INDEMNIFICATION OF DIRECTORS, OFFICERS AND OTHERS, AND INSURANCE

Section 8.01. *Indemnification.*

(a) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Notwithstanding the foregoing, except as provided in Section 8.01(d) with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any person in connection with an action, suit or proceeding (or part thereof) initiated by such person only if such action, suit or proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

(b) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(c) Notwithstanding, and without limitation of any other provision of this Article VIII, to the extent that a director, officer, or employee of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 8.0l(a) and (b) or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) If a claim under Section 8.01(a), 8.0 1(b) or 8.01 (c) is not paid in full by the Corporation within 60 days after a written claim has been received by the Corporation, the person who has made such claim (the **"indemnitee"**) may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. To the fullest extent permitted by law, if the indemnitee is successful in whole or in part in any such suit, the indemnitee shall be entitled to be paid also the expense of prosecuting such suit. In any suit brought by the indemnitee to enforce a right to indemnification hereunder it shall be a defense that the indemnitee has not met any applicable standard for indemnification set forth in the General Corporation Law. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the General Corporation Law, nor an actual determination by the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification hereunder, the burden of proving that the indemnitee is not entitled to be indemnified under this Article VIII or otherwise shall be on the Corporation.

(e) Any indemnification under Sections 8.01(a) and (b) (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, or employee is proper in the circumstances because he has met the applicable standard of conduct set forth in such Sections 8.01(a) and (b). Such determination shall be made with respect to a person who is a director or officer of the Corporation at the time of such determination (i) by the Board of Directors of the Corporation by a majority vote of directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (ii) a committee of such directors designated by a majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors or if such directors so direct, by independent legal counsel in a written opinion, or (iv) by the stockholders of the Corporation.

(f) Expenses (including attorneys' fees) incurred by a current or former director or officer of the Corporation in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding; provided, however, that if the General Corporation Law requires, an advancement of expenses incurred by such a person in his capacity as a director or officer of the Corporation (and not in any other capacity in which service was or is rendered by such a director or officer, including, without limitation, service to an employee benefit plan) shall only be made upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VIII. The Corporation may grant rights to the advancement of expenses (including attorneys' fees) to other persons upon such terms and conditions, if any, as the Corporation deems appropriate.

(g) The indemnification and advancement of expenses provided by, or granted pursuant to, the other Sections of this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any law, by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office.

(h) For purposes of this Article VIII, references to the **"Corporation"** shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, or employees so that any person who is or was a director, officer or employee of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, or employee of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(i) For purposes of this Article VIII, references to **"Other Enterprises"** shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to **"Serving At The Request Of The Corporation"** shall include any service as a director, officer, or employee of the Corporation which imposes duties on, or involves service by, such director, officer or employee with respect to any employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner **"Not Opposed To The Best Interests Of The Corporation"** as referred to in this Article VIII.

(j) The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 8.02. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such expense, liability or loss under the provisions of Section 145 of the General Corporation Law.

ARTICLE IX

BY-LAWS

Any By-law may be adopted, amended or repealed by vote of the Board of Directors or by a written consent of Directors to the extent provided for in the By-laws. The stockholders, at a meeting at which a quorum of stockholders is present, may also adopt, amend or repeal any By law, whether adopted by them or otherwise, but only upon the affirmative vote of the record holders of a majority of the voting power of the shares, present at such meeting in person or represented by proxy to the extent provided for in the By-laws.

ARTICLE X

REORGANIZATION

Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

ARTICLE XI

AMENDMENT

The Corporation reserves the right to amend, alter, change or repeal any provision of this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by law and the Amended and Restated Certificate of Incorporation, and all rights conferred on stockholders in this Amended and Restated Certificate of Incorporation are subject to this reservation.

ARTICLE XII

RESTRICTIONS ON TRANSFER

(a) *Definitions.* For purposes of this Article XII the following terms shall have the following meanings:

"Agent" shall mean an agent designated by the Board of Directors of the Corporation.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Corporation Securities" shall mean (i) shares of Common Stock, (ii) shares of Preferred Stock (other than preferred stock described in Section 1504(a)(4) of the Code), (iii) warrants, rights, or options (within the meaning of Treasury Regulations Section l.382-4(d)(9)) to purchase stock of the Corporation (other than preferred stock described in Section 1504(a)(4) of the Code), and (iv) any other interests that would be treated as **"stock"** of the Corporation pursuant to Treasury Regulations Section 1.382-2T(f)(18), or any successor provision.

"Effective Date" shall mean the date of filing of this Amended and Restated Certificate of Incorporation.

"Excess Securities" shall mean the Corporation Securities which are the subject of the Prohibited Transfer.

"Five-Percent Stockholder" shall mean (i) a Person or group of Persons that is identified as a "5-percent shareholder" of the Corporation pursuant to Treasury Regulation Section l.382-2T(g) or (ii) a Person that is a "first tier entity" or "higher tier entity" (as such terms are defined in Treasury Regulations Section 1.382-2T(f)) of the Corporation if (A) that Person has a "public group" or individual, or (B) a "higher tier entity" of that Person has a "public group" or individual, that, in each case, is treated as a "5-percent shareholder" of the Corporation pursuant to Treasury Regulations Section l .382-2T(g).

"Percentage Stock Ownership" shall mean the percentage stock ownership interest as determined in accordance with Treasury Regulations Sections l .382-2(a)(3), 1.382-2T(g), (h), (j) and (k), l.382-3(a), and l.382-4(d); provided, however, that for the sole purpose of determining the percentage stock ownership of any entity (and not for the purpose of determining the percentage stock ownership of any other Person), Corporation Securities held by such entity shall not be treated as no longer owned by such entity pursuant to Treasury Regulations Section 1.382-2T(h)(2)(i)(A).

"Person" shall mean any individual, firm, corporation, partnership, limited liability company, limited liability partnership, trust, syndicate, estate, association, joint venture or similar organization, other entity, or group of persons making a "coordinated acquisition" of Corporation Securities or otherwise treated as an "entity" within the meaning of Treasury Regulations Section l.382-3(a)(l) or otherwise, and includes, without limitation, an unincorporated group of persons who, by formal or informal agreement or arrangement (whether or not in writing), have embarked on a common purpose or act, and also includes any successor (by merger or otherwise) of any such individual or entity.

"Plan" shall mean the Plan of Reorganization of the Corporation, dated March 12, 2012.

"Prohibited Distributions" shall mean any dividends or other distributions that were paid by the Corporation and received by a Purported Transferee with respect to the Excess Securities.

"Prohibited Transfer" shall mean any purported Transfer of Corporation Securities to the extent that such Transfer is prohibited and/or void under this Article XII.

"Purported Transferee" shall mean the purported transferee of a Prohibited Transfer.

"Restriction Release Date" shall mean the earliest of (i) the repeal of Section 382 of the Code (and any comparable successor provision) or (ii) the earliest date on which the Board of Directors determines that (1) the consummation of the Plan did not satisfy the requirements of Section 382(1)(5) of the Code or treatment under Section 382(l)(5) of the Code is not in the best interests of the Corporation, its affiliates and its stockholders, taking into account all relevant facts and circumstances, including, without limitation, the market and other impact of maintaining these Transfer restrictions herein, (2) an ownership change (within the meaning of Section 382 of the Code) would not result in a substantial limitation on the ability of the Corporation (or a direct or indirect subsidiary of the Corporation) to use otherwise available Tax Benefits, or (3) no significant value attributable to the Tax Benefits would be preserved by continuing the Transfer restrictions herein.

"Tax Benefits" shall mean the net operating loss carryovers, capital loss carryovers, general business credit carryovers, alternative minimum tax credit carryovers and foreign tax credit carryovers, as well as any "net unrealized built-in loss" within the meaning of Section 382 of the Code, of the Corporation or any direct or indirect subsidiary thereof.

"Transfer" shall mean, subject to the last sentence of this definition, any direct or indirect sale, transfer, assignment, conveyance, pledge, or other disposition and shall also include the creation or grant of an option (within the meaning of Treasury Regulations Section l .382- 4(d)(9)). A Transfer shall not include an issuance or grant of Corporation Securities by the Corporation, the modification, amendment or adjustment of an existing option by the Corporation and the exercise by an employee of the Corporation of any option to purchase Corporation Securities granted to such employee pursuant to contract or any stock option plan or other equity compensation plan of the Corporation.

"Treasury Regulation" shall mean the income tax regulations (whether temporary, proposed or final) promulgated under the Code and any successor regulations. References to any subsection of such regulations include references to any successor subsection thereof.

(b) <u>Restrictions on Transfer</u>. In order to preserve the Tax Benefits, subject to Section (c) of this Article XII, any attempted Transfer of Corporation Securities prior to the Restriction Release Date, or any attempted Transfer of Corporation Securities pursuant to an agreement entered into prior to the Restriction Release Date, shall be prohibited and void *ab initio* to the extent that, as a result of such Transfer (or any series of Transfers of which such Transfer is a part), either (i) any Person or group of Persons shall become a Five-Percent Stockholder or (ii) the Percentage Stock Ownership interest in the Corporation of any Five-Percent Stockholder shall be increased. Notwithstanding the foregoing, nothing in this Article XII shall prevent a Person that is a member of a public group of the Corporation (as defined in Treasury Regulation Section 1.382-2T(f)(l 3)) from transferring Corporation Securities to a new or existing public group of the Corporation.

(c) <u>Certain Exceptions</u>.

(i) The restrictions set forth in Section (b) of this Article XII shall not apply to an attempted Transfer of Corporation Securities if the transferor or the transferee obtains the written approval of the Board of Directors of the Corporation, which approval may be granted or denied in accordance with the procedures set forth in this Section © of Article XII. In connection therewith, and to provide for effective policing of such restrictions, prior to the date of any proposed Transfer of Corporation Securities that, in the absence of the approval of the Board of Directors pursuant to this Section (c) of Article XII, would be a Prohibited Transfer, either (a) the proposed transferee of such Corporation Securities (a **"Restricted Transferee"**) or (b) the proposed transferor of such Corporation Securities (a **"Restricted Transferor"**) shall request in writing (a **"Request"**) that the Board of Directors review the proposed Transfer of Corporation Securities and authorize or not authorize such proposed Transfer in accordance with this Section (c) of Article XII.

(ii) A Request shall be mailed or delivered to the Secretary of the Corporation at the Corporation's principal place of business, or telecopied to the Corporation's telecopier number at its principal place of business. Such Request shall be deemed to have been received by the Corporation when actually received by the Corporation.

(iii) A Request shall include: (A) the name, address and telephone number of the Restricted Transferee; (B) a description of the Restricted Transferee's existing direct or indirect ownership of Corporation Securities; (C) a description of the Corporation Securities that are proposed to be Transferred to the Restricted Transferee; (D) the date on which such proposed Transfer is expected to take place (or, if such Transfer is proposed to be made in a transaction on a national securities exchange or any national securities quotation system, a statement to that effect); (E) the name, address and telephone number of the Restricted Transferor (or, if such Transfer is proposed to be made in a transaction on a national securities exchange or any national securities quotation system, a statement to that effect); and (F) a request that the Board of Directors authorize, if appropriate, such Transfer pursuant to this Section (c) of Article XII.

(iv) The Board of Directors shall use reasonable best efforts to make a determination to authorize or deny any Request on or before the twentieth business day (or, if necessary to permit the Restricted Transferee and/or Restricted Transferor to provide the information requested pursuant to this Section (c) of Article XII, such later date as reasonably determined by the Board of Directors in consultation with the Restricted Transferor or Restricted Transferee that made such Request) following receipt of the Request by the Corporation.

(v) The Board of Directors may authorize a Transfer of Corporation Securities to a Restricted Transferee, if it determines, in its sole discretion that, after taking into account the preservation of the Tax Benefits, such Transfer of Corporation Securities would be in the best interests of the Corporation and its stockholders. For purposes of this determination, the Board of Directors shall consider, among other items, the following: (i) the total owner shift under Section 382 of the Code, (ii) all other pending proposed Transfer requests, (iii) whether the proposed Transfer is structured to minimize the resulting owner shift, and (iv) any reasonably foreseeable events of which the Board of Directors has knowledge that would constitute additional owner shifts. Any determination by the Board of Directors not to authorize a proposed Transfer of Corporation Securities to a Restricted Transferee shall cause such proposed Transfer to be deemed a Prohibited Transfer. The Board of Directors may impose any conditions that it deems reasonable and appropriate in connection with such approval, including, without limitation, restrictions on the ability of any Restricted Transferee to Transfer Corporation Securities acquired through a Transfer. Approvals of the Board of Directors hereunder may be given prospectively or retroactively. The Board of Directors, to the fullest extent permitted by law, may exercise the authority granted by this Section (c) of Article XII through duly authorized officers or agents of the Corporation. Nothing in this Section (c) of Article XII shall be construed to limit or restrict the Board of Directors in the exercise of its fiduciary duties under applicable law.

(vi) In addition, the Board of Directors may, in its sole discretion, require (A) such representations from the Restricted Transferee and/or Restricted Transferor as to such matters as the Board of Directors may determine or (B) at the expense of the Restricted Transferor and/or Restricted Transferee, an opinion of counsel selected by the Board of Directors that the Transfer will not result in the application of any Section 382 limitation on the use of the Tax Benefits under Section 382 of the Code; provided that the Board of Directors may grant such approval notwithstanding the effect of such approval on the Tax Benefits if it determines that the approval is in the best interests of the Corporation. Any Restricted Transferee and/or Restricted Transferor who makes a Request to the Board of Directors shall reimburse the Corporation, on demand, for all costs and expenses (including expenses of counsel and/or tax advisors) incurred by the Corporation with respect to any proposed Transfer of Corporation Securities, including, without limitation, such costs and expenses incurred in determining whether to authorize the proposed Transfer.

(vii) The Corporation shall promptly notify the Restricted Transferee and the Restricted Transferor of the Board of Directors' determination to authorize or deny the Transfer described in the Request.

(viii) If the Board of Directors authorizes the Transfer of Corporation Securities, the Restricted Transferee and Restricted Transferor shall be permitted to consummate such Transfer described in the Request.

(d) Treatment of Excess Securities.

(i) No officer, director, employee or agent of the Corporation shall record any Prohibited Transfer, and a Purported Transferee shall not be recognized as a stockholder of the Corporation for any purpose whatsoever in respect of Excess Securities. Until the Excess Securities are acquired by another Person in a Transfer that is not a Prohibited Transfer, the Purported Transferee shall not be entitled with respect to such Excess Securities to any rights of stockholders of the Corporation, including, without limitation, the right to vote such Excess Securities and to receive dividends or distributions, whether liquidating or otherwise, in respect thereof, if any, and the Excess Securities shall be deemed to remain with the transferor unless and until the Excess Securities are transferred to the Agent pursuant to Section (d)(iii) of this Article XII or until approval is obtained under Section (c) of this Article XII. Once the Excess Securities have been acquired in a Transfer that is not a Prohibited Transfer, the Securities shall cease to be Excess Securities. For this purpose, any Transfer of Excess Securities not in accordance with the provision of this Section (d)(i) or Section (d)(iii) shall also be a Prohibited Transfer.

(ii) The Corporation may require as a condition to the registration of the Transfer of any Corporation Securities or the payment of any distribution on any Corporation Securities that the proposed transferee or payee furnish the Corporation all information reasonably requested by the Corporation with respect to all the direct and indirect ownership interests in such Corporation Securities. The Corporation may make such arrangements or issue such instructions to its stock transfer agent as may be determined by the Board of Directors to be necessary or advisable to implement Article XII, including, without limitation, authorizing such transfer agent to require an affidavit from a Purported Transferee regarding such Person's actual and constructive ownership of Corporation Securities and other evidence that a Transfer will not be prohibited by Section (b) of this Article XII as a condition to registering any Transfer.

(iii) If the Board of Directors determines that a Transfer of Corporation Securities constitutes a Prohibited Transfer then, upon written demand by the Corporation, the Purported Transferee shall transfer or cause to be transferred any certificate or other evidence of ownership of the Excess Securities within the Purported Transferee's possession or control, together with Prohibited Distributions, to the Agent. The Agent shall thereupon sell to a buyer or buyers, which may include the Corporation, the Excess Securities transferred to it in one or more arm's-length transactions (on the public securities market on which the Corporation Securities may be traded, if possible, or otherwise privately); provided, however, that any such sale must not constitute a Prohibited Transfer and provided, further, that the Agent shall effect such sale or sales in an orderly fashion and shall not be required to effect any such sale within any specific time frame if, in the Agent's discretion, such sale or sales would disrupt the market for the Corporation Securities or otherwise would adversely affect the value of the Corporation Securities. If the Purported Transferee has resold the Excess Securities before receiving the Corporation's demand to surrender the Excess Securities to the Agent, the Purported Transferee shall be deemed to have sold the Excess Securities for the Agent, and shall be required to transfer to the Agent any Prohibited Distributions and proceeds of such sale, except to the extent that the Corporation grants written permission to the Purported Transferee to retain a portion of such sales proceeds not exceeding the amount that the Purported Transferee would have received from the Agent pursuant to Section (d)(iv) of this Article XII if the Agent rather than the Purported Transferee had resold the Excess Securities.

(iv) The Agent shall apply any proceeds of a sale by it of Excess Securities, and ifthe Purported Transferee had previously resold the Excess Securities, any amounts received by the Agent from a Purported Transferee, as follows: (A) first, such amounts shall be paid to the Agent to the extent necessary to cover its costs and expenses incurred in connection with its duties hereunder; (B) second, any remaining amounts shall be paid to the Purported Transferee, up to the amount paid by the Purported Transferee for the Excess Securities (or their fair market value at the time of the Transfer, in the event the purported Transfer of the Excess Securities was, in whole or in part, a gift, inheritance, or similar Transfer) which amount shall be determined at the discretion of the Board of Directors; and (C) third, any remaining amounts, subject to the limitations imposed by the following proviso, shall be paid to one or more organizations qualifying under Section 50l(c)(3) of the Code (or any comparable or successor provision) selected by the Board of Directors; provided, however, that if the Excess Securities (including any Excess Securities arising from a previous Prohibited Transfer not sold by the Agent in a prior sale or sales) represent a 5-percent or greater Percentage Stock Ownership interest in the Corporation, then such remaining amounts shall be paid to two or more organizations qualifying under Section 50l(c)(3) selected by the Board of Directors such that no organization qualifying under Section 501(c)(3) of the Code shall possess Percentage Stock Ownership in the Corporation in excess of 5-percent. The Purported Transferee's sole right with respect to such Corporation Securities shall be limited to the amount payable to the Purported Transferee pursuant to this Section (d)(iv). In no event shall the proceeds of any sale of Excess Securities pursuant to this Article XII inure to the benefit of the Corporation.

(e) Board Determinations.

(i) The Board of Directors of the Corporation shall have the power to determine all matters necessary for determining compliance with this Article XII, including, without limitation: (A) the identification of Five-Percent Stockholders; (B) whether a Transfer is a Prohibited Transfer; (C) the Percentage Stock Ownership in the Corporation of any Five Percent Stockholder; (D) whether an instrument constitutes a Corporation Security; (E) the amount (or fair market value) due to a Purported Transferee pursuant to clause (ii) of Section (d)(iv) of this Article XII; (F) whether compliance with any restriction or limitation on stock ownership and transfers set forth in this Article XII is no longer required; and (G) any other matters which the Board of Directors determines to be relevant; and the determination of the Board of Directors on such matters shall be conclusive and binding for all the purposes of this Article XII.

(ii) Nothing contained in this Article XII shall limit the authority of the Board of Directors to take such other action to the extent permitted by law as it deems necessary or advisable to protect the Corporation and its stockholders in preserving the Tax Benefits, including without limitation implementing and enforcing the provisions of this Article XII. Without limiting the generality of the foregoing, in the event of a change in law making one or more of the following actions necessary or desirable, the Board of Directors may, subject to Section 242(b) of the General Corporation Law, by adopting a written resolution, (A) modify the ownership interest percentage in the Corporation or the Persons or groups covered by this Article XII, provided that, such ownership interest percentages may only be modified to the extent necessary to reflect changes to Section 382 and the applicable Treasury Regulations, (B) modify the definitions of any terms set forth in this Article XII, or (C) modify the terms of this Article XII as appropriate, in each case, in order to prevent an ownership change for purposes of Section 382 of the Code as a result of any changes in applicable Treasury Regulations or otherwise. Stockholders of the Corporation shall be notified of such determination through a filing with the Securities and Exchange Commission or such other method of notice as the Secretary of the Corporation shall deem appropriate; provided, further, notwithstanding the first sentence of this Section (e)(ii) of Article XII, the Corporation shall not be entitled modify the terms of this Article XII in order to accelerate or extend the Restriction Release Date.

(iii) In the case of an ambiguity in the application of any of the provisions of this Article XII, including any definition used herein, the Board of Directors shall have the power to determine the application of such provisions with respect to any situation based on its reasonable belief, understanding or knowledge of the circumstances. In the event this Article XII requires an action by the Board of Directors but fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of this Article XII. All such actions, calculations, interpretations and determinations which are done or made by the Board of Directors in good faith shall be conclusive and binding on the Corporation, the Agent, and all other parties for all other purposes of this Article XII. The Board of Directors may delegate all or any portion of its duties and powers under this Article XII to a committee of the Board of Directors as it deems necessary or advisable and, to the fullest extent permitted by law, may exercise the authority granted by this Article XII through duly authorized officers or agents of the Corporation. Nothing in this Article XII shall be construed to limit or restrict the Board of Directors in the exercise of its fiduciary duties under applicable law.

(f) Securities Exchange Transactions. Nothing in this Article XII (including, without limitation, any determinations made, or actions taken, by the Board of Directors pursuant to Section (c) of Article XII) shall preclude the settlement of any transaction entered into through the facilities of a national securities exchange or any national securities quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article XII and any Purported Transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article XII.

(g) Legal Proceedings: Prompt Enforcement. If the Purported Transferee fails to surrender the Excess Securities or the proceeds of a sale thereof to the Agent within thirty days from the date on which the Corporation makes a written demand, then the Corporation shall promptly take all cost effective actions which it believes are appropriate to enforce the provisions hereof, including the institution of legal proceedings to compel the surrender. Nothing in this section shall (a) be deemed inconsistent with any Transfer of the Excess Securities provided in this Article XII being void ab initio or (b) preclude the Corporation in its discretion from immediately bringing legal proceedings without a prior demand. The Board of Directors may authorize such additional actions as it deems advisable to give effect to the provisions of this Article XII.

(h) Liability. To the fullest extent permitted by law, any stockholder subject to the provisions of this Article XII who knowingly violates the provisions of this Article XII and any Persons controlling, controlled by or under common control with such stockholder shall be jointly and severally liable to the Corporation for, and shall indemnify and hold the Corporation harmless against, any and all damages suffered as a result of such violation, including but not limited to damages resulting from a reduction in, or elimination of, the Corporation's ability to utilize its Tax Benefits, and attorneys' and auditors' fees incurred in connection with such violation.

(i) Notice to Corporation. Any Person who acquires or attempts to acquire Corporation Securities in excess of the limitations set forth in this Article XII shall immediately give written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Prohibited Transfer on the preservation and usage of the Tax Benefits. As a condition to the registration of the Transfer of any Corporation Securities, any Person who is a beneficial, legal, or record holder of Corporation Securities, and any proposed transferee and any Person controlling, controlled by, or under common control with the proposed transferee, shall provide such information as the Corporation may request from time to time in order to determine compliance with this Article XII or the status of the Tax Benefits of the Corporation.

(j) By-laws. The By-laws may make appropriate provisions to effectuate the requirements of this Article XII.

(k) Certificates. All certificates representing Corporation Securities on or after the Effective Date shall, until the Restriction Release Date, bear a conspicuous legend in substantially the following form:

THE TRANSFER OF SECURITIES REPRESENTED HEREBY IS SUBJECT TO RESTRICTION PURSUANT TO ARTICLE XII OF THE CERTIFICATE OF INCORPORATION OF AMBAC FINANCIAL GROUP INC., AS AMENDED AND IN EFFECT FROM TIME TO TIME, A COPY OF WHICH MAY BE OBTAINED FROM THE CORPORATION UPON REQUEST.

(l) Reliance. To the fullest extent permitted by law, the Corporation and the members of the Board of Directors shall be fully protected in relying in good faith upon the information, opinions, reports or statements of the chief executive officer, the chief financial officer, the chief accounting officer or the corporate controller of the Corporation or of the Corporation's legal counsel, independent auditors, transfer agent, investment bankers or other employees and agents in making the determinations and findings contemplated by this Article XII, and the members of the Board of Directors shall not be responsible for any good faith errors made in connection therewith. For purposes of determining the existence and identity of, and the amount of any Corporation Securities owned by any stockholder, the Corporation is entitled to rely on the existence and absence of filings of Schedule 13D or 13G under the Securities and Exchange Act of 1934, as amended (or similar filings), as of any date, subject to its actual knowledge of the ownership of Corporation Securities.

(m) Benefits of Article XII. Nothing in this Article XII shall be construed to give to any Person other than the Corporation or the Agent any legal or equitable right, remedy or claim under this Article XII. This Article XII shall be for the sole and exclusive benefit of the Corporation and the Agent.

(n) Severability. The purpose of this Article XII is to facilitate the Corporation's ability to maintain or preserve its Tax Benefits. If any provision of this Article XII or the application of any such provision to any Person or under any circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Article XII.

(o) Waiver. With regard to any power, remedy or right provided herein or otherwise available to the Corporation or the Agent under this Article XII, (i) no waiver will be effective unless expressly contained in a writing signed by the waiving party; and (ii) no alteration, modification or impairment will be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

[Signature page follows]

SIGNATURE

IN WITNESS WHEREOF, Ambac Financial Group, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed on this 7th day of June, 2024 in its name and on its behalf by its Corporate Secretary.

By:	/s/ William J. White
Name:	William J. White
Title:	Corporate Secretary

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: August 5, 2024

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: August 5, 2024

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 June 30, 2024, 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: August 5, 2024