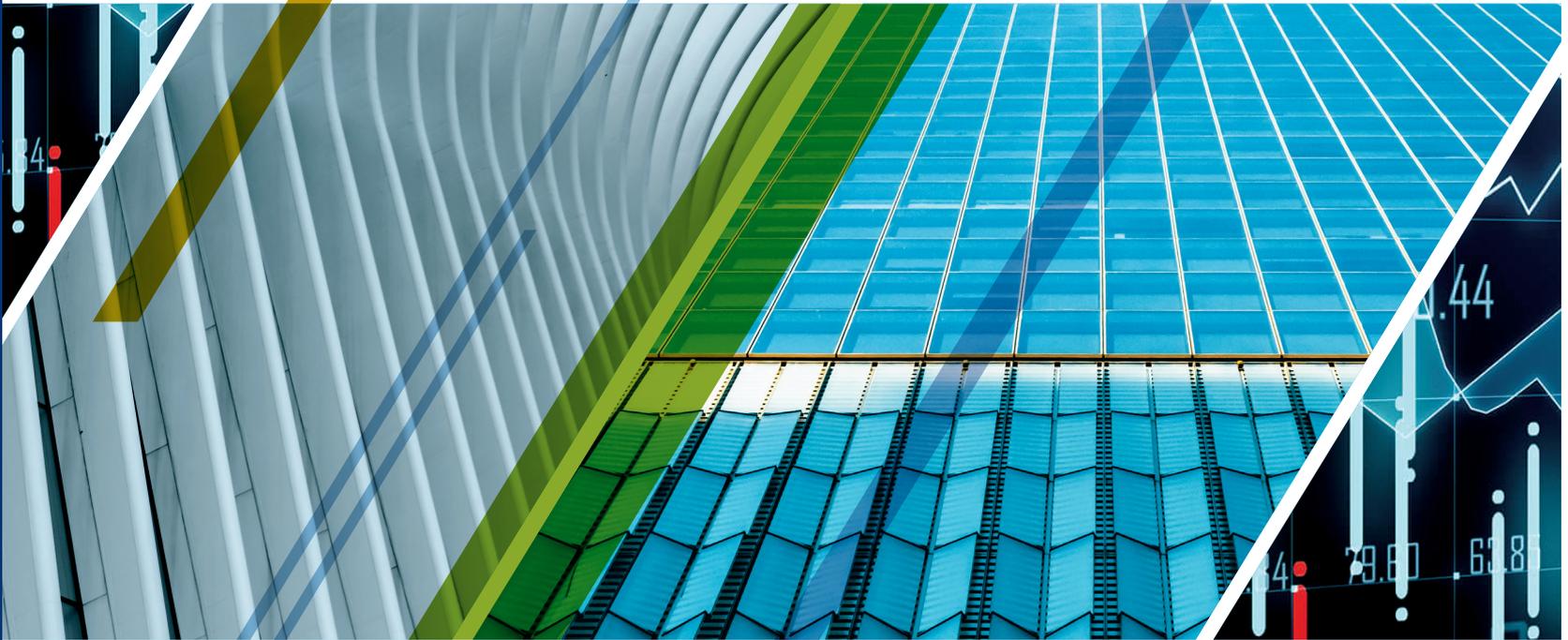


Ambac

AMBAC FINANCIAL GROUP, INC. 2021 ANNUAL REPORT



2021
ANNUAL
REPORT

/ ABOUT AMBAC

Ambac Financial Group, Inc. (“Ambac” or “AFG”) is a financial services holding company headquartered in New York City. Ambac’s core business is a growing specialty P&C distribution and underwriting platform. Ambac also has a legacy financial guaranty business that is in run off. Ambac’s common stock trades on the New York Stock Exchange under the symbol “AMBC”. Ambac is committed to providing timely and accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, we use our website to convey information about our businesses, including the anticipated release of quarterly financial results, quarterly financial, statistical and business-related information. For more information, please go to www.ambac.com.

The Amended and Restated Certificate of Incorporation of Ambac contains substantial restrictions on the ability to transfer Ambac’s common stock. Subject to limited exceptions, any attempted transfer of common stock shall be prohibited and void to the extent that, as a result of such transfer (or any series of transfers of which such transfer is a part), any person or group of persons shall become a holder of 5% or more of Ambac’s common stock or a holder of 5% or more of Ambac’s common stock increases its ownership interest.

MISSION

- Optimize our business and its components to achieve maximum return for shareholders
- Aggressively pursue financially sound strategies to reduce risk and decrease the size of the insured portfolio



VISION

- Transition to a growth-oriented platform sufficiently capitalized to support businesses that are synergistic with Ambac’s core competencies



VALUES

- Culture of respect, inclusion, collaboration and transparency
- Attract, retain and reward top performers who meet standards of excellence, integrity and collaboration



Forward-Looking Statements In this Annual Report, we have included statements that may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “estimate,” “expect,” “project,” “plan,” “believe,” “anticipate,” “intend,” “planned,” “potential” and similar expressions, or future or conditional verbs such as “will,” “should,” “would,” “could,” and “may,” or the negative of those expressions or verbs, identify forward-looking statements. We caution readers that these statements are not guarantees of future performance. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, which may by their nature be inherently uncertain and some of which may be outside our control. These statements may relate to plans and objectives with respect to the future, among other things which may change. We are alerting you to the possibility that our actual results may differ, possibly materially, from the expected objectives or anticipated results that may be suggested, expressed or implied by these forward-looking statements. Important factors that could cause our results to differ, possibly materially, from those indicated in the forward-looking statements include, among others, those discussed under “Risk Factors” in our most recent SEC filed quarterly or annual report.

/ **DEAR FELLOW SHAREHOLDERS**

“Our accomplishments in 2021 position Ambac well for the coming year and the Board and management team remain **focused on maximizing shareholder value** through the execution of **key strategies** for both the specialty P&C insurance platform and the legacy financial guarantee business.”

CLAUDE LeBLANC President and Chief Executive Officer



I write this letter on the heels of a couple of the most challenging years in our recent history, during which we dealt with the impact of COVID-19 and, more recently, geopolitical unrest. Notwithstanding these challenges, our employees and Board remained focused on delivering on our key strategic priorities, including the launch and material progression of our specialty P&C insurance business and mitigation of losses in our legacy financial guarantee business.

SPECIALTY P&C INSURANCE PLATFORM

Against the backdrop of a rapidly growing programs market in the United States and healthy rate increases across the P&C industry, in most classes of business, we transitioned our business with the launch of our specialty P&C insurance platform. This platform, previously classified into three separate Pillars, has since evolved into three distinct businesses, under the following names:

- **Everspan Group** (Formerly Pillar 1)
Our participatory fronting insurance platform;
- **Cirrata Group** (Formerly Pillar 2)
Our product development and distribution partner division and;
- **Redgrove Capital Group** (Formerly Pillar 3)
Our strategic investment platform.

Everspan Group, launched in the first quarter of 2021, is an ‘A-’ rated, Class VIII (as designated by AM Best) participatory fronting platform. At launch, the platform consisted of Everspan Indemnity Insurance, our surplus lines insurer and Everspan Insurance Company, our admitted insurer. Today, Everspan Group includes four additional admitted carriers, stemming from our platform expansion in the latter half of 2021 and early 2022, covering all fifty states.

/ SPECIALTY P&C PROGRAM INSURANCE PLATFORM

EVERSPAN

Participatory Fronting Insurance

- Everspan entities received an AM Best Financial Strength Rating of 'A-' (Excellent) in February of 2021
- Ten program partners signed to date
- Platform expanded with the acquisition of Providence Washington Insurance Company and three additional admitted carriers
- With these acquisitions, admitted capabilities include all 50 states

CIRRATA

Product Development and Distribution Partner

- Xchange has successfully expanded its distribution and carrier network
- Ever to date distributions to Ambac of approximately \$6 million
- Ambac is actively exploring additional acquisitions and/or establishment of de novo MGA platforms

REDGROVE

Strategic Investments

- Investments in certain insurance related businesses, including Cover Whale, an insurtech MGA
- Actively evaluating investment opportunities that would be strategic to the overall specialty P&C program insurance platform

With its broad carrier base and active certificates of authority in all fifty states, Everspan Group is well positioned as a differentiated platform to offer greater optionality to its program partners. Furthermore, Everspan sets itself apart from its competitors with a risk retention appetite of up to 30% of policies underwritten, creating significant alignment of interest with our reinsurance partners, while providing customized and highly value-added solutions for our program partners.

Everspan Group has seen a robust program pipeline, across various classes of business, from multiple distribution sources since its launch, and currently has ten program partners, with a strong pipeline going into 2022.

Our people are key to our success and I am pleased that we were able to attract top leadership talent for Everspan Group, consisting of industry veterans in underwriting, programs and claims administration as well as regulatory and compliance.

Cirrata Group, our product development and distribution partner business includes Xchange, our first MGU, an A&H business, onboarded in the

beginning of 2021. During 2021 Xchange successfully expanded its distribution and carrier network and had a strong finish to the year. Xchange made distributions of \$7.4 million during 2021, 80% of which was paid to Ambac, consistent with our current ownership stake.

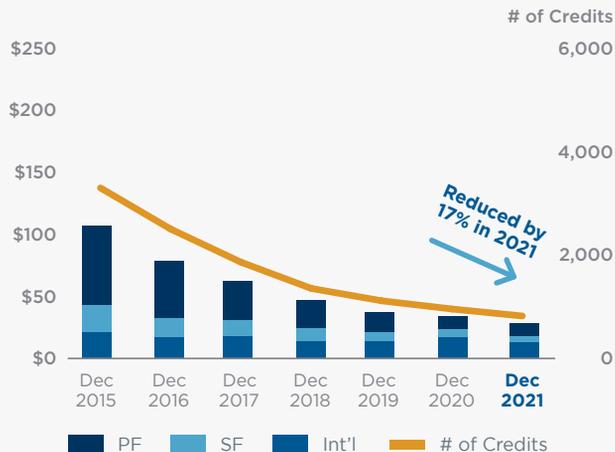
We are actively pursuing additional M&A acquisitions and de novo opportunities to grow Cirrata Group's partner platform, which we can support through our robust business services unit providing a broad range of customized services, including core P&C technology solutions, that we believe will further enhance our distribution partners' competitive positions.

Our last division, Redgrove Capital Group, oversees strategic investments to further enhance the value of Everspan and Cirrata. We made three investments in 2021, including those in companies involved in data analytics and insurance technology, all with attractive return on investment targets.

Overall, I am very pleased with the progress we made with our specialty P&C insurance platform in 2021 and believe we are well positioned for further growth and expansion in 2022.

INSURED PORTFOLIO NET PAR ⁽²⁾

(\$ in billions)



WATCH LIST AND ADVERSELY CLASSIFIED CREDITS ^{(1),(2)}

(\$ in billions)



LEGACY FINANCIAL GUARANTY BUSINESS

During 2021 we also continued to progress the strategic priorities for our legacy financial guaranty business, which has been in run off since 2008.

Our main focus continues to be active risk management, capital management and asset recovery, with the goal of strengthening and deleveraging our capital. Through these efforts we are enhancing and accelerating the recovery of value to Ambac and its shareholders.

Net insured par exposure for our legacy portfolio was \$28 billion at December 31st, down approximately \$6 billion or 17% from December 31, 2020.

Our watchlist and adversely classified credits were reduced to \$10 billion at December 31st, down approximately \$3 billion, or 23% from the prior year end. Proactive de-risking efforts accounted for decreases of approximately \$3 billion of net par exposure and \$2 billion of watch list and adversely classified credits during 2021.

During the year we also made substantial progress with regards to our largest risk exposure, Puerto Rico. Significant milestones were reached over the course of 2021, including signing on to plan support agreements covering all of our remaining insured Puerto Rico exposures. Aspects of these plan support agreements were confirmed by the bankruptcy court in the Plan of Adjustment (the "POA") for the Commonwealth of Puerto Rico, which was approved in January 2022.

Following confirmation, the Commonwealth POA was consummated on March 15, 2022, and effectively ended the largest US municipal bankruptcy, as well as one of the longest and most contentious insolvency processes in recent memory. While the bankruptcy process for other Puerto Rico instrumentalities, such as HTA, still await final court determinations, the completed Commonwealth POA resolves the restructuring related to Puerto Rico's GO, PBA, PRIFA, and CCDA bonds and, through de-risking transactions, reduces insured principal and interest exposure to Puerto Rico by over \$450 million, including all of our remaining GO and PBA exposure and portions of our PRIFA and CCDA exposures. In addition, the completed Commonwealth POA allows for further targeted reduction of our remaining PRIFA and CCDA exposures.

We expect that HTA will complete its Title III bankruptcy process later this year, on terms consistent with the plan support agreement that we joined in the summer of 2021, with a plan of adjustment available for consideration in the coming weeks.

This restructuring closes the chapter on one of the most significant distressed credit obstacles facing Ambac and, when combined with the 2019 COFINA restructuring, will reflect the cumulative elimination of approximately 85% of our total Puerto Rico exposure.

As we look ahead to 2022, I am excited about Ambac's prospects as we continue **to grow and expand** our specialty P&C insurance platform.

REPRESENTATION AND WARRANTY LITIGATION

On the loss recovery front, COVID-19 disruptions to New York City's court system have had a direct impact on our ability to advance our loss recovery efforts on our Bank of America/Countrywide litigation. We continue to believe in the merits of our case and look forward to the ultimate resolution of all of our RMBS litigations.

STREAMLINING CAPITAL AND LIABILITY STRUCTURE

We were successful in our strategic goal to streamline our capital and liability structure, resulting in the successful execution of two key transactions in 2021, leading to material economic benefits for Ambac. These transactions included:

- Junior surplus note exchange transactions, resulting in the extinguishment of \$76 million of debt and accrued interest
- Issuance of new senior secured notes by Ambac Assurance Corporation, through a newly formed special purpose entity, proceeds of which, along with other sources of liquidity, were used to fully redeem the outstanding Ambac LSNi notes. The benefits of this refinancing are lower net interest carry costs and an extended debt maturity date to 2026. We believe the new notes provide us with increased financial flexibility during the pendency of our RMBS litigations

I am pleased with the market receptivity to these transactions and we continue to evaluate additional means to further simplify and streamline our capital and liability structure.

ESG INITIATIVES

During 2021 we also formalized our commitment to environmental, social and governance practices. An ESG committee was established to focus on enhancement of relevant policies and procedures and related disclosures to reflect ESG practices and objectives, including the commitment to:

- Meaningful progress each year to integrate our social responsibility efforts including:
 - Diversity and inclusion
 - Training, development and well-being of employees
 - Philanthropy within our community
- Guiding principles concerning responsible investing
- Data security and privacy
- Strong corporate governance principles

To ensure that ESG is appropriately managed and communicated throughout the organization, a governance structure was adopted which includes oversight by our Board of Directors, executive leadership and employee participation.

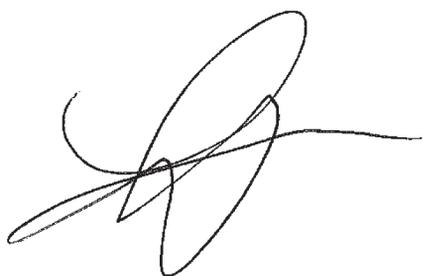
As evidence of our commitment to our ESG initiatives, we expanded the Board's diverse skillset in 2021 with the addition last August of Lisa Iglesias to our Board of Directors. Lisa brings with her a wealth of insurance and other business expertise that will be beneficial to us as we expand our specialty P&C insurance business.

We also embarked on a plan to improve our disclosures of the material ESG aspects of our business by instituting the use of both the GRI and SASB voluntary ESG reporting frameworks.

In conclusion, our accomplishments in 2021 position Ambac well for the coming year and the Board and management team remain focused on maximizing shareholder value through the execution of key strategies for both the specialty P&C insurance platform and the legacy financial guarantee business.

I would like to thank you, our shareholders, for your ongoing support and the Executive Management team and our dedicated employees for their tireless commitment to the execution of our strategic priorities for the benefit of all of our stakeholders.

Sincerely,



CLAUDE LeBLANC

President and Chief Executive Officer

/ SPECIALTY P&C PROGRAM INSURANCE PLATFORM



STRATEGIC PRIORITIES FOR THE SPECIALTY P&C INSURANCE BUSINESS INCLUDE:

- **Growing** and diversifying Everspan Group's participatory fronting platform with existing and new program partners;
- **Building** Cirrata Group into a leading federation of specialty MGA/U insurance partners through additional acquisitions and de novo builds, supported by a centralized business services unit with core technology solutions and;
- **Making** opportunistic investments through Redgrove Capital Group that are strategic to the overall Specialty P&C insurance platform.



OUR PRIORITIES FOR THE LEGACY FINANCIAL GUARANTEE INSURANCE COMPANIES INCLUDE:

- Actively **managing**, de-risking and mitigating insured portfolio risk;
- **Pursuing** loss recovery through active litigation and other means, particularly RMBS Rep & Warranty litigation;
- **Improving** operating efficiency and optimizing our asset and liability profile and;
- **Exploring**, at the appropriate time, strategic options to further maximize value for AFG.

(1) Adversely Classified Credits are either in default or have developed problems that eventually may lead to a default. Watch List Credits are performing credits that demonstrate the potential for long-term material adverse development.

(2) Par throughout this Annual Report includes capital appreciation bonds ("CABs") 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.

/ BOARD OF DIRECTORS



JEFFREY S. STEIN ⁽³⁾

Chairman
Founder and Managing Partner
of Stein Advisors LLC



IAN D. HAFT ^{(1), (2), (4)*}

Chief Executive Officer
of Surgis Capital LLC
and Chief Financial Officer
of Electric Monster Media, Inc.



DAVID L. HERZOG ^{(1)*, (4)}

Former Chief Financial Officer
of AIG



LISA G. IGLESIU ⁽¹⁾

Executive Vice President
General Counsel of Unum Group



JOAN LAMM-TENNANT ^{(2), (3)*, (4)}

Founder and Former
Chief Executive Officer of
Blue Marble Microinsurance



CLAUDE LeBLANC

President and
Chief Executive Officer



C. JAMES PRIEUR ^{(1), (2)*, (3)}

Former Chief Executive Officer
of CNO Financial Group, Inc.



CLAUDE LeBLANC

President and
Chief Executive Officer



DAVID TRICK

Executive Vice President,
Chief Financial Officer
and Treasurer



DAVID BARRANCO

Senior Managing Director,
Head of Risk Management



ROBERT B. EISMAN

Senior Managing Director,
Chief Accounting Officer
and Controller



STEPHEN M. KSENAK

Senior Managing Director
and General Counsel



DAN MCGINNIS

Senior Managing Director
and Chief Operating Officer



R. SHARON SMITH

Senior Managing Director
and Chief of Staff

- (1) Member of Audit Committee
- (2) Member of Compensation Committee
- (3) Member of Governance and Nominating Committee
- (4) Member of Strategy and Risk Policy Committee

*Chair of Committee

/ EXECUTIVE OFFICERS

/ CORPORATE INFORMATION

CORPORATE OFFICE

Ambac Financial Group, Inc.
One World Trade Center
41st Floor
New York, NY 10007
212-658-7470
www.ambac.com

COMMON STOCK LISTING

The common stock of Ambac Financial Group, Inc. trades on the New York Stock Exchange under the symbol "AMBC".

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders will be held in a virtual format on Tuesday, May 24, 2022 at 10:30 am Eastern Time and can be accessed at www.virtualshareholdermeeting.com/AMBC2022.

INVESTOR SERVICES/ TRANSFER AGENT

COMPUTERSHARE
P.O. BOX 505000
Louisville, KY 40233
Inside the USA call 1-800-662-7232
Outside the USA call 1-781-575-4238
Hearing impaired call 1-800-952-9245
www.computershare.com/investor
or overnight correspondence can be sent to:

COMPUTERSHARE
462 South 4th Street, Suite 1600
Louisville, KY 40202

INVESTOR RELATIONS

Charles J. Sebaski
Managing Director,
Head of Investor Relations
Ambac Financial Group, Inc.
212-208-3222
ir@ambac.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG, LLP
345 Park Avenue
New York, NY 10154

CORPORATE GOVERNANCE

Ambac is committed to maintaining the independence of Ambac's Board of Directors and its committees and the integrity of its corporate governance processes. Our Corporate Governance Guidelines, Code of Business Conduct and charters that govern our Board committees, all of which are designed to keep Ambac accountable to its shareholders, can be found at www.ambac.com.

OFFICER CERTIFICATIONS

The certifications of Ambac's Chief Executive Officer and Chief Financial Officer, required under Section 302 of the Sarbanes-Oxley Act of 2002, have been filed as exhibits to Ambac's 2021 Annual Report on Form 10-K.

Ambac

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