Report of the Examination of

Ambac Assurance Corporation

New York, New York

As of December 31, 2021

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April 21, 2023

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

AMBAC ASSURANCE CORPORATION
New York, New York

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Ambac Assurance Corporation (AAC or the company) was conducted in 2017 and 2018 as of December 31, 2016. The current examination covered the intervening period ending December 31, 2021 and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Ambac Financial Group, Inc. (AFG or the Group). The Arizona Department of Insurance and Financial Institutions acted in the capacity as the lead state for the coordinated examinations. Work performed by the Arizona Department of Insurance and Financial Institutions was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a Preliminary Portfolio Analysis review of the company's invested assets portfolio as of December 31, 2021. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

Ambac Assurance Corporation is a Wisconsin-domiciled insurer authorized to transact surety and financial guaranty insurance. Financial guaranty insurance functions as a form of credit enhancement that provides benefits both to debt issuers and to investors. Financial guaranty insurance was designed to benefit an issuer by providing a higher credit rating on a credit obligation, enabling a debt security to be offered in financial markets at reduced interest rates, and providing an issue with broader marketability. Insurance benefits for an investor can include protection from loss of principal and interest on debt security investments, enhanced marketability, and market price stability for debt securities. The company has operated as a financial guaranty insurer, and its principal business was the guaranty of timely payment of principal and periodic interest when due on credit obligations. It has not written any new business since early 2008.

The company's present corporate organization was created from a corporate restructuring executed on June 18, 1985, under the supervision of the Wisconsin Office of the Commissioner of Insurance (OCI). Under the 1985 restructuring, the business of the company's predecessor legal entity, American Municipal Bond Assurance Corporation (AMBAC), was transferred to a previously existing successor legal entity, AMBAC Indemnity Corporation, which was subsequently renamed Ambac Assurance Corporation.

AMBAC was incorporated in Wisconsin in 1970 and was originally established as a subsidiary of the former MGIC Investment Corporation (MGICIC; the pre-1985 MGIC Investment Corporation). AMBAC was the nation's first financial guaranty insurer of municipal bond securities. In 1981, the underwriting operations of AMBAC were moved to New York, New York from Milwaukee, Wisconsin. Ownership of MGICIC and its subsidiaries, including AMBAC, was purchased by the holding company Baldwin-United Corporation (Baldwin) in 1982. At the time of the purchase, Baldwin was primarily a life insurance holding company that was relying on single premium deferred annuities for growth. It became financially impaired in 1983 due primarily to problems in the single premium deferred annuity market coupled with the corporate debt from the purchase of MGICIC. Baldwin filed a petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code.

In 1984, the commissioner approved a Plan of Acquisition (the Plan) whereby the ongoing successful business enterprise of AMBAC could be protected from the bankruptcy of Baldwin and be continued in a successor legal entity. Pursuant to the Plan, the holding company AMBAC, Inc., was formed in 1984 to facilitate the transfer of the municipal bond insurance business of AMBAC. AMBAC, Inc., purchased the then existing insurer Verex Indemnity Corporation, which was incorporated in Wisconsin on February 25, 1970, under the name CMI Credit Insurance, Inc., and renamed Verex Indemnity Corporation on January 25, 1979. On June 27, 1985, AMBAC changed its name to WMBIC Indemnity Corporation (WMBIC), and on June 28, 1985, Verex Indemnity Corporation changed its name to AMBAC Indemnity Corporation. Effective June 28, 1985, AMBAC Indemnity Corporation acquired the assets and assumed the liabilities of the municipal bond business of WMBIC. Pursuant to the order of the commissioner, WMBIC entered into liquidation proceedings immediately following the transfer of business to AMBAC Indemnity Corporation.

AMBAC, Inc., was initially established for the express purpose of acquiring and capitalizing an insurance company that would be the successor to AMBAC. At the time of the formation of AMBAC Indemnity Corporation in 1985, the voting capital stock of AMBAC, Inc., was owned by the following participating investors:

Citibank, NA	86.9%
Management of WMBIC Indemnity Corporation	5.4
Xerox Corporation	4.4
Stephens, Inc.	3.3
Total	100.0%

Subsequent to the formation of AMBAC, Inc., Citibank, NA, acquired all of the ownership interest of AMBAC, Inc. On April 29, 1991, AMBAC, Inc., was renamed Citicorp Financial Guaranty Holdings, Inc. (CFGH), and subsequently another entity also known as AMBAC, Inc., was incorporated as a wholly owned subsidiary of CFGH. CFGH sold its equity interest in AMBAC, Inc., through two public stock offerings on the New York Stock Exchange, in which 50.3% of the capital stock of AMBAC, Inc., was sold in July of 1991 and the remaining 49.7% of the capital stock was sold in January of 1992, resulting in the company’s holding company becoming publicly traded.

On July 11, 1997, the name of AMBAC, Inc., was changed to Ambac Financial Group, Inc. (hereinafter also AFG), the present name of the holding company, and the name of AMBAC Indemnity Corporation was changed to Ambac Assurance Corporation (herein also AAC or the company), the name presently used by the insurance company.

While the company began first as a reinsurer of municipal bond insurance and then an originator when it obtained its triple-A rating from independent rating agencies, in the 1990s it began to offer financial guarantees for other forms of debt through new branches of its business. In 1992, it added a Financial Services Division to offer investment products to municipalities, including guaranteed investment contracts. In 1994, it added a Specialized Finance Division, which provided guarantees on collateralized debt obligations of asset-backed securities (CDOs of ABS) and other private structured financing including residential mortgage-backed securities (RMBS). During the late 1990s, AAC also began to guaranty the credit default swaps entered into by its subsidiary, Ambac Credit Products, LLC. AAC also expanded many aspects of its business internationally on a direct basis and through various affiliates. By 2006, municipal bond insurance had become less than half of the company's net premium.

AAC’s financial outlook started to deteriorate in 2007, as the effects of subprime lending practices of 2004 through 2006 began to resonate through the financial sector. A sizable portion of the trillions of dollars of CDOs outstanding in the broader marketplace at the time the subprime crisis hit were backed by subprime RMBS. With the cooling of the U.S. real estate market rapidly accelerating into a housing bust, numerous other markets for human and capital resources were negatively affected.

AAC remained rated triple-A by the three major independent rating agencies until January 18, 2008, when the first of a series of downgrades began. Without this rating, the company was no longer able to offer profitable, competitive insurance terms and stopped underwriting all new business. The last new business that the company wrote was in early 2008.

During 2008 and 2009, OCI and its advisory team conferred extensively with representatives of AAC and many policyholders regarding AAC's increase in present and projected claims payments, the deterioration of its claims-paying resources, various options to protect the interest of the public and the policyholders, and the pros and cons of each option. During that time, OCI non-disapproved AAC's requests to commute a number of policies at a fraction of their total projected impairments in order to reduce the potential liabilities facing AAC. OCI and its advisors also conducted in-depth reviews of the company's books of business and policies and the risks associated with them and monitored AAC's deteriorating financial condition. Based on this lengthy and careful review, OCI worked with AAC to craft and implement a multi-step restructuring plan designed to maximize its claims paying resources and to equitably allocate them to compensate actual economic losses of policyholders.

On March 24, 2010, AAC established Ambac Assurance Corporation Segregated Account (hereinafter also the Segregated Account) and allocated to it certain policies that it had written, primarily policies related to credit derivatives, residential mortgage-backed securities, and other structured finance transactions. On the same date, OCI filed a petition with the Circuit Court of Dane County, Wisconsin, to put the Segregated Account into rehabilitation, which was approved by the Court.

AFG filed for Chapter 11 reorganization on November 8, 2010, in the United States Bankruptcy Court for the Southern District of New York. During the bankruptcy proceeding, it continued to do business as debtor-in-possession and continued to make filings with the U.S. Securities and Exchange Commission. AFG emerged from bankruptcy on May 1, 2013.

On January 22, 2018, the Circuit Court of Dane County, Wisconsin, approved the Second Amended Plan of Rehabilitation for the Segregated Account which became effective on February 12, 2018. On the effective date, AFG and AAC consummated a series of transactions that generally involved (i) the exchange of certain surplus notes held by holders of surplus notes that elected to participate in a voluntary exchange transaction (Supporting Holders) and (ii) the satisfaction and discharge of all Deferred Amounts of the Segregated Account, in each case for an effective consideration package comprised of cash, new Secured Notes and certain existing surplus notes and (iii) the exit from rehabilitation of the Segregated Account (Rehabilitation Exit Transactions). Also, at the time of the exit from rehabilitation, the commissioner issued a Stipulation and Order (S&O) that became effective February 12, 2018, among AFG, AAC, and OCI. The S&O contains several provisions intended to continue enhanced regulatory supervision over AAC. The S&O continues in force at the time of this examination.

On February 12, 2018, the Segregated Account exited from Rehabilitation which allowed for the merger of the Segregated Account with and into AAC. In connection with the Rehabilitation Exit Transactions, certain documents and instruments relating to the operation of the Segregated Account or the rights of the Segregated Account and the Rehabilitator were terminated, including the Aggregate Excess of Loss Reinsurance Agreement between AAC, as reinsurer, and the Segregated Account.

The Rehabilitation Exit Transactions involved a series of transactions which provided holders of beneficial interests in Deferred Amounts (other than AFG, but including AAC) a total effective consideration package, in full satisfaction and discharge of each $1.00 of Deferred Amounts (including accretion), of (i) $0.40 in cash, (ii) $0.41 in principal amount of new Secured Notes, and (iii) from certain holders of surplus notes, $0.125 currently outstanding surplus notes. Such a consideration package thereby provided a discount of $0.065 (applied first against accretion of Deferred Amounts). AFG received $0.91 in principal amount of Secured Notes for each $1.00 of Deferred Amounts (including accretion) that it held, and provided a $0.09 discount in full satisfaction and discharge of its Deferred Amount claims.

The Rehabilitation Exit Transactions also involved a series of interrelated transactions involving the exchange of certain surplus notes (collectively, the Exchange Offers) pursuant to which, for each $1.00 of principal amount outstanding and accrued and unpaid interest thereon, holders effectively (i) received $0.40 in cash, (ii) received $0.41 in principal amount of secured notes, (iii) retained $0.125 in principal amount and accrued and unpaid interest thereon of surplus notes, and (iv) provided a discount of $0.065 in principal amount and accrued and unpaid interest thereon. AFG did not participate in the Exchange Offers. An aggregate of 99.6% of the surplus notes held by the Supporting Holders and parties other than AFG and AAC participated both in the Rehabilitation Exit Transactions and in the Exchange Offers.

To facilitate the Exchange Offers, a newly formed special purpose entity (Ambac LSNI, LLC) issued new secured notes (the Secured Notes), secured by all assets of the special purpose entity, which included a note issued by AAC to the special purpose entity, secured by a pledge of AAC's right, title, and interest in up to the first $1,400,000,000 of proceeds (net of reinsurance) from certain litigations in which AAC seeks redress for breaches of representations and warranties and/or fraud related to residential mortgage-backed securitizations (RMBS Litigations). AAC also issued $240,000,000 of senior notes (Tier 2 Notes) secured by AAC's rights, title, and interest in the cash and non-cash proceeds (net of reinsurance) above $1,600,000,000 received in connection with the RMBS Litigations. Subsequently, in

July 2021, a newly formed special purpose entity, Sitka Holdings, LLC (Sitka), issued, $1,175,000,000 of senior secured notes due 2026 (Sitka Senior Secured Notes). The Sitka Senior Secured Notes were secured by all assets of Sitka, which included a secured note issued by AAC to Sitka (Ambac Note). The Ambac Note was secured by a pledge of AAC's right, title and interest in (i) up to $1,400,000,000 of proceeds from RMBS Litigation and (ii) the capital stock of Ambac Assurance UK Limited (AUK), a wholly owned subsidiary of AAC. The proceeds from this offering were used to fund a portion of the redemption in full of the note issued by Ambac LSNI, LLC. The Sitka Senior Secured Notes and Tier 2 Notes were subsequently redeemed in full during 2022 and 2023 in connection with the settlement of RMBS Litigations. Refer to the section of this report captioned "Subsequent Events" for additional information on the settlement of RMBS Litigations.

Beginning in 2019, AFG underwent an internal reorganization to remove Everspan Financial Guaranty Corp. from under AAC ownership and make it a sister company for the purposes of writing new business through a newly formed Everspan subgroup. Everspan Financial Guaranty Corp. was renamed Everspan Insurance Company (EIC) on July 9, 2019, and ownership of EIC was changed from AAC to Everspan Holdings, LLC on July 6, 2020, and EIC was re-domesticated to the State of Arizona on December 4, 2020.

AAC's principal business consists of actively managing its runoff portfolio through transaction terminations, policy commutations, reinsurance, settlements, and restructurings (together referred to as "de-risking"). AAC provides various operating functions and services on behalf of its affiliates pursuant to numerous intercompany relationships and agreements. Further discussion of the company's holding company organization, description of the significant affiliates of AAC, and description of intercompany transactions and agreements is included in the section of this report captioned "Affiliated Companies".

In 2021, the company received direct premium related to its 2008 and prior business in the following states:

New York	$ 5,517,005	24.1%
California	2,903,819	12.7
Colorado	2,046,320	8.9
Texas	1,601,009	7.0
Hawaii	1,094,352	4.8
All others	9,756,497	42.5
Total	$22,919,002	100.0%

The company is licensed in all U.S. states (except Tennessee), the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The company's license has been suspended in several states. The company provided financial guaranty insurance on investment grade municipal and structured finance debt obligations. The insurance coverages written by the company generally guarantee the timely payment for principal and interest payments on insured credit obligations when contractually due.

The company acquired business through issuers and their financial advisors or through investment bankers who were in contact with the company and who wanted insurance. The company also obtained business through its active involvement in credit markets and participated in competitive bidding with other insurers for prospective business. The company's insurance policies were not offered or sold though insurance agents, and its marketing operations did not employ a sales force of licensed insurance agents. The company used countersignature agents in those states that required a resident agent to countersign policies and had appointed agents for countersignature purposes.

The company's financial guaranty business was conducted in three primary markets: the U.S. public finance market, generally known as municipal bonds; the U.S. structured finance and asset-backed securities market, including mortgage-backed securities, collateralized debt obligations, student loans, and other securitized aggregations of loans; and the international market, generally sovereign or related debt.

The company is no longer rated by any nationally recognized statistical rating organizations.

The following table is a summary of the net insurance premiums written by the company in 2021. The financial experience of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Financial guaranty	$22,919,002	$0	$21,802,629	$1,116,373
Total All Lines	$22,919,002	$0	$21,802,629	$1,116,373

The company is not writing any new business and has not written any since 2008. The direct premium written reported is the ongoing receipt of contractually required payments by policyholders.

During the period under examination, AAC has been and continues to be subject to certain notable prescribed accounting practices and permitted accounting practices.

The NAIC's Statement of Statutory Accounting Principles (SSAP) No. 60, "Financial Guaranty Insurance," paragraph 8, allows for a deduction from loss reserves for the time value of money by application of a discount rate equal to the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve. Guided by SSAP No. 97, "Investments in Subsidiary, Controlled and Affiliated Entities," paragraph 13(e), and SSAP No. 5R, "Liabilities, Contingencies and Impairments of Assets - Revised," AAC records probable losses on subsidiaries, whose obligations it has guaranteed, at a discount for the time value of money. The company's average rate of return on its admitted assets for the year ended December 31, 2021, was 5.28%. A material portion of its rate of return is due to holdings of AAC-insured securities, most of which were purchased at a discount under distressed market conditions. OCI has directed the company to utilize a prescribed discount rate of 5.1% for the purpose of discounting both its loss reserves and its estimated impairment losses on subsidiary guaranties based on OCI's expert independent advisory team's good-faith estimate of AAC's expected long-run rate of return.

SSAP No. 41, "Surplus Notes." paragraph 4, states that proceeds received by the issuer of surplus notes must be in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the commissioner of the state of domicile. Under statutory accounting principles, surplus notes issued in conjunction with commutations or the settlement of claims would be valued at zero upon issuance. In a letter dated July 28, 2010, OCI has directed the company, beginning with the quarterly period ended June 30, 2010, to record surplus notes issued in connection with commutations and the settlement of liabilities at full par value upon issuance as in these instances the surplus notes do not represent a contribution of capital, but rather a distribution of value from the common and preferred shareholders of the company. The holders of surplus notes issued in connection with commutations and the settlement of liabilities have a claim against surplus senior to the preferred and common shareholders of the company. This treatment is intended to provide for greater transparency for the holders of securities with differing claim priorities upon surplus. In a letter dated April 14, 2011, OCI directed the company, beginning with the quarterly period ended March 31, 2011, to record junior surplus notes issued in connection with commutations and the settlement of liabilities at full par value upon issuance. In a letter dated December 19, 2014, OCI directed the company, beginning with the period ended December 31, 2014, to reclassify all senior surplus notes as a write-in liability in view of the Amended Plan of Rehabilitation approved by the Dane County Circuit Court on June 11, 2014, which made it unequivocally clear that the senior surplus notes of both the General Account and Segregated Account were of equal priority with policyholder deferred payment obligations. The General Account has paid its claims in cash, in full and on time and issued surplus notes in connection with AAC's global commutation of its CDO of ABS commutation in 2010.

SSAP No. 43R, "Loan-backed and Structured Securities," paragraph 35, states that when an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate. In a letter dated July 22, 2014, OCI issued a prescribed accounting practice, effective June 11, 2014, with regard to the carrying value of investments in AAC-insured policies that were allocated to the Segregated Account; this prescribed practice exempts the company from evaluating such investments for other than temporary impairments and requires all such investments be reported at amortized cost regardless of its NAIC risk designation. As previously noted, a significant portion of the company's rate of return is due to holdings of AAC-insured securities, most of which were purchased at a discount to par. This prescribed accounting practice is intended to recognize that the company continues to maintain statutory loss reserves without adjustment for the economic effects of its ownership of the insured investment securities, improve transparency to the users of the statutory financial statements and to minimize operational risks. Effective February 12, 2018, with the Segregated Account exit from Rehabilitation, this prescribed practice was no longer applicable for OTTI evaluations going forward.

On December 27, 2012, OCI issued a permitted accounting practice effective December 31, 2012, to allow the company to report its purchased AAC-insured securities, with coverage under financial guaranty policies that were allocated to the Segregated Account, as a write-in item for invested assets instead of the line item for bonds. In a letter dated May 8, 2017, OCI extended this permitted accounting practice to holdings of AAC-insured securities with coverage under financial guaranty policies that remained in the General Account. The company reports holdings, acquisitions, and dispositions of such securities with this office on a confidential basis in a format consistent with Schedule D. This permitted practice only impacts the balance sheet line item and Schedule D reporting. This permitted practice has no impact on the valuation of the securities to which it applies. This permitted practice was issued to prevent other participants in the illiquid sectors of the market (e.g., residential mortgage-backed securities and Puerto Rico bonds) to use price data AAC would report in its published Schedule D in a manner that would negatively impact AAC's ability to negotiate optimal prices with such market participants, the vast majority of whom have no publication requirements with respect to their purchase and sale data. On April 10, 2019, AAC requested and OCI approved the termination of this permitted practice. Accordingly, all such investments were combined with other bond investments beginning on January 1, 2019.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members, including the CEO. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group.

Currently, the board of directors consists of the following six persons with one position open:

Name and Residence	Principal Occupation	Term Expires
Ian D. Haft Greenwich, Connecticut	Chief Executive Officer, Surgis Capital & Chief Financial Officer, Electric Monster Media	2024
David L. Herzog St. Albans, Missouri	Former Chief Financial Officer, AIG	2024
Lisa G. Iglesias Mountain, Tennessee	Executive Vice President & General Counsel, Unum Group	2024
Joan M. Lamm-Tennant Fairfield, Connecticut	Independent Chair of the Board of Directors, Equitable Holdings, Inc. & AllianceBernstein Holding L.P.	2024
Claude LeBlanc New York, New York	President and Chief Executive Officer Ambac Financial Group, Inc.	2024
Jeffrey S. Stein New Canaan, Connecticut	Founder and Managing Partner, Stein Advisors LLC	2024

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Claude LeBlanc	President and CEO
David Trick	Executive Vice President, CFO and Treasurer
William J. White	First Vice President and Secretary
Daniel M. McGinnis	Senior Managing Director and COO
Robert B. Eisman	Senior Managing Director and CAO
Rhonta S. Smith	Executive Vice President, Chief Strategy Officer
Stephen M. Ksenak	Senior Managing Director and General Counsel
David P. Barranco	Senior Managing Director

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. During the examination period, the company’s board of directors dissolved AAC level Audit and Compensation Committees in favor of AFG level Audit and Compensation Committees. The board of directors’ committees at the time of the examination are the AFG committees listed below charged with oversight of AAC:

AFG Audit Committee
David L. Herzog, Chair
Ian D. Haft
Joan M. Lamm-Tennant
Claude J. Prieur*

AFG Compensation Committee
Claude J. Prieur, Chair*
Ian D. Haft
Joan M. Lamm-Tennant

AFG Governance and Nominating Committee
Joan M. Lamm-Tennant, Chair
Claude J. Prieur*
Jeffrey S. Stein

*Claude J. Prieur resigned February 22, 2023

The AFG Audit Committee is responsible for the selection of the independent auditors, approval of the scope of the annual audit by the independent auditors, and internal auditors, the review of audit findings and accounting and control policies, assessment of the adequacy of internal controls, quality of AAC’s financial disclosures, and compliance with AAC’s Code of Business Conduct.

Significant management committees voting members at the time of the examination are listed below:

AAC Risk Committee
David P. Barranco, Chair
Robert B. Eisman
Stephen M. Ksenak
Claude LeBlanc
Rhonta S. Smith
David Trick

AAC Reserve Committee
Jonathan Carchman, Chair (Non-voting)
Claude LeBlanc
David P. Barranco
David Trick

The AAC Risk Committee is responsible for review and approval of risk remediation activities for the financial guarantee insured portfolio. The AAC Reserve Committee is responsible for oversight and review of the reserving process for the legacy financial guaranty business for AAC and AUK.

IV. AFFILIATED COMPANIES

Ambac Assurance Corporation is a member of a holding company system. Ambac Financial Group, Inc. is the ultimate parent of the holding company system. The organizational chart below depicts the holding company system. A brief description of the significant AAC affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2021

- Ambac Financial Group, Inc. (Delaware)
  - Ambac Asset Management, Inc. (Delaware)
  - Ambac LSNI, LLC (Cayman Islands)
  - Aleutian Solutions, LLC
  - Sitka Holdings, LLC
  - Ambac Assurance Corporation (Wisconsin, NAIC No. 18708)
    - Ambac Credit Products, LLC (Delaware)
    - Ambac Conduit Funding, LLC (Delaware)
      - Juneau Investments, LLC (Delaware) (Note #1)
    - Ambac Assurance UK Limited (United Kingdom)
    - Ambac Capital Corporation (Delaware)
      - Ambac Capital Funding, Inc. (Delaware)
      - Ambac Investments, Inc. (Delaware)
    - Ambac Financial Services, LLC (Delaware)
  - Everspan Holdings, LLC (Note #2)
    - Everspan Indemnity Insurance Company (Arizona, NAIC No. 16882)
      - Everspan Insurance Company (Arizona, NAIC No. 24961)
        - Providence Washington Insurance Company (Rhode Island, NAIC No. 24295)
  - P2MGA Holdings, LLC
    - Xchange Affinity Underwiring Agency, LLC (Note #3)
    - Xchange Benefits, LLC (Note 3)
      - Xchange Re Holdings, LLC
        - Xchange Re Bermuda Ltd. (Note #4)

Note #1: Juneau Investments, LLC is 99% owned by Ambac Conduit Funding, LLC and 1% owned by Ambac Assurance Corporation.

Note #2: Everspan Holdings, LLC was formed effective first quarter 2020.

Note #3: Xchange Affinity Underwriting Agency, LLC and Xchange Benefits, LLC are 80% owned by P2MGA Holdings, LLC.

Note #4: Xchange Re Bermuda Ltd. is 56% owned by Xchange Re Holdings, LLC.

Ambac Financial Group, Inc.

Ambac Financial Group, Inc (AFG) was incorporated on April 29, 1991, in the state of Delaware and is the parent holding company for the Ambac Financial Group. AFG filed a voluntary petition for Chapter 11 reorganization on November 8, 2010, and emerged from bankruptcy on May 1, 2013. Prior to reorganization, AAC had taken over the provision of most administrative services that had previously been provided by AFG. All employees of the group, with the exception of those employed by Ambac Assurance UK Limited, are employed by AAC. Holdings of AFG as of December 31, 2021, include Everspan Holdings, LLC whose subsidiaries are actively engaged in issuing new insurance products. As of December 31, 2021, the audited GAAP basis financial statements of AFG reported assets of $12,303 million, liabilities of $11,187 million, and stockholders' equity of $1,098 million. Operations for 2021 produced a net loss of $17 million.

Ambac Credit Products, LLC

Ambac Credit Products, LLC (ACP) is a limited liability company formed in the state of Delaware. ACP provided credit default swaps, a largely unregulated product designed to provide protection against default of the referenced entity similar to financial guaranty insurance in the global financial markets. The swap contracts required ACP to make scheduled payments of principal and interest upon the occurrence of certain defined credit events related to underlying obligations. ACP's swap agreements were issued to counterparties who were seeking to mitigate credit risk. Structured credit derivatives issued by ACP are insured by AAC. All credit derivative positions have terminated as of June 30, 2022. As of December 31, 2021, the unaudited GAAP basis financial statements of ACP reported assets of $3,153,481, liabilities of $359,130, and stockholders' equity of $2,794,351. Operations for 2021 produced net income of $440,001.

Ambac Conduit Funding, LLC, and Subsidiary Juneau Investments, LLC

Through Aleutian Investments, LLC (Aleutian) which was dissolved in 2015, and Juneau Investments, LLC (Juneau), which was dissolved in 2022, AAC provided funding for issuers of debt obligations. Typically, Aleutian and Juneau purchased the debt obligations and issued medium-term notes (which were insured by AAC) to raise proceeds with which to purchase debt obligations. The debt obligations were acquired from the issuers by Ambac Conduit Funding, LLC (ACF), which in turn sold the debt obligations to Aleutian and Juneau, as applicable. As of December 31, 2021, the unaudited GAAP basis financial statements of ACF reported assets of $116,606, liabilities of $0, and stockholders' equity of $116,606. Operations for 2021 produced a net loss of $187,889. ACF and Juneau were subsequently dissolved on May 6, 2022.

Ambac Assurance UK Limited

Ambac Assurance UK Limited (AUK) was incorporated under the laws of England and Wales on September 11, 1996. The United Kingdom Financial Services Authority curtailed AUK's license in 2009. AUK was allowed to runoff the financial guarantee obligations it had issued. AUK had both a reinsurance agreement and a net worth maintenance agreement with AAC that were commuted on September 28, 2010, in light of the establishment and rehabilitation of Ambac Assurance Corporation Segregated Account, the concerns about the amount of reinsurance premium due, and AAC's inability to fulfill its part of these contracts because its obligations thereunder were legally subordinate to AAC's direct policyholder claims. AAC provides investment management and management services to AUK. As of December 31, 2021, the audited GAAP basis financial statements of AUK reported assets of $984,377,150, liabilities of $280,842,452, and shareholders' equity of $703,534,698. Operations for 2021 produced net income of $18,206,689.

Ambac Capital Corporation and Subsidiaries

Ambac Capital Corporation (ACC) was incorporated under the laws of Delaware on September 16, 1994. ACC's activities were administering the remaining investment agreements including repurchase agreements to asset-backed, structured finance, and municipal issuers through its wholly owned subsidiary, Ambac Capital Funding, Inc. In general, investment agreements were customized for each investor to provide a guaranteed interest coupon and ultimate return of principal in accordance with their requirements. Each investment agreement was insured by AAC under a financial guaranty insurance policy. The last investment agreement expired in March 2017. As of December 31, 2021, the unaudited

GAAP basis consolidated financial statements of ACC reported assets of $1,064,989, liabilities of $456, and stockholders' equity of $1,064,533. Operations for 2021 produced net income of $0.

Ambac Financial Services, LLC

Ambac Financial Services, LLC (AFS) was established as a limited partnership in 1994 and was reorganized as a limited liability company under the laws of Delaware on December 30, 2003. AFS provides interest rate swaps and other derivative financial products to states, municipalities and their authorities, and other entities for which AAC has written financial guaranty insurance on senior debt obligations. Interest rate swaps are used by credit issuers to manage interest rate risks in connection with their credit financing transactions. AFS has used derivative instruments to economically hedge the interest rate risk embedded in the investment and insured portfolios. The obligations both of AFS and of its counterparties under the financial products issued by AFS are guaranteed by AAC. As of December 31, 2021, the unaudited GAAP basis financial statements of AFS reported assets of $208,618,207, liabilities of $535,415,561, and stockholders' equity of $(326,797,354). Operations for 2021 produced net income of $20,866,516.

Agreements with Affiliates

As a result of the 2019 reorganization, AAC's Master Facultative Reinsurance Agreement and Excess of Loss Reinsurance Agreement formally with affiliate Everspan Financial Guarantee Corp. were terminated on June 15, 2020, and AAC has no affiliated reinsurance as of the date of the examination. A brief summary of other affiliated agreements follows:

1. Tax-Sharing Agreement – The domestic affiliates of AFG have all been part of a tax-sharing agreement in various forms since it first became effective July 18, 1991, or since they became part of the group. Since then, the agreement was replaced by an amended and restated agreement that was executed on March 14, 2012, and first amended April 29, 2013. On July 7, 2020, Everspan was moved from the AAC Subgroup to the AFG Subgroup because of the reorganization and a separate tax sharing agreement was created between AFG and the AFG Subgroup. A second amendment was executed October 6, 2020 and a third amendment was executed on December 18, 2020. The amendments to the restated agreement primarily concern details about the allocation of the use of certain net operating loss carryforwards (NOLs) among the affiliated companies. Because the NOLs are material assets of AAC and post-bankruptcy AFG, the companies have made a serious effort to protect the NOLs from any adverse tax consequences and to make the best use of the NOLs.

2. Expense-Sharing and Cost-Allocation Agreement – Originally effective January 1, 1997, AAC and certain of its subsidiaries and affiliates entered into an expense-sharing and cost-allocation agreement. It was most recently terminated and replaced by an amended and restated agreement effective May 1, 2021 between AAC and AFG and their respective subsidiaries and affiliates. Pursuant to the agreement, AAC allocates compensation expenses for shared service departments and overhead department costs among all affiliates benefiting from such services. Allocations are

based on percentage of time spent supporting the activities of each affiliate, or for overhead, management may elect to use an alternative cost allocation method such as headcount or cost per square foot when appropriate. The agreement also includes specific allocation methodology for certain public disclosure, D&O and director fees, and includes a cap for reimbursement of AFG operating expenses subject to OCI approval. Expense allocations are calculated monthly and recorded in intercompany accounts. All intercompany account balances are paid within 45 days after each calendar quarter.

3. Asset Management Agreement – Effective December 18, 1997, AAC will supervise and direct the investment of the assets of Everspan Insurance Company. Everspan Insurance Company agrees to reimburse AAC for any direct out-of-pocket costs and expenses incurred in connection with rendering such services and pay on the fifteenth business day of the first month of each quarter a fee to AAC equal to 25% of 0.1% of the weighted average outstanding balance of the assets managed hereunder during the prior year. In 2021, Everspan companies were added to a separate Investment Management Agreement between AFG and Goldman Sachs that effectively superseded this agreement. This agreement is expected to be formally terminated by AAC.

4. Installment Premium Agreement – Pursuant to an agreement dated September 15, 1998, AAC may guarantee obligations of Ambac Credit Products, LLP. In exchange for the financial guarantee, Ambac Credit Products, LLP makes quarterly payments to AAC in the amount of 0.03% of the outstanding notional amount multiplied by the actual number of days elapsed. This agreement was replaced by an amended agreement that was signed on August 7, 2012. In exchange for the financial guarantee, Ambac Credit Products, LLP makes quarterly payments to AAC in the amount of 0.10% of the outstanding notional amount multiplied by the actual number of days elapsed over 360 days.

5. Insurance and Indemnity Agreements – AAC had guaranteed the timely payment of principal and interest on obligations under investment and repurchase agreements; swaps; and evidences of indebtedness issued by affiliates pursuant to insurance and indemnity agreements involving Ambac Financial Services, LLC. OCI agreed that when AAC charges similar rates and uses similar underwriting criteria when insuring affiliates as would be applied to non-affiliates it would constitute "insurance contracts entered into in the ordinary course of the insurer's business" and would not require prior reporting to OCI. All investment and repurchase agreements have been satisfied.

6. Loans – AAC continues to provide loans under credit agreements with Ambac Financial Services, LLC and Ambac Capital Corporation.

7. Keepwell Agreement – In an agreement, dated June 8, 2017, AAC undertakes to provide Ambac Financial Services, LLC such funds as needed to honor all of the obligations in respect of any Swap Agreement by Ambac Financial Services, LLC.

8. Amended and Restated Master Framework Services Agreement – In an agreement dated November 18, 2022, AAC and AUK may provide certain services to each other. AAC provides Human Resource, Information and Technology, Financial Control, and Treasury services for AUK. AUK performs Portfolio Risk Management Services for the benefit of AAC. Charges under the agreement are based on costs incurred.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. The contracts contained proper insolvency provisions.

The company uses reinsurance as part of its de-risking strategies of the financial guaranty insurance business in runoff. The company may recapture certain policies previously ceded under legacy reinsurance agreements in order to execute its strategy to enter into new ceded reinsurance agreements.

Ceding Contracts

During the period of the examination, AAC entered into new facultative ceded reinsurance contracts as part of AAC's ongoing de-risking strategies. AAC cedes certain financial guaranty insurance business to Build America Mutual Assurance Company under a Financial Guaranty 100% Quota Share Agreement and certain financial guaranty insurance contracts under a Financial Guaranty Variable Percentage Quota Share Agreement. AAC cedes financial guaranty insurance business to Assured Guaranty Corporation under a Financial Guaranty Municipal Facultative Reinsurance Agreement. AAC cedes a lease revenue bond under a Financial Guaranty Municipal Facultative Reinsurance Agreement with Assured Guaranty Municipal Corporation.

During the period of the examination, AAC and AUK entered into Reassumption Agreements with Sompo Japan Insurance Inc., and Sompo Japan Nipponkoa Insurance Inc., and a Commutation, Reassumption, and Release Agreement with Assured Guaranty Re Ltd. to recapture certain policies as part of its reinsurance strategy described above.

A description of legacy ceding contracts that remain in force follows. The company cedes exposure with respect to certain municipal bonds and structured finance credits to Sompo Japan Nipponkoa Insurance Inc. under a surplus share reinsurance agreement and a facultative reinsurance agreement. The company cedes financial guaranty insurance business, including exposure with respect to municipal bonds and structured finance credits, to Assured Guaranty Reinsurance International, Ltd., under a surplus share reinsurance agreement and a facultative reinsurance agreement. The company cedes exposure with respect to municipal bonds, mortgage-backed securities, and asset-backed securities to Assured Guaranty Corporation under two facultative reinsurance agreements: a pro rata reinsurance agreement, and a surplus share reinsurance agreement. Assured Guaranty Corporation also assumed obligations that previously were ceded under a quota share agreement to AXA Re Finance.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the commissioner of insurance in the December 31, 2021, annual statement. Also included in this section are schedules that reflect the financial experience of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Ambac Assurance Corporation
Assets
As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$1,306,888,013	$	$1,306,888,013
Stocks:			
Common stocks	605,592,578	605,592,578	
Cash, cash equivalents, and short-term investments	281,984,451		281,984,451
Other invested assets	291,002,673	2,912,097	288,090,576
Receivables for securities	66,025	3,042	62,983
Investment income due and accrued	7,391,600		7,391,600
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	132,131	2,627	129,504
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,076,575	427	1,076,148
Reinsurance:			
Amounts recoverable from reinsurers	(406,006)		(406,006)
Other amounts receivable under reinsurance contracts	471		471
Electronic data processing equipment and software	801,697	801,697	
Furniture and equipment, including health care delivery assets	5,308,196	5,308,196	
Receivable from parent, subsidiaries, and affiliates	751,284		751,284
Write-ins for other than invested assets:			
Prepaid and other assets	3,463,685	3,463,685	
Total Assets	$2,504,053,373	$618,084,349	$1,885,969,024

Ambac Assurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2021

Losses		$(1,161,750,795)
Loss adjustment expenses		42,427,494
Other expenses (excluding taxes, licenses, and fees)		38,019,462
Taxes, licenses, and fees (excluding federal and foreign income taxes)		2,922,017
Borrowed money and interest thereon		1,497,231,630
Unearned premiums		116,129,587
Ceded reinsurance premiums payable (net of ceding commissions)		491,812
Amounts withheld or retained by company for account of others		7,573,849
Payable to parent, subsidiaries, and affiliates		15,449,903
Write-ins for liabilities:		
Mandatory contingency reserve for adverse losses		565,110,034
Deferred gain on sales of securities to subsidiaries		5,611,441
Total Liabilities		1,129,216,434
Common capital stock	$ 82,000,000	
Preferred capital stock	5,501,000	
Surplus notes	852,890,310	
Gross paid in and contributed surplus	74,982,644	
Unassigned funds (surplus)	(258,621,364)	
Surplus as Regards Policyholders		756,752,590
Total Liabilities and Surplus		$1,885,969,024

Ambac Assurance Corporation
Summary of Operations
For the Year 2021

Underwriting Income		
Premiums earned		$ 39,212,549
Deductions:		
Losses incurred	$ 22,241,149	
Loss adjustment expenses incurred	49,841,798	
Other underwriting expenses incurred	70,124,412	
Total underwriting deductions		142,207,359
Net underwriting gain (loss)		(102,994,810)
Investment Income		
Net investment income earned	(42,299,531)	
Net realized capital gains (losses)	10,433,647	
Net investment gain (loss)		(31,865,884)
Other Income		
Write-ins for miscellaneous income:		
Other miscellaneous (loss) income	1,750,781	
Estimated provision for uncollectible intercompany loan with affiliate	7,246,439	
Total other income		8,997,220
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(125,863,474)
Federal and foreign income taxes incurred		0
Net Income (Loss)		$(125,863,474)

Ambac Assurance Corporation
Cash Flow
For the Year 2021

Premiums collected net of reinsurance			$ 1,163,631
Net investment income			(29,676,370)
Miscellaneous income			1,353,967
Total			(27,158,772)
Benefit- and loss-related payments		$ (23,187,807)	
Commissions, expenses paid, and aggregate write-ins for deductions		140,416,395	
Total deductions			117,228,588
Net cash from operations			(144,387,360)
Proceeds from investments sold, matured, or repaid:			
Bonds	$782,280,469		
Other invested assets	44,513,788		
Net gains (losses) on cash, cash equivalents, and short-term investments	(466)		
Miscellaneous proceeds	119,850,195		
Total investment proceeds		946,643,986	
Cost of investments acquired (long-term only):			
Bonds	166,859,460		
Other invested assets	25,570,363		
Miscellaneous applications	111,195,701		
Total investments acquired		303,625,524	
Net cash from investments			643,018,462
Cash from financing and miscellaneous sources:			
Borrowed funds		(477,040,264)	
Other cash provided (applied)		5,233,353	
Net cash from financing and miscellaneous sources			(471,806,911)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			26,824,191
Cash, cash equivalents, and short-term investments:			
Beginning of year			255,160,260
End of Year			$281,984,450

Ambac Assurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2021

Assets		$1,885,969,024
Less Invested Assets in Excess of Limitations*		162,417,064
Less liabilities		1,129,216,434
Adjusted surplus		594,335,526
Annual premium:		
Lines other than accident and health	$1,116,373	
Premiums ceded to unauthorized reinsurers	2,264,802	
Total adjusted premium	3,381,175	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$592,335,526
Adjusted surplus (from above)		$594,335,526
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security Surplus Excess (Deficit)		$591,535,526

*The company's investment portfolio includes holdings of foreign investments and other invested assets of which $162,417,064 is in excess of limitations for the purposes of determining compliance with Compulsory and Security Surplus requirements pursuant to s. 620.21 Wis. Stat., s. 620.22 Wis. Stat., s. 620.23 Wis. Stat., and ch. Ins. 51.80(9), Wis. Adm. Code. The company reported invested assets in excess of limitations of $61,585,800 on its December 31, 2021, Compulsory and Security Surplus Calculation filing.

Ambac Assurance Corporation
New York State Aggregate Risk Limit Calculation
December 31, 2021

Section	Aggregate Net Liability		Aggregate Risk Limit
A Municipal Bonds and Investment Grade Utility First Mortgage Obligations	$25,395,334,870	0.33%	$84,651,116
B Investment Grade Asset Backed Securities	2,168,677,205	0.67%	14,457,848
C Collateralized Guaranties or Guaranties of Less than 7 years of:			
Investment Grade Industrial Development Bonds	0	1.00%	0
Other Investment Grade Obligations	0	1.00%	0
D Other Investment Grade Obligations	0	1.50%	0
E Non-investment Grade Consumer Debt Obligations	4,079,276,536	2.00%	81,585,531
F Guaranties on Non-investment Grade Obligations Secured by First Mortgages on Commercial Real Estate and having a Loan to Value Ratio of less than 80%	0	2.50%	0
G Other Non-investment Grade Obligations	0	4.00%	0
Totals	$31,643,288,611		$180,694,495

Surplus as Regards Policyholders	$756,752,590
Contingency Reserves	565,110,034
Total	1,321,862,624
Less Aggregate Risk Limit	180,694,495
Excess of Surplus and Contingency Reserves Over Aggregate Risk Limit	$1,141,168,129

This schedule calculates the company's minimum capital requirements, based on calculation of aggregate risk limitation pursuant to Article 69 of the New York insurance laws. A Wisconsin-domiciled financial guaranty insurer is subject to Wisconsin minimum capital and surplus requirements pursuant to s. Ins 3.08 and ch. Ins 51, Wis. Adm. Code which differs from New York insurance laws by not including Contingency Reserves as a part of statutory capital. In addition, the New York aggregate risk limitation calculation is based on an insurer's guaranteed principal and interest in force on various classes of insured credit obligations. The New York aggregate risk limitation requirement serves as an industry standard for the evaluation of minimum capital requirements of a financial guaranty insurer and is used as the minimum standard in Wisconsin.

Ambac Assurance Company
Analysis of Surplus (in Thousands)
For the Five-Year Period Ending December 31, 2021

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2021	**2020**	**2019**	**2018**	**2017**
Surplus, beginning of year	$865,129	$1,087,626	$1,152,346	$ 699,614	$976,477
Net income	(125,863)	(70,860)	(224,684)	57,012	123,652
Change in net unrealized capital gains/losses	64,224	(118,500)	336,023	117,517	(254,864)
Change in net unrealized foreign exchange capital gains/losses	(8,810)	25,082	23,072	(42,104)	64,778
Change in nonadmitted assets	(19,832)	(37,520)	(161,239)	655	(166,131)
Change in surplus notes	(85,591)	(291)	(1,661)	940,434	
Capital changes:					0
Transferred to surplus				(20,910)	
Surplus adjustments:					
Paid in			(1,005)	(3,478,302)	3,515
Transferred from capital				3,289,926	
Write-ins for gains and (losses) in surplus:					
Mandatory contingency reserve for adverse losses	(16,946)	(17,878)	(34,628)	(39,493)	(64,363)
Unrealized gains in post-retirement benefit obligations	(1,149)	(2,822)	(599)	(1,766)	1,273
Surplus note exchange	85,591	291			
Reclass of Segregated Account Junior Surplus Notes to AAC Junior Surplus Notes				(370,237)	
Change in Surplus of AAC Segregated Account					15,277
Surplus, End of Year	$756,753	$ 865,129	$1,087,626	$1,152,346	$699,614

Ambac Assurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2021

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2021	2020	2019	2018	2017
#1	Gross Premium to Surplus	3%	3%	3%	3%	6%
#2	Net Premium to Surplus	0	3	0	1	5
#3	Change in Net Premiums Written	-95*	999*	-164*	-68*	-19
#4	Surplus Aid to Surplus	0	1	0	0	1
#5	Two-Year Overall Operating Ratio	841*	1,646*	5,971*	65	0
#6	Investment Yield	0.0*	18.9*	0.0*	0.0*	5.5
#7	Gross Change in Surplus	-13*	-20*	-6	65*	-28*
#8	Change in Adjusted Surplus	-3	-20*	-5	-40*	-29*
#9	Liabilities to Liquid Assets	114*	100*	94	376*	295*
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	-19	15	7	-33	22*
#12	Two-Year Reserve Development to Surplus	1	22*	-23	-1	-76
#13	Estimated Current Reserve Deficiency to Surplus	0	86*	143*	248*	-225

Ratio No. 3, "Change in Net Premium Written", was exceptional from 2018 to 2021. Direct premiums written consistently decreased from 2017 to 2021 with changes in the ratio primarily due to fluctuations in ceded premiums written due to changes in reinsurance programs including new and amended reinsurance agreements entered in 2018 to 2020.

Ratio No. 5 "Two-Year Overall Operating Ratio", is a measure of the profitability of an insurance company, which is the principal determinant of an insurer's financial stability and solvency. The ratio was exceptional from 2019 to 2021. The ratio is comprised of the loss ratio, expense ratio, and investment income ratio. The primary contributor to exceptional results is the expense ratio driven by ongoing costs of managing runoff reported as other underwriting expenses while net premiums written are decreasing due to runoff and changes in reinsurance as previously described in Ratio No. 3. In addition, losses related to adverse development and commutation expenses for Puerto Rico and litigation expenses for Puerto Rico and RMBS lawsuits resulted in excessive loss and expense ratios.

Ratio No. 6, “Investment Yield” measures the amount of the company’s net investment income as a percentage of the average amount of cash and invested assets. The ratio includes interest expense and is limited to a minimum of zero. Results were exceptional in all periods during the examination except 2017. The exceptional results in 2018, 2019, and 2021 were due to significant interest expense (that exceeded investment income) associated with the AAC Note. The exceptional result in 2020 also included significant net investment income earned of $105,182,550 due to a $141,813,540 extraordinary dividend in connection with the previously discussed reorganization from affiliate Everspan Insurance Company related to the acquisition of Everspan Insurance Company from AAC by another affiliate formed in 2020, Everspan Holdings, LLC.

Ratio No. 7, “Gross Change in Surplus”, is intended to be the ultimate measure of improvement or deterioration in an insurer’s financial condition during the year and was considered exceptional in all periods except 2019. In 2017, the exceptional result was primarily due to a net underwriting loss of $486,545,572 and $67,213,868 in unrealized losses on investments in AAC-insured bonds. In 2018, the exceptional result reflected reclassification of Segregated Account Junior Surplus notes to AAC Junior Surplus Notes for $370,237,108. In 2020, the exceptional result was primarily due to a net underwriting loss of $158,938,427. In 2021, the exceptional result was primarily due to a net underwriting loss of $102,994,810.

Ratio No. 8, “Change in Adjusted Surplus”, measures the improvement or deterioration in the insurer's financial condition based on operational results by factoring out changes in surplus notes, paid-in or transferred capital and surplus. In all instances, the reasons for the exceptional results mirrored those for Ratio No. 7, “Gross Change in Surplus,” except that results for Ratio No. 8 in 2018 were affected by net unrealized foreign exchange losses.

Ratio No. 9, "Liabilities to Liquid Assets," measures the company's ability to meet the financial demands that may be placed upon it and was considered exceptional each year of the period under examination except 2019. In 2017, the exceptional result was primarily due to the significant loss reserves for RMBS insured bonds plus the amount of surplus notes. In 2018, the exceptional result was primarily due to the amount of Ambac LSNI Notes and Tier 2 Notes, resulting from transactions due to the exit from rehabilitation of the Segregated Account. The exceptional results in 2020 and 2021 were primarily due to the amount of Ambac LSNI Notes (refinanced as Sitka Notes in 2021) and Tier 2 Notes. Also, the amount of AAC's investment in an affiliate AUK, which is illiquid, contributed to unusual results.

Ratio No. 11, "One-Year Reserve Development to Surplus”, measures a company's one-year loss reserve development as a percent of the prior years' policyholders' surplus and was considered exceptional in 2017 driven primarily by deterioration in certain public finance credits (largely driven by adverse development on Puerto Rico bonds) and accrued interest on Deferred Amounts.

Ratio No. 12, "Two-Year Reserve Development to Surplus," measures a company's two-year loss reserve development as a percent of the prior years' policyholders' surplus and was considered exceptional in 2020 primarily due to adverse development on Puerto Rico policies.

Ratio No. 13, "Estimated Current Reserve Deficiency to Surplus," provides an estimate on the adequacy of current reserves. The ratio was exceptional from 2018 to 2020 due to the negative loss reserves largely resulting from anticipated subrogation recoveries from RMBS litigation.

Financial Experience of Ambac Assurance Corporation (in Thousands)

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income	Net Par Outstanding
2021	$1,885,969	$1,129,216	$ 756,753	-$125,863	$19,874,797
2020	2,445,947	1,580,818	865,129	-70,860	25,683,730
2019	2,768,199	1,680,573	1,087,626	-224,684	29,274,722
2018	3,027,384	1,875,038	1,152,346	57,012	37,054,591
2017	5,455,654	4,756,040	699,614	123,652	48,012,866
2016	5,450,296	4,473,819	976,477	359,052	65,227,316

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2021	$22,919	$ 1,116	$ 39,213	183.8%	5,475.5%	5,659.3%
2020	24,998	22,384	43,206	317.9	422.6	740.5
2019	27,983	-7,474	96,934	231.4	-1,611.5	-1,380.1
2018	35,101	11,708	112,204	-78.8	1,084.4	1,005.6
2017	40,187	36,564	145,053	360.5	-387.8	-27.3
2016	49,632	45,206	204,604	1.1	280.8	281.9

Due to the company’s extensive exposure to risks on residential mortgage-backed securities and structured securities, including collateralized debt obligations, the 2007 collapse in U.S. housing prices and the ensuing 2008 financial crisis imposed significant losses on the company and left it without its triple-A rating from independent rating agencies. Since early 2008, the company has not written any new business and continues in runoff.

The company's earned premium revenues are derived from earning current year coverage premiums on policies that were written in 2008 and prior years, whether for public finance risks for which premiums were generally paid upfront for all policy coverage years and were recorded by the company as unearned premium liability, or for installment premiums on structured finance risks. Remaining unearned premiums that are available to be earned as premiums in future years equaled $116,129,587 as of December 31, 2021, as compared to $488,442,116 as of December 31, 2016.

During the period under examination, AAC has worked to mitigate losses in the runoff portfolio through commutations, reinsurance, and pursuing litigation on representation and warranty issues with major financial institutions. The Segregated Account successfully exited rehabilitation in 2018. In 2018 and 2019 AAC entered into new facultative reinsurance agreements with Build America Mutual Assurance Company, Assured Guaranty Corporation, and Assured Guaranty Municipal Corporation. In 2019, the plan of adjustment was confirmed for the restructuring of all senior and junior Puerto Rico Sales Tax Financing Corporation (COFINA) bonds. The net par outstanding on insured securities has declined 69.5%, from $65.2 billion as of December 31, 2016, to $19.9 billion as of December 31, 2021. Loss mitigation activities are expected to continue over many years since AAC insures securities with maturities extending until 2055.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of capital and surplus reported by the company as of December 31, 2021, is accepted.

Examination Reclassifications

No reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Report on Executive Compensation—It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Compulsory and Security Surplus

The company is required to file Compulsory and Security Surplus Calculation for Property and Casualty Insurers as required under s. Ins 51.80 (9), Wis. Adm. Code. Invested Assets in Excess of Limitations are based on the investment limitations identified by Wis. Stats. ss. 620.21, 620.22 and 620.23, and s. Ins 6.20, Wis. Adm. Code. A company is required to reduce Net Admitted Assets in the Compulsory and Security Surplus Calculation by an amount equal to its investments in excess of Wisconsin investment limitations. The examination team reviewed the company's December 31, 2021, Compulsory and Security Surplus Calculation and determined the amount to report for Invested Assets in Excess of Limitations was incorrectly reported as $61,585,800 and should have been reported as $162,417,064, a difference of $100,831,264. The error resulted in AAC's December 31, 2021, Compulsory Surplus and Security Surplus excess being overstated by $100,831,264. Refer to the "Financial Data" section Compulsory and Security Surplus in this report. It is recommended the company file its required Compulsory and Security Surplus Calculation filing with Invested Assets in Excess of Limitations reported as set forth in Wis. Stats. ss. 620.21, 620.22 and 620.23, and s. Ins 6.20, Wis. Adm. Code. It should be noted that the company refiled the December 31, 2022, Compulsory and Security Surplus Calculation.

VIII. CONCLUSION

As of December 31, 2021, the company reported net admitted assets of $1,885,969,024, liabilities of $1,129,216,434, and policyholder surplus of $756,752,590. Operations for 2021 produced net loss of $125,863,474. Policyholder surplus has decreased from $976,477,196 as of year end 2016 to $756,752,590 as of year end 2021. This represents a decrease in policyholder surplus of 22.5% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2016, when policyholders' surplus was last verified by examination, to December 31, 2021:

Policyholders' Surplus, December 31, 2016	$ 976,477,196
Net Income	(240,743,258)
Change in net unrealized capital gains/losses	144,400,448
Change in net unrealized foreign exchange capital gains/losses	62,018,795
Change in nonadmitted assets	(384,066,395)
Change in surplus notes	852,890,310
Capital changes:	
Transferred to surplus	(20,910,000)
Surplus adjustments:	
Paid in	(3,475,791,662)
Transferred from capital	3,289,926,373
Write-ins for gains and (losses) in surplus:	
Mandatory contingency reserve for adverse losses	(173,307,630)
Unrealized gains in post-retirement benefit obligations	(5,063,565)
Surplus note exchange	85,882,238
Reclass of Segregated Account Junior Surplus Notes to AAC Junior Surplus Notes	(370,237,108)
Change in Surplus of AAC Segregated Account	15,276,848
Policyholders' Surplus, December 31, 2021	$ 756,752,590

Due to the company's extensive exposure to risks on residential mortgage-backed securities and structured securities, including collateralized debt obligations, the 2007 collapse in U.S. housing prices and the ensuing 2008 financial crisis imposed significant losses on the company and left it without its triple-A rating from independent rating agencies. Since early 2008, the company has not written any new business and continues in runoff.

The company's earned premium revenues are derived from earning current year coverage premiums on policies that were written in 2008 and prior years, whether for public finance risks for which premiums were generally paid upfront for all policy coverage years and were recorded by the company as unearned premium liability, or for installment premiums on structured finance risks. Remaining unearned premiums that are available to be earned as premiums in future years equaled $116,129,587 as of December 31, 2021, as compared to $488,442,116 as of December 31, 2016.

During the period under examination, AAC has worked to mitigate losses in the runoff portfolio through commutations, reinsurance, and pursuing litigation on representation and warranty issues with major financial institutions. The Segregated Account successfully exited rehabilitation in 2018. In 2018 and 2019 AAC entered into new facultative reinsurance agreements with Build America Mutual Assurance Company, Assured Guaranty Corporation and Assured Guaranty Municipal Corporation. In 2019, the plan of adjustment was confirmed for the restructuring of all senior and junior Puerto Rico Sales Tax Financing Corporation (COFINA) bonds. The net par outstanding on insured securities has declined 69.5%, from $65.2 billion as of December 31, 2016, to $19.9 billion as of December 31, 2021. Loss mitigation activities are expected to continue over many years since AAC insures securities with maturities extending until 2055.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 36 - Compulsory and Security Surplus—It is recommended the company file its required Compulsory and Security Surplus Calculation filing with Invested Assets in Excess of Limitations reported as set forth in Wis. Stats. ss. 620.21, 620.22 and 620.23, and s. Ins 6.20, Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Greg Mielke	Insurance Financial Examiner
Adam Donovan, CISSP	IT Specialist
Kongmeng Yang	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Aaron Kenseth
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

In October 2022, AAC entered into a Settlement Agreement and Release (the "BOA Settlement Agreement") with Bank of America Corporation and certain affiliates thereof (together, the "BOA Parties") pursuant to which the BOA Parties paid AAC the sum of $1,840,000,000 (the "BOA Settlement Payment") following the dismissal of AAC's lawsuits against the BOA Parties. The BOA Settlement Payment received in October 2022 significantly reduced the subrogation recoverable reserves on the balance sheet.

On December 29, 2022, AAC entered into a Settlement Agreement and Release (the "Nomura Settlement Agreement") with Nomura Credit & Capital, Inc. ("Nomura") to settle its litigation against Nomura concerning certain RMBS trusts (the "Trusts"). Pursuant to the Nomura Settlement Agreement, Nomura made a cash payment to AAC of $140,000,000 (the "Nomura Settlement Payment"), and AAC and Nomura agreed to release each other and their respective affiliates and related persons from any claims relating to the Trusts, the financial guaranty policies issued by AAC in connection with Trusts (other than AAC's obligations to pay insurance claims under such policies), the securities related to the Trusts, and the mortgage loans related to the Trusts. The Nomura Settlement Payment received in January 2023 further reduced the subrogation recoverable reserves on the balance sheet.

During 2022 and 2023, AAC wholly redeemed its secured debt, in accordance with the terms of such debt, utilizing the BOA Settlement Payment, the Nomura Settlement Payment and other resources as follows. Effective October 29, 2022, AAC wholly redeemed the Sitka AAC Note from the BOA Settlement Payment, for $1,217,987,051 (a price equal to 103% of the principal amount plus accrued and unpaid interest) and Sitka wholly redeemed the Sitka Senior Secured Notes for the same amount. Effective October 29, 2022, AAC applied Net Proceeds (as defined below) of approximately $213,076,910 from the BOA Settlement Payment to partially redeem Tier 2 Notes plus accrued and unpaid interest as of the date of redemption. The Tier 2 Notes were secured by proceeds from RMBS litigations net of reinsurance ("Net Proceeds") in excess of $1,600,000,000 and were subject to mandatory redemption from Net Proceeds in excess of $1,600,000,000. Effective January 15, 2023, AAC applied the Net Proceeds of

$140,000,000 from the Nomura Settlement Payment plus approximately $6,312,828 from other sources to fully redeem the remaining Tier 2 Notes plus accrued and unpaid interest in the amount of approximately $146,312,828 as of the date of redemption. In connection with the redemptions of the notes described above, Ambac LSNI, LLC was dissolved on April 14, 2022, and Sitka Holdings, LLC was dissolved on April 13, 2023.

During the year ended December 31, 2022, AAC purchased surplus notes for total cash payments of $439,957,811, including $95,155,203 paid to AFG.