Risk Factors Comparison 2024-02-27 to 2023-03-01 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Capitalized terms used but not defined in this section shall have the meanings ascribed thereto in Part I, Item 1 in this Annual Report on Form 10- K or in Note 1. Background and Business Description to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10- K unless otherwise indicated. Our risk factors are organized in the following sections PageRisks Related to AFG Common Shares13Risk Related to the Company' s Business15Risks Related to Capital, Liquidity and ~~Markets22Risks Related to Financial and Credit Markets24~~ **Markets23** The price per share of AFG' s common stock may be subject to a high degree of volatility, including significant price declines. Ambac' s ~~legacy~~ **Legacy** ~~financial~~ **Financial** ~~guarantee~~ **Guarantee Insurance** business is in run- off and faces significant risks and uncertainties described elsewhere in Part I, Item 1A. Risk Factors. In addition, Ambac' s Specialty Property and Casualty Insurance and Insurance Distribution businesses are ~~new~~ **in the early stages of development** and relatively small ~~and~~ **;** therefore **, they** are also subject to uncertainties described elsewhere in Part I, Item 1A. Risk Factors. Although AFG' s common stock is listed on the New York Stock Exchange (" NYSE"), there can be no assurance as to the liquidity of the trading market or the price at which such shares can be sold. The price of the shares may decline substantially in response to a number of events or circumstances, including but not limited to: • adverse developments in our financial condition or results of operations; changes in the actual or perceived risk within our Legacy Financial Guarantee (" LFG") insured portfolio; **Ambac Financial Group, Inc13 2023 Form 10- K, •** changes to regulatory status; **•** changes in investors’ or analysts’ valuation measures for our stock; ~~| Ambac Financial Group, Inc. 13 2022 FORM 10- K,~~ • market perceptions of our success, or lack thereof, in pursuing and implementing our Specialty Property and Casualty Insurance and Insurance Distribution businesses and our new business strategy more generally; • the impact or perceived impact of any acquisition, disposition or other strategic transaction, including entry into a new line of business **or the sale of all or a part of the LFG business** , on the value or long- term prospects of the Company; • adverse developments in the industries and markets in which we operate, including the property and casualty insurance, underwriting and brokerage industries ~~and~~ **, or** the fixed income and equity capital markets; • adverse market and / or economic conditions, such as those caused by a recession or inflation, which increase our risk of loss on insurance ~~polices~~ **policies** and depress the value and / or liquidity of our investments and other assets **; • adverse developments in current or future litigations** ; and • results and actions of other participants in our industries. The price of AFG' s shares may also be affected by the risks described below, including risks associated with AAC’ s ability to deliver value to AFG. Investments in AFG' s common stock may be subject to a high degree of volatility. AFG may not be able to realize value from its LFG businesses. The value of AFG' s common stock is partially dependent upon realizing residual value from AAC by means of a full or partial sale and / or the receipt of dividends ~~and~~ **. While AFG is exploring strategic options, including** the ~~receipt~~ **possibility of a full or partial sale of AAC and Ambac UK, AFG can provide no assurance that such a transaction will be consummated or, if consummated, whether the value obtained will ultimately prove to be greater than the value of the LFG business reflected in AFG' s common stock or that could be realized in a longer- term run-** ~~of~~ **off** ~~payments pursuant~~ **scenario. AFG may be unable** to **secure a binding offer for** the ~~intercompany expense sharing~~ **full or partial sale of the LFG business on terms viewed as acceptable by the Board of Directors of AFG or at all. If** ~~and~~ - **an** ~~cost allocation agreement (~~ **acceptable offer is made and accepted, the closing of the sale would be subject to several conditions, including regulatory and** ~~the~~ **other** ~~" Cost Allocation Agreement")~~ **approvals, which may not be satisfied. In the absence of a full or partial sale of the LFG business, the Company plans to continue to actively run- off the LFG business. See Part I, Item I. Description of Business- Legacy Financial Guarantee Insurance** . There can be no assurance that AFG will be able to realize residual value through **receiving** ~~a sale of or receipt of~~ dividends from **the continued** ~~AAC, which is in~~ run- off **of AAC** . AFG' s ability to realize residual value from AAC will depend upon, amongst other considerations, AAC' s ability to satisfy all of its obligations that are senior to AFG' s equity interests, including obligations to policyholders, surplus note holders and preferred stock holders. AAC' s ability to satisfy all of its obligations that are senior to AFG' s equity depends on a number of considerations, including its ability to ~~partially or fully~~ recover losses previously paid; avoid material losses from litigation ~~,~~ **;** mitigate losses from its insured portfolio, which is subject to significant risks and uncertainties, including as a result of varying potential perceptions of the value of AAC’ s guarantees and securities; realize material value from its investment in Ambac UK; and repay **and / or restructure** its indebtedness in a timely manner such that accruing interest costs are manageable. Payments of principal and interest on AAC' s surplus notes are subject to the express approval of the Wisconsin OCI. Increased loss development in the LFG insured portfolio **,** or significant losses from litigation or other events or circumstances may prompt OCI to determine that it is in the best interests of policyholders to initiate rehabilitation proceedings with respect to AAC or to issue supervisory orders that impose restrictions on AAC, either preemptively or in response to any such event or circumstance. If OCI were to decide to initiate rehabilitation proceedings with respect to AAC, adverse consequences may result, including, without limitation and absent enforceable protective injunctive relief, the assertion of damages by counterparties, the acceleration of losses based on early termination triggers, and the loss of control rights in insured transactions. Any such consequences may reduce or eliminate any residual value of AAC for AFG. Additionally, the rehabilitator would assume control of all of AAC’ s assets and management of AAC. In exercising control, the rehabilitator would act solely for the benefit of policyholders, which may result in material adverse consequences for our security holders. Similar risks would arise if Ambac UK were to become subject to a proceeding to protect the interests of its policyholders, in which case AAC' s ability to realize value from Ambac UK (and consequently AFG' s ability to realize value from AAC) would diminish. If OCI were to issue supervisory orders imposing restrictions on AAC, AAC' s ability to satisfy its obligations to policyholders or creditors, or its ability to deliver value to AFG, may be significantly constrained. Due to the above considerations, as well as applicable legal and contractual restrictions described elsewhere herein, substantial uncertainty remains as to AAC' s ability to pay dividends to AFG and the timing of any such dividends. ~~Furthermore, the payments to be made to AFG under the intercompany Cost Allocation Agreement are subject to, in certain instances, OCI approval, making the amount and timing of such payments uncertain.~~ Ambac is planning to further develop and expand its Specialty Property and Casualty Insurance and Insurance Distribution businesses; however, such plans may not be realized, or if realized, may not create value and may negatively impact our financial results. The value of AFG' s common stock depends in part upon the ability of Ambac to generate earnings apart from ~~AAC~~ **the LFG business** . Ambac is planning to further develop and expand its Specialty Property and Casualty Insurance ~~business~~ and Insurance Distribution ~~business~~ **businesses** . Such plans may involve additional acquisitions of assets or existing businesses and the development of businesses through new or existing subsidiaries. Currently, it is not possible to fully predict the future prospects or other characteristics of such businesses. While we expect to conduct business, financial and legal due diligence in connection with the evaluation of any future business or acquisition opportunities, there can be no assurance our due diligence ~~investigations~~ will identify every matter that could have a material adverse effect on us. Efforts to pursue certain business opportunities may be **Ambac Financial Group, Inc14 2023 Form 10- K** unsuccessful or require significant financial or other resources, which could have a negative impact on our operating results and financial condition. To implement our growth strategy, we must be able to meet our capital needs, expand our systems and our internal controls effectively, allocate our human resources optimally, identify and hire qualified employees and effectively integrate any acquisitions we make in our effort to achieve growth. No assurance can be given that Ambac will successfully execute its plans for new business, generate any earnings or value from new businesses or be able to successfully integrate any such business into our current operating structure. The failure to manage our growth effectively could have a material adverse effect on our business, financial condition and results of operations. Our business performance and growth plans could be negatively affected if we are not able to **, among other things,** gain internal efficiencies through ~~| Ambac Financial Group, Inc. 14 2022 FORM 10- K~~ the application of **effective** technology across our businesses **,** ~~or effectively apply technology in facilitating integrated~~ - **integrate** operations **,** and **/ or** ~~driving value through innovation~~ **innovate product** and **operational** ~~technology- based~~ solutions. Conversely, investments in internal systems or innovative product offerings may fail to yield sufficient return to cover their ~~investments~~ - **investment** . Our ability to successfully manage ongoing organizational changes could impact our business results, where the level of costs and / or disruption may be significant and change over time, and the benefits may be less than we originally expect. Should changes in Ambac' s circumstances or financial condition or in the political, economic and / or legal environment occur, there can be no assurance that all or any part of our strategy and / or initiatives will not be abandoned or amended to take account of such changes. Any such adjustment or abandonment may have a material adverse effect on our securities. Risks Related to the Company' s BusinessLoss reserves for the LFG business may not be adequate to cover potential losses, and changes in loss reserves may result in further volatility of net income and comprehensive income. LFG loss reserves are established when management has observed credit deterioration in its insured credits. Loss reserves established with respect to our LFG insurance policies issued to beneficiaries ~~, including VIEs for which we do not consolidate the VIE,~~ are based upon estimates and judgments by management, including estimates and judgments with respect to the probability of default; the severity of loss upon default; management' s ability to execute policy commutations, restructurings and other loss mitigation strategies; and estimated subrogation and other loss recoveries. The objective of establishing loss reserve estimates is not to, and our loss reserves do not, reflect the worst possible outcomes. While our reserving scenarios reflect a wide range of possible outcomes (on a probability weighted basis), reflecting the ~~significant~~ uncertainty regarding future developments and outcomes, our loss reserves may change materially based on future developments. As a result of inherent uncertainties in the estimates and judgments made to determine loss reserves, there can be no assurance that either the actual losses in our financial guarantee insurance portfolio will not exceed such reserves or that our reserves will not materially change over time as circumstances, our assumptions, or our models change. Catastrophic **events, including environmental and** public health ~~or environmental~~ events ~~, like the COVID- 19 pandemic or those associated with natural disasters,~~ that result in material disruption of economic activity, loss of human life or significant property damage, can have a materially negative impact on ~~the~~ **our** financial **and operational** performance ~~of issuers of obligations insured by AAC and Ambac UK~~ . Such stresses could result in liquidity ~~claims~~ **strains** or permanent losses. Public health crises and / or natural disasters can cause economic and financial disruptions that may adversely affect, our business and results of operations. ~~In particular~~ **For example** , ~~Ambac~~ **AAC** insures the obligations of a number of issuers ~~that may be substantially affected by the prolonged economic effects of pandemics (such as COVID- 19)~~ , ~~other public health crises or environmental events, and natural disasters~~ such as municipalities and ~~securitizations~~ - **securitization vehicles** , including those backed by consumer loans such as mortgages ~~or~~ **and** student loans **, that may be substantially affected by the prolonged economic effects of pandemics, other public health crises, environmental events or natural disasters** . Municipalities and their authorities, agencies and instrumentalities, especially those dependent on narrow revenue streams flowing from particular economic activities, such as sales taxes, may suffer disproportionately, from depressed revenues due to the lingering negative economic impact brought about by such events. **In** ~~Notably, in~~ response to **such events** ~~the COVID- 19 pandemic~~ , the U. S. Federal government and State governments and their agencies **may** ~~adopted~~ -- **adopt** policies or guidelines to provide emergency relief to consumers, such as limiting debt collection efforts, encouraging or requiring extensions, modifications or forbearance with respect to certain loans and fees, and establishing foreclosure and eviction moratoriums. ~~This~~ **These** or similar types of emergency responses to future events may cause Ambac to experience higher losses in its insured portfolio. Future environmental or other public health events and natural disasters can result in significant potential liabilities for issuers, that increase the potential for default on obligations insured by AAC and Ambac UK. **Everspan may be exposed to losses arising out of unpredictable catastrophic events. These include natural catastrophes and other disasters, such as**

hurricanes, earthquakes, windstorms, floods, wildfires, and severe winter weather. Catastrophes can also include man-made disasters, such as terrorist attacks and other destructive acts, war, political unrest, explosions, cyber- attacks, nuclear, biological, chemical or radiological events and infrastructure failures. A severe catastrophe or a series of catastrophes could result in losses exceeding Everspan' s reinsurance protection and may have a material adverse impact on our results of operations or financial condition. Changing weather patterns and climate change have added to the unpredictability, frequency and severity of weather- related catastrophes incurred by the property and casualty insurance industry in recent years. These changing weather patterns make it more difficult to predict and model catastrophic events, reducing our ability to accurately price exposure to such events and mitigate its risks. Further, we use internally developed and third- party vendor tools and models to assess exposure to catastrophe losses. The models assume various conditions and probability scenarios and may not accurately predict future losses or measure losses currently incurred. Limitations in these tools and models may Ambac Financial Group, Inc15 2023 Form 10- K adversely affect our results of operations and financial condition. The ultimate impact of a catastrophic ~~public health event or a catastrophic environmental~~ event on ~~issuers~~ **insurers** and their obligations, and the economy in general, is by its very nature uncertain, and will be determined by a number of factors including, but not limited to, the depth and duration of a particular crisis; the extent to which affected consumers, businesses, municipal entities and other debtors or sources of revenues recover from depressed economic circumstances, and the timelines for such recoveries; the level and efficacy of government intervention or support for municipal entities, consumers, businesses and the financial markets via emergency relief measures; the availability of insurance; the availability of cost- effective financing; management of public health crisis remediation efforts; the effectiveness of other public or private crisis management efforts, mitigation measures or support; and certain socio-economic variables, such as unemployment levels. Consequently, if **following** ~~issuers affected by~~ such catastrophic events **we** do not have sufficient resources or financial flexibility, receive adequate measures of support or realize the appropriate level of economic recovery, ~~their~~ **our** ultimate ability to **operate** ~~service the debt insured by AAC and Ambac UK~~ could be materially impaired and **we** ~~AAC and Ambac UK~~ could suffer material permanent losses and therefore may have an adverse effect on our results of operations and financial condition **. Counterparties that service aspects of our business may be similarly impacted and, if their operations are impaired due to a catastrophe, it may be difficult or costly to us to find alternatives to such servicing capabilities** . AAC and Ambac UK are subject to credit and other risks in their insured portfolios; we are also subject to risks associated with adverse selection as our insured portfolios run off. Performance of our insured ~~FG~~ **LFG** transactions, including (but not limited to) those backed by municipal, utility, sovereign / sub- sovereign, military housing and consumer risk, can be adversely affected by general economic conditions, such as recession, federal budget cuts, decisions of governmental authorities about utilizing assets or facilities, inflation, unemployment levels, underemployment, home price depreciation, increasing foreclosure rates, unavailability of consumer credit, mortgage product attributes, borrower and / or originator fraud or ~~| Ambac Financial Group, Inc. 15 2022 FORM 10- K~~ misrepresentations, and asset servicer performance and financial health. While deterioration in the performance of transactions insured by AAC and Ambac UK, including mortgage and student loan securitizations may occur, the timing, extent and duration of any future deterioration of the credit markets is unknown, as is the impact on potential claim payments and ultimate losses on the securities within our insured ~~FG~~ **LFG** portfolio. In addition, there can be no assurance that any governmental or private sector initiatives designed to address such credit deterioration in the markets will be successful or inure to the benefit of the transactions we insure. For example, servicer settlements with governmental authorities regarding foreclosure or servicing irregularities are generally designed to protect borrowers and may increase losses on securities we insure. In particular, the student loan industry and, specifically, trusts with securities insured by AAC have been subject to heightened Consumer Finance Protection Bureau (" CFPB") scrutiny and enforcement action over servicing and collections practices and potential chain of title issues and, consequently, any settlements, orders or penalties resulting from CFPB actions, or any failure on the part of servicers or other parties asserting claims against delinquent borrowers to establish title to the loans, could lead to increased losses on securities we insure. Issuers of public finance obligations insured by AAC have reported, or may report, budget shortfalls, significantly underfunded pensions or other fiscal stresses that imperil their ability to pay debt service or will require them to significantly raise taxes and / or cut spending in order to satisfy their obligations. Furthermore, over time, the consequences of poor public policy decisions by state and local governments or increases in tax burdens can impact demographic trends, such as out- migration from one state or municipality to another, that may negatively impact the creditworthiness of related issuers. Some issuers of obligations insured by AAC have declared payment moratoriums, defaulted or filed for bankruptcy or similar debt adjustment proceedings, raising concerns about their ultimate ability or willingness to service the debt insured by AAC and AAC' s ability to recover claims paid in the future. If the issuers of the obligations in the public finance portfolio are unable to raise taxes, cut spending, or receive federal or state assistance, or if such issuers default or file for bankruptcy under Chapter 9 or for similar relief under other laws that allow for the adjustment of debts, AAC may experience liquidity claims and / or ultimate losses on those obligations, which could adversely affect the Company' s business, financial condition and results of operations. Issuers in Chapter 9 or similar proceedings may obtain judicial rulings and orders that impair creditors' rights or their ability to collect on amounts owed. In certain cases, judicial decisions may be contrary to AAC' s expectations or understanding of the law or its rights thereunder, which may lead to worse outcomes in Chapter 9 or similar proceedings than anticipated at the outset. As the runoff of the insured portfolio continues, the proportion of exposures we rate as below investment grade relative to the aggregate insured portfolio **may** ~~is likely to~~ increase, leaving the portfolio increasingly concentrated in higher risk exposures and heightening risks associated with large single risk exposures to particular issuers, losses caused by catastrophic events (including public health crises, terrorist acts and natural disasters), and losses in respect of different, but correlated, credit exposures. These risks may result in greater volatility or have adverse effects on the Company' s results from operations and on our financial condition. We may not be able to effectively reduce LFG insured exposures; measures taken to reduce risks may have an adverse effect on the

Company' s operating results or financial position. In pursuing the objective of improving our financial position, we are seeking to terminate, commute, reinsure or otherwise reduce ~~FG~~ **LFG** insured exposures. De- risking transactions may not be feasible or economically viable. We cannot provide any assurance that any such transaction will be consummated in the future, or if it is, as to the timing, terms or conditions of any such transaction. Even if we consummate one or more of such transactions, doing so may ultimately prove to be unsuccessful in creating value for any or all of our stakeholders and may negatively impact our operating results or financial position. **Ambac Financial Group, Inc16 2023 Form 10- K** Our ~~credit~~ risk management policies and practices may not adequately identify significant risks. As described in Part I, Item 1, " Risk Management " in this Annual Report on Form 10- K, we have established risk management policies and practices which seek to mitigate our exposure to credit risk in our legacy financial guarantee insured portfolio. Ongoing surveillance of credit risks in our legacy financial guarantee insured portfolio is an important component of our risk management process. These policies and practices in the past have not insulated us from risks that were unforeseen and which had unanticipated loss severity, and such policies and practices may not do so in the future. There can be no assurance that these policies and practices will be adequate to avoid future losses. If we are not able to identify significant risks, we may not be able to timely mitigate such risks, thereby increasing the amount of losses to which we are exposed. An inability to identify significant risks could also result in the failure to timely establish loss reserves that are sufficient in relation to such risks. **We operate within an enterprise risk management (" ERM ") framework designed to assess and monitor risks. However, no assurance can be given that we will effectively identify, review, monitor or manage all relevant risks. Nor can we provide assurance that our ERM framework will result in us accurately identifying all risks and adequately limiting our exposures based on our assessments. Any ineffectiveness in our controls or procedures or failure to manage these risks may have an adverse effect on our results of operations and financial condition.** The Settlement Agreement, Stipulation and Order and ~~potentially~~ OCI' s Runoff Capital Framework may impair AAC' s ability to pursue its business strategies. Pursuant to the terms of the Settlement Agreement and Stipulation and Order, AAC must seek prior approval by OCI of certain corporate actions. The Settlement Agreement and Stipulation and Order also include covenants that restrict the operations of AAC which (i) in the case of the Settlement Agreement, remain in force until the surplus notes that were issued pursuant to the Settlement Agreement have been redeemed, repurchased or repaid in full, and (ii) in the case of the Stipulation and Order, remain in place until the OCI decides to relax such restrictions. Certain of these restrictions may be waived with the approval of holders of surplus notes and / or OCI. If we are unable to obtain the required consents under the Settlement Agreement and / or the Stipulation and Order, AAC may not be able to execute its planned business strategies. In addition, ~~while~~ OCI' s Runoff Capital Framework ~~is not complete~~ and ~~we cannot predict the results and implications thereof, it is possible that OCI' s Runoff Capital Framework and | Ambac Financial Group, Inc. 16 2022 FORM 10- K~~ decisions based thereon ~~may~~ **are expected to** affect AAC' s ability to reduce financial leverage at AAC **,** ~~or to~~ pay dividends to AFG **, and / or make payments on surplus notes or AMPS** . OCI has certain enforcement rights with respect to the Settlement Agreement and Stipulation and Order, and retains full discretion ~~about~~ **over** the design of **, and assumption utilized in,** OCI' s Runoff Capital Framework and the implications thereof. Disputes may arise over the interpretation of such agreements or instruments, the exercise or purported exercise of rights thereunder, the determinations made thereunder, or the performance of or failure or purported failure to adhere to the terms thereof. Any such dispute could have material adverse effects on AAC, and the Company more broadly, whether through litigation, administrative proceedings, supervisory orders, failure to execute transactions sought by management, interference with corporate strategies, objectives or prerogatives, inefficient decision-making or execution, forced realignment of resources, increased costs, distractions to management, strained working relationships or otherwise. Such effects would also increase the risk that OCI would seek to initiate rehabilitation proceedings or issue supervisory orders against AAC. We use analytical models and tools to help project performance of our insured LFG obligations and our investment portfolio but actual results could differ materially from model and tool outputs and related analyses. We rely on internally and externally developed complex financial models, including default models related to RMBS and a waterfall tool provided by a nationally recognized vendor for RMBS and student loan exposures, to project performance of our insured LFG obligations and similar securities in our investment portfolio. These models and tools assume various conditions, probability scenarios, facts and circumstances, and there can be no assurance that such models or tools accurately predict or measure the quantum of losses, loss reserves and timing of losses. Differences in the models and tools that we employ, uncertainties or flaws in these financial models and tools, or faulty assumptions inherent in these financial models and tools or those determined by management could lead to material changes in projected outcomes, and could include increased losses, loss reserves and / or credit impairments on the investment portfolio. Moreover, estimates of transaction performance depend in part on the interpretation of contracts and other bases of our legal rights. Such interpretations may prove to be incorrect or different interpretations may be employed by bond trustees and other transaction participants and, ultimately courts, which could lead to increased losses, loss reserves and / or investment impairments. We are subject to the risk of litigation and the outcome of proceedings we are or may become involved in could have a material adverse effect on our business, operations, financial position, profitability or cash flows. AAC is defending or otherwise involved in various lawsuits relating to its LFG business. Please see Note ~~20~~ **19** . Commitments and Contingencies to the Consolidated Financial Statements included in Part II, Item 8 in this Annual Report on Form 10- K for information on various proceedings. It is not possible to predict the extent to which additional suits involving AFG, AAC or one or more other subsidiaries will be filed, and it is also not possible to predict the outcome of litigation. It is possible that there could be unfavorable outcomes in ~~these~~ **existing** or ~~other~~ **future** proceedings. Management ~~is~~ **may be** unable to make ~~a~~ meaningful **or reasonable** ~~estimate~~ **estimates** of the amount or range of ~~loss~~ **losses** that could result from unfavorable outcomes or of the expenses that will be incurred in connection with such lawsuits. Under some circumstances, adverse results in any such proceedings and / or the incurring of significant litigation or other expenses could be material to our business, operations, financial position, profitability or cash flows. **Ambac Financial Group, Inc17 2023 Form 10- K** Everspan may be subject to disputes with policyholders regarding the scope and extent of coverage offered under Everspan' s policies; be required to defend claimants in suits against its policyholders for covered liability claims; **face allegations of improper claims handling;** or enter into commercial disputes with its reinsurers, MGA / Us or TPAs regarding their respective contractual obligations and rights. Under some circumstances, the results of such disputes or suits may lead to liabilities beyond those which are anticipated or reserved. Political developments may materially adversely affect our **business** ~~legacy financial guarantee insured portfolio~~ . Our ~~insured~~ - **insurance businesses** ~~financial guarantee exposures~~ and our results of operations can be materially affected by political developments at the federal, state and / or local **or foreign** government levels. Government shutdowns, trade disputes, political turnover, judicial decisions, adverse changes in ~~federal~~ **governmental** funding, or poor public policy decision making could disrupt the national **, international** and local economies where we have insured ~~financial guarantee~~ exposures. In addition, we are exposed to correlation risk as a result of the possibility that multiple credits **, counterparties, or portfolios** may concurrently and / or consecutively experience losses or increased stress as a result of any such event or series of events. We operate in in a highly regulated industry and our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in government laws and regulations or if government laws and regulations impair our business or increase our costs. Our U. S. LFG and Specialty Property and Casualty Insurance subsidiaries are highly regulated as insurance carriers in the States of their domicile and the jurisdictions in which they are licensed. Our owned MGA / Us and insurance brokerage subsidiaries are also required to maintain certain entity- level licenses as well as licenses of individual officers or representatives that are essential to their ability to conduct business. Each of the foregoing must also comply with laws generally applicable to insurance entities, including those relating to governance, capital, and operational requirements. Government laws and regulations applicable to our businesses develop and change rapidly in response to consumer demands and public policies. State legislatures and insurance departments place increasing burdens on insurance carriers and producers with respect to matters such as cybersecurity, data privacy, management of technology, corporate governance, environmental and social issues, and enterprise risk ~~| Ambac Financial Group, Inc. 17 2022 FORM 10- K~~ management. Such laws and regulations require substantial resources to ensure that the Company has appropriate and effective compliance programs in place. If we are unable to keep pace with changes in applicable law and regulations, or if we otherwise fail in our compliance efforts, the Company may be subject to fines, sanctions, governmental orders or modifications to business practices that individually or collectively impair our business or increase our costs, possibly materially. In addition, the Company from time to time receives various regulatory inquiries and requests for information, and its insurance carrier subsidiaries are subject to examination by regulatory authorities. It is not possible to predict the extent to which additional regulatory inquiries or requests for information will be made, nor the outcome of inquiries, requests for information or examination, which exposes the Company to potential fines, sanctions, governmental orders or modifications to business practices that individually or collectively impair our business or increase our costs, possibly materially. Actions of the PRA and FCA could reduce the value of Ambac UK realizable by AAC, which would adversely affect our securityholders. Ambac' s international business is operated by Ambac UK, which is regulated by the Prudential Regulation Authority (" PRA ") for prudential purposes and the Financial Conduct Authority (" FCA ") for conduct purposes. The terms of Ambac UK' s regulatory authority are now restricted and Ambac UK is in run- off. Among other things, Ambac UK may not write any new business, and, with respect to any entity within the Ambac group of affiliates, commute, vary or terminate any existing financial guaranty policy, transfer certain assets, or pay dividends, without the prior approval of the PRA ~~and FCA~~ . The PRA and FCA act generally in the interests of Ambac UK policyholders and will not take into account the interests of AAC or the securityholders of Ambac when considering whether to provide any such approval. Accordingly, determinations made by the PRA and FCA, in their capacity as Ambac UK' s regulators, could potentially result in adverse consequences for our securityholders and also reduce the value realizable by AAC for Ambac UK. Regulatory uncertainty in relation to Ambac UK' s capital position could adversely affect the value of Ambac UK and affect our securityholders. Ambac UK is required to meet certain minimum capital requirements under applicable regulatory capital rules (" Solvency II"). Ambac UK exceeded the required capital thresholds as of December 31, ~~2022~~ **2023** . However, there remains a risk that market movements impacting its investments or adverse credit developments impacting loss reserving requirements within its insured portfolio could result in the capital position becoming deficient once again. ~~The PRA supervisory statement SS7 / 15 " Supervision of firms in difficulty or run- off " notes that " there are many circumstances in which a run- off strategy is in the best interests of policyholders " and notes that the PRA will review such firms and that they " may be permitted to continue activities necessary to carry out existing contracts in a manner, and for so long as, the PRA considers necessary in order to afford an appropriate degree of protection to policyholders ". If Ambac UK were to return to a capital deficit position then its run- off would become subject to the PRA taking no action in relation to that capital deficit and related Solvency II requirements. Alternative courses of action open to the PRA could adversely impact the anticipated run- off trajectory of Ambac UK and impact its value.~~ Everspan may not be successful in executing its business plans or may experience greater than expected insurance underwriting losses and / or reinsurance counterparty losses, which could result in losses material to Everspan' s capital position, a downgrade of its AM Best rating and a loss of its franchise value. Such events could have a material adverse impact on the value of AFG' s shares. Everspan is in the early stage of ~~the~~ **developing a portfolio of** specialty insurance program business. Its business plan entails establishing programs with program administrators, managing general agents and managing general underwriters (" MGA / Us"), with claims handled by TPAs. The success of these programs is dependent upon the quality of insurance risk underwritten by the MGA / Us, the quality of underwriting and operational **performance, as well as** oversight **,** of the MGA / Us and TPAs by **Ambac Financial Group, Inc18 2023 Form 10- K** Everspan, the quality and creditworthiness of reinsurance obtained with respect to the underlying risks, loss experience over time, premium levels, competition and other factors, some of which are outside Everspan' s control. Should Everspan fail in executing its business plans or experience greater than expected losses due to operational issues, poor risk selection, default or failure to perform by reinsurers, failure to timely realize ultimate loss exposure **, a departure of qualified MGA / Us from the industry, enhanced scrutiny from regulators or ratings agencies specific to the program business**

model, failure to collect amounts due to it or other factors, Everspan may suffer losses that are material to its capital position, a downgrade in its AM Best rating and / or a loss of its franchise value. Any such outcomes could have a material adverse impact on the value of AFG' s shares. A downgrade in the AM Best financial strength rating of Everspan may negatively affect our business. The financial strength of Everspan is evaluated by AM Best, which issues a ~~financial strength ratings (~~" FSR ~~")~~ , an important factor in establishing the competitive position of Everspan. The FSR reflects AM Best' s opinion of Everspan' s financial strength, operating performance, strategic position and ability to meet obligations to policyholders, and are not evaluations directed to investors. Everspan' s FSR is subject to periodic review, and the criteria used in the rating methodologies are subject to change. All of the insurance companies that comprise Everspan ~~Group~~ are rated" A-" (Excellent). A downgrade in Everspan' s FSR could make it more difficult to sell insurance policies and Everspan' s distribution channels may cease to transact with them, which would adversely affect our business, financial condition and results of operations. Failure of Everspan' s Program Partners to properly market, underwrite or administer policies could adversely affect us. The marketing, underwriting, ~~claims~~ administration and servicing of policies in our Specialty Property and Casualty Insurance business have been contracted to the MGA / Us with ~~| Ambac Financial Group, Inc. 18 2022 FORM 10- K~~ which Everspan transacts. Any failure **by the MGA / Us or TPAs** to properly handle these functions could result in liability to us. Even though the MGA / Us and TPAs with which Everspan transacts may be required to indemnify Everspan for any such liability or monetary losses, there are risks for which indemnity may be insufficient or entirely unavailable if, for example, the relevant program partner becomes insolvent or is otherwise unable to pay us. Furthermore, any failure to properly handle the marketing, underwriting, ~~claims~~ administration and servicing of policies in our Specialty Property and Casualty Insurance business could also create regulatory issues or harm our reputation, which could materially and adversely affect our business, financial condition and results of operations. If in our Specialty Property and Casualty Insurance business we are unable to accurately underwrite risks and charge competitive yet profitable rates to our clients and policyholders, our business, financial condition and results of operations may be adversely affected. In general, the premiums for our ~~specialty~~ **Specialty** ~~property~~ **Property** and ~~casualty~~ **Casualty** ~~insurance~~ **Insurance** policies are established at the time a policy is issued and, therefore, before all of our underlying costs are known. Like other property and casualty insurance companies, Everspan relies on estimates and assumptions in setting its premium rates. Establishing adequate premium rates is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses, acquisition costs and general and administrative expenses in order to earn a profit **. The rate environment is also subject to market cycles, which can be difficult to predict and make it difficult to adequately price risk** . If Everspan does not accurately assess the risks that it assumes, it may not charge adequate premiums to cover its losses and expenses, which would adversely affect our results of operations and our profitability. Alternatively, Everspan could set its premiums too high, which could reduce its competitiveness and lead to lower policyholder retention, resulting in lower revenues. Pricing is a highly complex exercise involving the acquisition and analysis of historical loss data and the projection of future trends, loss costs, expenses, and inflation trends, among other factors, for each of Everspan' s products in multiple risk tiers and many different markets. Everspan seeks to implement its pricing accurately in accordance with its assumptions. Everspan' s ability to undertake these efforts successfully and, as a result, to accurately price its policies, is subject to a number of risks and uncertainties, including insufficient or unreliable data; incorrect or incomplete analysis of available data; uncertainties generally inherent in estimates and assumptions; failure to implement appropriate actuarial projections and ratings formulas or other pricing methodologies; regulatory constraints on rate increases; failure to accurately estimate investment yields and the duration of liabilities for losses and loss adjustment expenses; disagreements with reinsurers or the MGA / Us with whom Everspan transacts as to the adequacy of pricing assumptions; and unanticipated court decisions, legislation or regulatory action. If Everspan is unable to obtain reinsurance coverage at reasonable prices or on terms that adequately protect it, we may be required to bear increased risks or reduce the level of our underwriting commitments. Everspan purchases reinsurance as part of its overall risk management strategy. While reinsurance does not discharge our insurance subsidiaries from their obligations to pay claims for losses insured under their insurance policies, it does make the reinsurer liable to them for the reinsured portion of the risk. At the inception of a new program, Everspan **generally** acts as an issuing carrier and reinsures a majority of such risk to third parties in contracts that are generally subject to term limitations or termination rights. Everspan may be unable to maintain its current reinsurance arrangements or to obtain other reinsurance in adequate amounts and at favorable rates, particularly if reinsurers become unwilling or unable to support our specialty property and casualty business in the future. Additionally, market conditions beyond our control may impact the availability and cost of reinsurance and could have an adverse effect on our business, financial condition and results of operations. A decline in the availability of reinsurance may increase the cost of reinsurance and materially and adversely affect our business prospects. Everspan may, at certain times, be forced to incur additional costs for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms or from **Ambac Financial Group, Inc19 2023 Form 10- K** reinsurers which satisfy Everspan' s criteria as acceptable security. In the latter case, Everspan would have to accept an increase in exposure to risk, reduce the amount of business written by it or seek alternatives in line with Everspan' s risk limits, all of which could adversely affect our business, financial condition and results of operations. **Counterparties to whom we outsource functions, including policy and claims administration, such as MGAs and TPAs, may default on their operational and financial obligations to us. We have outsourced certain processes and functions to third parties over which we have no control and may continue to do so in the future. Outsourcing functions to third parties exposes us to increased risk related to service disruptions. Further, we may suffer financial losses if a counterparty defaults on a financial obligation to us, including with respect to insurance agency commissions which adjust over time. If we do not effectively develop, implement and monitor these relationships and the solvency of our counterparties, the providers do not perform as anticipated, technological or other problems are incurred, or such relationships are terminated, we may not realize expected productivity improvements or cost efficiencies and may experience operational difficulties, increased costs, and a loss of business. Further, policyholders and claimants may**

suffer delays or lapses in service levels which may create extra- contractual exposures. The increased risks identified above could expose us to disruption of service, monetary and reputational damages, competitive disadvantage and significant increases in compliance costs. Our insurance carrier subsidiaries are subject to reinsurance counterparty credit risk. Their reinsurers may not pay on losses in a timely fashion, or at all. Our insurance carrier subsidiaries purchase reinsurance to transfer part of the risk they have ~~assumed~~ **underwritten** to reinsurance companies in exchange for part of the premium they receive in connection with the risk. Although reinsurance makes reinsurers liable to our carriers for the risk transferred or ceded to the reinsurers, it does not relieve our insurance carrier subsidiaries of their liabilities to policyholders. Accordingly, our insurance carrier subsidiaries are exposed to credit risk with respect to their reinsurers, especially to the extent reinsurance receivables are not sufficiently secured by collateral or do not benefit from other credit enhancements. Our insurance carrier subsidiaries also bear the risk that they are unable to receive, or there is a substantial delay in receiving, the reinsurance recoverable for any reason, including that the terms of the reinsurance contract do not reflect the intent of the parties to the contract; there is a disagreement between the parties as to their intent; the terms of the contract cannot be legally enforced; the terms of the contract are interpreted by a court or arbitration panel differently than intended by our insurance carrier subsidiaries; the reinsurance transaction performs differently than our insurance carrier subsidiaries anticipated due to a flawed design of the reinsurance structure, terms or conditions; or changes in law and regulation, or in the interpretation of laws and regulations, affects a reinsurance transaction. These risks my be exacerbated to the extent that our insurance carrier subsidiaries' reinsurance recoverables are overly concentrated with one or a small subset of reinsurers. The insolvency of one or more of our insurance carrier subsidiaries' reinsurers, or their inability or unwillingness to make timely payments if and when required under the terms of reinsurance contracts, could adversely affect our business, financial condition and results of operations. ~~| Ambac Financial Group, Inc. 19 2022 FORM 10- K~~ If actual claims exceed ~~claims~~ **loss** and ~~claim~~ **loss** adjustment expense reserves for Everspan, or if changes in the estimated level of ~~claims~~ **loss** and ~~claim~~ **loss** adjustment expense reserves are necessary, including as a result of, among other things, changes in the legal / tort, regulatory and economic environments in which Everspan operates, our financial results could be materially and adversely affected. ~~Further~~ **Loss and loss adjustment expense reserves represent management estimates of what the ultimate settlement and administration of claims will cost. These estimates are developed using common and industry accepted actuarial techniques. Nevertheless, the process of estimating loss and loss adjustment expense reserves involves a high degree of judgment and is subject to a number of variables, which can be affected by internal and external events, such as changes in claims handling, changes in loss cost trends, catastrophic events and social inflation.** ~~elevated~~ **Elevated** social inflation trends are likely to continue **. Social inflation** , which ~~have been amplified by the COVID- 19 crisis and civil unrest events in the US over the last 12- 36 months. These risks, which include~~ **includes** increased litigation, **partially supported by access to litigation financing;** changes in social norms **;** ~~, and~~ an erosion of the public sentiment towards insurers’ interpretation of coverage levels and limits **; and increased damage awards by juries** , may make it ~~more~~ difficult **for Everspan** to estimate ~~losses~~ -- **loss reserves** ~~by Everspan from events~~ , establish adequate product pricing, and maintain a strong competitive position with consumers. Moreover, the impact of catastrophic events may not be adequately reflected in claims reserves and, accordingly, could adversely impact results. Catastrophic losses are caused by wind and hail, wildfires, tornadoes, hurricanes, tropical storms, earthquakes, severe freeze events, volcanic eruptions, terrorism, cyber attacks, civil unrest, and industrial accidents and other such events. **We also face potential exposure to various types of new and emerging tort claims which were not known or anticipated when our insurance products were originally priced. The impact of many of these items on ultimate costs for claims and claim adjustment expense reserves could be material and is difficult to estimate.** Our ability to grow Everspan will depend in part on the addition of new Program Partners, and our ~~inability~~ -- **ability** to effectively onboard such new Program Partners could have an adverse effect on our business, financial condition and results of operations. Our ability to grow Everspan will depend in part on the addition of new ~~MGAUs~~ -- **MGA / Us** . If Everspan does not effectively and timely source, evaluate and onboard new MGA / Us, including assisting such MGA / Us to quickly resolve any post- onboarding matters and provide effective ongoing support, Everspan' s ability to add new MGA / Us and its relationships with its existing Program ~~Ppartners~~ - **Partners** could be adversely affected. Additionally, Everspan' s **Ambac Financial Group, Inc20 2023 Form 10- K** reputation with potential new MGA / Us could be damaged if it fails to effectively onboard MGA / Us with whom it has signed definitive legal agreements. Such reputational damage could make it more difficult for Everspan to attract new and retain existing program partners, which could have an adverse effect on our business, financial condition and results of operations. We compete with a large number of companies in the property and casualty insurance industry for underwriting premium. We compete with a large number of companies in the property and casualty insurance industry for underwriting premium. During periods of intense competition for premium, in particular, our ~~specialty~~ **Specialty** ~~property~~ **Property** and ~~casualty~~ **Casualty** ~~insurance~~ **Insurance** and ~~insurance~~ **Insurance** ~~distribution~~ **Distribution** businesses may be challenged to maintain competitiveness with other companies that may seek to write policies without the same regard for risk and profitability targeted by our ~~specialty~~ **Specialty** ~~property~~ **Property** and ~~casualty~~ **Casualty** ~~insurance~~ **Insurance** and ~~insurance~~ **Insurance** ~~distribution~~ **Distribution** businesses. During these times, it may be difficult for Everspan or our MGA / Us to grow or maintain premium volume without lowering underwriting standards, sacrificing income, or both. In addition, our Specialty Property and Casualty Insurance and Insurance Distribution businesses face competition from a wide range of specialty insurance companies, underwriting agencies and intermediaries, as well as diversified financial services companies that are significantly larger than our specialty property and casualty insurance and insurance distribution businesses are and that have significantly larger financial, marketing, management and other resources. Some of these competitors also have longer standing and better established market recognition than Everspan does. The greater resources or market presence that these competitors possess may enable them to avoid or defray particular costs, employ greater pricing flexibility, have a higher tolerance for risk or loss, or exploit other advantages that may make it more difficult for us to compete. We may incur increased costs in competing for underwriting revenues in this environment. If we are unable to compete effectively in the markets in which our ~~specialty~~ **Specialty** ~~property~~ **Property** and ~~casualty~~ **Casualty** ~~insurance~~ **Insurance** and **Insurance Distribution** ~~managing general agency / underwriting~~ businesses operate or expand into, our underwriting revenues may decline, as well as overall business results. Impairment of intangible assets and goodwill, resulting from acquisitions, could adversely affect our results of operations. In connection with Ambac' s acquisition of ~~certain insurance carriers and~~ insurance distribution businesses (MGA / ~~U~~ **Us** and brokers), Ambac recorded the fair value of identifiable intangible assets (primarily related to distribution relationships) and goodwill. The intangible assets will be amortized over their remaining useful lives. The Company will test intangible assets for impairment if certain events occur or circumstances change indicating that the carrying amount of the intangible asset may not be recoverable. Goodwill will be tested for impairment annually or whenever events occur or circumstances change that may indicate impairment. Intangible asset and goodwill impairments are driven by a variety of factors, which could include, among other things, declining future cash flows of the acquired business as addressed in other risk factors related to the Insurance Distribution Business. Any intangible asset or goodwill impairment could adversely affect the Company' s operating results and financial condition. Our Insurance Distribution businesses derive a significant portion of their commission revenues from a limited number of insurance companies, the loss of any of which could result in lower commissions or loss of business production. The commissions of our MGA / Us and insurance broker were derived from insurance policies underwritten by a limited number of insurance companies. Should one or more of these insurance companies terminate its arrangements with our Insurance Distribution businesses or otherwise decrease the number of insurance policies underwritten for it, we may lose significant commission revenues or lose significant business production while seeking other insurance companies to underwrite the business. Our Insurance Distribution businesses, results of ~~operation~~ **operations** , financial condition and liquidity may be ~~| Ambac Financial Group, Inc. 20 2022 FORM 10- K~~ materially adversely affected by certain potential claims or proceedings. Our owned MGA / Us and insurance brokerage operating subsidiaries are subject to various potential claims and other proceedings, including those relating to alleged errors and omissions in connection with the placement or servicing of insurance and / or the provision of services in the ordinary course of business, of which we cannot, and likely will not be able to, predict the outcome with certainty. Because our MGA / Us and insurance brokerage operating subsidiaries often assist customers with matters involving substantial amounts of money, including the placement of insurance and the handling of related claims that customers may assert, errors and omissions, claims against it may arise alleging potential liability for all or part of the amounts in question. Also, the failure of an insurer with whom our MGA / Us and insurance brokerage operating subsidiaries place business could result in errors and omissions claims against it by its customers, which could adversely affect Ambac' s results of operations and financial condition. Claimants may seek large damage awards, and these claims may involve potentially significant legal costs and damages. In addition, regardless of monetary costs, these matters could have a material adverse effect on our reputation and cause harm to carrier, customer or employee relationships, or divert personnel and management resources. **Acquiring new MGA / Us is core to our Insurance Distribution business strategy. Risks associated with such endeavors could adversely affect our growth and results of operations. Acquisitions have been an important contributor of growth in the Insurance Distribution business and we believe that additional acquisitions will be important to maintaining future growth. Failure to successfully identify and complete acquisitions likely would result in us achieving slower growth. Moreover, the failure of acquisition targets to achieve anticipated revenue and earnings levels could result in slower than anticipated growth and result in intangible asset or goodwill impairment charges. Ambac Financial Group, Inc21 2023 Form 10- K** The current market share of our Insurance Distribution businesses may decrease because of increased competition from insurance companies, technology companies and the financial services industry, as well as the shift away from traditional insurance markets. The insurance distribution business is highly competitive and we actively compete with numerous firms for customers and insurance companies, many of which have relationships with insurance companies or have a significant presence in niche insurance markets that may give them an advantage. Other competitive concerns may include pricing, the entrance of technology companies into the insurance distribution business and the direct- to- consumer insurance carriers that do not utilize third party agents and brokers as production sources. Additionally, the insurance industry may experience consolidation, and therefore we may experience increased competition from insurance companies and the financial services industry, as a growing number of larger financial institutions increasingly, and aggressively, offer a wider variety of financial services, including insurance distribution services. While we collaborate and compete in these segments on a fee- for- service basis, we cannot be certain that such alternative markets will provide the same level of insurance coverage or profitability as traditional insurance markets. Technological changes to the way insurance is distributed, underwritten, and administered also present competitive risks. For example, our competitive position could be impacted if we are unable to cost- effectively deploy technology, such as machine learning and artificial intelligence, which collects and analyzes large sets of data to make underwriting or other decisions, or if our competitors collect and use data which we do not have the ability to access or use. In addition, usage- based methods of determining premiums (e. g., telematics) can impact product pricing and design and are becoming an increasingly important competitive factor. The landscape of law and regulation governing these areas presents additional risk to the extent we are unable to timely adapt to ensure compliance. Changes in law or in the functioning of the healthcare market could significantly impair Xchange' s business and therefore negatively impact Ambac' s financial condition and results of ~~operation~~ **operations** . Adoption of a single payer healthcare system or a public health insurance option would likely adversely impact the entire healthcare industry. While Xchange has historically demonstrated an ability to adjust its products to major changes in the healthcare industry, given its focus on Accident and Health products, Xchange would likely be adversely impacted by such a material change in the U. S. healthcare system particularly if private health insurance is eliminated, materially limited, or is rendered noncompetitive. Material adverse developments to Xchange' s business would have a negative impact on Ambac' s financial condition and results of operations which could be material. Our Insurance Distribution businesses and their results of ~~operation~~ **operations** and financial condition may be adversely affected by conditions that result in reduced insurer capacity.

Our Insurance Distribution business results of operations depend on the continued capacity of insurance carriers to underwrite risk and provide coverage, which depends in turn on those insurance companies' ability to procure reinsurance. Capacity among insurance carriers and reinsurers may diminish because of our performance or due to factors outside our control. For example, capacity could be reduced by insurance companies failing or withdrawing from writing certain coverages that our Insurance Distribution businesses offer to their customers. To the extent that reinsurance becomes less widely available or significantly more expensive, we may not be able to procure the amount or types of coverage that our customers desire and the coverage we are able to procure for our customers may be more expensive or limited. Variations in commission income that results from the timing of policy renewals and the net effect of new and lost business production may have unexpected effects on our results of ~~operation~~ **operations** . Commission income can vary quarterly or annually due to the timing of policy renewals and the net effect of new and lost business production. We do not control the factors that cause these variations. Specifically, customers' demand for insurance products can influence the timing of renewals, new business and lost business (which includes policies that are not renewed), and cancellations. Quarterly and annual fluctuations in revenues based upon increases and decreases associated with the timing of new business, policy renewals and payments from insurance companies may adversely affect our financial condition, results of operations and cash flows. Profit- sharing contingent commissions are paid by insurance companies based upon the profitability of the business placed with such companies. In the past these commissions have accounted for a significant amount of total commissions and fees. Due to, among other things, the inherent uncertainty of loss and changes in underwriting criteria ~~| Ambac Financial Group, Inc. 21 2022 FORM 10- K~~ by insurance companies, there will be a level of uncertainty related to the payment of profit- sharing contingent commissions. System security risks, data protection breaches and cyber- attacks could adversely affect our business and results of operations. We and our vendors and contractual counterparties rely on our information technology systems for many enterprise- critical functions and a prolonged failure or interruption of these systems for any reason could cause significant disruption to our operations and have a material adverse effect on our business, financial condition and operating results. Our information technology and application systems, as well as those of our vendors and contractual counterparties, may be vulnerable to threats from computer viruses, natural disasters, unauthorized access, cyber- attack and other similar disruptions. Computer hackers may be able to penetrate our network' s system security, or the network' s security system of a vendor or contractual counterparty, and misappropriate or compromise confidential information, create system disruptions or cause shutdowns. **The ability of hackers to infiltrate and compromise our information Ambac Financial Group, Inc22 2023 Form 10- K systems or the contents thereof may be enhanced by generative artificial intelligence, which may be more difficult to detect and defend.** In addition to our own confidential information, we and ~~our~~ our vendors and contractual counterparties sometimes receive and are required to protect confidential information obtained from third parties (including us in the case of a vendor or contractual counterparty) and personally identifiable information of individuals. To the extent any disruption or security breach results in a loss or damage to our data (or the data of a vendor or contractual counterparty on which we rely), or inappropriate disclosure of our confidential information or that of others, or personally identifiable information of individuals, it could cause significant financial losses that are either not, or not fully, insured against, cause damage to our reputation, affect our relationships with third parties, lead to claims against us, result in regulatory action, or otherwise have a material adverse effect on our business or results of operations. In addition, we may be required to incur significant costs to mitigate the damage caused by any security breach, or to protect against future damage. Moreover, although we have incident response, disaster recovery and business continuity plans in place, we may not be able to adequately execute these plans in a timely fashion in the event of a disruption to our information technology and application systems. **Additionally, we are an acquisitive organization and the process of integrating the information systems of the businesses we acquire is complex and exposes us to additional risk as we might not adequately identify weaknesses in the targets' information systems, which could expose us to unexpected liabilities or make our own systems more vulnerable to attack.** We may be adversely affected by failures in services or products provided by third parties. We outsource and may further outsource certain technology and business process functions, and rely upon third- party vendors and contractual counterparties for other essential services and information, such as the provision of data used in setting loss reserves. If we do not effectively develop, implement and monitor our vendor and contractual counterparty relationships, if third party providers do not perform as anticipated, if we experience technological or other problems ~~with a transition~~ , or if vendor or other contractual relationships relevant to our business process functions are terminated, we may not realize expected productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business. A material failure by an external service or information provider or a material defect in the products, services or information provided thereby could adversely affect our financial condition and results of operations. Our outsourcing of certain technology and business process functions to third parties may expose us to increased risk related to data security, service disruptions or the effectiveness of our control system. These risks could increase as vendors increasingly offer cloud- based software services rather than software services which can be run within our data centers or as we choose to move additional functions to the cloud. Our ability to attract and retain qualified executives, senior managers and other employees or the loss of any of these personnel could negatively impact our business. Our ability to execute on our business strategies depends on the retention and recruitment of qualified executives and other professionals. We rely substantially upon the services of our current executive and senior management teams. In addition to these officers, we rely on key staff with insurance, underwriting, business development, credit, risk management, structured finance, investment, accounting, finance, legal, technology and other technical and specialized skills. The market for qualified executives, senior managers and other employees has become very competitive. As a result of the run- off status of AAC and the early- stage status of AFG' s other businesses, we may experience higher employee turnover and finding qualified replacements may be more difficult. The loss of the services of members of our executive and / or senior management teams or our inability to hire and retain other talented personnel could delay or prevent us from succeeding in executing our strategies, which could negatively impact our business. Our business could be negatively affected by actions of stakeholders whose interests may not be aligned with the broader interests of our stockholders. Ambac could be negatively affected as a result of actions by stakeholders whose interests may not be aligned with the broader interests of our stockholders, and responding to any such actions could be costly and time- consuming, disrupt operations and divert the attention of management and employees. Such activities could interfere with our ability to execute on our strategic plans. Risks Related to Capital, Liquidity and **Credit** MarketsAAC has substantial indebtedness, which could adversely affect our financial condition, operational flexibility and our ability to obtain financing in the future. AAC is highly leveraged. AAC' s ability to make payments on and / or refinance its surplus notes and to fund its operations will depend on its ability to generate substantial operating cash flow and on the performance of the LFG insured portfolio. AAC' s cash flow generation will depend on receipt of premiums, investment returns, and ~~receipts~~ **dividends and capital distributions** from ~~subsidiaries~~ **Ambac UK** , offset by policyholder claims, commutation payments, reinsurance premiums, costs and potential losses from litigation, operating and loss adjustment expenses, and interest expense, **all of** which ~~will~~ **may** be subject to prevailing economic conditions and to financial, business and other factors, many of which are beyond our control and many of which ~~are~~ **may be** event- driven. There is substantial risk that AAC may not have the financial resources necessary to pay its surplus notes in full due to risks associated ~~|~~ ~~Ambac Financial Group, Inc. 22 2022 FORM 10- K~~ with its cash flow, insured portfolio, and other liabilities, as discussed elsewhere in these Risk Factors. If AAC cannot pay its obligations from operating cash flow, it will have to take actions such as selling assets, restructuring or refinancing its surplus notes or seeking additional capital. Any of these remedies may not, if necessary, be effected on **Ambac Financial Group, Inc23 2023 Form 10- K** commercially reasonable terms, or at all. The value of assets to be sold ~~,~~ will depend on market and economic conditions ~~,~~ **;** the availability of buyers ~~,~~ **;** the requirements and conditions of local law, including regulatory restrictions ~~,~~ **;** and other factors that may result in AAC or a party enforcing rights against AAC to be unable to receive proceeds sufficient to discharge AAC' s obligations. Furthermore, the ability of creditors or claimants to realize upon any assets, may also be subject to bankruptcy and insolvency law limitations or similar limitations applicable in insurance company rehabilitation or liquidation proceedings. Because of these and other factors beyond our control, AAC may be unable to pay or discharge the principal or interest on its surplus notes, which would impair AAC' s value and the value of AFG. Surplus note principal and interest payments ~~are subject to~~ **cannot be made without** the **approval of the OCI, which OCI will grant or withhold in its** sole **discretion.** ~~approval of the OCI, and~~ OCI' s determinations about whether and when to authorize surplus note payments could materially impact the Company' s financial position. Ambac can provide no assurance as to when surplus note principal and interest payments will be made. If OCI does not approve payments on or the acquisition of surplus notes over time **,** the ongoing accretion of interest on the notes may impair AAC' s ability to extinguish the notes in full. Surplus notes are subordinated in right of payment to policyholder and other claims. AAC' s substantial indebtedness could have other significant consequences for our financial condition and operational flexibility. For example, it could: • increase our vulnerability to general adverse economic, competitive and industry conditions; • limit our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes on satisfactory terms or at all; • require AAC to dedicate a substantial portion of its cash flow from operations to the payment of surplus notes, thereby reducing the funds available for operations and to fund the execution of key strategies, including the return of capital to AFG; • limit or restrict AFG from making strategic acquisitions or cause us to make non- strategic divestitures; • limit AAC' s ability, or increase the costs, to refinance surplus notes or repay surplus notes due to ongoing interest accretion; and • limit our ability to attract and retain key employees. Despite current indebtedness levels, we may incur additional debt. While restrictive covenants in certain of our contracts may limit the amount of additional indebtedness AAC may incur, we may obtain waivers of those restrictions and incur additional indebtedness in the future. In addition, if Ambac incurred indebtedness, its ability to make scheduled payments on, or refinance, any such indebtedness may depend on the ability of our subsidiaries to make distributions or pay dividends, which in turn will depend on their future operating performance and contractual, legal and regulatory restrictions on the payment of distributions or dividends to which they may be subject. There can be no assurance that any such dividends or distributions would be made. This could further exacerbate the risks associated with AAC' s substantial leverage. Our inability to realize the expected recoveries included in our financial statements could adversely impact our liquidity, financial condition and results of operations and the value of our securities. We expect to recover material amounts of claims payments through ~~remediation measures, as well as through~~ cash flows in the securitization structures of transactions that AAC insures. Realization of such expected recoveries is subject to various risks and uncertainties, including the rights and defenses of other parties with interests that conflict with AAC' s interests, the performance of the collateral and assets backing the obligations that AAC insures, ~~and~~ the performance of servicers involved in securitizations in which AAC participates as insurer ~~. Additionally~~ , **as well as numerous regulatory, legal and compliance considerations and risks** ~~our ability to realize recoveries in insured transactions may be impaired if the continuing orders of the court that oversaw the rehabilitation of the Segregated Account of AAC are not effective~~ . Adverse developments with respect to any of the factors described above may cause our recoveries to fall below expectations, which could have a material adverse effect on our financial condition, including our capital and liquidity, and may result in adverse consequences such as impairing the ability of AAC to honor its financial obligations, particularly its surplus notes and preferred stock obligations; the initiation of rehabilitation proceedings against AAC; eliminating or reducing the possibility of AAC delivering value to AFG, through dividends or otherwise; and a significant drop in the value of securities issued or insured by AFG or AAC. Revenues and cash flow will be adversely impacted by a decline in realization of installment premiums. A significant percentage of our ~~FG~~ **LFG** premium revenue is attributable to installment premiums. The amount of installment premiums we collect is declining along with the insured portfolio. The amount of installment premiums we actually realize could be further reduced due to factors such as early termination of insurance contracts, new reinsurance transactions, accelerated prepayments of underlying obligations or insufficiency of cash flows (by the premium paying entity). The reduction in installment premiums will result in lower revenues and cash flow in the future. We may have future capital needs and may not be able to obtain third- party financing or raise additional third- party capital on acceptable terms, or at all. An inability to obtain third- party debt financing or raise additional third- party capital, when required by us or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations **, and could adversely impact our ability to achieve our strategic objectives** . Our financial condition, the risks described ~~| Ambac Financial Group, Inc. 23 2022 FORM 10- K~~ elsewhere in Part I, Item 1A in this Annual Report on Form 10- K for the fiscal year ended December 31, ~~2022~~ **2023** , as well as other factors, may constrain our financing abilities. Our ability to secure third- party financing will depend upon our future operating performance, regulatory conditions, the availability of credit generally, economic conditions and financial, business and other factors, many of which are beyond our control. The market conditions and the macroeconomic conditions that affect ~~our business could have a material adverse effect on our ability to secure third- party financing on favorable terms, if at all. If third- party financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities, respond to competitive pressures or effectively and efficiently manage our balance sheet, any of which could have a material adverse effect on our business, financial condition and results of operations. The composition of the securities in our investment portfolio may expose us to greater risk than before we invested in alternative assets. Each of AAC and Ambac UK maintains a portion of its investment portfolio in below investment grade securities, equities and / or alternative assets, such as hedge funds, with the objective to increase risk- adjusted portfolio returns. Investments in below investment grade securities, equities and alternative assets could expose AAC and / or Ambac UK to greater earnings volatility, increased losses and decreased liquidity in the investment portfolio. Risks Related to the Financial and Credit MarketsChanges in prevailing interest rate levels and market conditions could adversely impact our business results and prospects. Increases in prevailing interest rate levels can adversely affect the value of our investment portfolio and, therefore, our financial strength. In the event that investments must be sold in order to pay claims, to pay debt obligations, to meet collateral posting requirements or to meet other liquidity needs, such investments would likely be sold at discounted prices. Additionally, increasing interest rates would have an adverse impact on the legacy financial guarantee insured portfolio. For example, increasing interest rates could result in higher claim payments in respect of defaulted obligations that bear floating rates of interest. Higher interest rates can also lead to increased credit stress on consumer asset- backed transactions (as the securitized assets supporting a portion of these exposures are floating rate consumer obligations), slower prepayment speeds and resulting " extension risk " relative to such consumer asset- backed transactions in our insured and investment portfolios, and decreased refinancing activity. Decreasing interest rates could result in early terminations of FG insurance policies in respect of which AAC and Ambac UK are paid on an installment basis and do not receive a termination premium, thus reducing premium earned for these transactions. Decreases in prevailing interest rates may also limit growth of, or reduce, investment income and may adversely impact interest rate swap values. Our investment portfolio may also be adversely affected by credit rating downgrades, ABS and RMBS prepayment speeds, foreign exchange movements, spread volatility, and credit losses. Our risk to changes in interest rates and market conditions could be magnified in the event that the US or UK were to enter into an economic recession. While interest rates may decline during a recession, credit and liquidity risks would be expected to increase which may cause us to experience losses in our investment portfolios and insured portfolios. These losses may have a material adverse affect on our results of operations and financial condition, particularly if any economic rescission were prolonged. Uncertainties regarding the expected discontinuance of the London Inter- Bank Offered Rate or any other interest rate benchmark could have adverse consequences. In 2017, the U. K. Financial Conduct Authority (" FCA "), which regulates the London Interbank Offered Rate (" LIBOR"), announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. On November 30, 2020, the ICE Benchmark Administration and the FCA announced that most tenors of U. S. Dollar (" USD") LIBOR are expected to be published only through June 2023. However, Non- USD LIBOR, certain less common tenors of USD- LIBOR and certain other indices which are utilized as benchmarks ceased to be published at the end of 2021. AAC and Ambac UK therefore no longer insure any obligations linked to Non- USD LIBOR. AAC and / or Ambac UK insure securities, own assets and are party to certain derivative contracts that reference USD LIBOR. In 2021, New York State passed legislation addressing the cessation of USD LIBOR and specified a recommended benchmark replacement based on the Secured Overnight Financing Rate (" SOFR ") for certain legacy transactions. Similar federal legislation was passed into law in March 2022 and the Federal Reserve' s Board of Governors adopted the final rules for implementing this legislation in December 2022. While regulators and market participants continue to promote the creation and functioning of post- LIBOR (primarily SOFR) indices, the ultimate impact of the discontinuance and replacement of LIBOR is uncertain. It is not currently possible to know with certainty what the effect of changes to benchmark rates may have on the financial markets for LIBOR- linked financial instruments for the periods preceding and following LIBOR' s cessation. Differences in contractual provisions of certain legacy assets and liabilities and other factors may cause the consequences of the discontinuance of LIBOR to vary by instrument. While the enacted legislation is intended to address issues with respect to legacy LIBOR- linked assets and liabilities, it is unclear whether they will completely address the issues associated with legacy transactions. Nevertheless, the value of our assets and derivatives; costs to operate our business; and the losses associated with our insured portfolio may be affected in a way that may ultimately materially adversely impact Ambac' s results of operations and financial condition. In addition, Ambac may experience adverse |~~ Ambac Financial Group, ~~Inc~~ **Inc24** ~~. 24 2022~~ **2023** ~~FORM~~ **Form** 10- K