



Ambac

Quarterly Operating Supplement

1Q19

About Ambac

Ambac Financial Group, Inc. (“Ambac” or “AFG”), headquartered in New York City, is a holding company whose subsidiaries, including its principal operating subsidiaries, Ambac Assurance Corporation (“Ambac Assurance or AAC”), Everspan Financial Guarantee Corp. and Ambac Assurance UK Limited (“Ambac UK”), provide financial guarantees of obligations in both the public and private sectors globally. AAC is a guarantor of public finance and structured finance obligations. Ambac’s common stock trades on the NASDAQ Global Select Market under the symbol “AMBC”. The Amended and Restated Certificate of Incorporation of Ambac contains substantial restrictions on the ability to transfer Ambac’s common stock. Subject to limited exceptions, any attempted transfer of common stock shall be prohibited and void to the extent that, as a result of such transfer (or any series of transfers of which such transfer is a part), any person or group of persons shall become a holder of 5% or more of Ambac’s common stock or a holder of 5% or more of Ambac’s common stock increases its ownership interest. Ambac is committed to providing timely and accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, we use our website to convey information about our businesses, including the anticipated release of quarterly financial results, quarterly financial, statistical and business-related information, and the posting of updates to the status of certain residential mortgage backed securities litigations. For more information, please go to www.ambac.com.

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To obtain a copy of Ambac Financial Group, Inc.’s latest annual or quarterly report filed with the Securities and Exchange Commission or the most recent Annual Report to Stockholders, please visit our website at www.ambac.com.

Ambac Financial Group, Inc. Quarterly Operating Supplement First Quarter 2019

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Notes:

- 1) Internal credit ratings contained in this Supplement are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance, and for Ambac UK related transactions, based on the view of Ambac UK. Ambac Assurance and Ambac UK credit ratings are subject to revision at any time and do not constitute investment advice.
- 2) Information contained in this report is unaudited.
- 3) Numbers may not add due to rounding.

Consolidated Statements of Income (Loss) — Quarter

(\$ in thousands, except share data)	Three Months Ended March 31,	
	2019	2018
Revenues:		
Net premiums earned:		
Normal premiums earned	\$ 15,535	\$ 21,491
Accelerated net premiums earned	12,223	9,392
Total net premiums earned	27,758	30,883
Net investment income:		
Securities available-for-sale and short-term	46,552	110,551
Other investments	8,290	(311)
Total net investment income	54,842	110,240
Net other-than-temporary impairment losses recognized in earnings	(29)	(299)
Net realized investment gains (losses)	17,233	4,862
Net gains (losses) on derivative contracts	(16,159)	25,191
Net realized gains (losses) on extinguishment of debt	—	3,115
Other income (expense)	802	(509)
Income (loss) on variable interest entities	15,921	574
Total revenues	100,368	174,057
Expenses:		
Losses and loss expense (benefit)	12,407	(247,395)
Insurance intangible amortization	36,278	28,636
Operating expenses	24,915	36,434
Interest expense	67,978	48,073
Total expenses	141,578	(134,252)
Pretax income (loss)	(41,210)	308,309
Provision (benefit) for income taxes	1,991	2,605
Net income (loss) attributable to common stockholders	\$ (43,201)	\$ 305,704
Net income (loss) per share attributable to common stockholders	\$ (0.94)	\$ 6.72
Net income (loss) per diluted share attributable to common stockholders	\$ (0.94)	\$ 6.70
Weighted average number of shares outstanding	45,832,297	45,471,083
Weighted average number of diluted shares outstanding	45,832,297	45,653,471

Consolidated Balance Sheets

(\$ in thousands, except share data)	March 31, 2019	December 31, 2018
Assets:		
Investments:		
Fixed income securities, at fair value (amortized cost of \$2,480,532 and \$3,020,744)	\$ 2,619,811	\$ 3,115,675
Fixed income securities pledged as collateral, at fair value (amortized cost of \$83,901 and \$0)	83,901	—
Short-term investments, at fair value (amortized cost of \$908,209 and \$430,405)	908,235	430,331
Other investments (includes \$387,045 and \$351,049 at fair value)	428,556	391,217
Total investments	4,040,503	3,937,223
Cash and cash equivalents	21,840	63,089
Restricted cash	—	19,405
Premium receivables	487,397	495,391
Reinsurance recoverable on paid and unpaid losses	26,788	23,133
Deferred ceded premium	58,868	61,134
Subrogation recoverable	1,916,117	1,932,960
Derivative assets	76,400	59,468
Current taxes	42,830	47,040
Insurance intangible asset	689,255	718,931
Other assets	90,977	137,628
Variable interest entity assets	7,571,924	7,093,309
Total assets	\$ 15,022,899	\$ 14,588,711
Liabilities and Stockholders' Equity:		
Liabilities:		
Unearned premiums	\$ 591,397	\$ 629,971
Loss and loss expense reserves	1,694,163	1,826,078
Ceded premiums payable	31,745	32,913
Deferred taxes	39,201	40,130
Long-term debt	2,929,227	2,928,929
Accrued interest payable	391,335	375,808
Derivative liabilities	86,534	76,699
Other liabilities	71,402	63,792
Variable interest entity liabilities	7,522,007	6,981,244
Total liabilities	13,357,011	12,955,564
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; 20,000,000 shares authorized shares; issued and outstanding shares—none	—	—
Common stock, par value \$0.01 per share; 130,000,000 shares authorized; issued shares: 45,560,960 and 45,365,170	456	454
Additional paid-in capital	223,545	219,429
Accumulated other comprehensive income (loss)	22,542	(48,715)
Retained earnings	1,376,244	1,421,302
Treasury stock, shares at cost: 40,419 and 28,892	(813)	(473)
Total Ambac Financial Group, Inc. stockholders' equity	1,621,974	1,591,997
Noncontrolling interest	43,914	41,150
Total stockholders' equity	1,665,888	1,633,147
Total liabilities and stockholders' equity	\$ 15,022,899	\$ 14,588,711
Number of shares outstanding (net of treasury shares)	45,520,541	45,336,278
Ambac Financial Group, Inc. book value per share	\$ 35.63	\$ 35.12

Key Quarterly Financial Data

(\$ in millions, except share data)	1Q 2019	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Summary GAAP Financial Data:					
Statement of Total Comprehensive Income (Loss):					
Net premiums earned	\$ 28	\$ 29	\$ 26	\$ 26	\$ 31
Net investment income	55	37	58	67	110
Income (loss) on variable interest entities (VIEs).....	16	—	2	1	1
Losses and loss expenses (benefit) ⁽¹⁾	12	(42)	34	33	(247)
Insurance intangible amortization	36	29	26	23	29
Operating expenses	25	21	28	26	36
Interest expense	68	66	66	62	48
Net income (loss)	(43)	(20)	(22)	4	306
Net income (loss) attributable to common stockholders.....	(43)	(20)	(104)	4	306
Net income (loss) per diluted share attributable to common stockholders.....	\$ (0.94)	\$ (0.45)	\$ (2.27)	\$ 0.09	\$ 6.70
Balance Sheets:					
Total non-VIE investments	\$ 4,041	\$ 3,937	\$ 4,279	\$ 4,387	\$ 4,697
Premium receivables	487	495	517	554	581
Insurance intangible asset	689	719	756	786	833
Subrogation recoverable	1,916	1,933	1,899	1,876	1,895
Unearned premiums	591	630	670	722	762
Loss and loss expense reserves	1,694	1,826	1,868	2,057	2,139
Long-term debt ⁽²⁾	2,929	2,929	2,938	2,796	2,958
Accrued interest payable.....	391	376	357	238	244
Ambac stockholders' equity	\$ 1,622	\$ 1,592	\$ 1,758	\$ 1,800	\$ 1,845
Non-GAAP Measurements:					
Adjusted earnings (loss)	\$ (9)	\$ 11	\$ (76)	\$ 36	\$ 330
Adjusted book value	\$ 1,253	\$ 1,251	\$ 1,292	\$ 1,398	\$ 1,431
Summary Statutory Data of Ambac Assurance:					
Invested assets.....	\$ 2,948	\$ 3,017	\$ 3,149	\$ 3,371	\$ 3,564
Loss and loss expense reserves ⁽³⁾	1,138	1,146	1,202	1,303	1,362
Policyholders' Surplus.....	1,084	1,152	1,121	1,282	1,307
Qualified statutory capital.....	1,601	1,648	1,607	1,758	1,775
Total claims-paying resources, including Ambac UK ⁽³⁾	\$ 5,695	\$ 5,793	\$ 5,887	\$ 6,215	\$ 6,438

- (1) Includes interest expense on Deferred Amounts of \$20.6 for the first quarter of 2018. On February 12, 2018, the rehabilitation of the Segregated Account was concluded and all Deferred Amounts, including accrued interest, were settled. Refer to Ambac's 2018 Form 10-K for further details. The first quarter of 2018 includes a benefit of \$288.2 related to the discount on the Rehabilitation Exit Transactions.
- (2) Long-term debt includes surplus notes issued and outstanding to third parties, notes issued under a secured borrowing transaction (which was fully repaid during the second quarter of 2018), and the Ambac Note and Tier 2 Notes issued on February 12, 2018 in connection with the Rehabilitation Exit Transactions. Long-term debt for all periods excludes the portion of long-term debt associated with VIEs consolidated as a result of Ambac's variable interest arising from the financial guarantees of its subsidiaries.
- (3) Loss and loss expense reserves and total claims-paying resources present loss and loss expense reserves before the recorded statutory benefit for expected subrogation receipts.

Key Yearly Financial Data

(\$ in millions, except share data)	YTD 2019	2018	2017	2016	2015
Summary GAAP Financial Data:					
Statement of Total Comprehensive Income:					
Net premiums earned	\$ 28	\$ 111	\$ 175	\$ 197	\$ 313
Net investment income	55	273	361	313	266
Income (loss) on variable interest entities (VIEs)	16	3	20	(14)	32
Losses and loss expenses (benefit) ⁽¹⁾	12	(224)	513	(11)	(769)
Insurance intangible amortization	36	107	151	175	170
Operating expenses	25	112	122	114	103
Interest expense	68	242	120	124	117
Goodwill impairment	—	—	—	—	515
Net income (loss)	(43)	267	(329)	74	493
Net income (loss) attributable to common stockholders	(43)	186	(329)	75	493
Net income (loss) per diluted share attributable to common stockholders	\$ (0.94)	\$ 3.99	\$ (7.25)	\$ 1.64	\$ 10.72
Balance Sheets:					
Total non-VIE investments	\$ 4,041	\$ 3,937	\$ 5,741	\$ 6,500	\$ 5,645
Premium receivables	487	495	586	661	832
Insurance intangible asset	689	719	847	962	1,212
Subrogation recoverable	1,916	1,933	631	685	1,229
Unearned premiums	591	630	783	967	1,280
Loss and loss expense reserves	1,694	1,826	4,745	4,381	4,088
Long-term debt ⁽²⁾	2,929	2,929	992	1,114	1,125
Accrued interest payable	391	376	437	422	356
Ambac stockholders' equity	\$ 1,622	\$ 1,592	\$ 1,381	\$ 1,714	\$ 1,685
Non-GAAP Measurements:					
Adjusted earnings (loss)	\$ (9)	\$ 301	\$ (165)	\$ 315	\$ 1,154
Adjusted book value	\$ 1,253	\$ 1,251	\$ 1,101	\$ 1,332	\$ 1,268
Summary Statutory Data of Ambac Assurance:					
Invested assets	\$ 2,948	\$ 3,017	\$ 5,427	\$ 5,415	\$ 4,783
Loss and loss expense reserves ⁽³⁾	1,138	1,146	5,253	4,838	5,105
Policyholders' Surplus	1,084	1,152	700	976	625
Qualified statutory capital	1,601	1,648	1,157	1,369	1,017
Total claims-paying resources, including Ambac UK ⁽³⁾	\$ 5,695	\$ 5,793	\$ 8,868	\$ 8,813	\$ 9,052

(1) Includes interest expense on Deferred Amounts of \$20.6, \$177.9, \$170.8, and \$161.9 for the years ended December 31, 2018, 2017, 2016 and 2015, respectively. On February 12, 2018, the rehabilitation of the Segregated Account was concluded and all Deferred Amounts, including accrued interest, were settled. 2018 includes a benefit of \$288.2 related to the discount on the Rehabilitation Exit Transactions. Refer to Ambac's 2018 Form 10-K for further details.

(2) Long-term debt includes surplus notes issued and outstanding to third parties, notes issued under a secured borrowing transaction (which was fully repaid during the second quarter of 2018), and the Ambac Note and Tier 2 Notes issued on February 12, 2018 in connection with the Rehabilitation Exit Transactions. Long-term debt for all years excludes the portion of long-term debt associated with VIEs consolidated as a result of Ambac's variable interest arising from the financial guarantees of its subsidiaries.

(3) Loss and loss expense reserves and total claims-paying resources present loss and loss expense reserves before the recorded statutory benefit for expected subrogation receipts.

Non-GAAP Financial Measures ⁽¹⁾
(\$ in millions, except share amounts)

	1Q2019		4Q2018		3Q2018		2Q2018		1Q2018	
	\$	P.D.S. ⁽²⁾	\$	P.D.S. ⁽²⁾	\$	P.D.S. ⁽²⁾	\$	P.D.S. ⁽²⁾	\$	P.D.S. ⁽²⁾
Adjusted Earnings (Loss):										
Net income (loss) attributable to common stockholders.....	\$ (43.2)	\$ (0.94)	\$ (20.5)	\$ (0.45)	\$ (103.8)	\$ (2.27)	\$ 4.3	\$ 0.09	\$ 305.7	\$ 6.70
Adjustments:										
Non-credit impairment fair value (gain) loss on credit derivatives.....	(0.4)	(0.01)	0.3	0.01	(0.2)	—	0.3	0.01	0.5	0.01
Insurance intangible amortization	36.3	0.79	29.0	0.63	26.4	0.58	23.2	0.50	28.6	0.63
Foreign exchange (gain) losses.....	(1.9)	(0.04)	2.0	0.05	1.6	0.03	8.6	0.18	(5.0)	(0.12)
Adjusted earnings (loss)	\$ (9.2)	\$ (0.20)	\$ 10.8	\$ 0.24	\$ (76.0)	\$ (1.66)	\$ 36.5	\$ 0.78	\$ 329.8	\$ 7.22
	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
	\$	P.S. ⁽²⁾	\$	P.S. ⁽²⁾	\$	P.S. ⁽²⁾	\$	P.S. ⁽²⁾	\$	P.S. ⁽²⁾
Adjusted Book Value:										
Total Ambac Financial Group, Inc. stockholders' equity.....	\$ 1,622.0	\$ 35.63	\$ 1,592.0	\$ 35.12	\$ 1,757.7	\$ 38.77	\$ 1,799.8	\$ 39.70	\$ 1,845.1	\$ 40.70
Adjustments:										
Non-credit impairment fair value losses on credit derivatives.....	1.1	0.02	1.5	0.03	1.2	0.03	1.3	0.03	1.0	0.02
Insurance intangible asset.....	(689.3)	(15.13)	(718.9)	(15.87)	(755.7)	(16.67)	(786.2)	(17.34)	(833.0)	(18.37)
Net unearned premiums and fees in excess of expected losses.....	460.9	10.12	461.9	10.19	503.2	11.10	536.7	11.84	570.9	12.59
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income	(142.1)	(3.12)	(85.9)	(1.89)	(214.4)	(4.73)	(153.6)	(3.39)	(153.1)	(3.38)
Adjusted book value	\$ 1,252.6	\$ 27.52	\$ 1,250.6	\$ 27.58	\$ 1,291.9	\$ 28.50	\$ 1,398.0	\$ 30.84	\$ 1,430.9	\$ 31.56

(1) In addition to reporting Ambac's financial results in accordance with GAAP, Ambac reports two non-GAAP financial measures: Adjusted Earnings and Adjusted Book Value. A non-GAAP financial measure is a numerical measure of financial performance or financial position that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. We are presenting these non-GAAP financial measures because they provide greater transparency and enhanced visibility into the underlying drivers of our business. Adjusted Earnings and Adjusted Book Value are not substitutes for Ambac's GAAP reporting, should not be viewed in isolation and may differ from similar reporting provided by other companies, which may define non-GAAP measures differently.

(2) Per diluted share ("P.D.S.") and per share outstanding at balance sheet date ("P.S.").

Ambac Assurance — Claims-Paying Resources ⁽¹⁾ and Statutory Financial Ratios

(\$ in thousands, except ratios)	March 31, 2019	December 31, 2018
Policyholders' surplus ⁽²⁾	\$ 1,083,663	\$ 1,152,346
Contingency reserve	517,095	495,659
Qualified statutory capital	1,600,758	1,648,005
Unearned premiums	236,154	279,562
Loss and loss adjustment expenses ⁽³⁾	1,137,652	1,146,153
Ambac Note ⁽⁴⁾	1,349,656	1,358,870
Tier 2 Notes	264,080	258,585
Present value of future installment premiums ⁽⁵⁾	197,961	203,503
Ambac Assurance claims-paying resources	4,786,261	4,894,678
Ambac UK claims-paying resources ⁽⁶⁾	908,246	898,271
Total claims-paying resources	<u>\$ 5,694,507</u>	<u>\$ 5,792,949</u>
 Net financial guarantees in force ⁽⁷⁾		
Ambac Assurance	\$ 51,410,812	\$ 59,856,911
Ambac UK	18,124,189	18,115,111
Total net financial guarantees in force	<u>\$ 69,535,001</u>	<u>\$ 77,972,022</u>
 Claims-paying ratio ⁽⁸⁾		
Ambac Assurance	11 : 1	12 : 1
Ambac UK	20 : 1	20 : 1
Total claims-paying ratio	<u>12 : 1</u>	<u>13 : 1</u>

(1) Total claims-paying resources quantifies total resources available to pay claims, including guarantees on subsidiary obligations.

(2) Surplus notes, including junior surplus notes, with an aggregate par value of \$939,547 and \$940,433 as of March 31, 2019 and December 31, 2018, respectively, are included in policyholders' surplus.

(3) Loss and loss expense reserves are presented before the recorded statutory benefit for expected subrogation receipts of \$2,283,733 (R&W subrogation receipts of \$1,742,230 and other subrogation receipts of \$541,503) and \$2,322,613 (R&W subrogation receipts of \$1,748,809 and other subrogation receipts of \$573,804) at March 31, 2019 and December 31, 2018, respectively.

(4) Ambac Note presented as principal and interest outstanding of \$1,927,550 and \$1,940,710, net of Secured Note principal and interest outstanding of \$577,894 and \$581,840 held by Ambac Assurance at March 31, 2019 and December 31, 2018, respectively.

(5) Present value of future installment premiums includes premiums on installment financial guarantee insurance contracts (excluding Ambac UK) and credit derivatives. Present value calculations are discounted at 5.1%.

(6) Ambac UK's claims paying resources will become available to Ambac Assurance to the extent Ambac UK receives approval from its regulator to dividend monies to Ambac Assurance. Components of Ambac UK's claims paying resources are discounted at Ambac UK's projected investment rate of return. Ambac UK's claims-paying resources includes the present value of future installment premiums of approximately \$263,158 at March 31, 2019.

(7) Financial guarantees in force represents the amount of principal and interest outstanding on a guaranteed obligation.

(8) Claims-paying ratio is net financial guarantees in force divided by claims-paying resources.

Ambac Assurance — Rollforward of Statutory Policyholders' Surplus

(\$ in thousands)	Three months ended March 31, 2019	Year Ended December 31, 2018
Policyholders' Surplus, beginning of period	\$ 1,152,346	\$ 699,614
Net income (loss)	(63,238)	57,012
Surplus notes re-classified from liability ⁽¹⁾	—	361,050
Change in contingency reserves.....	(21,437)	(39,493)
Change in investments ⁽²⁾	17,557	70,375
Other changes in surplus	(1,565)	3,788
Policyholders' Surplus, end of period	\$ 1,083,663	\$ 1,152,346

- (1) As a result of the Rehabilitation Exit Transactions on February 12, 2018, surplus notes are no longer treated pari passu with payments on insurance obligations and accordingly were reclassified to Surplus as regards to policyholders. Refer to Ambac's 2018 Form 10-K for further details.
- (2) Includes non-income statement changes in investments such as changes in valuation of investments carried at fair value, changes in deferred gains from sales of investments to subsidiaries and changes in Ambac Assurance's investment in subsidiaries, excluding dividends.

Ratio of Net Claims Recorded

(\$ in thousands)	Three months ended	Year Ended December 31,			
	March 31, 2019	2018	2017	2016	2015
Claims recorded ⁽¹⁾	\$ 122,635	\$ 383,488	\$ 343,673	\$ 391,887	\$ 367,860
Subrogation received ⁽²⁾	(68,280)	(140,131)	(244,004)	(1,355,360)	(308,369)
Net claims recorded.....	\$ 54,355	\$ 243,357	\$ 99,669	\$ (963,473)	\$ 59,491
Net insurance premiums earned and credit derivative fees.....	\$ 27,849	\$ 111,477	\$ 176,866	\$ 198,199	\$ 315,380
Ratio of net claims recorded ⁽³⁾	195.2%	218.3%	56.4%	(486.1)%	18.9%

- (1) Claims recorded include (i) claims paid, including commutation payments and (ii) changes in claims not yet paid for policies allocated to the Segregated Account (which was merged back into the General Account of Ambac Assurance on February 12, 2018), including Deferred Amounts and changes in unrepresented claims. Item (ii) includes permitted policy claims for policies allocated to the Segregated Account that were presented and approved by the Rehabilitator of the Segregated Account, but not paid through to the balance sheet date in accordance with the amended Segregated Account Rehabilitation Plan and associated rules and guidelines. Claims recorded exclude interest accrued on Deferred Amounts.

On February 12, 2018, the rehabilitation of the Segregated Account was concluded and all Deferred Amounts, including accrued interest, were settled. Refer to Ambac's 2018 Form 10-K for further details. Subsequent to the Rehabilitation Exit Transactions, claims are being paid in full.

- (2) Included in the year ended December 31, 2017, is \$49.7 million (\$49.8 million gross of reinsurance) related to a reimbursement of claims due to a mortgage insurance settlement. Included in the year ended December 31, 2016, is \$992.8 million (\$995 million gross of reinsurance) received from the settlement of representation and warranty related litigation with JP Morgan and \$99.1 million (\$100.3 million gross of reinsurance) related to the Countrywide Investor Settlement.
- (3) Ratio of net claims recorded is Net claims recorded divided by net premiums earned and fees on credit derivative contracts.

Summary of Net Insurance Loss Reserves (GAAP) and Credit Derivative Impairments

(\$ in thousands)	Three months ended			December 31,	
	March 31, 2019	2018	2017	2016	2015
Total insurance reserves, net of reinsurance ⁽¹⁾	\$ (248,192)	\$ (129,505)	\$ 4,073,144	\$ 3,665,271	\$ 2,814,754
Estimated credit impairment losses on credit derivatives ⁽²⁾	—	—	—	3,910	15,560
Total impairment losses ⁽³⁾⁽⁴⁾	(248,192)	(129,505)	4,073,144	3,669,181	2,830,314
Mark-to-market reserve on credit derivatives ⁽²⁾	1,077	1,459	566	11,439	18,983
Grand total net insurance loss reserves and credit derivatives	\$ (247,115)	\$ (128,046)	\$ 4,073,710	\$ 3,680,620	\$ 2,849,297

Summary of Insured Exposures With Impairment Losses

(\$ in thousands)	Total Net Par Outstanding	Total Impairment Losses ⁽³⁾⁽⁴⁾
Public Finance:		
Lease & tax backed	\$ 1,209,912	\$ 455,366
General obligation	704,196	18,937
Housing	344,169	23,945
Transportation revenue	63,510	40,711
Other	193,620	13,419
Total Public Finance	2,515,407	552,378
Structured Finance:		
Mortgage-backed & home equity	3,542,626	(1,265,509)
Student loans	424,064	203,178
Other	1,072,279	256,104
Total Structured Finance	5,038,969	(806,227)
International Finance:		
Total	\$ 7,609,189	\$ (248,192)

- (1) As of December 31, 2017, 2016, and 2015, \$3,866,766, \$3,655,989, and \$3,458,771 of claims were unpaid, respectively, including \$839,743, \$661,842, and \$491,017 of interest accrued on Deferred Amounts, respectively. Total insurance reserves are inclusive of these unpaid claims. On February 12, 2018, the rehabilitation of the Segregated Account was concluded and all Deferred Amounts, including accrued interest, were settled. Refer to Ambac's 2018 Form 10-K for further details.
- (2) Total net mark-to-market losses are \$1,077, \$1,459, \$566, \$15,349, and \$34,543, as of March 31, 2019 and December 31, 2018, 2017, 2016 and 2015, respectively, and are reported on the consolidated balance sheet under derivative liabilities.
- (3) Total estimated impairment losses includes insurance loss and loss expense reserves, net of estimated representation and warranty subrogation recoverables of \$1,739,836 (\$1,766,022 gross of reinsurance) as of March 31, 2019.
- (4) Total estimated impairment losses includes loss and loss expenses relating to insurance policies issued by Ambac UK of \$256,730 as of March 31, 2019.

Net Insurance Premiums Earned and Fees on Credit Derivatives (GAAP)

(\$ in thousands)	1Q	2Q	3Q	4Q	Year-to Date
2019					
Public Finance	\$ 7,594	\$ —	\$ —	\$ —	\$ 7,594
Structured Finance	2,870	—	—	—	2,870
International Finance	5,071	—	—	—	5,071
Total Normal Insurance Premiums Earned	15,535	—	—	—	15,535
Accelerated Premiums Earned	12,223	—	—	—	12,223
Total Premiums Earned	\$ 27,758	\$ —	\$ —	\$ —	\$ 27,758
Fees on credit derivative contracts	\$ 91	\$ —	\$ —	\$ —	\$ 91

(\$ in thousands)	1Q	2Q	3Q	4Q	Full Year
2018					
Public Finance	\$ 10,013	\$ 9,711	\$ 9,177	\$ 7,982	\$ 36,883
Structured Finance	5,233	4,162	4,196	3,396	16,987
International Finance	6,245	5,860	5,516	5,116	22,737
Total Normal Insurance Premiums Earned	21,491	19,733	18,889	16,494	76,607
Accelerated Premiums Earned	9,392	6,103	6,751	12,236	34,482
Total Premiums Earned	\$ 30,883	\$ 25,836	\$ 25,640	\$ 28,730	\$ 111,089
Fees on credit derivative contracts	\$ 106	\$ 91	\$ 99	\$ 92	\$ 388

Net Unearned Premium Amortization and Estimated Future Installment Premiums

(\$ in millions)	Net Unearned Premium Amortization (GAAP) ⁽¹⁾	Estimated Net Future Installments ⁽²⁾	Consolidated VIE ⁽³⁾
2019 (Nine Months)	\$ 36.1	\$ 34.8	\$ 9.2
2020	46.8	47.3	11.4
2021	42.5	35.7	10.9
2022	39.8	33.7	10.4
2023	37.1	32.0	9.9
2024	34.8	30.2	9.3
2019 (Nine Months)	\$ 36.1	\$ 34.8	\$ 9.2
2020-2024	201.0	178.9	51.9
2025-2029	141.5	132.4	37.0
2030-2034	92.5	98.2	23.5
2035-2039	40.4	46.3	3.7
After 2039	21.0	28.6	—
Total	\$ 532.5	\$ 519.2	\$ 125.3

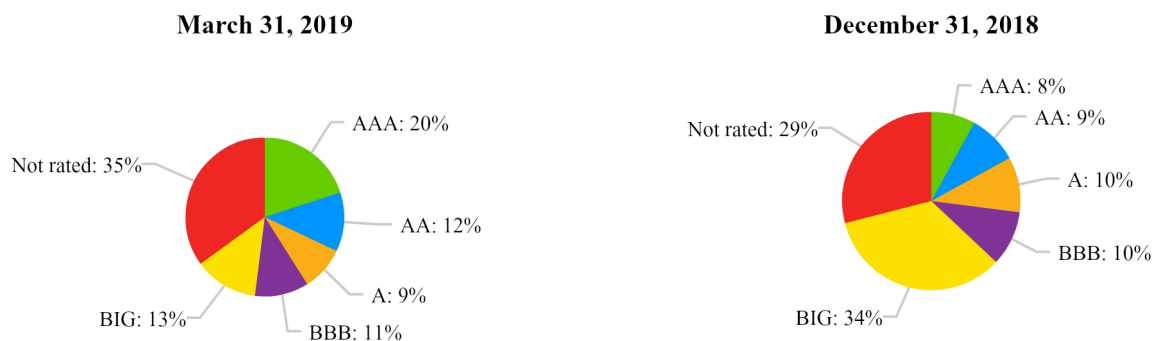
- Represents unearned premium amounts for both upfront and installment paying policies, net of deferred ceded premiums, which is reported separately as an asset on Ambac's Consolidated Balance Sheet. Depicts amortization of existing guaranteed portfolio, assuming no advance refunding as of March 31, 2019. Actual future installments may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. The unearned premium amortization disclosed in the above table considers the use of contractual lives for many bond types that do not have homogeneous pools of underlying collateral, which may result in different unearned premium than if expected lives were considered. Therefore, if installment paying policies are retired early, premium earnings may be negative in the period of call or refinancing.
- Represents management's undiscounted estimate of fees on credit derivative contracts and future installment premium collections, net of reinsurance. Actual premium collections may differ from estimated because borrowers may have the right to call or terminate a transaction or the guaranteed obligation may be subject to prepayment. Estimated net future installments exclude amounts eliminated as a result of consolidating variable interest entities ("Consolidated VIE") as required under the Consolidations Accounting Standard.
- Estimated net future installment amounts eliminated under the U.S. GAAP Consolidations Accounting Standard; not included in Estimated Net Future Installments.

Investment Portfolio

As of March 31, 2019

INCOME ANALYSIS BY TYPE OF SECURITY Investment category (\$ in thousands)	U.S. GAAP Carrying Value	U. S. GAAP Book Value	Pre-tax Yield to Maturity ⁽¹⁾
Ambac Assurance and Subsidiaries:			
Long-term investments			
U.S. government and agency obligation	\$ 56,641	\$ 56,826	1.42 %
Municipal obligations	286,228	276,078	5.29 %
Corporate obligations ⁽²⁾	1,158,491	1,150,331	5.48 %
Ambac insured residential mortgage-backed securities	252,699	213,493	9.96 %
Ambac insured non-RMBS	170,463	156,381	6.35 %
Mortgage and asset-backed securities	393,023	374,288	6.23 %
Other ⁽¹⁾	53,135	53,135	6.01 %
Total long-term investments	2,370,680	2,280,532	5.97 %
Short-term investments	643,556	643,551	2.53 %
Total Ambac Assurance and Subsidiaries investments excluding Ambac UK	3,014,236	2,924,083	5.21 %
Ambac UK:			
U.S. government and agency obligations	43,788	42,982	2.70 %
Corporate obligations	70,835	69,091	4.08 %
Foreign obligations	31,292	30,719	1.12 %
Ambac insured non-RMBS	144,530	98,480	15.17 %
Mortgage and asset-backed securities	198	214	2.85 %
Other investments ⁽¹⁾	333,910	333,910	4.66 %
Total long-term investments	624,553	575,396	6.69 %
Short-term investments	57,733	57,734	2.06 %
Total Ambac UK investments	682,286	633,130	6.10 %
Total Ambac Assurance and Subsidiaries investments	3,696,522	3,557,213	5.33 %
Total AFG investments	343,981	343,985	
Total Investments	\$ 4,040,503	\$ 3,901,198	

Ratings Distribution of the Fixed Income Investment Portfolio of Ambac Assurance and Subsidiaries ^{(3) (4)}



Duration of investment portfolio ⁽³⁾ 3.88

- (1) Yield to maturity refers to the rate of interest to be earned over the remaining life of the fixed-income investments based on book value. Yield to maturity on equity interests in pooled funds included in Other investments is based on the market value of the investments within the fund. For mortgage and other asset-backed securities remaining life is calculated using estimated future cash flows. For floating rate positions, yield to maturity is based on the current interest rate and not forward rates. Yield to maturity includes only those holdings of pooled funds that invest in fixed income instruments. Ambac UK pooled fund investments in property, equities, insurance-linked securities and illiquid credit products with a combined carrying value of \$179,341 are not included in the pre-tax yield.
- (2) Includes secured notes with a carrying value of \$583,550 and book value of \$577,772 that were issued by Ambac LSNI, an unconsolidated special purpose entity, in connection with the Rehabilitation Exit Transactions.
- (3) BIG and not rated securities include Ambac insured bonds that Ambac Assurance or Ambac UK has internally rated BIG and Ambac Assurance holdings of the secured notes issued by Ambac LSNI in connection with the Rehabilitation Exit Transactions. These securities represent 39% and 60% of the consolidated fair value of the fixed income investment portfolio at March 31, 2019 and December 31, 2018, respectively, and are excluded from the company's measure of duration.
- (4) Ratings are based on the lower of Moody's or S&P ratings. If ratings are unavailable from Moody's or S&P, Fitch ratings are used. If guaranteed, rating represents the higher of the underlying or wrapped rating. Rating distribution is calculated based on fair value.

Expenses Analysis (GAAP)

(\$ in thousands)	1Q	2Q	3Q	4Q	Year-to Date
2019:					
Compensation					
Salaries.....	\$ 6,097	\$ —	\$ —	\$ —	\$ 6,097
Incentive Compensation ⁽¹⁾	6,266	—	—	—	6,266
Other ⁽²⁾	2,127	—	—	—	2,127
Total Compensation	14,490	—	—	—	14,490
Non-Compensation					
Legal, Consulting & Advisory Services.....	5,179	—	—	—	5,179
Premises.....	1,058	—	—	—	1,058
Audit.....	797	—	—	—	797
Subscriptions & Data Access.....	568	—	—	—	568
Regulator Advisory Costs.....	487	—	—	—	487
Other.....	2,253	—	—	—	2,253
Total Non-Compensation	10,342	—	—	—	10,342
Total Gross Operating Expenses	24,832	—	—	—	24,832
Ceding Commissions.....	83	—	—	—	83
Total Operating Expenses	\$ 24,915	\$ —	\$ —	\$ —	\$ 24,915
2018:					
Compensation					
Salaries.....	\$ 6,498	\$ 6,422	\$ 6,508	\$ 6,185	\$ 25,613
Incentive Compensation ⁽¹⁾	6,575	6,620	5,246	4,084	22,525
Restructuring.....	859	—	—	—	859
Other ⁽²⁾	1,838	1,258	1,810	1,187	6,093
Total Compensation	15,770	14,300	13,564	11,456	55,090
Non-Compensation					
Legal, Consulting & Advisory Services ⁽³⁾	2,887	5,401	9,785	4,919	22,992
Premises.....	797	647	652	686	2,782
Audit.....	833	734	668	720	2,955
Subscriptions & Data Access.....	728	636	708	703	2,775
Regulator Advisory Costs.....	4,451	1,329	526	540	6,846
Restructuring.....	8,390	504	239	23	9,156
Other.....	2,412	2,473	1,719	2,115	8,719
Total Non-Compensation	20,498	11,724	14,297	9,706	56,225
Total Gross Operating Expenses	36,268	26,024	27,861	21,162	111,315
Ceding Commissions.....	166	39	507	177	889
Total Operating Expenses	\$ 36,434	\$ 26,063	\$ 28,368	\$ 21,339	\$ 112,204

(1) Incentive compensation includes short-term and long-term incentive awards, including both cash and equity based awards

(2) Other compensation includes severance, payroll taxes, medical and other benefits

(3) Includes \$2,504 and \$5,850 of expenses in the three months ended June 30, 2018 and September 30, 2018, respectively, in connection with the AMPS Exchange. Refer to Ambac's 2018 Form 10-K for further details.

Historical Net Financial Guarantee Exposures Outstanding ^{(1) (2)}

(\$ in millions net par value)	March 31,		December 31,	
	2019	2018	2017	2016
Public Finance ⁽³⁾:				
Lease and tax-backed revenue	\$ 6,736	\$ 7,565	\$ 11,893	\$ 15,688
Housing revenue	6,103	6,159	6,312	6,508
General obligation	4,065	4,214	6,257	9,867
Transportation revenue	1,295	1,754	2,002	3,860
Higher education	993	1,168	1,642	2,339
Utility revenue	975	1,178	2,212	4,298
Health care revenue	453	459	807	1,484
Other	932	945	963	1,018
Total Public Finance	21,552	23,442	32,088	45,062
Structured Finance:				
Mortgage-backed and home equity	5,250	5,510	7,267	9,383
Investor-owned utilities	1,722	1,754	3,274	3,833
Structured Insurance	1,343	1,365	1,420	1,473
Student loan	896	934	1,238	1,388
Asset-backed and other	266	384	617	874
Total Structured Finance	9,477	9,947	13,816	16,951
International Finance ⁽⁴⁾:				
Sovereign/sub-sovereign	5,243	5,250	5,664	5,211
Investor-owned and public utilities	4,586	4,499	5,696	6,168
Transportation	1,588	1,613	1,777	1,700
Asset-backed and other	2,027	2,176	3,675	4,254
Total International Finance	13,444	13,538	16,812	17,333
Total	\$ 44,473	\$ 46,927	\$ 62,716	\$ 79,346
Percent of Total Net Par Outstanding				
Public Finance	48.5%	50.0%	51.2%	56.8%
Structured Finance	21.3%	21.2%	22.0%	21.4%
International Finance	30.2%	28.8%	26.8%	21.8%
Total Net Par Outstanding	100.0%	100.0%	100.0%	100.0%

(1) Includes structured credit derivative net par outstanding of \$283, \$295, \$326 and \$737 at March 31, 2019, and December 31, 2018, 2017 and 2016, respectively.

(2) Includes net par exposures insured by Ambac UK of \$13,258, \$13,193, \$15,881 and \$15,082 at March 31, 2019, and December 31, 2018, 2017 and 2016, respectively.

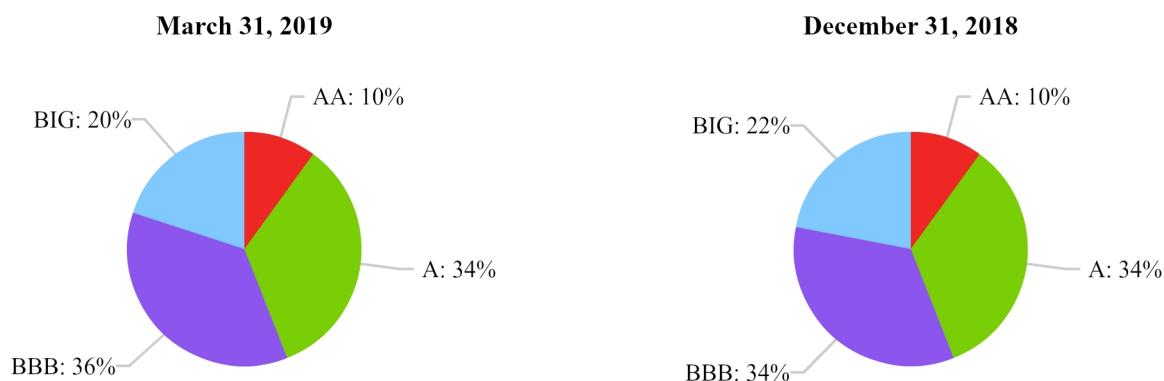
(3) Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy as opposed to the current accreted value of the bonds.

(4) International transactions include components of domestic exposure.

Geographic Distribution of Net Financial Guarantee Exposures Outstanding

(\$ millions net par value)	March 31,		December 31,		
	2019	%	2018	2017	2016
Domestic:					
California.....	\$ 3,548	8.0 %	\$ 3,719	\$ 6,351	\$ 10,301
New York.....	2,459	5.5 %	2,577	3,658	4,270
Colorado.....	2,424	5.5 %	2,430	2,537	2,701
New Jersey.....	2,038	4.6 %	2,051	3,237	3,699
Texas.....	1,518	3.4 %	1,543	1,890	2,609
Puerto Rico.....	1,260	2.8 %	1,880	1,968	2,058
Pennsylvania.....	1,152	2.6 %	1,157	1,316	1,769
Illinois.....	1,079	2.4 %	1,174	1,668	2,423
Florida.....	918	2.1 %	1,161	1,992	2,806
Washington.....	870	2.0 %	879	1,186	1,430
Mortgage and asset-backed ⁽¹⁾	5,375	12.1 %	5,747	7,710	9,948
Other domestic.....	8,388	18.9 %	9,071	12,391	17,999
Total Domestic	31,029	69.8 %	33,389	45,904	62,013
International:					
United Kingdom.....	11,070	24.9 %	10,965	13,554	12,798
Italy.....	793	1.8 %	811	877	898
Austria.....	697	1.6 %	712	770	696
Australia.....	387	0.9 %	384	608	1,393
France.....	303	0.7 %	312	329	286
Internationally diversified ⁽²⁾	55	0.1 %	213	368	648
Other international.....	139	0.3 %	141	306	614
Total International Finance	13,444	30.2 %	13,538	16,812	17,333
Total	\$ 44,473	100.0 %	\$ 46,927	\$ 62,716	\$ 79,346

Rating Distribution of Net Financial Guarantee Exposures Outstanding ^{(3) (4)}



(1) Mortgage and asset-backed obligations includes guarantees with multiple locations of risk within the United States and is primarily comprised of residential mortgage-backed securitizations.

(2) Internationally diversified may include components of U.S. exposure.

(3) Based upon internal Ambac ratings. See Note 1 on the Table of Contents page.

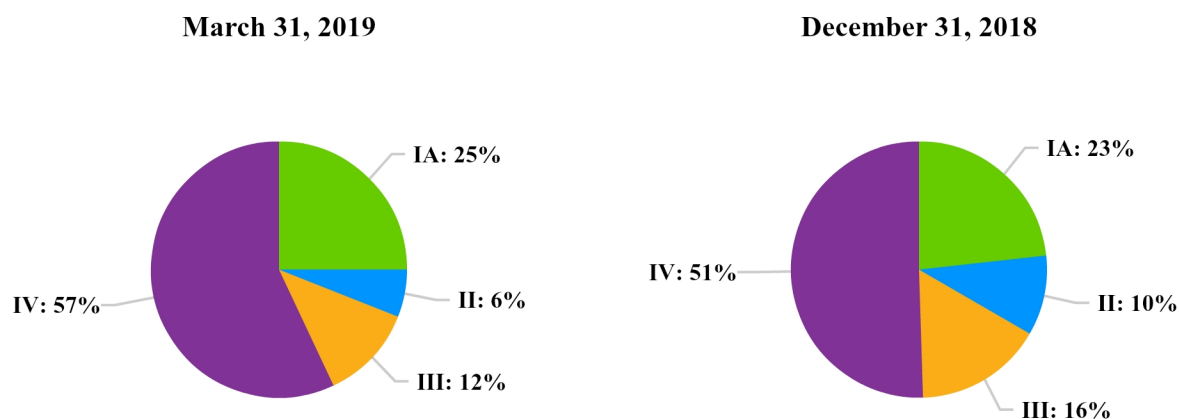
(4) AAA is less than 1% in both periods.

Adversely Classified Credit Exposures Outstanding ⁽¹⁾⁽²⁾
As of March 31, 2019

(\$ in millions)	Market Type	Net Par Outstanding	% of Total Net Par Outstanding
RMBS Exposures	Structured Finance	\$ 4,005	9.0 %
Puerto Rico & Related Issuers	Public Finance	1,260	2.8 %
Ballantyne Re Plc ⁽³⁾	Structured Finance	900	2.0 %
Posillipo Finance II S.r.l ⁽³⁾	International Finance	737	1.7 %
Ostregion Investmentgesellschaft NR 1 SA ⁽³⁾⁽⁴⁾	International Finance	697	1.6 %
Student Loans Exposures	Structured Finance	633	1.4 %
Military Housing	Public Finance	564	1.3 %
Trinity Rail Leasing V L.P. 2006-1A Notes	Structured Finance	100	0.2 %
Chicago, IL Board of Education GO	Public Finance	91	0.2 %
Bridgeview, IL	Public Finance	66	0.1 %
Other		477	1.1 %
Total		\$ 9,530	21.4%

- (1) Adversely classified credits are assigned a rating of Class IA through Class V. Refer to Ambac's 2018 Form 10-K for descriptions of credit classifications.
- (2) Net Par includes capital appreciation bonds, which are reported at the par amount at the time of issuance of the insurance policy as opposed to the current accreted value of the bonds.
- (3) Guaranteed by Ambac UK.
- (4) Ambac Assurance has issued an insurance policy for a portion of this transaction that will only pay in the event that Ambac UK does not pay under its insurance policy.

Adversely Classified Distribution of Exposures Outstanding ⁽¹⁾



- (1) Credit Class V is less than 1% in both periods.

25 Largest Domestic Public Finance Exposures Outstanding ⁽¹⁾

As of March 31, 2019

(\$ in millions)	Ambac Rating ⁽²⁾	Net Par Outstanding	% of Total Net Par Outstanding
New Jersey Transportation Trust Fund Authority - Transportation System.....	BBB+	\$ 783	1.8 %
Massachusetts Commonwealth - GO	AA	586	1.3 %
Mets Queens Baseball Stadium Project, NY, Lease Revenue.....	BBB	549	1.2 %
Hickam Community Housing LLC	BBB	468	1.1 %
Bragg Communities, LLC	A-	420	0.9 %
Puerto Rico Highways & Transportation Authority, Transportation Revenue.....	BIG	414	0.9 %
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue	BIG	403	0.9 %
New Jersey Economic Development Authority - School Facilities Construction	BBB+	400	0.9 %
Monterey Bay, CA - Military Housing.....	BBB+	327	0.7 %
Fort Bliss/White Sand Missile Range Housing LP	BBB+	309	0.7 %
Northeast Housing LLC	BBB-	302	0.7 %
Hampton Roads PPV, LLC.....	A	284	0.6 %
Meade Communities, LLC.....	A	283	0.6 %
BLB Privatized Housing, LLC.....	A-	267	0.6 %
Riley Communities LLC	A-	266	0.6 %
Stewart Hunter Housing, GA	BBB	252	0.6 %
Delaware Valley Regional Finance Authority - Local Government Pool	A	250	0.6 %
AETC Housing LP	BBB	220	0.5 %
Fort Campbell Family Housing LLC	A+	218	0.5 %
Oregon School Boards	AA-	215	0.5 %
NYS Thruway Highways and Bridges	AA-	209	0.5 %
Fort Lewis Communities LLC WA	AA-	208	0.5 %
New Jersey Turnpike Authority, Turnpike Revenue	A	204	0.5 %
AMC West Housing LP.....	AA-	199	0.4 %
Chicago, IL - GO.....	BBB-	194	0.4 %
Total		\$ 8,230	18.5%

(1) Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy as opposed to the current accreted value of the bonds.

(2) See Note 1 on the Table of Contents page.

25 Largest Structured Finance Exposures Outstanding

As of March 31, 2019

(\$ in millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Ballantyne Re Plc ⁽²⁾	BIG	\$ 900	2.0 %
Timberlake Financial, LLC	BBB	458	1.0 %
Progress Energy Carolinas, Inc.	A-	450	1.0 %
Wachovia Asset Securitization Issuance II, LLC 2007-HE2	BBB	440	1.0 %
Wachovia Asset Securitization Issuance II, LLC 2007-HE1	BBB	304	0.7 %
Option One Mortgage Loan Trust 2007-FXD1	BIG	231	0.5 %
Terwin Mortgage Trust Asset-Backed Certificates, Series 2006-6	BIG	212	0.5 %
Impac CMB Trust Series 2005-7	BIG	197	0.4 %
Countrywide Asset-Backed Certificates Trust 2005-16	BIG	192	0.4 %
Ownit Mortgage Trust 2006-OT1	BIG	182	0.4 %
Basin Electric Power Cooperative	A-	169	0.4 %
Countrywide Asset Backed Certificates Trust 2005-17	BIG	168	0.4 %
Countrywide Asset Backed Certificates Trust 2006-11	BIG	151	0.3 %
The National Collegiate Student Loan Trust 2007-4	BIG	144	0.3 %
Capco - Excess SIPC Excess of Loss Reinsurance II	BBB	137	0.3 %
Duke Energy Ohio, Inc.	BBB+	131	0.3 %
The National Collegiate Student Loan Trust 2005-3	BIG	119	0.3 %
Terwin Mortgage Trust Asset-Backed Certificates, Series 2006-4	BIG	116	0.3 %
Trinity Rail Leasing V L.P. 2006-1A Notes	BBB-	100	0.2 %
Chevy Chase Funding Mortgage-Backed Certificates, Series 2007-2	BIG	99	0.2 %
Impac CMB Trust Series 2005-6	BIG	99	0.2 %
Countrywide Asset Backed Certificates Trust 2006-13	BIG	98	0.2 %
National Collegiate Student Loan Trust 2006-2	BIG	98	0.2 %
Privately Placed RMBS Transaction	BIG	96	0.2 %
AEP Texas Central	BBB	93	0.2 %
Total		\$ 5,384	12.1 %

(1) See Note 1 on the Table of Contents page.

(2) Guaranteed by Ambac UK.

25 Largest International Finance Exposures Outstanding

As of March 31, 2019

(\$ in millions)	Ambac Rating ⁽¹⁾	Net Par Outstanding	% of Total Net Par Outstanding
Mitchells & Butlers Finance plc-UK Pub Securitisation ⁽²⁾	A+	\$ 1,340	3.0%
Capital Hospitals plc ⁽²⁾⁽³⁾	A-	876	2.0%
Aspire Defence Finance plc ⁽²⁾	BBB+	861	1.9%
Anglian Water ⁽²⁾	A-	788	1.8%
Posillipo Finance II S.r.l ⁽²⁾	BBB-	737	1.7%
National Grid Gas ⁽²⁾	A-	728	1.6%
Ostregion Investmentgesellschaft NR 1 SA ⁽²⁾⁽³⁾	BIG	697	1.6%
RMPA Services plc ⁽²⁾	BBB+	573	1.3%
Catalyst Healthcare (Manchester) Financing plc ⁽²⁾⁽³⁾	BBB-	525	1.2%
National Grid Electricity Transmission ⁽²⁾	A-	490	1.1%
South East Water (Finance) Limited ⁽²⁾	BBB	476	1.1%
Scottish Power UK plc ⁽²⁾	BBB+	390	0.9%
Northern Powergrid (Yorkshire) plc ⁽²⁾	BBB+	358	0.8%
Scotia Gas Networks (Scotland Gas) ⁽²⁾	BBB+	293	0.7%
FCC Surf	AA	280	0.6%
Scotia Gas Networks (Southern Gas) ⁽²⁾	BBB+	280	0.6%
Road Management Services (Finance) plc ⁽²⁾⁽³⁾	BBB+	273	0.6%
Annes Gate Property plc ⁽²⁾	BBB+	260	0.6%
Northern Powergrid Holdco ⁽²⁾	BBB+	260	0.6%
Arsenal Securities plc ⁽²⁾	BBB-	225	0.5%
BY Chelmer plc ⁽²⁾	A-	221	0.5%
Sydney Airport	BBB	198	0.4%
Dudley Summit plc ⁽²⁾⁽³⁾	BBB	195	0.4%
Northern Powergrid (North East) ⁽²⁾	BBB+	195	0.4%
Powercor Australia	A-	189	0.4%
Total		\$ 11,708	26.3%

(1) See Note 1 on the Table of Contents page.

(2) All or a portion of transaction guaranteed by Ambac UK.

(3) Ambac Assurance has issued an insurance policy for a portion of this transaction that will only pay in the event that Ambac UK does not pay under its insurance policy.

Net Exposure Amortization ⁽¹⁾
As of March 31, 2019

(\$ in millions)	Estimated Net Debt Service Amortization	Total Ending Net Financial Guarantees in Force
2019 (Nine months).....	\$ 3,995	\$ 65,540
2020.....	4,916	60,624
2021.....	4,554	56,070
2022.....	4,412	51,658
2023.....	3,352	48,306
2024.....	3,838	44,468
2019 (Nine months).....	\$ 3,995	\$ 65,540
2020-2024.....	21,072	44,468
2025-2029.....	15,224	29,244
2030-2034.....	10,483	18,761
2035-2039.....	12,037	6,724
After 2039.....	6,724	—
Total	\$ 69,535	

(1) Depicts amortization of existing guaranteed portfolio (principal and interest), assuming no advance refundings, as of March 31, 2019. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay guaranteed obligations.