

Solvency and Financial Condition Report

Ambac Assurance UK Limited

31 December 2019

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1 Executive Summary

Ambac Assurance UK Limited ("**AUK**" or "**the Company**") presents its Solvency and Financial Condition Report ("**SFCR**") for the year ended 31 December 2019.

The main purpose of the SFCR is for AUK to communicate to policyholders and other stakeholders, its performance over the past year, the governance processes in place, its key risks, the valuation of its assets and technical provisions and the nature of its capital resources and capital requirements.

There has been no change to AUK's business over the year ended 31 December 2019 and AUK's priority continues to be the continuing run-off of its portfolio of policies over the period to the scheduled maturity of its final policy in 2047.

The SFCR follows the guidance of the Prudential Regulatory Authority ("**PRA**") and that of European Insurance and Occupational Pensions Authority's ("**EIOPA**") Guidelines "Final Report on public consultation No. 14/047 on Guidelines on reporting and public disclosure". It has been reviewed by the Executive Management Group ("**EMG**") of AUK, and presented to the Audit and Risk Committee ("**ARC**") for review before presentation for approval by the Board. The information has been prepared based on the Financial Statements of AUK as at 31 December 2019 and technical provision data as at that date. In line with the PRA Policy Statement 25/18 (Solvency II: External audit of the public disclosure requirement) the SFCR has not been subject to external audit as AUK meets the requirements set out in PS 25/18 of a small firm for external audit purposes.

AUK has for a number of years had a capital shortfall as compared to its capital requirements. The capital deficit as compared to SCR improved significantly during 2019 and is expected to improve further year on year, as policies expire and investments increase. AUK's capital met MCR for the first time during 2019.

The key driver of the improvement in AUK's eligible own funds over 2019 was the significant decrease in other technical provisions over the year as a result of the restructuring and commutation in June 2019 of one of AUK's financial guarantee obligations, Ballantyne Re Plc ("**Ballantyne**"). The restructuring also led to a reduction in SCR due to the reduction in market risk and non-life risk following the commutation of the policy.

In April 2019 Ballantyne commenced, under Irish law, a restructuring transaction ("**Restructuring**") in respect of its obligations under its Class A-1 Notes, Class A-2a Notes, Class A-2b Notes, Class A-3a Notes, Class A-3b Notes, Class A-3c Notes and Class A-3d Notes. The Class A-2a Notes, the Class A-3a Notes, the Class A-3b Notes, the Class A-3c Notes and the Class A-3d Notes which had an aggregate par outstanding of \$900 million benefited from a guarantee from the Company ("**Ballantyne Guaranteed Notes**").

The Restructuring was implemented through an Irish scheme of arrangement (the "**Arrangement**") under Part 9 of the Irish Companies Act 2014 which required the consent of the requisite majorities of the relevant Class A Noteholders at each Arrangement meeting. The Arrangement was approved on June 17, 2019 and the Restructuring was implemented on the terms proposed.

The key features of the Restructuring were as follows:

- the novation of the indemnity reinsurance agreement between Ballantyne and Security Life of Denver Insurance Company dated November 19, 2008 (as amended) to Swiss Re Life and Health America Inc. (the "**Novation**");
- the disbursement of the residual assets from Ballantyne's reinsurance trust account to effectuate the Novation and make payment to the holders of Scheme Notes in full and final satisfaction of their claims against Ballantyne; and

- the commutation of the obligations of the Company in respect of the Ballantyne Guaranteed Notes.

With the successful implementation of the Restructuring, the Company has ceased to have any exposure with respect to the obligations of Ballantyne. The Restructuring has both increased Net Assets and Available Own Funds over the year and decreased SCR resulting in a significant reduction in the capital deficit over the year as shown below.

Table 1: Regulatory Capital Adequacy

GBP m's	Dec 2019	Dec 2018
Net Assets and Available Own Funds	187.5	94.9
Total Eligible funds to meet SCR	178.0	90.4
Solvency Capital Requirement	207.5	356.8
Capital (Deficit) for SCR	(29.5)	(266.4)

Total Available and Eligible funds to meet MCR	146.9	60.2
Minimum Capital Requirement	51.9	89.2
Capital Surplus/(Deficit) for MCR	95.0	(29.0)

AUK is unlikely to be able to remediate any capital shortfall through additional capital issuance given that both AUK and its parent Ambac Assurance Corporation (“AAC”) are in run-off and AAC remains under enhanced regulatory supervision by its regulator. There is, therefore, no expectation of any injection of additional capital from AAC.

It should be noted, that regardless of this capital shortfall AUK has sufficient resources to meet its obligations as they fall due, and is therefore both a going concern and solvent on a balance sheet and cashflow basis.

Coronavirus COVID-19

In light of the Coronavirus COVID-19 outbreak globally during the first quarter of 2020 AUK has undertaken detailed analysis of the potential impacts upon its insured obligations, balance sheet asset valuations and general financial stability. AUK has also adopted wide-ranging operational changes to protect staff wellbeing.

With regard to the insured portfolio, whilst there are some credits where the economic environment created by Coronavirus may give rise to elevated credit concerns (primarily those deals where the revenue of the issuer is demand dependent or where the issuer is already below investment grade), the underlying strong liquidity of those issuers means AUK does not believe that any specific unexpired risk provisions are required at this time.

The downturn in global markets during 2020 from Coronavirus concerns has impacted the market value of AUK’s investment portfolio; however to the date of approval of these financial statements, this has been largely negated by foreign exchange gains on US Dollar holdings. In response to the

Coronavirus outbreak, AUK and its parent, AAC, implemented their respective Business Continuity plans including remote working in advance of any formal government guidance and restrictions. To date no significant issues have been experienced in AUK's ability to operate as a result of these measures.

2 Business and Performance

2.1 Business and External Environment

AUK is incorporated under the laws of England and Wales and is in the non-life financial guarantee insurance business. AUK commenced writing policies in 1997. AUK is a wholly owned subsidiary of AAC, a financial guarantee insurance company domiciled in Wisconsin, United States of America. The ultimate holding company is Ambac Financial Group, Inc. ("**AFG**"). AFG's common stock trades on the NYSE under ticker symbol AMBC. The group structure as at 31st December 2019 is set out in Appendix A. AUK's external auditor is KPMG LLP (15 Canada Square, London E14 5GL).

AUK's only line of business is credit and suretyship and as such its principal business activity is portfolio risk management of its existing long term book of financial guarantee business. The portfolio comprises 57 financial guaranteed obligations with a gross par outstanding of £8.9 billion as of 31 December 2019 (62 obligations and £10.2 billion gross par outstanding as at 31 December 2018). AUK's portfolio of financial guarantee business is monitored by its portfolio risk management team, based in London. Activity in the year has included on-going monitoring and remediation activity relating to AUK's portfolio. AUK continues to collect instalment premiums from its portfolio of transactions and also generates fees from processing requests for consents, waivers and amendments ("**ACW**") to existing transactions.

AUK is dual regulated in the United Kingdom by the Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**"). In 2009 following the creation of significant claims provisions, AUK's then regulator, the Financial Services Authority ("**FSA**"), curtailed AUK's licence to undertake new business, and limited its licence to undertaking only run-off related activity. Accordingly, AUK is authorised to run-off its financial guarantee insurance portfolio in the United Kingdom, and is authorised to do the same in the European Economic Area ("**EEA**") through "passporting" arrangements covering France, Spain, Luxembourg, Italy and Ireland. AUK maintains a branch in Milan, Italy. AUK is not party to any reinsurance arrangements and is exposed to 100% of potential claims in the existing insured portfolio. Any such claims are expected to be met by AUK's own claims paying resources. During 2019, AUK derived 88% of its earned premium from policies issued in the UK, 4% from Ireland, 4% from Italy, 4% from other EU jurisdictions and 0% from outside the EU.

2.2 Objectives and Strategies

AUK's insured portfolio is contractually scheduled to run-off in 2047 on a gradually declining basis, although certain transactions can be prepaid and/or unwound under certain circumstances that mean the expected profile of the decline in liabilities would show a steeper decline than the scheduled pattern of decline.

AUK's business priority is the continued close management of the run-off of the book, to mitigate the risk of claims and to actively encourage and examine derisking (early policy termination opportunities) where they exist. Such run-off is being conducted with the goal of achieving the best outcomes for policyholders in general over the remaining period of the run-off.

2.3 Performance from Underwriting Activities

2.3.1 Overview

The historical underwriting performance of AUK, as presented in the Financial Statements prepared under UK GAAP FRS102, is summarised below.

Table 3: Historical P&L - UK GAAP

GBP m's	Dec 2019	Dec 2018
	£'m	£'m
Net Earned Premium	25.8	40.0
Net Claims Incurred and changes in other technical provisions	97.0	(64.3)
Other Technical Income	1.0	1.1
Net Underwriting Performance	123.8	(23.2)

2.3.2 Underwriting Profit and Loss

Net Earned Premium

Net premiums earned in 2019 were £25.8 million (2018: £40.0 million). The year on year decrease in premiums earned is primarily due to a greater value of accelerated repayment in the prior year which resulted in higher accelerated premium revenues in that year and the normal run-off of the financial guarantees over time.

Premiums earned for the year ended 31 December 2019 are comprised of £25.2 million normal earned premiums and £0.6 million accelerations (2018: £28.5 million normal earned premiums and £11.5 million accelerations).

Net Claims Incurred and Changes in Other Technical Provisions

For the year ended 31 December 2019, AUK's claims incurred and other technical provision expense was a credit of £97.0 million (2018: charge of £64.3 million). The credit for other technical provision expense in 2019 was a result of the restructuring and commutation of Ballantyne during the year.

The Restructuring resulted in an overall benefit within claims incurred and other technical provisions of £97.0 million split out as follows:

- a decrease in unexpired risk provisions as a result of the release of technical provisions previously held in respect of the expected future claims related to Ballantyne. With the implementation of the Restructuring noted above these unexpired risk provisions were released resulting in a credit within claims incurred and other technical provisions of £181.0 million,
- recovery of claims management expenses previously incurred as part of the Restructuring, less legal and advisory costs incurred during the Restructuring process, resulting in a net recovery of claims management expenses over the year of £0.5 million, offset by
- commutation costs incurred as a consequence of the Restructuring of £84.5 million.

The charge in claims incurred and other technical expense in 2018 arose largely from the increase in unexpired risk provisions due to the impact of a lower discount rate used to discount the claims in that year as compared to the prior year and upward revaluation of unexpired risk provisions

denominated in foreign currencies following the decrease in the value of GBP against USD in that year.

Other Technical Income

Other Technical Income was £1.0 million in 2019 (2018: £1.1 million). These fees are generated from ACWs connected with AUK's policies. Fees may be charged when the borrower requires AUK to provide consent to an amendment to a transaction document or to waive its right to object to an event.

2.4 Performance from Investment Activities

2.4.1 Investment Profit and Loss

In 2019, investment income, net of investment expenses, increased to £38.3 million (£42.1 million including FX gains) (2018: £11.4 million, £26.1 million including FX gains). The higher level of returns were linked to gains from AUK's Bond holdings (+10.0%) (in particular from guarantee policies issued by AUK ("**Own Wrapped Debt**")) and Equities (+20.0%) during 2019. In contrast 2018 saw losses for a number of AUK's asset classes and particularly Hedge Funds, Insurance Linked Securities ("**ILS**") and Equities. The stronger return in 2019 reflects:

- strong performance of equity indices over the year, due to market volatility during the year and the high level of natural catastrophes respectively,
- stronger returns in 2019 than in the prior year for Senior Secured Loans and Asset Backed Securities ("**ABS**") where the returns have been aided by the narrowing of credit spreads, and
- very strong performance from Own Wrapped Debt within the investment portfolio.

The investment return including FX gains for 2019 was £42.1 million and included £3.8 million of gains from the revaluation of AUK's foreign currency investments. AUK held foreign currency investments with a market value of £215.8 million as at 31 December 2019 and it was the FX revaluation of these investments through the year that has resulted in the FX revaluation gains during 2019. AUK holds significant USD (and some EUR) investments in order to diversify its sources of return and provide protection against potential negative consequences of Brexit.

In 2018 investment income was £11.4 million (£26.1 million including FX gains). Bonds generated strong returns (+8.2%), but this was offset by losses in Equities (-4.3%), ILS (-10.5%) and Hedge Funds (-11.3%) which all struggled due to difficult market conditions and in the case of ILS due to a number of severe weather events.

Table 4: Historical Investment P&L (UK GAAP Basis)

GBP m's	Dec 2019	Dec 2018
	£'m	£'m
Investment Income Earned	26.0	16.9
Impairment	0.0	(0.5)
Gains on Assets Held at Fair Value	11.8	(6.1)
Realised Gains on Fixed Income Investments	1.2	1.8
Gross Investment Return	39.0	12.1
Net Foreign Exchange Gains	3.8	14.7
Investment Expenses	(0.7)	(0.7)
Net Investment Income	42.1	26.1

There were no gains and losses recognised directly in equity.

The detail of AUK's investment portfolio for 31 December 2019 and the return from that portfolio is summarised below, in comparison to the year ended 31 December 2018.

Table 5: Investment Return Analysis by Asset Class

	Solvency II Value	Return %	Return	Solvency II Value	Return %	Return
	2019	2019	2019	2018	2018	2018
	£'m	%	£'m	£'m	%	£'m
Bonds and loans	155.6	10.0%	22.5	200.4	8.2%	15.3
Pooled Investments						
Equities	41.4	20.0%	7.8	34.5	(4.3)%	(1.8)
Senior Secured Loans	71.6	6.6%	4.7	68.4	1.9%	1.3
ABS & CLO	49.9	3.6%	1.8	49.4	1.8%	0.8
Property	12.4	0.8%	0.1	12.6	6.9%	1.6
Illiquid Credit	31.0	2.6%	1.2	66.1	2.0%	1.1
Hedge Funds	0.0	0.0%	0.0	0.0	(11.3)%	(4.3)
Insurance-linked	2.4	(4.6)%	(0.6)	23.0	(10.5)%	(2.0)
Money Market Funds	106.8	1.4%	1.2	43.0	0.4%	0.1
Cash and Cash Equivalents	5.1	0.0%	0.3	7.9	0.0%	0.0
Total	476.2	8.2%	39.0	505.3	2.5%	12.1

2.4.2 Securitisations

AUK invests in securitisations both directly and indirectly (through pooled investments). The direct investments have historically related primarily to AUK's holdings of its Own Wrapped Debt, however the majority of these investments were redeemed during 2019 as part of the restructuring of Ballantyne during the year. Holdings which arise through pooled investments are present within AUK's asset backed security ("**ABS**") investments (which exclusively invest in securitisations) together with AUK's holding in Illiquid Credit where as at 31 December 2019 the majority of the holdings within this fund related to securitisations.

Indirect holdings in funds which invest in securitisations are part of AUK's overall investment strategy which is reviewed quarterly by its Board and subject to an annual asset and liability review exercise.

Table 6: Securitisations

	Market Value	Market Value
	2019	2018
	£'m	£'m
Bonds	0.3	76.6
Own Wrapped Debt	0.0	76.4
Other	0.3	0.2
Pooled Investments	80.9	115.5
ABS & CLO	49.9	49.4
Illiquid Credit	31.0	66.1
Total Securitisations	81.2	192.1

2.5 Operating/Other Expenses

2.5.1 Overview

For 2019 operating costs totalled £12.3 million. The £4.0 million increase from the 2018 level of £8.3 million is linked to:

- an increase in the level of charges under Long Term Incentive Plans ("**LTIP**") and associated payroll tax accruals. In 2018 the charge was £1.0m whereas in 2019 the level of charge increased to £4.0 million. The increased level of charge for LTIP in 2019 as compared to the prior year principally reflects the successful restructuring of Ballantyne during year. Benefits will be paid out between 2020 and 2022 under the LTIP.

Table 7: Operating Expenses

GBP m's	Dec 2019	Dec 2018
	£'m	£'m
Change in deferred acquisition costs	0.3	0.4
Overhead expenses	12.0	7.9
Operating Expenses	12.3	8.3

3 Systems of Governance

3.1 General Governance Arrangements

AUK's risk management governance is based on:

- strong managerial involvement in the risk management system and promotion of risk culture, throughout the entire organisation, from the Board down to operational teams;
- clearly defined internal rules and procedures; and,
- independent assurance by internal audit to monitor risks and to ensure policies and procedures are being complied with.

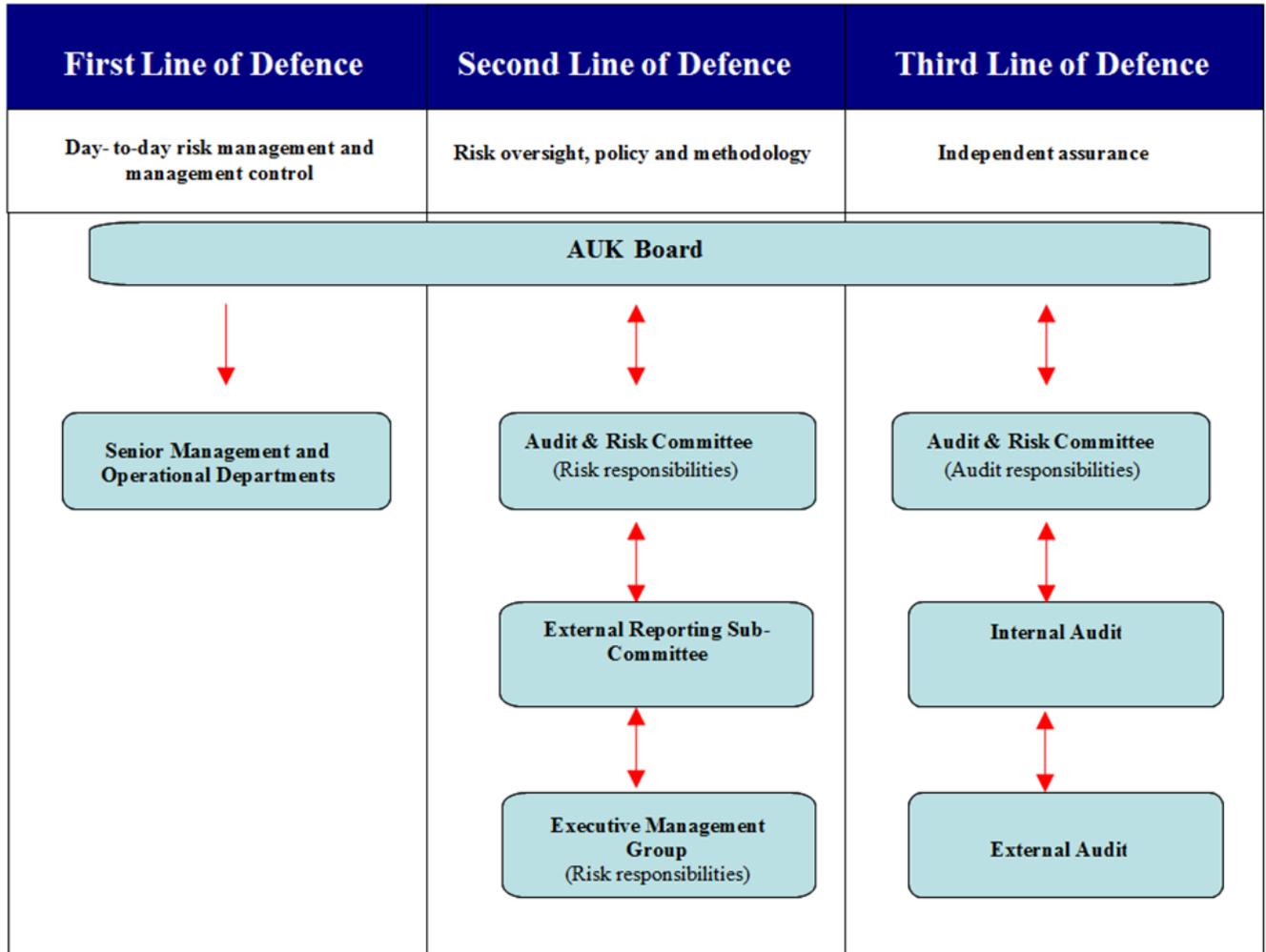
The Board has overall responsibility for risk management. The Board defines AUK's strategy, while assuming and controlling risks, and ensuring its implementation. In particular, the Board ensures the adequacy of AUK's risk management infrastructure and monitors changes in the insured and investment portfolios. Presentations on the main aspects of, and notable changes to, AUK's risk management strategy are made to the Board by the senior management team at least once a year (more often if circumstances require it), within the framework of the Risk Appetite exercise.

The Board may choose to delegate aspects of risk management to the ARC (e.g. risk oversight) and to the business (including management). In turn, an escalation process is put in place in the event that the business needs to escalate any risk matters directly to the Board and/or to the ARC and from there to the Board.

3.2 Risk Management System

3.2.1 The Three Lines of Defence Model

A three line of defence model is applied in order to apportion risk responsibilities as follows:



3.2.2 First Line of Defence

The first line of defence identifies, assesses, manages, monitors and reports on risk. It manages the risk profile of the organisation in line with the appetites and expectations established by the Board. The risk profile is managed through the creation of a high level risk appetite statement which seeks to define acceptable levels of risk for each area of risk.

Risk appetite is a core part of AUK’s risk management framework. AUK has defined a series of statements at Board level (the “**High Level Risk Appetite Statement**”) to set out AUK’s risk appetite and strategy, summarise key controls and provide parameters for the perceived level of risk in given decisions. These are defined and approved by the Board (as noted above) and are reviewed at least annually.

Additionally, senior management and operational departments are responsible for ensuring that risks are managed within the risk appetite set by the Board. In particular the following topics are reviewed in regular Executive Management Group (“**EMG**”) meetings:

- Identify existing and emerging risks;
- Participate in the scoring of risks;
- Mitigate risks through the implementation and operation of controls;
- Monitor the risk profile of the business; and
- Report on risk matters as appropriate.

Additionally within the first line of defence is the actuarial function (of which the CFO is the function holder) as described at section 3.7.

3.2.3 Second Line of Defence

It is the responsibility of stakeholders engaged in the second line of defence to coordinate, facilitate and oversee the effectiveness and integrity of the Risk Management Framework.

In carrying out these responsibilities the ARC performs the following:

- Review and (re)approve risk management framework and risk policies on a periodic basis;
- Identify existing and emerging business risks (financial and non-financial) and understand their impact on AUK;
- Review the risk matrix and consider whether changes are required as a result of any changed risks in the business;
- Monitor actual risk exposures against risk appetite and consider ad hoc risk related exception reports of a material nature;
- Review the integration between AUK's risk management procedures and its capital modelling procedures;
- Make recommendations for changes to risks, controls, risk and control owners; and
- Escalate risk matters if such matters result in a breach of the Board-approved risk appetites.

EMG is responsible for coordinating risk management activities on a day-to-day basis. Within EMG, the Company Secretary has responsibility for the Risk Management and Compliance Functions. EMG is a management committee (not a committee of the Board) and produces the relevant risk management information for the ARC and the Board.

Additionally the Board has established an investment committee, comprised of relevant members of EMG, together with external investment advisors and AAC's chief investment officer, to advise on and execute AUK's investment strategy and to review its approach to asset and liability management. The Board on an annual basis reviews the asset allocation of investments with the assistance of external advisors and the output from Asset and Liability Management ("**ALM**") studies.

These ALM studies consider the performance of the investment portfolio under a range of scenarios to establish the potential impact of various investment risks crystallising on AUK's solvency position and on its ability to pay policyholders as claims fall due.

In addition AUK's investment risk monitoring at its quarterly investment committee covers:

- investment returns and volatility by asset class and across the portfolio as a whole,

- performance of investment managers against benchmarks and consideration of the drivers of performance of assets managed by each manager over the period (for example changes in credit rating of assets or changes in the external environment),
- any breaches in limits for asset classes, single issuers or risk concentrations, and
- any changes in AUK's risk profile which may require amendments to asset allocations.

The investment committee also considers in establishing its investment approach liquidity risk management. This includes examining its liquidity needs and sources in its regular run off and under both idiosyncratic and market wide stress scenarios. This includes establishment of both primary and secondary liquidity buffers and assessment of AUK's liquidity needs over various durations.

The Board has also established an External Reporting Sub-Committee ("**ERSC**") comprising the ARC Chair, AUK CFO, AUK Financial Controller, AFG Chief Accounting Officer and AAC Insurance Controller. The role of the ERSC is to assist the ARC in fulfilling its Board delegated oversight responsibilities in relation to external filings made by AUK, in particular the integrity of AUK's annual financial statements and required annual regulatory returns, and other material financial information provided to regulators as applicable from time to time.

3.2.4 Third Line of Defence

The third line of defence provides independent assurance and challenge across all areas of the business in respect of the integrity and effectiveness of the Risk Management Framework. Internal Audit provides an independent, objective assurance function to AUK as set out at 3.6 below.

External auditors review the main processes in the business to give an opinion on AUK's financial statements. Based on this work they may produce a management letter, which may report findings relating to risk matters (e.g. control exceptions) and is reviewed by management, Internal Audit and the ARC. The management letter is followed up with appropriate investigation and mitigation work by Internal Audit and the business. Relevant external auditors' findings and the associated mitigation work will be reflected in the Risk Matrix.

3.2.5 Prudent Person Principle

The Board and its advisors consider the diversification of assets, return targets and a variety of risk factors in making its assessment of assets in which to invest and the target allocation ranges of such assets. On a quarterly basis the Investment Committee then reviews performance and the allocation of assets within the annually defined ranges. Investment management itself is outsourced to external managers.

The performance of external managers is reviewed against appropriate benchmarks and managers are all rated at least annually against a scorecard.

Through this process AUK manages its investments in accordance with the prudent person principle as set out in the Solvency II Directive.

3.2.6 Use of External Rating Agencies

Generally for each of AUK's policies, the Company has access to the Moody's and S&P (the "Agencies") ratings and credit analysis. However not all deals are rated by the Agencies and some

were only rated by the Agencies at inception with no on-going coverage. The AUK ratings decision on its policies is part of the AUK Credit Review process and the rating ascribed represents AUK's own "rating-agency equivalent" view.

The rating criteria used in determining that "rating-agency equivalent" view are set out in AUK's internal procedure documentation and mapped to AUK's detailed review of the credit. Consideration is given to the Agencies ratings levels and credit analysis (if it exists) when determining the AUK rating with our final rating decision based upon AUK's assessment and knowledge of the deal.

For determining the rating applied to AUK's investments the lower of the ratings of the two Agencies is applied. For pooled investments a look-through approach is applied and the average rating of the underlying investments in the pooled fund (where applicable) is applied as the rating for that pooled fund in applicable Market Risk calculations.

3.2.7 Matching Adjustment, Volatility Adjustment and Risk Free Rates

AUK does not utilise matching adjustments or volatility adjustments in its solvency calculations. The risk free rates utilised for determining the present value of technical provisions are sourced from the EIOPA and do not require extrapolation.

3.3 Fit and Proper

AUK has put in place a Fit and Proper Person Policy designed with the primary objective of ensuring the persons who effectively run AUK or who have other key functions are "fit" and take account of the respective duties allocated to individuals to ensure that there is an appropriate diversity of qualifications, knowledge and experience to ensure that AUK is managed and overseen in a professional manner.

The objectives of this Policy are also to:

- define the minimum standards for determining the fitness and propriety of individuals as a "Fit and Proper Person" to serve in their respective position as a "Person of Responsibility" within AUK;
- for Directors and other persons of responsibility, in addition to determining the fitness and propriety of individuals, to provide for an objective framework and criteria to be set from time to time which promotes the election or appointment of a person with suitable knowledge, qualifications, competencies, skill and experience which complement and improve:
 - a) the existing collective capacity of the Board;
 - b) the Board's succession plans and development intentions;
 - c) the governance framework within AUK; and
 - d) confidence in AUK and its officers.

In accordance with Article 42 of Solvency II, AUK has ensured that the members of the administrative, management or supervisory body collectively possess at least qualification, experience and knowledge about:

- insurance and financial markets;
- business strategy and business model;
- system of governance;

- financial analysis; and
- regulatory framework and requirements.

In accordance with Article 42 of Solvency II, in assessing whether a person is 'proper', AUK has included an assessment of that person's honesty and financial soundness based on relevant evidence regarding their character, personal behaviour and business conduct including any criminal, financial or supervisory aspects regardless of location. The period of limitation of the committed offence is judged based on English law.

3.4 ORSA Process

AUK prepares on an annual basis an Own Risk and Solvency Assessment ("ORSA") to engage in the process of assessing all the risks inherent in its business and determining its corresponding capital needs. To achieve this, AUK makes an assessment of its risk profile, approved risk tolerance limits and business strategy and the role that they play in determining the business's capital needs.

Based on this assessment AUK reviews both the current and future forecast position of its regulatory capital. The ORSA also makes consideration of the applicability of the Standard Formula approach to AUK given the firm's risk profile.

The ORSA is reviewed by the EMG, and presented to the ARC for review before presentation for approval by the Board. The ORSA and ORSA process are reviewed by Internal Audit periodically.

The output of the ORSA process is used in decision making through the year particularly when consideration is being made of possible early termination of any policies.

3.5 Internal Control

The internal control framework of AUK has a number of key elements and functions which combine to provide a strong control environment across the organisation. Internal control is managed through the Risk Management Governance Framework described in section 3.2.

AUK has put in place policies and procedures around its key processes throughout the business. These provide the guidelines for staff throughout AUK to operate processes in a consistent manner. All policies and, where applicable, procedures are subject to review and approval by either:

- The Board, where they relate to Surveillance, Investments and Outsourcing;
- The ARC (as delegated by the Board), where they relate to financial (including regulatory) reporting, risk, internal/external audit or controls; or
- The EMG in respect of other policies and procedures.

Board and ARC level policies and procedures are subject to two levels of review prior to approval. The first level is review by the EMG and the final step is review by the appropriate approving body as described immediately above.

All policies and procedures have an owner who is responsible for their maintenance. Compliance with the requirement to review policies and procedures annually is monitored by the Compliance Function (see below).

3.6 Internal Audit Function

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal Audit has a key role in that it helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The independence of Internal Audit is safeguarded through the fact that their reporting line is to the chair of the ARC. Internal Audit services are provided to AUK by way of an outsourced service provided by BDO LLP with liaison between BDO and AUK being co-ordinated through one member of EMG (currently, the Company Secretary).

Internal audit apply a risk based approach to their selection of areas for audit and prepare an annual audit plan which seeks to review all areas over a period up to 3 years and certain areas annually where they are perceived to carry high risks. In carrying out their internal audit work BDO will liaise with the internal audit team within AAC to ensure a coordinated approach.

3.7 Actuarial Function

The Actuarial Function holder for AUK is the CFO. The Function holder is responsible for:

- The co-ordination of the calculation of technical provisions, review of assumptions used and quality of data used in technical provisions; and
- Reporting to the ARC.

The Actuarial Function Holder reports at least annually in writing to the ARC on the following topics:

- The tasks undertaken by the actuarial function in the year and their results identifying any deficiencies noted and giving recommendations on how those deficiencies could be remedied.
- Commentary on the reliability of technical provisions, on the data sources used and the degree of uncertainty in the estimation of technical provisions. This commentary is accompanied by analysis of the sensitivity of technical provisions to variability in each of the constituents which underlie the provision.
- Commentary on the sufficiency of premiums earned to cover future claims and expenses, together with commentary on the variability of future premiums with inflation, ratings or other events; and
- Commentary on how the make-up of the insured portfolio is likely to change in the future and whether there is a tendency in the portfolio toward retention of higher risk profile policies over time (anti-selection).

In the production of this report and in the preparation of quarterly and annual solvency II reporting, the Actuarial Function Holder uses outsourced actuarial support to review calculations and to produce any parts of the report where the review would otherwise result in the Actuarial Function Holder reviewing his/her own work or the work of individuals reporting to them.

3.8 Outsourcing

Management is responsible, when relying on a third party provider, for the performance of functions which are critical for the performance of AUK's regulated activities, on a continuous and satisfactory basis, ensuring that it takes reasonable steps to avoid undue additional operational risk. In exercising

this responsibility external suppliers are used as and when appropriate to assist the Company when it would not be efficient to utilise internal resources or where additional expertise is needed. Indeed in light of the small staff numbers at AUK (11 staff as at 31 December 2019) outsourcing of certain activities is critical to enable AUK to manage its operations in an efficient and controlled manner.

Specifically, where AUK outsources critical or important functions, it remains fully responsible for discharging all of its obligations under the regulatory system and must comply, in particular, with the following conditions:

- the outsourcing must not result in the delegation by the Senior Management Team (“SMT”) or the Board of their responsibility;
- the relationship and obligations of AUK towards its policyholders under the regulatory system must not be altered;
- a member of AUK’s SMT must take responsibility for the activities of the outsourced service provider;
- the conditions with which AUK must comply in order to be authorised, and to remain so, must not be undermined; and
- none of the other conditions subject to which AUK’s authorisation was granted must be removed or modified.

Consequently, management will not undertake the outsourcing of important functions in such a way as to impair materially:

- the quality of its internal control (including ensuring that internal and external audit access to information is not inhibited); or
- the ability of the regulator (PRA and/or FCA) to monitor AUK’s compliance with all obligations under the regulatory system.

The Board of AUK are informed of the appointment of any material outsourced provider in order that it can give consideration to whether the outsourced provision is well controlled. Directors and key officers will also assess the cost-benefit analysis and quality implications of any decision and will review the range of potential providers.

The results of performance of outsource service providers against service levels and/or expectations are monitored by the responsible SMT member on a quarterly basis. Where material service levels are not met, the individual will report this to the Board with proposed specific steps and timescales for service levels to be restored based on the perceived risk of non-compliance. Where material service levels cannot be restored, the outsourced service should be terminated with the associated services either passing to a different supplier or brought back in-house.

Additionally each material outsource provider is subject to a written annual review to ensure that they still meet all AUK’s requirements.

3.9 Material Transactions with Shareholders

AUK is party to a Management Services Agreement with AAC whereby all shared expenses are charged between the companies. Services provided under this Agreement include support for information technology, treasury, accounting, tax, finance and risk management. Amounts due under this Agreement are settled net in cash on a quarterly basis. The services provided by AAC are subject to the same controls as those in operation for third party outsource providers as set out in section 3.8. For the year ended 31 December 2019, AUK incurred net charges of £1,099,000 (2018: £873,000) with various affiliates within the Ambac Group.

3.10 Remuneration Policy and Practices

Staff compensation contains the following components:

- Base salary (or fixed pay) which constitutes the material majority of normalised annual compensation. AUK determined that this approach was the better way to retain staff, as well as eliminate potential short termism in staff behaviour driven by annual cash bonus incentives.
- Annual cash bonus (or variable pay) constituting the minority of normalised annual compensation, which is based on individual performance, is recommended by the CEO to the Board, and must be approved by the Board.
- LTIP (or non-normalised variable pay) which is comprised of two plans as approved by the Board. The plans were established with the intent of motivating and retaining staff to achieve certain business goals and imperatives that are in the best interest of AUK. Each plan operates under its own rules, seeks to correlate staff and company interests, requires that payment is deferred, and malus clauses are incorporated. One plan exclusively benefits only certain target/critical staff and the other is made available to all staff.
- A company contribution to pension or similar benefit is provided in compliance with auto-enrolment requirements.

4 Risk Profile

4.1 Underwriting Risk

Underwriting Risk is the risk of loss to AUK from losses arising on a transaction which benefits from one of our policies (i.e. a claim arising) or reduction of premium income from policy cancellation or other events.

The orderly and proactive management of the run-off of AUK's book of business is AUK's continuing priority. At the end of 2019 no future claims are expected (although the technical provision also incorporates allowance for other statistical losses on the remainder of the portfolio based on ratings-based probabilities of default and loss given default).

This is considered a reasonable assumption due to the nature of the risk underwritten and remote risk of loss in respect thereof, and due to the structure of the transactions underwritten (specifically AUK's protections and rights under the transaction structure or contracts). In this regard proactive oversight of the AUK book is essential.

AUK seeks to manage the risks presented from its policies in three main ways:

- At least annually, each deal is thoroughly reviewed to identify any issues that may lead to deterioration in the credit profile of the transaction. Reporting is performed on an exception

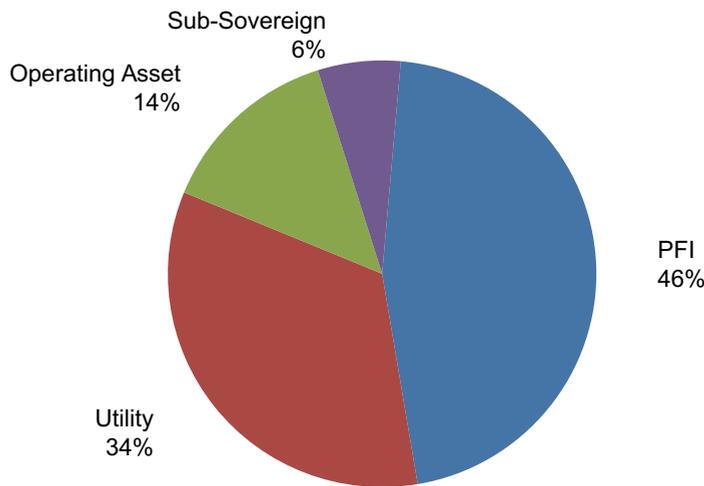
basis of any issues that could increase the risk profile of AUK. Credit reviews are signed by the transaction analyst and the Head of Portfolio Risk Management ("PRM") plus a member of the management team (in respect of any below investment grade exposures) and the CEO (in respect of watchlist transactions).

- Credit categorisation is applied to all deals independently of any external rating assessments. Any policy with a heightened risk of default is identified on a watchlist and is subject to more frequent review. The rating criteria used in determining that “rating-agency equivalent” view are set out in AUK’s internal procedure documentation and mapped to AUK’s detailed review of the credit as set out at section 3.2.6.
- The PRM policies and procedures manual includes the procedures to follow in the event of an issuer requesting any ACW to an insured transaction to ensure that our creditor and security rights are protected. The more material the ACW, the higher the level of review, including up to Board sign off.

The analysis of AUK’s book of business by the type of business of the issuer of the debt guaranteed by AUK is shown below.

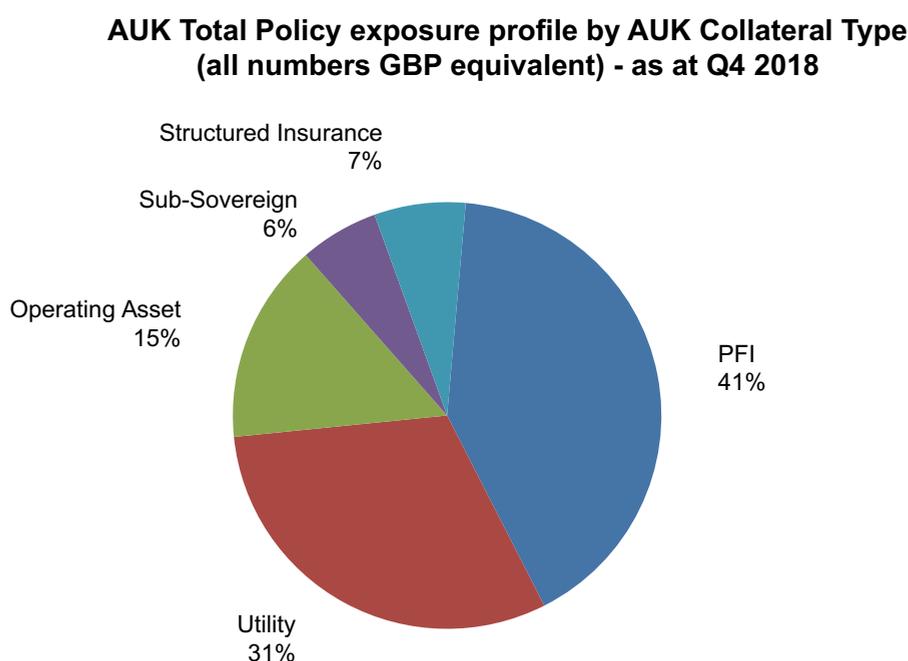
Chart 1: Policies by Collateral Type 2019

**AUK Total Policy exposure profile by AUK Collateral Type
(all numbers GBP equivalent) - as at Q4 2019**



The equivalent exposures as at 31 December 2018 were as set out below.

Chart 2: Policies by Collateral Type 2018



Between 2018 and 2019 exposure to Structured Insurance and Operating Assets was reduced reflecting the derisking of a number of policies in those categories over the year. AUK has no re-insurance in place and so bears 100% of the risk on its insured portfolio.

In recent years a number of significant deriskings of transactions were achieved and further opportunities for this will continue to be reviewed and pursued. Any derisking decision includes careful analysis and modelling of those opportunities which may lead to a reduction in expected premium to ensure that this is in the best interests of policyholders generally.

AUK's assessment of the 1 year 99.5% change in own funds which could result from Non-Life and Counterparty Default Risk related Insurance Risk calculated using the Standard Formula approach is summarised below.

Table 8: Non-Life Solvency Capital Requirements

GBP m's	Standard Formula Approach Dec 2019	Standard Formula Approach Dec 2018
Catastrophe Risk	148.2	226.1
Lapse Risk	0.0	0.0
Premium & Reserve Risk	88.5	99.1
Diversification Effects	(46.0)	(56.6)
Non-Life Solvency Capital Requirements	190.7	268.6

The reduction in Non-Life Risk over the year has been due to the reduction of exposure to AUK's previously two largest policies during the year (Ballantyne and Mitchells and Butler ("M&B")).

4.2 Material Risk Concentrations

The top 10 individual exposures as at 31 December 2019 and 31 December 2018 are summarised below together with their internal credit categorisation in each year and the % of total insured exposure that they represent. These exposures represent the most material risk concentrations to which AUK is exposed.

Table 9: Top 10 Exposures

	As at 31 December 2019				As at 31 December 2018		
	Country of Issuance	Nominal Par Outstanding £'m	% of Total Exposure	Internal Rating *	Nominal Par Outstanding £'m	% of Total Exposure	Internal Rating *
Mitchells & Butlers	UK	768	8.7	A	1,049	10.2	A
Capital Hospitals (Barts)	UK	658	7.4	A-	662	6.5	A-
Allenby & Connaught	UK	654	7.4	BBB+	671	6.5	BBB+
Anglian Water	UK	615	6.9	A-	597	5.8	A-
National Grid Gas	UK	560	6.3	A-	545	5.3	A-
Campania Region	IT	537	6.0	BIG	591	5.8	BBB-
Austria A5	LU	509	5.7	BIG	558	5.4	BIG
Colchester Barracks	UK	434	4.9	A-	447	4.4	A-
Catalyst Healthcare (Manchester)	UK	394	4.4	BBB+	399	3.9	BBB+
National Grid Electric Transmission	UK	378	4.3	BBB-	368	3.6	BBB-
Total		5,507	62.0		5,887	57.4	

* BIG refers to Below Investment Grade.

As at 31 December 2018 AUK's then second largest exposure was Ballantyne Re where the exposure was £706m (6.9% of outstanding exposures). As previously noted this exposure was terminated during the year.

Of the nominal par outstanding as of 31 December 2019 11.9% (2018: 12.3%) is rated below investment grade based on internal ratings. Moody's rates 11.8% and S&P 16.2% of AUK's insured exposure below investment grade. Unrated exposures comprise 9.8% of exposures based on Moody's ratings and 8.3% based on S&P ratings as at 31 December 2019.

4.3 Market Risk

4.3.1 Overview

AUK faces Market Risk in a number of categories. The distribution of this risk when calculated in accordance with the Standard Formula is as set out below:

Table 10: Market Risk Summary

GBP m's	Standard Formula	Standard Formula
	Dec 2019	Dec 2018
Interest Rate Risk	0.0	19.7
Equity Risk	16.1	11.3
Property Risk	3.1	3.2
Spread Risk	50.7	131.4
Currency Risk	53.3	40.7
Concentration Risk	1.9	50.7
Diversification Effects	(30.1)	(89.4)
Total Market Risk Solvency Capital Requirements	94.9	167.6

Market Risk is reviewed and mitigated through quarterly consideration by AUK's Investment Committee and annual ALM assessment as described in section 3.2.3.

Further detail around the specific risks faced are set out below.

4.3.2 Interest Rate Risk

The risk of a change in value of the Solvency II Balance Sheet caused by a deviation of the actual interest rates from the expected interest rates.

AUK is exposed to Interest Rate Risk as a result of discount rates applied in the calculation of its technical provisions and to a lesser degree due to fixed income investments held. AUK has a portfolio of 57 guaranteed obligations with gross par outstanding of £8.9 billion as of 31 December 2019 (31 December 2018: 62 obligations with a gross par outstanding of £10.2 billion). However, with the restructuring of Ballantyne during the year technical provisions have significantly decreased such that expected cash inflows from premium income and fixed income investments now fully mitigate this Interest Rate Risk.

The losses to own funds which would result from the change to Solvency II resources from upward or downward interest rate shocks as prescribed by the Solvency II Standard Formula approach are set out below.

Table 11: Interest Rate Risk Summary as at 31 December 2019

All figures are stated in GBP m's equivalent	Assets	Liabilities	Total 2019	Total 2018
Up Shock	(14.1)	22.3	8.2	(19.7)
Down Shock	9.2	(7.4)	1.8	23.6
Worst Case Shock Total			0.0	(19.7)

The overall interest risk charge as at 31 December 2019 is zero due to the fact that AUK has an excess of USD assets as compared to liabilities, whilst in contrast GBP liabilities exceed GBP assets. As a consequence the stresses incurred in both up and down shocks tend to cancel out between these two currencies resulting in no overall charge.

4.3.3 Equity Risk

This is the risk of a change in value in the Solvency II Balance Sheet caused by deviations of the actual market values of equities and/or income from equities from their expected values.

As noted in section 2.4 AUK is invested in a number of fund holdings and therefore AUK is exposed to Equity Risk. The fund holdings are as follows:

- 6 unit trust holdings tracking various equity indices

Through these holdings AUK is exposed to equity market volatility which can lead to volatility in the market value of its investments.

AUK has adopted a Standard Formula approach to these assets and therefore has applied a 39% capital charge in relation to the equity index tracking unit trusts in developed markets and a 49% capital charge in relation to other funds plus or minus the appropriate symmetric adjustment.

AUK has used the following parameters in its calculation of Equity Risk.

Table 12: Equity Sub Module Parameters

Equity Type	Capital Requirement	Symmetric Adjustment	Total
1	39.0%	-0.1%	38.9%
2	49.0%	-0.1%	48.9%

The resultant quantification of the risk to own funds from the equity portfolio is £16.1 million (2018 £11.3 million).

4.3.4 Property Risk

This is the risk of a change in value in the Solvency II Balance Sheet caused by deviations of the actual market values of property and/or income from property from their expected values.

The resultant quantification of the risk to own funds from the property investment portfolio held within pooled investments is £3.1 million (2018: £3.2 million).

4.3.5 Spread Risk

This is the risk of a change in value in the Solvency II Balance Sheet caused by deviation of the actual market price of credit risk from the expected price of credit risk.

AUK's assessment of Spread Risk follows the Standard Formula approach. At both 31 December 2018 and 31 December 2019 the majority of AUK's fixed income investments were in highly rated corporate and government securities and therefore the risk to the value of AUK's investments from shifts in credit were minimal. However, AUK also invests in a number of high yield and emerging market fixed income securities and, via pooled investments in senior secured loans and private debt, at lower investment grade or non-investment grade ratings and these are more sensitive to changes in credit spread.

In prior years AUK also had a significant value of unrated Own Wrapped Debt investments carrying a high spread risk charge. However, with the restructuring of Ballantyne AUK no longer has significant Own Wrapped Debt holdings and hence Spread Risk has fallen sharply over the year.

Spread Risk as calculated under the Standard Formula approach as at 31 December 2019 equated to a value of £50.7 million (2018 £131.4 million) as at that date.

4.3.6 Currency Risk

This is the risk of a change in value in the Solvency II Balance Sheet caused by deviation of the actual FX rates from those expected.

AUK's assessment of Currency Risk follows the Standard Formula approach. As at 31 December 2019 96.5% (2018 98.0%) of AUK's investments were in GBP, USD and EUR in line with those currencies in which it has outstanding policies.

During 2019 AUK's Ballantyne exposure was restructured leading to a significant reduction in USD denominated technical provisions over the year and payment of a USD commutation. However AUK retains significant portion of its investment portfolio in USD and expects to continue to do so to mitigate against possible negative Brexit impacts on AUK's investment portfolio. Currency mismatches are subject to FX rate stresses of +/- 25% which have been applied to these currency mismatches and the results are set out in the table below.

Table 13: Currency Risk Summary as at 31 December 2019

All figures are stated in GBP m's equivalent	2019 Total	2018 Total
SII Mismatch	191.9	162.7
Worst Case Shock Movement	53.3	40.7

4.3.7 Concentration Risk

This is the risk of exposure to increased losses associated with inadequately diversified portfolios of assets and/or obligations.

AUK's assessment of Concentration Risk follows the Standard Formula approach. As at 31 December 2019 approximately 15.0% of AUK's investments were in UK, US, EU and other OECD government securities which do not attract a Concentration Risk charge and the remaining securities were well diversified.

The risk to the value of AUK's investments from concentration is therefore limited. The exception to this is in relation to AUK's holdings in Own Wrapped Debt. These are unrated securitisations and therefore carry a concentration charge of 73% over the threshold of 1.5% of assets.

Concentration Risk as calculated under the Standard Formula approach as at 31 December 2019 is £1.9 million (2018 £50.7 million). The decrease in Concentration Risk over the year is largely the result of a decrease in holdings of AUK's Own Wrapped Debt as a result of the restructuring of Ballantyne.

4.4 Counterparty Default Risk

AUK is exposed to limited counterparty default risk from its exposure to the banks holding its cash deposits. The risk of this is controlled through the use of concentration limits with its banking counterparties such that the maximum exposure to a banking counterparty is capped at £10 million per bank. In addition AUK will only maintain banking relations with banks rated A- or better by both S&P and Moody's.

Counterparty Default Risk calculated under the Standard Formula approach as at 31 December 2019 is £0.3 million (2018 £0.6 million).

4.5 Liquidity Risk

This is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss. It also includes the risk that sufficient financial resources are not maintained to meet liabilities as they fall due and that the business is not a going concern respectively.

As at 31 December 2019 AUK held a broadly diversified portfolio of:

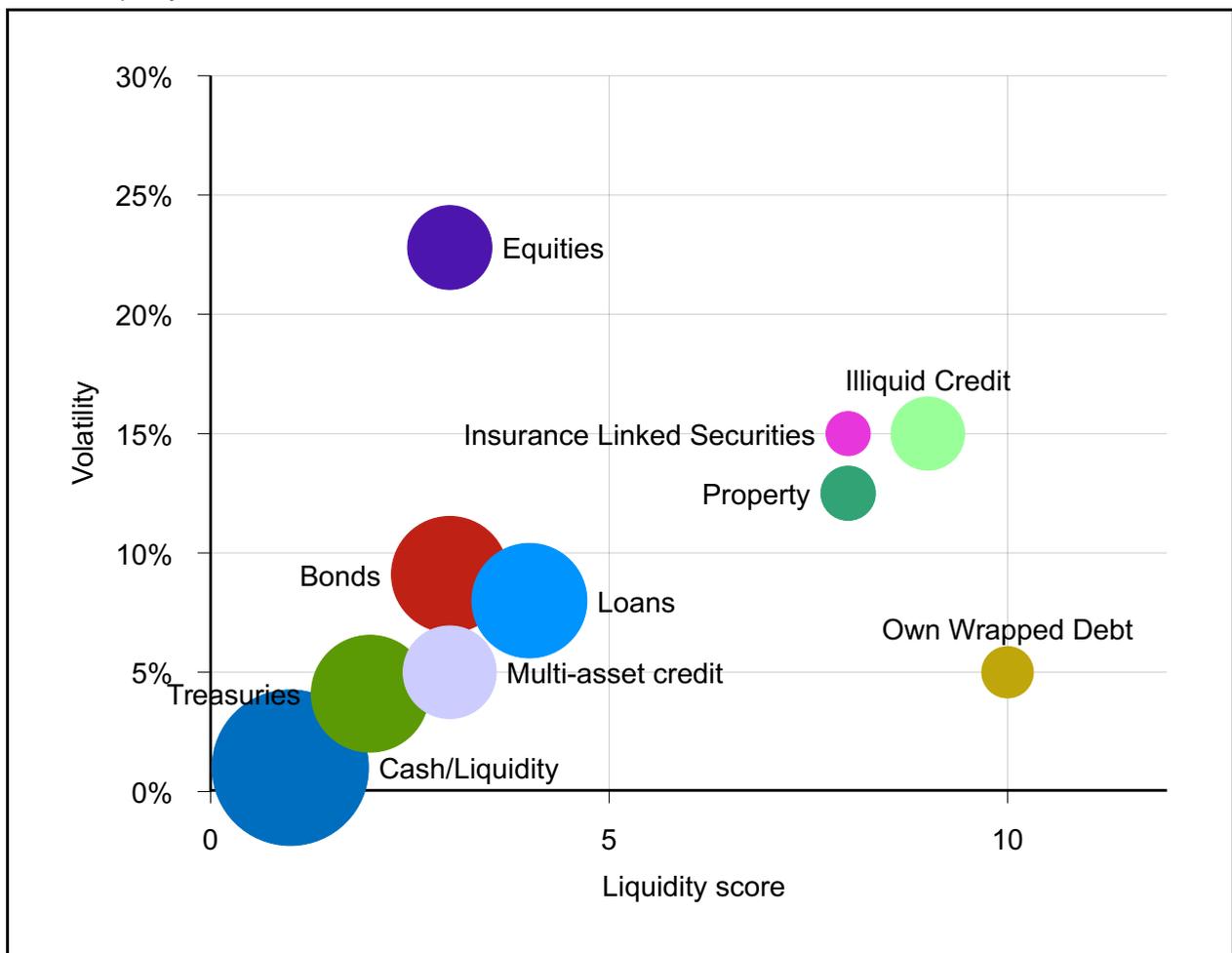
- Cash and money market funds,
- government and corporate fixed income investments,
- equity unit trust funds,
- property funds,
- bank loan funds,
- multi-asset credit funds,
- ILS,
- Illiquid credit funds, and
- holdings in Own Wrapped Debt

The liquidity profile of AUK’s investments as at 31 December 2019 is shown below and demonstrates the diversity and liquid nature of AUK’s investments.

The value of investments which could not be sold within a 5 day time period represents 27% of AUK’s investments. The remaining 73% of assets remain very liquid and will provide more than adequate liquidity to meet foreseeable claims within the next year. AUK’s liquidity policy is to maintain sufficient liquidity in cash and money market funds to meet known or expected claims within the coming 90 days.

The chart below represents the relative liquidity of each asset category in which AUK invests with the size of circle being representative of market value of assets within that asset category. The liquidity of investments is ranked on a scale of 1 to 10 with the most liquid in category 1 being available same day, category 2 next day and category 3 within 1 week. In contrast the least liquid investments in categories 8, 9 and 10 are available within 6 months, 18 months or have no reliably active market respectively.

Chart 3: Liquidity Profile of Investments



To assess AUK’s longer term liquidity position AUK models the run-off of its portfolio, its financial statements and its cash flow projections over the remaining period of its run-off. AUK also models a range of scenario and stress tests based upon the risk factors that AUK has identified.

Both short term liquidity risk (as represented by AUK’s ability to meet any known and expected claims falling due within the next 90 days) and longer term liquidity risk are assessed on a quarterly basis.

Although AUK is in run-off, its portfolio of business continues to perform satisfactorily and AUK continues to believe that ongoing premiums, investment income and the investment portfolio taken together are sufficient to meet AUK's projected obligations as they fall due and that AUK remains a going concern. This assessment is based upon a number of assumptions and estimates relating to the following key risk factors:

Key risk factors:

- Magnitude and timing of losses on the insured portfolio,
- The amount of ongoing premiums received by the Company,
- Returns on the investment portfolio, and
- Interest rate and exchange rate volatility.

AUK management assesses these risks annually and documents its conclusions in the ORSA which is reviewed and approved by the Board. As at 31 December 2019 this analysis concluded that it was clear that even under reasonable stress scenarios (albeit occurring in isolation rather than concurrently), AUK has sufficient resources to meet its obligations as they fall due, and was therefore solvent on a cashflow basis.

Overall due to there being certain remote circumstances where the solvency tests prescribed in the Insolvency Act might be breached AUK regards its Liquidity Risk as moderate on a long term forward looking basis. However, in the near term both due to the fact that AUK's current and prospective investment portfolios are liquid and that the majority of its policies have long dated maturities, the current liquidity risk is low.

AUK considers additional capital is an imperfect mitigant (i.e. is not a preventative measure) for these long term liquidity risks and does not allocate additional capital in relation to Liquidity Risk.

The expected profit included in future premiums as at 31 December 2019 is £237.5 million.

4.6 Operational Risk

This is the risk of a change in value caused by the fact that actual losses, incurred due to inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses.

AUK has put in place a risk management framework that incorporates the methodology that AUK uses to monitor and track Operational Risk. AUK's experience is that the number of control exceptions and losses stemming from Operational Risk events is low. Any events that have occurred in the past three years have been rectified without AUK incurring any losses.

Operational Risk calculated under the Standard Formula approach as at 31 December 2019 is £3.0 million (2018 £6.2 million).

4.7 Other Material Risks

4.7.1 Group Risk

As noted in section 2.1, AUK is a wholly owned subsidiary of AAC, a financial guarantee insurance company domiciled in Wisconsin, United States of America. The ultimate holding company is AFG. AAC's Segregated Account was subject to Segregated Account Rehabilitation Proceedings which were completed on 12 February 2018, but AAC remains under the enhanced supervision of its regulator, the OCI.

Notwithstanding the situation of its parent AAC, AUK does not believe that Group Risk represents a significant risk to AUK for the following reasons:

- A. AUK manages its own cash and investments and AAC has no power to move funds without AUK's authorisation;
- B. the non-executive directors of AUK's Board hold the majority of votes and the 2 AAC directors may not vote on conflicted matters;
- C. the Supervisory Notice issued by the FSA dated 22 April 2010 explicitly prohibits AUK from paying premiums or dividends (or transferring assets) to AAC or any other Ambac Group entity, evidencing the FSA's concern to preserve income and assets to support AUK's obligations to its policyholders; and
- D. As noted in section 3.9, AUK is party to a Management Services Agreement with AAC whereby AAC provides support for information technology, accounting, tax and finance services to AUK. However, AUK is not reliant upon these services for the day to day management of its portfolio of insured obligations, nor for the management of its investment portfolio. The functions performed by AAC are mainly administrative in nature (preparation of annual and monthly financial statements, regulatory return preparation, preparation of premium invoices, etc.).

For these reasons, AUK does not currently believe that its relationship with AAC and AFG presents AUK with any significant additional risk to its operations and does not believe that it requires additional capital as a result of its relationship with AAC and AFG.

4.7.2 Legal and Regulatory Risk

AUK no longer writes any new business and as such the risk that a change in law or regulation may change its ability to operate is significantly reduced.

In March 2017 the UK government gave the European Union ("EU") formal notification of its intention to leave the EU ("**Brexit**"). In January 2020 the UK Government and EU ratified the terms of a legally binding treaty ("**Withdrawal Agreement**") setting out the terms of a transition period to apply to the UK until 31 December 2020. The effect of the Withdrawal Agreement is to retain the rights and obligations between the UK and the EU from the date of the UK's exit from the EU on 31 January 2020 ("**Exit Day**") to the end of the transition period.

The UK and the EU are currently negotiating a trade agreement which is expected to come into force at the end of the transition period. It is currently unclear what regulations may apply to the activities in the EEA of UK passporting insurers as part of this trade agreement. They may lose their legal authorisation to serve clients who benefit from policies issued by a UK incorporated insurer under freedom of services and freedom of establishment passporting rights (and thereby may be unable to legally collect premiums or pay claims). Additionally, if they have branches in EEA Member

States they may be legally obliged to close them down and no longer be legally represented in those jurisdictions.

On 19 February 2019, the European Insurance and Occupational Pensions Authority (“**EIOPA**”) made a series of recommendations to EU insurance regulators in light of Brexit. These recommendations include the recommendation that regulatory authorities apply legal frameworks that facilitate the orderly run off (without time limit) of insurance policies issued in EEA member states by UK insurers prior to Exit Day that terminate after this date. The recommendations will require to be incorporated into EEA member states legal and regulatory frameworks in an appropriate manner to bring them into effect. AUK is in discussion with the PRA and other relevant regulatory authorities to enable the continued orderly run off of its policies issued in the EEA under passporting rights in line with this recommendation.

Other than the fact that AUK has not maintained capital resources equal to or in excess of either its SCR or its MCR throughout the financial year in question, and the legal risks presented by the Brexit process, AUK is not aware of any other material legal or regulatory matters of concern at this time.

4.7.3 Going Concern

AUK has Solvency II eligible assets in excess of Minimum Capital Requirements under the Solvency II rules. However, Solvency II eligible assets remain below SCR and therefore AUK remains in a capital shortfall position. Whilst the shortfall has improved over the year as a consequence of the Restructuring, the non-compliance with SCR is expected to persist until compliance is restored by the natural run off of AUK’s insured portfolio. AUK’s regulators are aware of this deficiency, and dialogue between AUK management and its regulators remains ongoing with respect to options for addressing the shortcoming, although such options remain few. AUK notes that, as a result of the non-compliance with SCR, its run-off is subject to PRA supervisory statement SS7/15 “Supervision of firms in difficulty or run-off” and therefore has undertaken, and continues to undertake, close consultation with the PRA with regard to its situation.

AUK continues to be entitled to receive instalment premium income in respect of its guaranteed obligations and is retaining these cash flows for the benefit of its policyholders. These future premium cash flows are supported by contractual make-wholes on certain transactions, which would be payable to AUK in the event that a transaction was prepaid before its scheduled maturity date, thereby ensuring a base-line of premium income. Additionally, AUK invests premium income (as well as investment income and principal receipts), seeking a reasonable return, to further support its guaranteed obligations

AUK’s insured obligations are to pay principal and interest when due, and are not generally subject to acceleration (except that AUK may have the right to accelerate insured obligations if they default). Accordingly, in light of the contractual debt service of insured obligations falling due within the coming 12 months and the fact that the majority obligations insured by AUK are of investment grade, AUK regards its exposure to liquidity risk in respect of material claims over the coming 12 months as being limited. In addition, in assessing AUK’s claims paying resources, the directors have considered the value of its assets compared with the amount of its liabilities, the measure of which, having taken legal and specialist insolvency advice, is assessed on a different basis from the accounting measures set out in the balance sheet.

Annually AUK prepares an ORSA. Within the ORSA, the directors have considered AUK's detailed cash flow projections (not just of claims paying resources), Solvency II capital adequacy position and liquidity position under stressed scenarios, including increased claims payments from currently unimpaired transactions, reduced premiums and/or investment income scenarios and other changes to assumptions and estimates. These considerations have included consideration of the impacts which may arise from the exit of the UK from the EU without arrangements for the ongoing orderly run-off of insurance contracts beyond the end of the transition period agreed between the UK and the EU ending 31 December 2020. Accordingly, taking into account AUK's current position, the impacts on AUK of the Coronavirus COVID-19 outbreak and the output of the stress scenarios set out in the ORSA, the directors are satisfied that AUK has adequate resources to meet the day-to-day operational needs of the business for at least a year from the date of approval of the financial statements and that AUK's claims paying resources are sufficient to satisfy projected claims as they fall due within this same period.

For this reason AUK remains a going concern at this time.

However, AUK's insured obligations run off until 2047 and there is inherent subjectivity in the process for determining the cost of future claims from insured obligations over such a long period. Consequently, in light of these time frames and uncertainties, the adoption of a going concern basis in preparing the financial statements is not a guarantee that AUK will continue in operation or continue to be able to meet all claims as they fall due over the entire remaining duration of the runoff.

4.8 Any Other Information

As part of AUK's ORSA process and in light of the long run off of AUK's outstanding policies, AUK has examined the extent to which Technical Provisions and SCR calculations are sensitive to changes in a variety of assumptions. These sensitivities are summarised below:

- With respect to Technical Provisions the assumption to which the calculation is most sensitive is the estimation of the Loss Given Default ("LGD") applied to calculate expected losses on a statistical basis. An increase of 10% in the assumption of LGD increases Best Estimate Technical Provisions by £56.8 million to £155.2 million from £98.3 million.
- With respect to SCR calculations the assumption to which the calculation is most sensitive is the calculation of Non-Life Risk. Alternative methods could increase SCR by £71.8 million from £207.5 million to £279.3 million.

Within the ORSA AUK also examines the sensitivity of the Technical Provisions and SCR to stresses by examining the impact of specific loss scenarios. As stated in section 4.7 above, AUK's insured obligations run off until 2047 and there is inherent subjectivity in the process for determining the cost of future claims from insured obligations over such a long period. Consequently, in light of these time frames and uncertainties, scenarios can arise where Technical Provisions increase significantly in certain stressed loss scenarios.

5 Valuation for Solvency Purposes

5.1 Solvency II Balance Sheet

The Solvency II Balance Sheet as at 31 December 2019 is presented below together with a comparison to both prior years and the audited UK GAAP Balance Sheet at those same dates.

Table 14: Solvency II Balance Sheet and Financial Balance Sheet

GBP m's	Solvency II		GBP m's	Financial Statements	
	Dec 2019	Dec 2018		Dec 2019	Dec 2018
Deferred Tax Assets	41.3	35.2	Deferred Tax Assets	0.5	0.8
Property, Plant and Equipment	0.1	0.1	Fixed Assets	0.1	0.1
Financial Investments	470.1	495.8	Financial Investments	464.0	488.9
<i>Government Bonds</i>	<i>80.5</i>	<i>56.7</i>	<i>Government Bonds</i>	<i>77.7</i>	<i>58.1</i>
<i>Corporate Bonds</i>	<i>73.6</i>	<i>0.0</i>	<i>Corporate Bonds</i>	<i>70.4</i>	<i>64.0</i>
<i>Collateralised securities</i>	<i>0.4</i>	<i>77.0</i>	<i>Collateralised securities</i>	<i>0.3</i>	<i>69.8</i>
<i>Collective Investment Undertakings</i>	<i>315.6</i>	<i>297.0</i>	<i>Collective Investment Undertakings</i>	<i>315.6</i>	<i>297.0</i>
Other Loans and mortgages	1.0	1.6	Other Loans and mortgages	1.0	1.6
			Other Insurance Debtors	139.2	153.5
Cash & Equivalents	5.1	7.9	Cash & Equivalents	5.1	7.9
Other Debtors	0.6	8.9	Other Debtors	2.1	12.1
			Deferred Acquisition Costs	2.5	2.8
Total Assets	518.2	549.5	Total Assets	614.5	667.7
Technical Provisions	301.9	446.4	Unearned Premiums	190.7	205.4
			Other Technical Provisions	1.5	184.3
Interest bearing loans and borrowings	9.6	0.0	Interest bearing loans and borrowings	9.6	0.0
Deferred Tax Liabilities	0.7	0.5	Deferred Tax Liabilities	0.9	0.5
Other Creditors	18.5	7.7	Other Creditors	25.3	14.9
Total Liabilities	330.7	454.6	Total Liabilities	228.0	405.1
Net Assets	187.5	94.9	Net Assets	386.5	262.6

5.2 Financial Statement and Solvency II Valuation Methods and Assumptions

The primary differences between the Financial Statement balance sheet presentation and the Solvency II balance sheet are highlighted below. In addition sections 5.3 and 5.4.1 provide detail of the financial impact of these reclassification and valuation differences between the Financial Statement and Solvency II presentation.

Component	Financial Statements	Solvency II
Financial Investments (as set out below)		
<i>Government Bonds</i>	Level 1 investments in the fair value hierarchy under FRS102 (valued from quoted prices for identical instruments in active markets) and valued at amortised cost.	Level 1 investments under Solvency II and valued using quoted market prices in active markets including accrued interest
<i>Corporate Bonds</i>	Level 2 investments in the fair value hierarchy under FRS102 (valued from prices of recent transactions for identical instruments), other than in respect of Corporate Bond holdings of Own Wrapped Debt which are categorised as Level 3 (valued using other valuation techniques). All corporate bonds are valued at amortised cost.	Level 2 investments under Solvency II and valued using prices obtained from brokers and other pricing providers (including accrued interest), other than in respect of Corporate Bond holdings of Own Wrapped Debt which are categorised as Level 3 and valued using alternative valuation methods as set out at section 5.5 below.
<i>Collateralised Securities</i>	Level 2 investments in the fair value hierarchy under FRS102. All collateralised bonds are valued at amortised cost.	Level 2 investments under Solvency II and valued using prices obtained from brokers and other pricing providers.
<i>Collective investment schemes</i>	Level 1 investments in the fair value hierarchy under FRS102 for UCIT qualifying funds. All other collective investment schemes are categorised as Level 2. All collective investment schemes are held at fair value.	Level 1 investments under Solvency II for UCIT qualifying funds. All other collective investment schemes are categorised as Level 2. Market value is determined using the closing bid price at the balance sheet date
Loans	Investments in term loans are considered to be Level 2 investments and are valued at amortised cost.	Level 2 investments under Solvency II and valued using prices obtained from brokers and other pricing providers

Component	Financial Statements	Solvency II
Other Insurance debtors	Includes only debtors linked to Minimum Guaranteed Premiums (" MGP ") due or other contractual premiums. Amounts are discounted at market rates.	The present value of future premium receivable is included within the calculation of technical provisions. The amount includes both MGP amounts and expected premiums due beyond MGP. Amounts are discounted at EIOPA risk free term structure rates. In determining the amounts expected beyond MGP, exposures are assumed to amortise in accordance with their contractual profile with the exception of 6 policies which are expected to terminate early or partial prepay, primarily linked to strong incentives for the issuer to refinance after interest rate and premium step ups on the underlying bonds.
Cash and Cash Equivalentents	Balances comprise cash deposits and financial investments that are within 3 months of maturity at the date of acquisition. Assets are highly liquid, convertible into known amounts of cash and have insignificant risk of change in fair market value.	Cash equivalent holdings in government securities have been reclassified as government bonds for Solvency II. The remaining balance under Solvency II represents cash deposits and is available on demand and without penalty.
Other Debtors	Includes accrued interest, security settlement amounts and insurance premium tax debtors	Security settlement amounts and insurance premium tax debtors are included within other debtors at their fair value in line with the Financial Statements.

Component	Financial Statements	Solvency II
Deferred Tax Assets	Deferred tax assets in connection with timing differences. Deferred tax assets are only recognised as far as it is considered that there is a reasonable expectation that the tax will be recoverable.	Deferred tax assets in connection with timing differences are recognised (in line with the recognition in the Financial Statements), together with a notional deferred tax asset created by the difference between the Solvency II and UK GAAP balance sheets at foreseeable tax rates, arising from the unwind of Risk Margin. Risk Margin will unwind over the remaining period of the run off of AUK's insured portfolio to 2047 and AUK reviews at least annually as part of its ORSA process its future profitability over this period to assess the recoverability of this asset. This leads to the deferred tax asset under Solvency II being higher than the equivalent deferred tax asset in the Financial Statements.
Deferred Acquisition Costs (" DAC ")	Amortised over the remaining life of policies written in the year in which the acquisition cost arose.	Acquisition costs deferred from prior periods are not included as they have no future cashflow impact. AUK has no future acquisition costs as it is in run off and not writing any new business.
Unearned Premium Reserve	Amortised over the remaining life of the policies.	Not included under Solvency II.
Technical Provisions	Expected losses on currently impaired transactions are discounted at a single rate based on historic investment returns. Any loss adjusting expenses forecast to be incurred in remediating the transaction are also included within Technical Provisions (at undiscounted values).	The sum of expected losses on both currently impaired and all other transactions on a statistical basis and future operating and loss adjusting expenses, less future expected premiums receivable. All amounts are discounted at EIOPA Risk-free term structure rates. The calculation includes a value for Risk Margin.
Risk Margin	Not taken account of.	This is derived from projected future solvency capital requirements excluding Market Risk with no simplification.

Component	Financial Statements	Solvency II
Other Creditors and Accrued Income	Includes accrued expenditure and payables for securities. Amounts are generally payable within 1 year. Also includes any accrued income being recognised over the life of the policy.	Other than in respect of accrued income other creditors are included on the same basis as the Financial Statements as the liabilities are reflected at fair value. Accrued income in respect of fees recognised over the life of the policy is not recognised as a liability under Solvency II.
Deferred Tax Liabilities	Deferred tax liabilities due in respect of AUK's Italian Branch.	Included on the same basis as the Financial Statements.
Interest Bearing Loans and Borrowings	Comprises loan notes issued during the year in connection with the commutation of Ballantyne. The notes are zero coupon notes repayable in 2035. The liability is recognised at its fair value at date of issuance and then amortised to final par.	Included on the same basis as the Financial Statements.

5.3 Assets

The value of assets held by AUK valued under Solvency II and UK GAAP principles are shown in the table below. The explanation for any differences in the valuation between the two bases is set out in section 5.2 and is quantified in the table below.

Table 15: Reconciliation of the UK GAAP Assets to the Solvency II Assets

GBP m's	Financial Statements Dec 2019	Reclassification Adjustments	Valuation Adjustments	Solvency II Dec 2019
Deferred Tax Assets	0.5	—	40.8	41.3
Fixed Assets	0.1	—	—	0.1
Financial Investments	464.0	1.3	4.8	470.1
Other Loans and mortgages	1.0	—	—	1.0
Other Insurance Debtors	139.2	(139.2)	—	—
Cash & Equivalents	5.1	—	—	5.1
Other Debtors	2.1	(1.3)	(0.2)	0.6
Deferred Acquisition Costs	2.5	—	(2.5)	—
Total Assets	614.5	(139.2)	42.9	518.2

5.4 Technical Provisions and Other Liabilities

5.4.1 Overview

AUK's technical provisions and other liabilities as valued under Solvency II and UK GAAP principles are shown in the table 14. The explanation for any differences in the valuation between the two bases is set out in section 5.2 and is quantified in the table below.

Table 17: Reconciliation of UK GAAP Liabilities to Solvency II Liabilities

GBP m's	Financial Statements Dec 2019	Reclassification Adjustments	Valuation Adjustments	Solvency II Dec 2019
Technical Provisions	192.2	(139.2)	45.3	98.3
Risk Margin	0.0	—	203.6	203.6
Deferred Tax Liabilities	0.9	—	(0.2)	0.7
Interest bearing loans and borrowings	9.6	—	—	9.6
Other Creditors	25.3	—	(6.8)	18.5
Total Liabilities	228.0	(139.2)	241.9	330.7

5.4.2 Technical Provisions and Other Liabilities

Technical provisions together with the Risk Margin comprise five elements (with the first four elements making up the Best Estimate and the final element being the Risk Margin) each discounted at EIOPA risk free term structure rates:

- Expected losses from impaired transactions (currently zero), plus
- Expected losses calculated on a statistical basis for all policies other than those currently impaired, plus
- The present value of future operating expenses, less
- The present value of future expected premiums (being the sum of MGP amounts and premiums in excess of MGP), plus
- The Risk Margin

The policies issued by AUK terminate at various dates in the future with the scheduled maturity of its final policy being 2047. The establishment of the appropriate level of technical provisions, particularly given the extended period of time to the maturity of many of AUK's policies, is an inherently uncertain process involving numerous estimates and subjective judgements by management. The most significant of these assumptions and uncertainties are summarised below:

- Expected losses from impaired transactions are estimated based on the present value of the estimated value of future claims for debt service payments (as to both interest and principal), less any estimated future recoveries. Losses and recoveries are estimated under a number of scenarios for each impaired transaction with the resulting contribution to the Best Estimate being based on the weighted outcome of those scenarios.
- Expected losses calculated on a statistical basis consider the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured and the expected recovery rates on the insured obligation. These calculations use information from both external rating agencies and internal management judgements.

- Future operating expenses are based on the level of overhead and investment expenses projected over the remaining period of the run off of AUK's policies to 2047. Expense projections are prepared for a 5 year forward period. Overhead expenses beyond that period are assumed to be constant over the remaining run off of AUK's policies to 2047 (reflecting real costs declining with the run off of the portfolio and then increasing by the level of future inflation), and investment expenses are assumed to grow in line with the anticipated future level of AUK's financial investments. Uncertainties in these projections arise as the future level of AUK's expenses and the level of inflation may differ from the assumptions used.
- The present value of future premiums is based on the premium rate applicable to each policy and the level of future exposure for each policy based on the probable and reasonably estimated amounts and timing of any early termination of that policy. Premium receivable amounts are underpinned by makewhole agreements under which the present value of future premium receivable becomes payable in the event of the early termination of a policy resulting in the receipt by AUK of a MGP. Approximately 70% of the present value of future premiums is represented by MGP amounts which therefore removes a significant portion of the uncertainty in this element of the Best Estimate.
- No simplifications have been made in the calculation of Risk Margin. Risk Margin has been based upon the full future projected SCR to 2047 in accordance with Art 77 and Art 77(5) of the Directive. Consequently the SCR requirement for each future year to 2047 has been calculated (excluding the component of SCR linked to market risk) and then discounted by the relevant GBP EIOPA risk free term structure rate. These discounted SCR requirements are then multiplied by the prescribed EIOPA cost of capital rate of 6% and then summed to provide the overall Risk Margin figure. There are inherent uncertainties in this calculation stemming from the need to project SCR requirements over a 28 year period.

The breakdown between Best Estimate and Risk Margin is set out below as at 31 December 2019 and 31 December 2018. The entire technical provision relates to credit and surety and as a monoline insurer this is AUK's only line of business.

Table 16: Technical Provision Analysis

GBP m's	Dec 2019	Dec 2018
Best Estimate	98.3	205.6
Risk Margin	203.6	240.8
Total Technical Provision	301.9	446.4

The decrease in the Technical Provision over the year is a result of:

- a significant decrease in expected claims from impaired transactions due to the commutation and restructuring of Ballantyne resulting in the elimination of all remaining exposure to that policy, and
- a decrease in Risk Margin linked to the reduction in the Non-Life Risk component of SCR in the year following reduction in the exposure to a number of AUK's largest policies and the continuing run-off of the portfolio, offset by
- decreases in the present value of future premium receivable due to the collection of premium income over the year, and

- an increase in the expected losses for other than impaired transactions due to updated probability of default data from Moody's which captures default activity during the 25 years ended December 2018 (whereas in prior years probability of default data had been fixed), and the downgrade of one of AUK's top 10 policies and changes in discount rates, offset by the run off of policies over the year.

Claims arose in the year in respect of 2 policies. The total claim expense (including commutations paid and net of subrogation received) was £84.5 million.

5.4.3 Other Liabilities

Other liabilities relate to deferred tax liabilities due in respect of AUK's Italian Branch, accrued expenditure, a zero coupon loan note issued in connection with the Restructuring and payables for security purchases.

5.5 Alternative Methods of Valuation

As noted in section 2.3.2 and section 5.2 AUK holds Own Wrapped Debt. For Own Wrapped Debt fair value is determined by reference to the market value of the security excluding the market's assessment of the value of the guarantee which the Company provides. The value which is attributable to the guarantee is derived from comparison of broker price quotations of Own Wrapped Debt to price quotations of pari-passu unwrapped tranches of debt issued by the same issuer where available or by reference to swap rates and spreads for comparable instruments where this is not possible.

6 Capital Management

6.1 Own Funds

AUK holds Tier I and Tier 3 capital as set out below. There are no deductions from or restrictions to capital.

Table 18: Own Funds

GBP m's	Dec 2019	Dec 2018
Tier I Capital	146.9	60.2
Tier 3 Capital	40.6	34.7
Total Available Own Funds	187.5	94.9

The reconciliation of UK GAAP shareholders funds as at 31 December 2019 to own funds under Solvency II regulations is shown below and further detail of components of capital and the reconciliation reserve are set out on QRT s.23.01.01. Tier I capital comprises ordinary share capital and the reconciliation reserve and Tier 3 capital comprises the net of deferred tax assets and liabilities. There is no prohibition within AUK's articles of association to the payment of a dividend being conditional upon the fulfilment by AUK of the Solvency II regulations at the time of payment.

Table 19: Reconciliation of UK GAAP Reserves to Own Funds

GBP m's	Dec 2019	Dec 2018
UK GAAP Shareholders funds	386.5	262.7
Valuation Differences between UK GAAP technical items and Best Estimate technical provisions	(41.0)	33.3
Risk Margin	(203.6)	(240.8)
Valuation of Financial Investments	4.8	5.3
Deferred tax	40.8	34.4
Solvency II Net Assets and Available Own Funds	187.5	94.9

As the table shows the most significant difference relates to the requirement to establish a risk margin under Solvency II whereas there is no such requirement under UK GAAP. Due to the extended period of AUK's run off to 2047 the risk margin calculation results in a very significant liability under Solvency II principles. The difference in the valuation of financial investments between UK GAAP and Solvency II relates to the differences between the value of fixed income investments valued at amortised cost and the market value of those investments. The deferred tax adjustment recognises the notional deferred tax asset under Solvency II created by the difference between the Solvency II balance sheet and UK GAAP balance sheet at the applicable rate.

Total eligible own funds to meet SCR and MCR differ from the available own funds noted in table 18 above, due to limitations on the eligibility of Tier 3 capital to meet SCR and MCR. These limitations require that the eligible amount of Tier 3 items used to meet SCR is less than one third of the total amount of eligible own funds and that no amount of Tier 3 capital is eligible to meet MCR.

The reconciliation of total available own funds to total eligible own funds is shown below.

Table 20: Reconciliation of Available Own Funds to Eligible Own Funds

GBP m's	Dec 2019	Dec 2018
Total Available own funds	187.5	94.9
Limitation of Tier 3 funds to one third of eligible own funds	(9.5)	(4.6)
Total Eligible own funds to meet SCR	178.0	90.3
Limitation of Tier 3 funds for the purpose of meeting MCR	(31.1)	(30.1)
Total Eligible own funds to meet MCR	146.9	60.2

6.2 Minimum Capital Requirement and Solvency Capital Requirement

6.2.1 Overall Comments

In its overall assessment of its capital needs AUK has considered;

- SCR both as at 31 December 2019 and looking forward over the planning cycle to 31 December 2023;
- the stress and reverse stress test outcomes modelled over the full contractual run-off of AUK's insurance book to 2047;
- the particular circumstances of its shareholder AAC and ultimate parent AFG as noted in section 4.7.1;
- its longer term Pillar I capital requirements over the full run-off of the book to 2047; and
- whether any of these would change in a more recessionary environment.

6.2.2 SCR

In relation to the SCR AUK's conclusion is that the current capital needs of AUK are £207.5 million (2018 £356.8 million). It should be noted that AUK's capital requirements are expected to diminish over time with the natural run-off of its insurance policies and therefore the current capital requirements may represent a long term peak. No simplifications are used in the calculation of SCR and the duration-based equity risk sub-module has not been used. The capital requirements as at 31 December 2019 and 31 December 2018 are as set out below.

Table 21: Solvency Capital Requirement

GBP m's	Dec 2019	Dec 2018
Pillar I		
Non-Life Risk	190.7	268.6
Counterparty Default Risk	0.3	0.6
Market Risk	94.9	167.6
Operational Risk	3.0	6.2
Deferred Tax	(28.8)	0.0
Pillar I Diversification Claimed	(52.6)	(86.2)
Solvency Capital Requirement	207.5	356.8

The largest component of the SCR is generated from Non-Life Risk and within this the largest component of risk is due to the Catastrophe Risk requirements that come from the simultaneous default of AUK's two largest exposures with a 10% Loss Given Default ("LGD").

The table above shows the SCR decreased by £149.3 million in 2019. The largest drivers of this change have been:

- the reduction in Non-Life Risk due to the reduction of exposure to AUK's previously two largest policies during the year,
- the reduction in market risk following the restructuring of Ballantyne during the year which resulted in the termination of the AUK's Own Wrapped Debt holdings from this issuer. As an unrated securitised bond AUK's holdings of Ballantyne debt carried significant Spread Risk and Counterparty Risk charges and therefore the Restructuring resulted in a significant reduction in AUK's Market Risk charge, and
- a deduction within the SCR calculation for the loss absorbing capacity of deferred tax due to the profit generated during 2019. Therefore, should a stress event occur during 2020 losses could be carried back.

6.2.3 MCR

The MCR as at 31 December 2019 and 31 December 2018 are as set out in the table below.

Table 22: Minimum Capital Requirement

GBP m's	Dec 2019	Dec 2018
Minimum Capital Requirement	51.9	89.2

The MCR has decreased due to the decrease in SCR over the year. MCR is calculated using the Standard Formula approach and is equal to the sum of 17.7% of technical provisions without risk margin, plus 11.3% of premiums written in the last 12 months, subject to a floor of 25% of SCR and a cap of 45% of SCR. For AUK this results in a MCR equal to 25% of the SCR.

6.3 Use of internal model

AUK uses the Standard Formula approach and does not use an internal model or undertaking-specific parameters in its calculation. In using the Standard Formula approach AUK has considered its appropriateness for each risk and sub module of the SCR calculation and compared the Standard Formula approach output with its own solvency and risk assessment. Whilst AUK's own assessment differs from the standard formula AUK's conclusion is that the Standard Formula approach is not inappropriate and AUK applies the Standard Formula approach without any simplifications.

6.4 Non-Compliance with the SCR

As at 31 December 2019 AUK is in compliance with MCR requirements but remains in non-compliance with SCR requirements. The comparison of these capital requirements to AUK's own funds is set out below:

Table 23: Regulatory Capital Adequacy

GBP m's	Dec 2019	Dec 2018
Total Eligible funds to meet SCR	178.0	90.4
Solvency Capital Requirement	207.5	356.8
Capital (Deficit) for SCR	(29.5)	(266.4)
Total Eligible funds to meet MCR	146.9	60.2
Minimum Capital Requirement	51.9	89.2
Capital Surplus / (Deficit) for MCR	95.0	(29.0)

AUK has for a number of years had a capital shortfall as compared to its capital requirements. The capital deficit as compared to SCR improved significantly during 2019 and is expected to improve further year on year, as policies expire and investments increase. AUK's capital met MCR for the first time during 2019.

The key driver of the improvement in AUK's eligible own funds over 2019 was the significant decrease in other technical provisions over the year as a result of the restructuring and commutation in June 2019 of one of AUK's financial guarantee obligations, Ballantyne. The restructuring also led to a reduction in SCR due to the reduction in market risk and non-life risk following the commutation of the policy.

AUK is unlikely to be able to remediate any shortfall through additional capital issuance given that both AUK and its parent AAC are in run-off and with AAC remaining under the close supervision of its regulator, there is no prospect currently of any injection of additional capital from AAC.

It should be noted, that regardless of this capital shortfall AUK has sufficient resources to meet its obligations as they fall due, and is therefore both a going concern and solvent on a balance sheet and cashflow basis.

Ambac Assurance UK Limited.

Directors' Certificate

Financial year ended 31 December 2019

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA rules and Solvency II Regulations.

We are satisfied, except as explained in note 1, that:

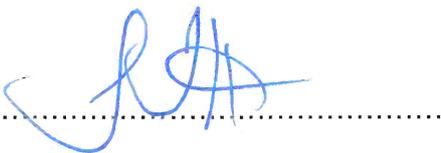
- (a) Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable to the insurer, and
- (b) It is reasonable to believe that the insurer has continued so to comply subsequently and will continue to comply in future.

Note 1

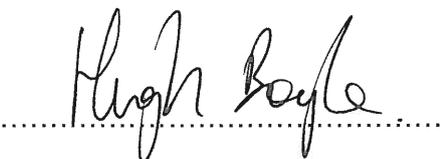
As a result of a technical provision created in 2008, the subsequent termination of the reinsurance agreement with Ambac Assurance Corporation in 2010 and the consequent impairment of reinsurance balances previously due from Ambac Assurance Corporation, the company has not maintained capital resources equal to or in excess of either its Solvency Capital Requirement or its Minimum Capital Requirement throughout the financial year in question. From June 2019 and subsequently the company has been in compliance with its Minimum Capital Requirement but remains non-compliant with its Solvency Capital Requirement.



Tony McMahon - *Chairman of the Board of Directors*



John Tiff - *Chief Executive Officer and Director*

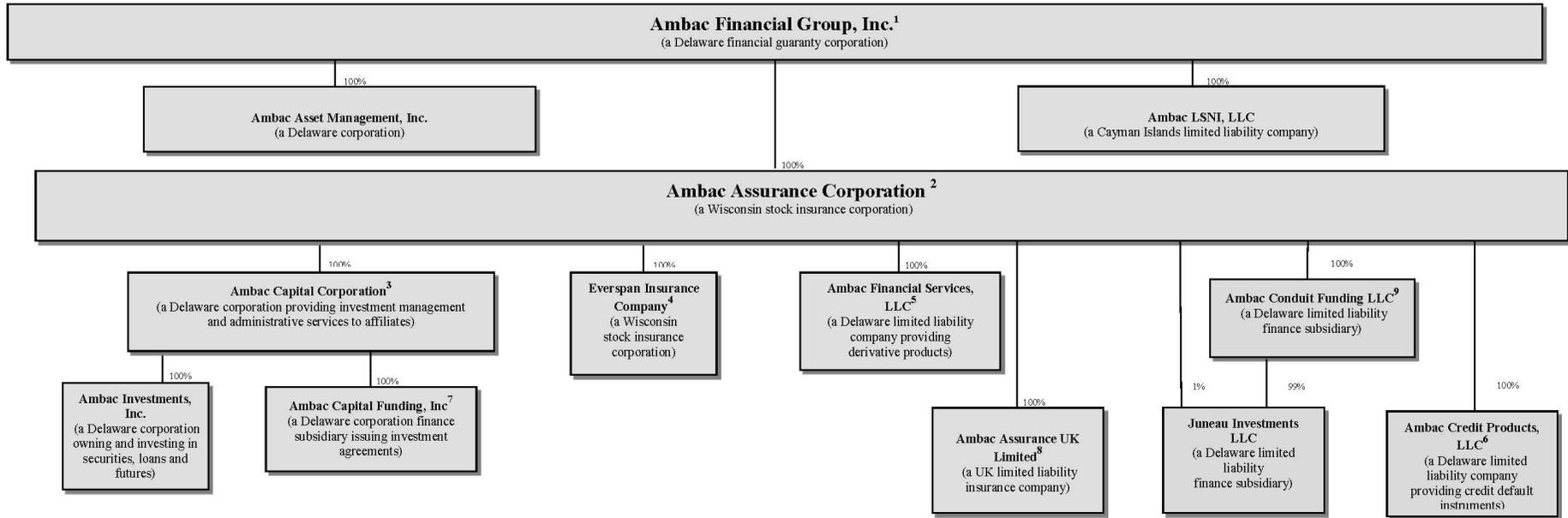


Hugh Boyle – *Director and Audit & Risk Committee Chairman*

APPENDIX A - AFG GROUP STRUCTURE CHART as at 31 December 2019

AFG and all of its affiliates are Delaware corporations except as follows: AAC and Everspan Financial Guarantee Corp are Wisconsin stock insurance corporations; Ambac Credit Products ("**ACP**"), Ambac Capital Funding ("**ACF**"), Ambac Financial Services LLC ("**AFSLLC**") and Phoenix Holdings LLC ("**APH**") are Delaware limited liability corporations; Ambac LSNI LLC is a Cayman Island limited liability corporation and Ambac UK is a UK company. The address of Ambac UK is Second Floor, 21 Great Winchester Street, London EC2N 2JA, England. The address of all other entities listed is One World Trade Center, 41st Floor, New York, NY 10007.

The key subsidiaries of AFG are set out overleaf.



Notes

1. DE co. formed April 29, 1991; reorganized as of May 1, 2013. Prior to July 11, 1997, Ambac Financial Group, Inc. (“AFG”) was called AMBAC Inc. Excluded from the chart is AFG’s de minimis interest in Lumesis, Inc. All entities, except Ambac UK, are located at One World Trade Center, 41st Floor, New York, NY 10007.
2. Wisconsin insurance co. formed on February 25, 1970. Prior to July 11, 1997, Ambac Assurance Corporation (“AAC”) was called AMBAC Indemnity Corporation.
3. On November 12, 2008, Ambac Capital Corporation (“ACC”) and its subsidiaries were dividended to AAC. AAC became the 100% sole shareholder of ACC and ACC remained the 100% sole shareholder of those subsidiaries
4. On December 18, 1997 AAC acquired all of the stock of Connie Lee Insurance Company, Connie Lee Management Services Corporation (*which was dissolved on August 18, 2000*) and Connie Lee Consulting Services, Inc. (*which was dissolved on February 3, 1998*) through the merger of AAC’s subsidiary, Ambac Merger Sub, Inc., into Construction Loan Insurance Corporation (“*Construction Loan*”). Construction Loan was then merged into another AAC subsidiary, CLIC Acquisition Corporation (survivor), and changed its name to Connie Lee Holdings, Inc. (*which dissolved on September 5, 2017*). On September 24, 2008, Connie Lee Insurance Company filed with OCI to change its name to Everspan Financial Guarantee Corp., and on July 9, 2019, Everspan Financial Guarantee Corp. filed with OCI to change its name to Everspan Insurance Company.
5. DE LLC formed on April 6, 1994. On December 30, 2003 Ambac Financial Services, L.P. (“AFSLP”) changed its name to Ambac Financial Service, L.L.C. (“AFSLLC”).
6. On March 24, 2010, AAC’s limited liability interests in Ambac Credit Products, LLC, Ambac Conduit Funding LLC, Aleutian Investments LLC (which dissolved on February 18, 2015) and Juneau Investments LLC were allocated to the Segregated Account of Ambac Assurance Corporation. On February 22, 2018 the Segregated Account exited from rehabilitation following the successful conclusion of an outstanding exchange offer and consent solicitation and satisfaction of certain other conditions including discharge of all deferred payment obligations of AAC and therefore these entities are now again under the control of AAC.
7. DE co formed on January 20, 1996. Ambac Capital Management, Inc. was merged into Ambac Capital Funding, Inc. on September 28, 1999.
8. UK company formed on September 11, 1996. On February 8, 1999, AMBAC Insurance UK Limited changed its name to Ambac Assurance UK Limited. Located at Second Floor, 21 Great Winchester Street, London EC2N 2JA, England
9. On March 19, 2010, Ambac Conduit Funding LLC, and its subsidiaries, Aleutian Investments, LLC (which dissolved on February 18, 2015) and Juneau Investments, LLC, were dividended to AAC.

Ambac Assurance UK Limited

Solvency and Financial Condition Report

Disclosures

31 December

2019

(Monetary amounts in GBP thousands)

General information

Undertaking name	Ambac Assurance UK Limited
Undertaking identification code	213800SU17F3TWJCH23
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.17.01.02 - Non-Life Technical Provisions
- S.19.01.21 - Non-Life insurance claims
- S.23.01.01 - Own Funds
- S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
		C0010
	Assets	
R0030	Intangible assets	0
R0040	Deferred tax assets	41,324
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	52
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	470,014
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	154,447
R0140	<i>Government Bonds</i>	79,649
R0150	<i>Corporate Bonds</i>	74,437
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	360
R0180	<i>Collective Investments Undertakings</i>	315,567
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	973
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	973
R0270	Reinsurance recoverables from:	0
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	0
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	5,150
R0420	Any other assets, not elsewhere shown	579
R0500	Total assets	518,092

S.02.01.02

Balance sheet

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions - non-life	301,946
R0520	<i>Technical provisions - non-life (excluding health)</i>	301,946
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	98,367
R0550	<i>Risk margin</i>	203,579
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	0
R0680	<i>Risk margin</i>	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	683
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	9,559
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	0
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	18,452
R0900	Total liabilities	330,640
R1000	Excess of assets over liabilities	187,452

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																
R0110	Gross - Direct Business															11,073
R0120	Gross - Proportional reinsurance accepted															0
R0130	Gross - Non-proportional reinsurance accepted															0
R0140	Reinsurers' share															0
R0200	Net															11,073
Premiums earned																
R0210	Gross - Direct Business															25,750
R0220	Gross - Proportional reinsurance accepted															0
R0230	Gross - Non-proportional reinsurance accepted															0
R0240	Reinsurers' share															0
R0300	Net															25,750
Claims incurred																
R0310	Gross - Direct Business															84,473
R0320	Gross - Proportional reinsurance accepted															0
R0330	Gross - Non-proportional reinsurance accepted															0
R0340	Reinsurers' share															0
R0400	Net															84,473
Changes in other technical provisions																
R0410	Gross - Direct Business															-180,984
R0420	Gross - Proportional reinsurance accepted															0
R0430	Gross - Non-proportional reinsurance accepted															0
R0440	Reinsurers' share															0
R0500	Net															-180,984
R0550	Expenses incurred															11,764
R1200	Other expenses															
R1300	Total expenses															11,764

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020

Accident year / underwriting year

Gross Claims Paid (non-cumulative)														
(absolute amount)														
Year	C0010	C0020	C0030	C0040	Development year						C0100	C0110	C0170	C0180
	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)	
R0100	Prior											0	0	0
R0160	2010	0	0	0	0	0	0	0	0	0	0	0	0	
R0170	2011	0	0	0	0	0	0	0	0	0		0	0	
R0180	2012	0	0	0	0	0	0	0				0	0	
R0190	2013	0	0	0	0	0	0					0	0	
R0200	2014	0	0	0	0	0						0	0	
R0210	2015	0	0	0	0							0	0	
R0220	2016	5,045	0	0	0							0	5,045	
R0230	2017	538	0	0								0	538	
R0240	2018	401	0									0	401	
R0250	2019	84,473										84,473	84,473	
R0260												Total	84,473	90,457

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	Development year						C0300	C0360	
	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)	
R0100	Prior											0	0
R0160	2010	0	0	0	0	0	0	0	0	0	0	0	
R0170	2011	0	0	0	0	0	0	0	0	0		0	
R0180	2012	0	0	0	0	0	0	0				0	
R0190	2013	0	0	0	0	0	0					0	
R0200	2014	0	0	0	0	0						0	
R0210	2015	0	0	0	0							0	
R0220	2016	0	0	0	0							0	
R0230	2017	0	0	0								0	
R0240	2018	0	0									0	
R0250	2019	0										0	
R0260												Total	0

S.23.01.01

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
40,345	40,345		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
106,466	106,466			
0		0	0	0
40,640				40,640
0	0	0	0	0
0				
0	0	0	0	
187,452	146,811	0	0	40,640

0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

187,452	146,811	0	0	40,640
146,811	146,811	0	0	
177,940	146,811	0	0	31,128
146,811	146,811	0	0	

207,523
51,881
85.74%
282.98%

C0060
187,452
0
80,986
0
106,466

0
237,533
237,533

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	94,856		
R0020 Counterparty default risk	294		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	190,673		
R0060 Diversification	-52,441		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	233,382		
	Calculation of Solvency Capital Requirement		
R0130 Operational risk	2,951		
R0140 Loss-absorbing capacity of technical provisions	0		
R0150 Loss-absorbing capacity of deferred taxes	-28,810		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 Solvency Capital Requirement excluding capital add-on	207,523		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement	207,523		
	Other information on SCR		
R0400 Capital requirement for duration-based equity risk sub-module	0		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	0		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		
	Approach to tax rate		
R0590 Approach based on average tax rate	Yes		
	Calculation of loss absorbing capacity of deferred taxes		
R0640 LAC DT	-28,810		
R0650 LAC DT justified by reversion of deferred tax liabilities	0		
R0660 LAC DT justified by reference to probable future taxable economic profit	0		
R0670 LAC DT justified by carry back, current year	-28,810		
R0680 LAC DT justified by carry back, future years	0		
R0690 Maximum LAC DT	0		

USP Key

For life underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 9 - None

For health underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 2 - Standard deviation for NSLT health premium risk
- 3 - Standard deviation for NSLT health gross premium risk
- 4 - Adjustment factor for non-proportional reinsurance
- 5 - Standard deviation for NSLT health reserve risk
- 9 - None

For non-life underwriting risk:

- 4 - Adjustment factor for non-proportional reinsurance
- 6 - Standard deviation for non-life premium risk
- 7 - Standard deviation for non-life gross premium risk
- 8 - Standard deviation for non-life reserve risk
- 9 - None

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

R0010	MCR _{NL} Result	C0010	18,662
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R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
C0020	C0030
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
98,367	11,073
0	0
0	0
0	0
0	0
0	0
0	0
0	0

Linear formula component for life insurance and reinsurance obligations

R0200	MCR _L Result	C0040	0
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R0210	Obligations with profit participation - guaranteed benefits
R0220	Obligations with profit participation - future discretionary benefits
R0230	Index-linked and unit-linked insurance obligations
R0240	Other life (re)insurance and health (re)insurance obligations
R0250	Total capital at risk for all life (re)insurance obligations

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
C0050	C0060

Overall MCR calculation

R0300	Linear MCR	C0070	18,662
R0310	SCR		207,523
R0320	MCR cap		93,385
R0330	MCR floor		51,881
R0340	Combined MCR		51,881
R0350	Absolute floor of the MCR		3,187
R0400	Minimum Capital Requirement		51,881