

Citicorp Trustee Company Limited
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Re: Posillipo Finance II srl Series 2007-1 Euro 870,000,000 Class A1 Asset Backed Floating Rate Notes Due 2035 (the "Notes")

Information to European Policyholders on the Impact of Brexit

1. Brexit and Ambac Assurance UK Limited ("AUK")

In the absence of a legally binding treaty ("**Withdrawal Agreement**") between the UK and the remaining 27 European Union ("**EU**") member countries ("**EU 27**") being signed by 29th March 2019, the ability of United Kingdom ("**UK**") based insurers to 'passport' their activities into the EU to continue to service EU27-based customers will be lost. Such 'passport' arrangements eliminate the necessity of additional licensing or authorisation in those other EU jurisdictions.

AUK has an obligation to communicate to its EU 27 policy holders the basis upon which AUK intends to continue to service their policies under such circumstances. AUK has a total of six policies in the EU 27 ("**EU 27 Policies**") which were issued under cross-border or freedom of establishment passports in Ireland, Italy, France and Luxembourg. One of those six was issued through its Milan Branch set up under the freedom of establishment, as referred to below.

2. AUK is in run off

In 2009, the previous UK regulator, the Financial Services Authority, curtailed AUK's licence to undertake new business, and limited its licence to undertaking only run off related activity in respect of existing insured exposures. Accordingly, AUK is only authorised to run off its financial guarantee insurance portfolio in the UK, and is authorised to do the same in the EU 27 countries where AUK issued policies pursuant to the above referenced 'passport' arrangement.

3. AUK has a large deficit under Solvency II

AUK has a significant capital shortfall as compared to its capital requirements and this shortfall is expected to persist for a number of years.

4. AUK has no plans to create an EU subsidiary due to Brexit

Given AUK's regulatory capital shortfall and the fact that its licence is limited to run off, AUK does not intend to set up a new or separate EU subsidiary to service its EU 27 Policies.

5. Ability to service policies potentially affected by Brexit

AUK's ability to continue to service its outstanding policies issued under cross-border or freedom of establishment passports in Ireland, Italy, France and Luxembourg may be frustrated if no Withdrawal Agreement is signed by 29 March 2019. The potential or actual loss of AUK's EU passport rights does not impact the contractual obligations AUK has under its insurance policies to its policy holders under English law. However, in the absence of a Withdrawal Agreement AUK may lose its legal authorisation to serve policyholders of EU 27 Policies within the EU (and thereby maybe unable to preserve effectiveness of insurance contracts and, consequently, to legally collect premiums or pay claims within the EU).

Whether or not such EU 27 Policies can continue to be serviced within the EU beyond 29 March 2019 in the absence of a Withdrawal Agreement will ultimately be determined through agreement with the relevant regulatory authority in each of the relevant EU 27 jurisdictions.

Notwithstanding the above, AUK will seek to continue to service its EU 27 Policies to fulfil its contractual obligations beyond 29 March 2019 and to reach the necessary regulatory accords to allow this to happen.

6. The Milan Branch

AUK established its Milan, Italy, Branch under the freedom of establishment. It has one remaining policy to run-off. If necessary, AUK will examine making an application to the Italian insurance regulator, Istituto per la Vigilanza sulle Assicurazioni ("IVASS"), in the coming months to licence its branch in Italy as a third country branch in the event that no Withdrawal Agreement is signed by 29th March 2019.

In light of AUK's Solvency II capital deficit position, its ability to provide liquidity and/or capital to such an endeavour remains an open question and will be subject to the agreement of IVASS and AUK's home state regulators, the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA").

AUK will continue to work with IVASS, the PRA and FCA to find a solution to allow the continued servicing of its policy in Italy in the event that no Withdrawal Agreement is signed by 29th March 2019.



30/11/18

Alan Dee
Legal Representative