

Available capital resources under Solvency II were a surplus of £183 million at September 30, 2020, of which £170 million were eligible to meet solvency capital requirements. This is a reduction from December 31, 2019, when available capital resources were a surplus of £188 million of which £178 million were eligible to meet solvency capital requirements. Eligible capital resources at September 30, 2020, and December 31, 2019, were in comparison to regulatory capital requirements of £234 million and £208 million, respectively. Therefore, Ambac UK was deficient in terms of compliance with applicable regulatory capital requirements by £64 million and £30 million at September 30, 2020, and December 31, 2019, respectively. The deficit increased as at September 30, 2020, due to an increase in regulatory capital requirements for non-life insurers in the credit and surety line of business and due to a reduction in eligible capital resources mainly caused by the fall over the period in long term discount rates. The regulators are aware of the deficiency in capital resources as compared to capital requirements and dialogue between Ambac UK management and its regulators remains ongoing with respect to options for addressing the shortcoming, although such options remain few.

AMBAC UK FINANCIAL RESULTS UNDER UK ACCOUNTING PRINCIPLES

Ambac UK is required to prepare financial statements under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland." Ambac UK's shareholder funds under UK GAAP were £391 million at September 30, 2020, as compared to £387 million at December 31, 2019. At September 30, 2020, the carrying value of cash and investments was £473 million, an increase from £470 million at December 31, 2019. The increase in shareholders' funds and cash and investments was primarily due to the continued receipt of premiums and foreign exchange gains, partially offset by insurance losses, losses within Ambac UK's investment portfolio (excluding foreign exchange) and operating expense payments.

Ambac UK is also required to prepare financial information in accordance with the Solvency II Directive. The basis of preparation of this information is significantly different from both US GAAP and UK GAAP.