

AMBAC UK FINANCIAL RESULTS UNDER UK ACCOUNTING PRINCIPLES (£ in millions)

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 £430 at June 30, 2021, as compared to £412 at December 31, 2020. At June 30, 2021, the carrying value of cash and investments was £487, an increase from £481 at December 31, 2020. The increase in shareholders' funds and cash and investments was primarily due to the continued receipt of premiums and investment income, partially offset by loss expenses, foreign exchange losses, operating expenses and tax 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.

Available capital resources under Solvency II were a surplus of £238 at June 30, 2021, of which £230 were eligible to meet solvency capital requirements. This is an increase from December 31, 2020, when available capital resources were a surplus of £196 of which £184 were eligible to meet solvency capital requirements. Eligible capital resources at June 30, 2021, and December 31, 2020, were in comparison to regulatory capital requirements of £250 and £256, respectively. Therefore, Ambac UK remains deficient in terms of compliance with applicable regulatory capital requirements by £20 and £72 at June 30, 2021, and December 31, 2020, respectively. The deficit reduced as at June 30, 2021, due to an increase in eligible capital resources mainly caused by the increase over the period in long term discount rates which reduced the value of technical provision liabilities. 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.