

*Questions and Answers Addressing Recent Actions Taken by the Wisconsin Regulator  
As of November 19, 2010*

**Questions Regarding OCI's Action**

**1. What action has Wisconsin's Office of the Commissioner of Insurance (OCI) taken?**

On March 24, 2010, the Office of the Commissioner of Insurance of the State of Wisconsin (OCI) filed a petition in state court to rehabilitate the Segregated Account of Ambac Assurance Corporation. Ambac Assurance Corporation (AAC) is the principal operating insurance company of Ambac Financial Group, Inc. (AFGI). The rehabilitation pertains solely to the recently established Segregated Account (the Segregated Account), which is a separate insurer from AAC for purposes of rehabilitation. The rehabilitation does not include AAC or its General Account. Under Wisconsin insurance law, the insurance regulator can seek rehabilitation if it believes an insurance company is in a financially hazardous condition. The OCI has informed AAC that it believes that the Segregated Account is in such a condition. The Segregated Account will operate under the terms of an Order of Rehabilitation, and, upon approval by the Court, a Plan of Rehabilitation.

**2. How is the rehabilitation of the Segregated Account implemented?**

OCI has taken or will take the following steps:

- Request the AAC Board to direct the officers of AAC to establish a segregated account for certain policies and other liabilities;
- Petition for Rehabilitation of the Segregated Account;
- Request an Order of Rehabilitation by the Rehabilitation Court;
- Request a moratorium, as approved by the Rehabilitation Court, on claims payments by the Segregated Account while the Rehabilitation Plan is being finalized and filed with the Rehabilitation Court;
- Appoint AAC as the management services provider for the Segregated Account;
- Prepare and Implement a Plan of Rehabilitation to address policy claims and other liabilities in the Segregated Account

**3. Is AAC in rehabilitation?**

No, only the Segregated Account is in rehabilitation.

**4. What is the Segregated Account?**

The Segregated Account was established to segregate certain of AAC's policies and other liabilities. The Segregated Account holds many of the policies against which there are significant existing claims or the likelihood of significant claims. Policies not allocated to the Segregated Account are in AAC's General Account. Under Wisconsin insurance law, the Segregated Account is treated as a separate insurer from AAC for purposes of rehabilitation. As a result, AAC is not subject to rehabilitation, nor is AAC under the supervision of the Rehabilitator. (See question #7 below for additional information)

**5. What is the General Account?**

The General Account, which is also referred to simply as AAC, retains all obligations of AAC which are not been allocated to the Segregated Account.

**6. What will happen to AAC?**

OCI has taken control of the Segregated Account and not AAC. AAC will continue operations and pay claims in the ordinary course of business on policy obligations which are not allocated to the Segregated Account.

**Ambac Assurance Policyholders – Questions regarding the Segregated Account**

**7. Which policies will be in the Segregated Account? How do I know if the policy insuring my bond is included in the Segregated Account?**

Policies insuring all residential mortgage-backed securities, certain credit default swap policies, certain student loan policies and certain other identified policies have been or will be allocated to the Segregated Account. Any policies insuring residential mortgage-backed securities not initially allocated to the Segregated Account will be allocated thereto within 20 days following the establishment of the Segregated Account, subject to any necessary filings or approvals of the Rehabilitation Court.

For a list of policies allocated to the Segregated Account, please go to the OCI web site at [www.ambacpolicyholders.com](http://www.ambacpolicyholders.com)

**8. How much capital/claims paying resources does the Segregated Account and General Account hold?**

The rehabilitation of the Segregated Account is intended to provide an orderly run-off and/or settlement of the policies allocated to the Segregated Account. In connection with its review and approval of the Plan of Operation, OCI has determined that there is an adequate amount of capital and surplus in the Segregated Account to effect such run-off and settlement. The Segregated Account has the ability to demand payment from a \$2 billion secured note issued by the General Account and an excess of loss reinsurance agreement with the General Account to pay claims and other liabilities. However, in no case will the General Account be obligated to pay the Segregated Account under either the note or the reinsurance agreement if the surplus as regards policyholders of the General Account falls below \$100 million (or such higher amount as determined by OCI pursuant to a prescribed account practice).

**9. What is OCI's strategy for the Segregated Account going forward? Will policies be allocated from the General Account to the Segregated Account in time or is this the only time there will be such allocations?**

With the exception of aforementioned residential mortgage-backed policies, certain policies insuring obligations payable from certain student loan assets that are subject to an assessment process to be conducted by OCI, and possibly policies relating to certain credit default swap contracts (see the Verified Petition for Order of Rehabilitation on the OCI web site at [www.ambacpolicyholders.com](http://www.ambacpolicyholders.com)), none of AAC's policies will be allocated on an ad hoc or rolling basis to the Segregated Account, although OCI reserves the right to correct clerical errors and oversights.

**10. How will the claims of policyholders in the Segregated Account be paid?**

After the moratorium period, it is anticipated that Segregated Account policyholders will receive a certain percentage of their claim(s) in cash and the remaining percentage of their claim(s) as deferred payment obligations. Such deferred payment obligations will likely take the form of surplus notes of either the Segregated Account or the General Account. The initial distribution percentages, payment mechanics and form of deferred payment obligations will not be finalized until the Plan of Rehabilitation is approved by the Rehabilitation Court.

**11. How long will the moratorium be in place?**

The precise terms of the moratorium will be in accordance with the final Plan of Rehabilitation. OCI has informed us that it currently anticipates that distributions may begin as early as February 2011, if the Plan of Rehabilitation is approved by the courts in November 2010.

**12. Can policies in the Segregated Account be settled or commuted with policyholders?**

Yes, AAC, as management services provider for the Segregated Account, with the approval of the Rehabilitator, remains willing to discuss settlements and commutations.

**13. If a policy insuring a bond I own is allocated to the Segregated Account, does that mean that I won't continue to get paid?**

If a policy allocated to the Segregated Account covers a performing asset, you will continue to receive payments based on the underlying performing asset as you did before. As of March 25, 2010, for example, all of the student loan securities that have been transferred to the Segregated Account were performing.

However, if your policy insures a security that is not a performing asset, such as many of the RMBS securities which comprise the majority of all policies that have been allocated to the Segregated Account, then after the moratorium period, it is anticipated that the policyholders (which in most cases are the trustees on behalf of holders of the relevant securities) will receive a certain percentage of their claim(s) in cash and the remaining percentage of their claim(s) in deferred payment obligations. The initial distribution percentages and payment mechanics will not be finalized until the Plan of Rehabilitation is approved by the Rehabilitation Court.

**14. Do other restrictions apply with respect to policies and other liabilities allocated to the Segregated Account?**

Yes. An Order for Temporary Injunctive Relief was entered by the Wisconsin Rehabilitation Court on March 24, 2010, which applies to policies and other liabilities allocated to the Segregated Account as well as contracts with certain subsidiaries of the Segregated Account, namely, Ambac Credit Products, LLC, Ambac Conduit Funding, LLC, Juneau Investments, LLC and Aleutian Investments, LLC. A copy of the Order for Temporary Injunctive Relief is on file at [www.ambacpolicyholders.com](http://www.ambacpolicyholders.com).

**15. Will the announcement regarding OCI's action have any impact on day-to-day operations of the company?**

No, AAC will continue to work actively to manage its assets and liabilities to the maximum benefit for all stakeholders.

**26. Where can I find additional information?**

The Office of the Commissioner of Insurance of the State of Wisconsin (OCI) has developed a website [www.ambacpolicyholders.com](http://www.ambacpolicyholders.com) for information regarding the action taken by the OCI and the impact on certain insured transactions.

This release contains statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of management's forward-looking statements here or in other publications may turn out to be incorrect and are based on Ambac management's current belief or opinions. Ambac's actual results may vary materially, and there are no guarantees about the performance of Ambac's securities. Among events, risks, uncertainties or factors that could cause actual results to differ materially are: (1) the impact of the bankruptcy proceeding on the holders of Ambac securities; (2) the unlikely ability of Ambac Assurance to pay dividends to Ambac in the near term; (3) the risk that holders of debt securities or counterparties on credit default swaps or other similar agreements bring claims alleging that the rehabilitation of the Segregated Account constitutes an event of default under the applicable debt indenture or an event of default under the

applicable ISDA contract; (4) adverse events arising from the Segregated Account Rehabilitation Proceedings, including the injunctions issued by the Wisconsin rehabilitation court to enjoin certain adverse actions related to the Segregated Account being successfully challenged as not enforceable; (5) litigation arising from the Segregated Account Rehabilitation Proceedings; (6) decisions made by the rehabilitator for the benefit of policyholders may result in material adverse consequences for Ambac's securityholders; (7) potential of rehabilitation proceedings against Ambac Assurance, with resulting adverse impacts; (8) the risk that reinsurers may dispute amounts owed us under our reinsurance agreements; (9) possible delisting of Ambac's common shares from the NYSE; (10) the risk that market risks impact assets in our investment portfolio or the value of our assets posted as collateral in respect of investment agreements and interest rate swap and currency swap transactions; (11) risks which impact assets in Ambac Assurance's investment portfolio; (12) risks relating to determination of amount of impairments taken on investments; (13) credit and liquidity risks due to unscheduled and unanticipated withdrawals on investment agreements; (14) market spreads and pricing on insured collateralized loan obligations ("CLOs") and other derivative products insured or issued by Ambac; (15) inadequacy of reserves established for losses and loss expenses, including our inability to realize the remediation recoveries included in our reserves; (16) Ambac's financial position and the Segregated Account Rehabilitation Proceedings may prompt departures of key employees; (17) the risk of litigation and regulatory inquiries or investigations, and the risk of adverse outcomes in connection therewith, which could have a material adverse effect on our business, operations, financial position, profitability or cash flows; (18) difficult economic conditions, which may not improve in the near future, and adverse changes in the economic, credit, foreign currency or interest rate environment in the United States and abroad; (19) the actions of the U. S. Government, Federal Reserve and other government and regulatory bodies to stabilize the financial markets; (20) likely unavailability of adequate capital support and liquidity; (21) credit risk throughout our business, including credit risk related to residential mortgage-backed securities and CLOs and large single exposures to reinsurers; (22) default by one or more of Ambac Assurance's portfolio investments, insured issuers, counterparties or reinsurers; (23) the risk that our risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss as a result of unforeseen risks; (24) factors that may influence the amount of installment premiums paid to Ambac, including the imposition of the payment moratorium with respect to claims payments as a result of Segregated Account Rehabilitation Proceedings; (25) changes in prevailing interest rates; (26) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting, required under the relevant derivative accounting guidance, to the portion of our credit enhancement business which is executed in credit derivative form, and due to the adoption of the new financial guarantee insurance accounting standard effective January 1, 2009, which, among other things, introduces volatility in the recognition of premium earnings and losses; (27) changes in accounting principles or practices that may impact Ambac's reported financial results; (28) legislative and regulatory developments; (29) operational risks, including with respect to internal processes, risk models, systems and employees; (30) changes in tax laws and other tax-related risks; (31) other factors described in the Risk Factors section in Part I, Item 1A of Ambac's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and also disclosed from time to time by Ambac in its subsequent reports on Form 10-Q and Form 8-K, which are available on the Ambac website at [www.ambac.com](http://www.ambac.com) and at the SEC's website, [www.sec.gov](http://www.sec.gov); and (32) other risks and uncertainties that have not been identified at this time. Readers are cautioned that forward-looking statements speak only as of the date they are made and that Ambac does not undertake to update forward-looking statements to reflect circumstances or events that arise after the date the statements are made. You are therefore advised to consult any further disclosures we make on related subjects in Ambac's reports to the SEC.