



THE BANK OF NEW YORK MELLON

101 Barclay Street, 8W
New York, New York 10286

Notice to Holders of the Mandatory Exchange

**5,000,000 Corporate Units of Ambac Financial Group, Inc.
CUSIP Number 023139702**
to
**\$250,000,000 in Aggregate Principal Amount
of 9.50% Senior Notes of Ambac Financial Group, Inc. Due 2021
(the "Senior Notes")
CUSIP Number 023139AG3**

THIS NOTICE CONTAINS IMPORTANT INFORMATION THAT IS OF INTEREST TO THE REGISTERED AND BENEFICIAL OWNERS OF THE SUBJECT SECURITIES. IF APPLICABLE, ALL DEPOSITORIES, CUSTODIANS, AND OTHER INTERMEDIARIES RECEIVING THIS NOTICE ARE REQUESTED TO EXPEDITE RE-TRANSMITTAL TO BENEFICIAL OWNERS OF THE SECURITIES IN A TIMELY MANNER.

This notice is to inform you that The Depository Trust Company ("DTC") will exchange 5,000,000 Corporate Units it currently holds for \$250,000,000 in aggregate principal amount of Senior Notes due 2021 pursuant to the Order (as defined below) entered in In re Ambac Financial, Inc., Case No. 10-15973 (SCC)). Such transfer/exchange is to be completed on or before December 2, 2010.

Reference is hereby made to that certain Purchase Contract Agreement (the "Purchase Contract Agreement") dated as of March 12, 2008 by and between Ambac and The Bank of New York Mellon (formerly known as The Bank of New York) as Purchase Contract Agent ("Purchase Contract Agent") pursuant to which the Corporate Units were issued. The Corporate Units represent an ownership interest in the Senior Notes issued by Ambac pursuant to the Indenture dated as of February 15, 2006 with Ambac, as supplemented by Supplemental Indenture No. 1 dated as of March 12, 2008 (collectively the "Indenture") and The Bank of New York Mellon as Trustee. The Bank of New York Mellon also remains as the Collateral Agent, Custodial Agent and Securities Intermediary ("Collateral Agent") pending the appointment of a successor following its written resignation delivered to Ambac on November 10, 2010, under the Pledge Agreement (the "Pledge Agreement") dated as of March 12, 2008 with Ambac. Capitalized terms not otherwise defined in this notice have the meanings ascribed to them in the Indenture, Purchase Contract Agreement or Pledge Agreement.

DTC is the designated Depository for the Corporate Units under the Purchase Contract Agreement. Each Corporate Unit has a stated amount of \$50 and consists of (i) one Purchase Contract (the "Purchase Contract"), which obligates the Holder of such Corporate Unit to purchase Ambac common stock or preferred stock on May 17, 2011 on the terms set forth in the Purchase Contract Agreement, and (ii) a 5.00% undivided beneficial ownership interest in \$1,000 principal amount of the Senior Notes, to be held by the Collateral Agent to secure the performance of the Holders' obligations under the Purchase Contract. Ambac issued 5,000,000 Corporate Units pursuant to the Purchase Contract Agreement and \$250,000,000 in aggregate principal amount of Senior Notes pursuant to the Indenture. No Senior Notes are held by any entity other than the Corporate Unit holders. Accordingly, all of the Corporate Units collectively include all of the Senior Notes issued by Ambac and each Corporate Unit includes \$50 in principal amount of the Senior Notes issued.

On November 8, 2010, Ambac filed a petition for relief under chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. The case is captioned In re Ambac Financial, Inc., Case No. 10-15973 (SCC)). As Holders were previously advised, pursuant to Section 5.06 of the Purchase Contract Agreement the filing of the bankruptcy case constitutes a Termination Event as a result of which the Purchase Contracts were terminated and the Corporate Units thereafter represent the rights of the Holders to receive their Applicable Ownership Interests in the Senior Notes.

On November 16, 2010, Ambac filed a motion seeking an order approving the termination of the Purchase Contracts and the release of the Senior Notes (the "Motion") [Docket No. 26]. On November 30, 2010, the Bankruptcy Court entered an order (the "Order") approving the Motion.

Pursuant to the Purchase Contract Agreement, each Holder is entitled to receive its pro rata share of the Senior Notes. DTC will exchange on or before December 2, 2010 (the "Exchange Date"), the 5,000,000 Corporate Units it currently holds for \$250,000,000 in aggregate principal amount of Senior Notes. Section 3.06 of the Purchase Contract Agreement states that "Transfers of securities evidence by Global Certificates", i.e., the Corporate Units, "shall be made through the facilities of the Depository, and any cancellation of, or increase or decrease in the number of, such securities ... shall be accomplished by making the appropriate annotations on the Schedule of Increase or Decreases set forth in such Global Certificate." Therefore, pursuant to the terms of the Purchase Contract Agreement and the Order, on the Exchange Date, each Corporate Unit will be exchanged for 5% of each \$1,000 in aggregate principal amount of Senior Notes. This exchange will be reflected in the accounts of each Holder's DTC Participant.

Holders wishing to communicate with the Purchase Contract Agent concerning this notice a may contact Martin Feig, Default Administration Group, The Bank of New York

Mellon, 101 Barclay Street New York, NY 10286, Tel 212-815-5383;
martin.feig@bnymellon.com.

THE BANK OF NEW YORK MELLON,
as Purchase Contract Agent

December 1, 2010

Note: The CUSIP numbers appearing herein have been included solely for the convenience of the Holders. The Bank of New York Mellon assumes no responsibility for the selection or use of such number and makes no representation as to the correctness of the CUSIP numbers listed above.