

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): June 22, 2018

Ambac Financial Group, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State of incorporation)

1-10777

(Commission
file number)

13-3621676

(I.R.S. employer
identification no.)

One State Street Plaza, New York, New York 10004

(Address of principal executive offices) (Zip Code)

(212) 658-7470

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 under the Securities Act (17 CFR 230.405) or Rule 12b-2 under the Exchange Act (17 CFR 240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 1.01. Entry into a Material Definitive Agreement.

Preferred Stock Repurchase and Support Agreement

On June 22, 2018, Ambac Assurance Corporation (“AAC”), a wholly-owned subsidiary of Ambac Financial Group, Inc. (“AFG” and, together with AAC, the “Company”), and AFG entered into an agreement (the “Support Agreement”) with certain holders (the “Supporting Holders”) of AAC’s Auction Market Preferred Shares (“AMPS”), with respect to a transaction which, subject to the conditions precedent set forth in the Support Agreement and described herein, and if consummated, would generally involve (i) the exchange of AMPS held by holders of AMPS that elect to participate in a voluntary exchange transaction for AAC’s 5.1% Surplus Notes due 2020 held by AAC (the “Senior Surplus Notes”), cash from AFG and warrants to purchase an equivalent number of shares of AFG’s common stock and (ii) an agreement to support and cast all votes held by the Supporting Holders in favor of an amendment to AAC’s Restated Articles of Incorporation. Supporting Holders of approximately 89% of the aggregate liquidation preference of outstanding AMPS have agreed to support and vote in favor of the Transactions (as defined below) and have also committed to tender 80% of the aggregate liquidation preference of outstanding AMPS.

Exchange Offer

The Support Agreement calls for an exchange offer open to holders of AMPS (“Exchange Offer”), pursuant to which, for each share of AMPS repurchased by AFG and AAC with a liquidation preference of \$25,000, each holder will receive Senior Surplus Notes from AAC with a total outstanding amount (including accrued and unpaid interest thereon through the date of the Support Agreement) equal to \$13,875, plus accrued interest thereon from the day following the date of the Support Agreement through the day immediately prior to the closing date, \$500 in cash from AFG and 37.308 warrants (rounded down to the nearest whole warrant) to purchase an equivalent number of shares of common stock of AFG at a strike price of \$16.67 from AFG (the “Purchases”) and provide a discount to the Company of \$10,271. The Purchases may be structured so that the consideration described above is only available to holders of AMPS that tender within a specified time period, as determined by the Company in its sole discretion.

Proxy Solicitation

As part of the Exchange Offer, Ambac will seek proxies from holders of AMPS to cast all votes held by the holder at a special meeting of AAC’s shareholders (the “Special Meeting”) in favor of (i) the Purchases and (ii) the following amendment (the “Charter Amendment,” and together with the Purchases, the “Transactions”) to the Company’s Restated Articles of Incorporation, dated February 13, 2004, as amended (the “Articles”): deleting Section 7(c) of the Articles, which provides for the purported right of holders of AMPS to elect AAC directors in certain circumstances.

Supporting Holders Support

The Supporting Holders agreed, among other things, to tender and not withdraw their AMPS in the Exchange Offer; to provide their proxy to vote in favor of the Charter Amendment; to use commercially reasonable efforts to complete the negotiation, drafting, execution and delivery of the forms of the definitive documents; and not to object to, delay, impede, or commence any proceeding pertaining to, or take any other action to interfere, directly or indirectly, in any material respect with the acceptance of, the Transactions, or encourage or support any person or entity to do any of the foregoing.

Pursuant to the terms of the Support Agreement, generally any AMPS acquired by Supporting Holders will be subject to the terms of the Support Agreement and may not be transferred other than pursuant to the terms thereof. Subject to certain exclusions, Supporting Holders may transfer AMPS, provided that any transferee of such AMPS signs a joinder agreement to the Support Agreement.

Each Supporting Holder also covenants and agrees that at the close of business on the closing date it will own less than 5% of AFG's common stock, par value \$0.01 per share (the "Common Stock"), treating (i) all Common Stock or warrants held by affiliates of such Supporting Holder or funds, sponsored products or accounts managed by such Supporting Holder as owned by such Supporting Holder and (ii) all warrants that were issued to it or received by it in the Transactions and held by it at the close of business on the closing date (taking into account the preceding clause (i)) as having been exercised for cash.

Termination Rights

The Company may terminate the Support Agreement upon the occurrence of a material breach of any of the undertakings, representations, warranties, or covenants set forth in the Support Agreement by any Holder that is not, by its terms, curable or that is, by its terms, curable and is not cured by the 10th day after notice of such breach.

Supporting Holders that, in the aggregate, beneficially own at least 66⅔% of the liquidation preference of the AMPS held by the Supporting Holders as a whole may terminate the Support Agreement upon the occurrence of any of the following events:

- (a) the Purchases or the definitive documents do not conform in all material respects to the term sheet, except as approved by the Supporting Holders;
- (b) the failure of the Exchange Offer to be commenced by July 13, 2018;
- (c) the notice of the Special Meeting has not been sent by August 28, 2018;
- (d) the modification of the Exchange Offer such that the Exchange Offer is not at least as favorable to Supporting Holders as contemplated by the term sheet; and
- (e) a material breach of any of the undertakings, representations, warranties, or covenants set forth in this Agreement by AAC or AFG that is not, by its terms, curable or that is, by its terms, curable and is not cured by the 10th day after notice of such breach.

In addition, if the Exchange Offer is not commenced by September 7, 2018, each Supporting Holder shall have the right to terminate the Agreement with respect to itself.

The Company can provide no assurance that any of the termination events described above will not occur.

AFG and AAC Purchases

To the extent AAC and/or AFG, or any affiliate thereof, pays consideration to any parties in respect of AMPS that is greater than or otherwise on terms materially more favorable to such parties than the consideration paid in, or the other terms of, the Transactions from the date of the Support Agreement until the date that is 180 days following the closing date the Supporting Holders shall be promptly notified thereof and paid an additional amount of consideration such that the purchase price for the AMPS in the Transactions shall be equal to the consideration paid to such parties, and the Supporting Holders shall, if practicable, be offered any non-economic terms provided to such parties that are materially more favorable than the terms provided to the Supporting Holders in the Transactions.

Conditions Precedent

The Exchange Offers will be subject to a number of conditions precedent, including, among others:

- approval by the Wisconsin Office of the Commissioner of Insurance;
- an aggregate of 80% participation by liquidation preference outstanding from holders of AMPS in both Purchases;

- the affirmative vote of holders of at least two-thirds in aggregate liquidation preference of AMPS in favor of the Transactions at the Special Meeting.

The Company can provide no assurances that these approvals or consents will be obtained or that the other conditions precedent will be satisfied or waived in a timely manner or at all.

The foregoing summary of the Support Agreement is qualified in its entirety by reference to the text of the Support Agreement, which is attached as Exhibit 10.1 to this Form 8-K and is incorporated herein by reference.

Item 7.01. Regulation FD Disclosure.

On June 25, 2018, AFG issued a press release announcing the Transactions. A copy of the press release is furnished herewith and attached hereto as Exhibit 99.1.

In connection with the negotiation of the Support Agreement, AAC entered into confidentiality agreements with the Supporting Holders pursuant to which AAC agreed to publicly disclose all material non-public information provided to the Supporting Holders (the “Cleansing Materials”). The Company has posted the Cleansing Materials on the Company’s website at www.ambac.com under the heading “Information for Investors Concerning Discussions with AMPS Holders.”

The information furnished pursuant to this Item 7.01, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended or the Exchange Act.

This Form 8-K and the materials attached as exhibits hereto are not an offer to exchange or a solicitation or acceptance of an offer to exchange any securities, which may be made only pursuant to the terms and conditions of an offering memorandum, nor is this Form 8-K and the materials attached as exhibits hereto an offer to buy or a solicitation or acceptance of an offer to buy any securities. In addition, this Form 8-K and the materials attached as exhibits hereto are not a solicitation of any proxies from holders of AMPS.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits. The following exhibit is filed as part of this Current Report on Form 8-K:

Exhibit No.	Description
10.1	Preferred Stock Repurchase and Support Agreement, by and among Ambac Assurance Corporation, Ambac Financial Group, Inc. and certain holders of Ambac Assurance Corporation’s Auction Market Preferred Shares, dated as of June 22, 2018
99.1	Press Release dated June 25, 2018

Forward-Looking Statements

This Form 8-K and the Cleansing Materials include statements that may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “estimate,” “project,” “plan,” “believe,” “anticipate,” “intend,” “planned,” “potential” and similar expressions, or future or conditional verbs such as “will,” “should,” “would,” “could,” and “may,” or the negative of those expressions or verbs, identify forward-looking statements. We caution readers that these statements are not guarantees of future performance. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, which may by their nature be inherently uncertain and some of which may be outside our control. These statements may relate to plans and objectives with respect to the future, among other things which may

change. We are alerting you to the possibility that our actual results may differ, possibly materially, from the expected objectives or anticipated results that may be suggested, expressed or implied by these forward-looking statements. Important factors that could cause our results to differ, possibly materially, from those indicated in the forward-looking statements include, among others, those discussed under “Risk Factors” in our most recent SEC filed quarterly or annual report.

Any or all of management’s forward-looking statements in this Form 8-K or in the Cleansing Materials may turn out to be incorrect and are based on management’s current belief or opinions. AFG’s actual results may vary materially, and there are no guarantees about the performance of AFG’s securities. Among events, risks, uncertainties or factors that could cause actual results to differ materially are: (1) the highly speculative nature of AFG’s common stock and volatility in the price of AFG’s common stock; (2) uncertainty concerning the Company’s ability to achieve value for holders of its securities, whether from AAC or from transactions or opportunities apart from AAC; (3) adverse effects on AFG’s share price resulting from future offerings of debt or equity securities that rank senior to AFG’s common stock; (4) potential of rehabilitation proceedings against AAC; (5) dilution of current shareholder value or adverse effects on AFG’s share price resulting from the issuance of additional shares of common stock; (6) inadequacy of reserves established for losses and loss expenses and possibility that changes in loss reserves may result in further volatility of earnings or financial results; (7) decisions made by AAC’s primary insurance regulator for the benefit of policyholders that may result in material adverse consequences for holders of the Company’s securities or holders of securities issued or insured by AAC; (8) increased fiscal stress experienced by issuers of public finance obligations or an increased incidence of Chapter 9 filings or other restructuring proceedings by public finance issuers; (9) failure to recover claims paid on Puerto Rico exposures or incurrence of losses in amounts higher than expected; (10) the Company’s inability to realize the expected recoveries included in its financial statements; (11) changes in AAC’s estimated representation and warranty recoveries or loss reserves over time; (12) insufficiency or unavailability of collateral to pay secured obligations; (13) credit risk throughout the Company’s business, including but not limited to credit risk related to residential mortgage-backed securities, student loan and other asset securitizations, public finance obligations and exposures to reinsurers; (14) credit risks related to large single risks, risk concentrations and correlated risks; (15) concentration and essentiality risk in connection with Military Housing insured debt; (16) the risk that the Company’s risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss; (17) risks associated with adverse selection as the Company’s insured portfolio runs off; (18) adverse effects on operating results or the Company’s financial position resulting from measures taken to reduce risks in its insured portfolio; (19) intercompany disputes or disputes with AAC’s primary insurance regulator; (20) our inability to mitigate or remediate losses, commute or reduce insured exposures or achieve recoveries or investment objectives, or the failure of any transaction intended to accomplish one or more of these objectives to deliver anticipated results; (21) the Company’s substantial indebtedness could adversely affect its financial condition and operating flexibility; (22) the Company may not be able to obtain financing or raise capital on acceptable terms or at all due to its substantial indebtedness and financial condition; (23) restrictive covenants in agreements and instruments may impair the Company’s ability to pursue or achieve its business strategies; (24) loss of control rights in transactions for which we provide insurance due to a finding that AAC has defaulted, whether due to the Segregated Account rehabilitation proceedings or otherwise; (25) the Company’s results of operation may be adversely affected by events or circumstances that result in the accelerated amortization of the Company’s insurance intangible asset; (26) adverse tax consequences or other costs resulting from the Segregated Account rehabilitation plan, or from the characterization of the Company’s surplus notes or other obligations as equity; (27) risks attendant to the change in composition of securities in the Company’s investment portfolio; (28) changes in tax law; (29) changes in prevailing interest rates; (30) changes on inter-bank lending rate reporting practices or the method pursuant to which LIBOR rates are determined; (31) factors that may influence the amount of

installment premiums paid to the Company, including the Segregated Account rehabilitation proceedings; (32) default by one or more of AAC’s portfolio investments, insured issuers or counterparties; (33) market risks impacting assets in the Company’s investment portfolio or the value of our assets posted as collateral in respect of interest rate swap transactions; (34) risks relating to determinations of amounts of impairments taken on investments; (35) 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 the Company’s business, operations, financial position, profitability or cash flows; (36) actions of stakeholders whose interests are not aligned with broader interests of the Company’s stockholders; (37) the Company’s inability to realize value from Ambac Assurance UK Limited or other subsidiaries of AAC; (38) system security risks; (39) market spreads and pricing on interest rate derivative insured or issued by the Company; (40) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting; (41) changes in accounting principles or practices that may impact the Company’s reported financial results; (42) legislative and regulatory developments, including intervention by regulatory authorities; (43) the economic impact of “Brexit” may have an adverse effect on the Company’s insured international portfolio and the value of its foreign investments, both of which primarily reside with its subsidiary Ambac UK; (44) operational risks, including with respect to internal processes, risk and investment models, systems and employees, and failures in services or products provided by third parties; (45) the Company’s financial position that may prompt departures of key employees and may impact the Company’s ability to attract qualified executives and employees; (46) implementation of new tax legislation signed into law on December 22, 2017 (commonly known as the “Tax Cuts and Jobs Act”) may have unexpected consequences for the Company and the value of its securities, particularly its common shares; (47) implementation of the Tax Cuts and Jobs Act may negatively impact the economic recovery of Puerto Rico, which could result in higher loss severities or an extended moratorium on debt service owed on AAC-insured bonds of Puerto Rico and its instrumentalities; (48) implementation of the Tax Cuts and Jobs Act could have a negative impact on municipal issuers of Ambac-insured bonds; and (49) other risks and uncertainties that have not been identified at this time.

Exhibit Index

Exhibit No.	Description
10.1	<u>Preferred Stock Repurchase and Support Agreement, by and among Ambac Assurance Corporation, Ambac Financial Group, Inc. and certain holders of Ambac Assurance Corporation’s Auction Market Preferred Shares, dated as of June 22, 2018</u>
99.1	<u>Press Release dated June 25, 2018</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Ambac Financial Group, Inc.
(Registrant)**

Dated: **June 25, 2018**

By: /s/ William J. White
**First Vice President, Secretary, and Assistant General
Counsel**

PREFERRED STOCK REPURCHASE AND SUPPORT AGREEMENT

This PREFERRED STOCK REPURCHASE AND SUPPORT AGREEMENT (as amended, supplemented or otherwise modified from time to time, and including the exhibits hereto, this “Agreement”), dated as of June 22, 2018, is entered into by and among Ambac Assurance Corporation (the “Company”), Ambac Financial Group, Inc. (“AFG”) and the undersigned holders (each, a “Holder,” and such Holders together, the “Holders”) of one or more series of the Company’s outstanding Auction Market Preferred Shares (“AMPS”). The Company, AFG, each Holder, and any subsequent person or entity that becomes a party hereto in accordance with the terms hereof are referred to herein as the “Parties” and each individually as a “Party.”

RECITALS:

A. Each Holder is the beneficial owner of one or more series of AMPS as set forth on such Holder’s signature page to this Agreement. Schedule 1 hereto sets forth the aggregate liquidation preference of each series of AMPS held by the Holders.

B. Exhibit A hereto (the “Term Sheet”) and the provisions hereof set forth the key terms of (a) the repurchase by the Company of AMPS owned by the Holders (the “Repurchase”), and (b) the purchase by AFG of AMPS owned by the Holders (the “AFG Purchase” and, together with the Repurchase, the “Purchases”), to be conducted pursuant to transactions exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”).

C. Pursuant to and subject to the terms of this Agreement, the Holders have agreed to approve the Purchases and the Charter Amendment at a Special Meeting of the Company’s shareholders.

D. The Parties have agreed to the terms and conditions of the Purchases set forth herein and in the Term Sheet.

AGREEMENT:

NOW, THEREFORE, in consideration of the premises and mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

Section 1. **Definitions.** In addition to the terms defined above, as used in this Agreement, the following terms shall have the meanings specified below:

a. “Agent’s Message” means a message, transmitted by The Depository Trust Company to, and received by, the exchange agent and forming a part of a book-entry confirmation, stating that The Depository Trust Company has received from the tendering participant an express acknowledgment stating: (i) the amount of AMPS validly tendered by such participant, (ii) that such participant has received a copy of the offering document and letter of transmittal with respect to any tender or exchange offer and agrees to be bound by the terms and conditions of any tender or exchange offer as described in the offering document and letter of transmittal with respect to any

tender or exchange offer, and (iii) that the Company and AFG may enforce the terms and conditions of the letter of transmittal with respect to any tender or exchange offer against such participant.

b. “Articles of Incorporation” means the Company’s Restated Articles of Incorporation, dated February 13, 2004, as amended by the Articles of Amendment, dated December 4, 2008, June 7, 2010 and February 16, 2018, as may be further amended from time to time.

c. “Business Day” means any day other than Saturday, Sunday, and any day that is a legal holiday or a day on which banking institutions in New York, New York are required or authorized by law or governmental action to close.

d. “Bylaws” means the Restated Corporate Bylaws of the Company dated May 11, 2012, as amended from time to time.

e. “Closing” means the closing of the Purchases.

f. “Charter Amendment” has the meaning given such term in the Term Sheet.

g. “Closing Date” means the date on which the Closing occurs.

h. “Definitive Documents” means (x) the final minutes or resolutions of the Special Meeting and related amendment to the Articles of Incorporation (the “Approval Documentation”), and (y) the offering document for the Purchase Offer and other documentation for the Purchases (the “Purchase Documentation”), in the case of each of clauses (x) and (y), substantially on the terms and conditions set forth herein and in the Term Sheet, and (z) any other documents contemplated hereby and/or ancillary or incidental to the foregoing or the Term Sheet.

i. “Holder Counsel” means a nationally recognized firm with experience in the matters described in this Agreement reasonably acceptable to AFG and the Company; *provided* that, for the avoidance of doubt, the Company and AFG hereby acknowledge that Kramer Levin Naftalis & Frankel LLP is acceptable to the Company and AFG as Holder Counsel.

j. “Fiscal Agency Agreement” means that certain Fiscal Agency Agreement, dated as of June 7, 2010, as amended on October 3, 2014, between the Company, as Issuer, and the Bank of New York Mellon, as Fiscal Agent (as amended, modified, or otherwise supplemented from time to time prior to the date hereof) relating to the Senior Surplus Notes.

k. “Minimum Participation Condition” has the meaning given to such term in the Term Sheet.

l. “OCI” means the Wisconsin Office of the Commissioner of Insurance.

m. “Partial Participation Holders” means New Generation Advisors, LLC, IBS Capital LLC, Wilfrid Investment Partners LP, USDR Investment Management, Broadbill Partners LLC, Alimco Financial Corporation and Milfam II, L.P.

n. “Proxy” has the meaning given such term in Section 4(b)(2) of this Agreement.

- o. “Regulator” means each of (i) OCI and (ii) any other regulatory authority with jurisdiction over the operations of a Party.
- p. “Representatives” means a person’s or entity’s former and current officers, former and current directors, former and current principals, employees, agents, financial advisors, attorneys, accountants, investment bankers, consultants, and other professionals, each solely in its capacity as such.
- q. “SEC” means the United States Securities and Exchange Commission.
- r. “Senior Surplus Notes” means the 5.1% Surplus Notes due June 7, 2020, issued by the Company pursuant to the Fiscal Agency Agreement.
- s. “Signing Date” means the date of the execution of this Agreement, on which such date holders of at least two-thirds of the aggregate liquidation preference of AMPS are Parties.
- t. “Special Meeting” means the special meeting of the Company’s shareholders called to vote on the Charter Amendment and, for holders of the AMPS only, the Purchases.
- u. “Transactions” means the Purchases and the Charter Amendment.

Section 2. **Term Sheet**. The Term Sheet is expressly incorporated herein and made a part of this Agreement. The key terms and conditions of the Purchases are set forth in the Term Sheet.

Section 3. **Definitive Documents; Good Faith Cooperation**.

- (a) The Company and AFG hereby covenant and agree to exercise reasonable best efforts with respect to the pursuit, approval, implementation, and consummation of the Transactions.
- (b) The Company will request that OCI include a statement in any approval order provided to the Company confirming that the Senior Surplus Notes provided as consideration in the Transactions are of the same priority as the existing Senior Surplus Notes.
- (c) The Parties hereby covenant and agree to use commercially reasonable efforts with respect to the negotiation, drafting, execution and delivery of the forms of the Definitive Documents, which shall reflect the terms of this Agreement and otherwise be in form and substance reasonably satisfactory to each Party, on or prior to July 6, 2018.
- (d) The Parties hereby covenant and agree not to (i) object to, delay, impede, or commence any proceeding pertaining to, or take any other action to interfere, directly or indirectly, in any material respect with the acceptance or implementation of, the Transactions; (ii) encourage or support any person or entity to do any of the foregoing, or (iii) in the case of any Holder, exercise any rights under the Articles of Incorporation, the Fiscal Agency Agreement or any other agreement with the Company, or instruct any other person or entity to exercise any such rights, in each case that is inconsistent with this Agreement; provided, for the avoidance of doubt, this Agreement does not apply to any securities or other obligations that may be owned by non-affiliated clients of a Holder.

(e) The Parties hereby agree that no public announcement of the Transactions or the signing of this Agreement shall be made prior to the fourth Business Day following signing of this Agreement; *provided* that the Company and AFG may, in its sole discretion, make such a public announcement prior to the fourth Business Day following signing of this Agreement.

(f) Each Holder hereby covenants and agrees that at the close of business on the Closing Date it will own less than 5% of AFG's common stock, par value \$0.01 per share (the "Common Stock"), treating (i) all Common Stock or warrants held by affiliates of such Holder or funds, sponsored products or accounts managed by such Holder as owned by such Holder and (ii) all warrants that were issued to it or received by it in the Transactions and held by it at the close of business on the Closing Date (taking into account the preceding clause (i)) as having been exercised for cash.

Section 4. Support for the Transactions.

(a) **AFG and the Company.** So long as this Agreement has not been terminated in accordance with its terms, each of AFG and the Company agrees and covenants that it will use commercially reasonable efforts to take or cause to be taken all actions commercially reasonable, necessary and appropriate in furtherance of the Transactions (provided that commercially reasonable efforts, as used in this Agreement, shall not require a Party to purchase or sell any securities, incur any material expense, give up any material rights, incur any material obligation or support any transaction, except as expressly set forth in this Agreement), including:

(1) to commence an offer to all holders of AMPS with respect to the Purchases on the terms and conditions set forth herein and in the Term Sheet (the "Purchase Offer") no later than July 13, 2018;

(2) to properly notice (the "Notice"), no later than 10 calendar days prior to expiration of the Purchase Offer (as the expiration date may be extended from time to time in Ambac's sole discretion) and hold, on the 10th calendar day (or the next succeeding business day) after the date of such Notice, one or more special meetings of holders of AMPS in accordance with the Articles of Incorporation and Bylaws to permit the effectuation of the Transactions upon satisfaction or waiver of the conditions thereto as provided in the Term Sheet and herein;

(3) to defend in good faith any suit or other legal or administrative proceeding seeking to interfere with, impair, or impede the Transactions;

(4) to not directly or indirectly seek, solicit, support or encourage others to formulate any tender offer, settlement offer, exchange offer, or alternative transaction for or involving the AMPS other than the Transactions;

(5) to not object to, nor otherwise commence any proceeding to oppose, the Transactions or any portion thereof; and

(6) subject to the satisfaction or waiver, in each of AFG's and the Company's discretion, of any conditions precedent to the Transactions, to consummate the Transactions, including delivery of all securities required to be delivered therein.

(b) **Holders.** So long as this Agreement has not been terminated in accordance with its terms, each Holder agrees and covenants, as to itself only, that:

(1) it shall on the Signing Date provide the proxy attached hereto as Exhibit B (the "Proxy") with an instruction to vote all of such Holder's AMPS in favor of the Purchases and the Charter Amendment, as provided in the Term Sheet;

(2) subject to the satisfaction or waiver of any conditions precedent to the Transaction, it shall tender into the Purchase Offer and not withdraw all AMPS beneficially owned by it, together with properly completed and duly executed letter(s) of transmittal or Agent's Message(s) with respect to the AMPS it owns, pursuant to the terms and subject to the conditions set forth in the Term Sheet and the Purchase Documentation; *provided* that, each Partial Participation Holder shall tender its pro rata portion of 55% of the AMPS beneficially owned by the Partial Participation Holders to the Company, AFG or any of their respective affiliates on the Closing Date. If so requested by the Partial Participation Holders on or prior to the Closing, the Company shall, prior to the Closing, adjust each Partial Participation Holder's tendered amount of AMPS such that each Partial Participation Holder only tenders the greater of (i) its pro rata portion of AMPS beneficially owned by the Partial Participation Holders necessary for the total amount of AMPS tendered by holders of AMPS to satisfy the Minimum Participation Condition and (ii) 25% of AMPS beneficially owned by the Partial Participation Holder. For the avoidance of doubt, if this Agreement terminates prior to consummation of the Purchases, Holders shall be permitted to withdraw AMPS tendered into the Purchase Offer (and such right shall survive such termination of this Agreement);

(3) it shall not vote for, consent to, provide any support for, participate in the formulation of, or solicit or encourage others to formulate any tender offer, settlement offer, exchange offer, or any alternative transaction for or involving the AMPS other than the Transactions; and

(4) it shall not object to, nor otherwise commence any proceeding to oppose, the Transactions.

Section 5. **Representations and Warranties.**

(a) Each of the Parties, severally and not jointly, represents and warrants to each of the other Parties that the following statements are true and correct as of the date hereof:

(1) Power and Authority. It has all requisite power and authority to enter into this Agreement and to carry out the transactions contemplated by, and perform its obligations under, this Agreement and the Term Sheet.

(2) Authorization. The execution and delivery of this Agreement and the performance of its obligations hereunder have been duly authorized by all necessary action on its part.

(3) No Conflicts. The execution, delivery, and performance by it of this Agreement do not and shall not, subject to satisfaction of the conditions set forth in the Term Sheet, (i) violate any provision of law, rule, or regulation applicable to it or its certificate of incorporation or by-laws (or other organizational documents) or (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it is a party.

(4) Governmental Consents. The execution, delivery, and performance by it of this Agreement do not and shall not require any registration or filing with, consent or approval of, notice to, or other action to, with, or by, any federal, state, or other governmental authority or regulatory body, except filings made, or such consents or approvals obtained, prior to the date hereof or as may be necessary or required (a) to comply with such Party's disclosure obligations under relevant securities laws or (b) for approval by OCI (including satisfaction of the conditions set forth in the Term Sheet).

(5) Binding Obligation. This Agreement is the legally valid and binding obligation of it, enforceable against it in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

(6) Proceedings. No litigation or proceeding before any court, arbitrator, or administrative or governmental body is pending against it that would adversely affect its ability to enter into this Agreement or perform its obligations under this Agreement and the Term Sheet.

(7) Negotiations. The consideration that the Company and AFG are willing to pay and the Holders are willing to accept has resulted from an arm's-length negotiation among the Parties.

(b) Each Holder represents and warrants, severally and not jointly, to each of the other Parties that the following statements are true, correct, and complete as of the date hereof:

(1) Ownership. It is the sole legal and beneficial owner of the AMPS as set forth on its signature page to this Agreement, free and clear of any pledge, lien, security interest, charge, claim, proxy, voting restriction, right of first refusal or other limitation on disposition of any kind, and has made no prior assignment, sale, participation, grant, conveyance, or other transfer of, and has not entered into any other agreement to assign, sell, participate, grant, or otherwise transfer, in whole or in part, any rights, title or interests in (or portion thereof) such AMPS. It has full power and authority to act on behalf of, vote and consent to matters concerning such AMPS with respect to matters relating to the Transactions, and dispose of, exchange, assign and transfer and accept satisfaction of such AMPS pursuant to the Transactions.

(2) Laws. It (i) is a sophisticated investor with respect to the transactions described herein with knowledge and experience in financial and business matters sufficient to evaluate the merits and risks of owning and investing in securities similar to the

AMPS (including any securities that may be issued in connection with the Repurchase), making an informed decision with respect thereto, and evaluating the terms and conditions of this Agreement, and it has made its own analysis and decision to enter in this Agreement, (ii) is either (x) an “institutional accredited investor” within the meaning of Rule 501(a)(1), (2), (3) or (7) of the Securities Act, (y) a “qualified institutional buyer” within the meaning of Rule 144A of the Securities Act, or (z) a non-U.S. person within the meaning of Rule 902 of the Securities Act, and (iii) has reviewed AFG’s public filings with the SEC and other publicly available information regarding the Company and AFG and has obtained all information it deems necessary or appropriate in order to enter into this Agreement and make the investment decision contemplated hereby, and, notwithstanding the potential risks involved in the Purchases, the Holders desire to consummate the Purchases.

(3) Solicitation. It engaged in the Transactions without any form of solicitation being made by either AFG or the Company.

(4) Representations. It is not relying on any representation, warranty or covenant made by either AFG or the Company with respect to the Transactions other than as set forth in this Agreement and acknowledges that AFG and the Company are relying on its representations, warranties, acknowledgements, agreements and undertakings in this Agreement in engaging in the purchase of the AMPS from the Holders, and would not engage in such purchase in the absence of such representations, warranties, acknowledgements, agreements and undertakings.

(5) Information. It acknowledges that (i) either or both of the Company and AFG may possess, whether on the date hereof, the Closing Date or at any other time, material non-public information regarding the AMPS and/or the Company that will not be provided to the Holders (“Excluded Information”), (ii) such Excluded Information may be indicative of a value of the AMPS that is substantially higher than the consideration offered or otherwise adverse to the Holders’ interest, and, therefore, such information could be material to the Holders’ decision to sell the AMPS and (iii) it has not requested and does not wish to receive Excluded Information from the Company or from AFG and agrees that neither the Company nor AFG shall have any liability to it with respect to the non-disclosure of Excluded Information.

(6) AFG and Company Purchases. It is aware that each of the Company and AFG may at any time, and from time to time, purchase interests in the AMPS from other parties (whether in privately negotiated transactions or otherwise) and may purchase the AMPS at prices and on terms and conditions materially different from those applicable to the Purchases.

(7) Negotiations. The consideration that the Company and AFG are willing to pay and the Holders are willing to accept has resulted from an arm’s-length negotiation among the Parties.

(c) Each of the Company and AFG represents and warrants, severally and not jointly, to each of the other Parties that the following statements are true, correct, and complete as of the date hereof:

(1) AFG and Company Purchases. To the extent the Company and/or AFG, or any affiliate thereof, pays consideration to any parties in respect of AMPS that is greater than or otherwise on terms materially more favorable to such parties than the consideration paid in, or the other terms of, the Transactions from the date hereof until the date that is 180 days following the Closing Date the Holders shall be promptly notified thereof and paid an additional amount of consideration such that the purchase price for the AMPS in the Transactions shall be equal to the consideration paid to such parties, and the Holders shall, if practicable, be offered any non-economic terms provided to such parties that are materially more favorable than the terms provided to the Holders in the Transactions.

(2) Senior Surplus Notes. The Senior Surplus Notes to be issued in the Repurchase will be duly authorized obligations of AAC enforceable in accordance with their terms, and have the same seniority and priority in liquidation as the Senior Surplus Notes that are currently outstanding and otherwise be issued under and entitled to all the rights of the existing Senior Surplus Notes under the Fiscal Agency Agreement. For so long as the Senior Surplus Notes are outstanding, the Company and AFG will ensure that the information contemplated by Rule 144A(d) under the Securities Act is publicly available or made available upon request.

(3) Non-Public Information. The Company shall issue a Release, as provided in the confidentiality agreements entered into between the Company and Holders, with the Disclosure Information, including this Agreement. Except with respect to the Disclosure Information, which shall be subject to a Release as provided above, each of AFG and the Company covenant and agree that neither it, nor any other person acting on its behalf will provide a Holder with any information that the Company believes constitutes or may constitute material nonpublic information, unless prior thereto such Holder shall have entered into a written agreement with the Company regarding the confidentiality and use of such information; and understands that the Holders shall be relying on the foregoing covenant in effecting transactions in securities of the Company. Capitalized terms used in this Section 5(c)(3) and not defined herein shall have the meanings assigned to such terms in the confidentiality agreements.

Section 6. **Transfer of AMPS**.

(a) Each Holder covenants and agrees that, so long as this Agreement has not terminated in accordance with its terms, it shall not, directly or indirectly, sell, pledge, hypothecate, or otherwise transfer any of its AMPS, or any right or interest (voting or otherwise) in any of its AMPS (including, without limitation, any participation therein) other than to (i) the Company or AFG or an affiliate thereof, (ii) one of more of its affiliates, or, in the case of a Holder that is managing AMPS on behalf of a fund, sponsored product or separate account, to another fund, sponsored product or account managed by such Holder; *provided* that such affiliate or such fund, sponsored product or account managed by such Holder executes and delivers to the Company, concurrently or prior to any binding commitment with respect to such transfer, assignment or other disposition, a joinder agreement in the form attached hereto as Exhibit C, agreeing to be bound by all the terms of this Agreement with respect to the relevant AMPS being transferred to such affiliate, fund, sponsored product or account managed by such Holder (which agreement shall include the representations and warranties set forth in Section 5 hereof), (iii) another Holder, or (iv) another party that executes and delivers to the Company, concurrently or

prior to any binding commitment with respect to such transfer, assignment or other disposition, a joinder agreement in the form attached hereto as Exhibit C, agreeing to be bound by all the terms of this Agreement with respect to the relevant AMPS being transferred to such purchaser (which agreement shall include the representations and warranties set forth in Section 5 hereof).

(b) This Agreement shall in no way be construed to preclude any Holder from acquiring additional AMPS. Any additional AMPS acquired by a Holder shall automatically be deemed to be AMPS of such Holder and shall be subject to all of the terms of this Agreement. In the event a Holder purchases or otherwise acquires any AMPS, the Holder shall promptly notify the Company and AFG of such purchase.

(c) Notwithstanding anything to the contrary herein, (i) any acquisition or transfer of AMPS by a Holder that does not comply with Section 6(a) of this Agreement shall be null and void *ab initio* without the need for further action and each of the Company and AFG shall have the right to enforce the voiding of such transfer and (ii) this Agreement does not restrict the Holders from selling, pledging, hypothecating, transferring, purchasing or otherwise acquiring any securities or other obligations of AFG or the Company that may be owned, acquired or disposed of by Holders, other than AMPS.

Section 7. **Termination by the Holders.** This Agreement may be terminated by Holders that, in the aggregate, beneficially own at least 66 2/3% of the liquidation preference of the AMPS held by the Holders as a whole, subject to the terms of this Agreement, upon the occurrence of any of the following events (each a "Holder Termination Event"), by delivering written notice of the occurrence of such event in accordance with Section 15 below to the other Parties:

(a) the Purchases or the Definitive Documents do not conform in all material respects to the Term Sheet, except as approved by the Holders in accordance with Section 12 hereof;

(b) the failure of the Purchase Offer to be commenced by July 13, 2018 (the "Commencement Date");

(c) the Notice of the Special Meeting has not been sent by August 28, 2018 (the "Notice Date");

(d) the modification of the Purchase Offer such that the Purchase Offer is not at least as favorable to Holders as contemplated by the Term Sheet and hereby; and

(e) a material breach of any of the undertakings, representations, warranties, or covenants set forth in this Agreement by the Company or AFG that is not, by its terms, curable or that is, by its terms, curable and is not cured by the 10th day after notice of such breach (for the avoidance of doubt, it shall be deemed such a material breach if the representations regarding the Senior Surplus Notes in Section 5(c)(2) above and beside the caption "Senior Surplus Notes" in the Term Sheet are not true and correct).

Notwithstanding anything herein to the contrary, a Holder may not seek to terminate this Agreement based upon a Holder Termination Event arising out of its own actions or omissions in violation of this Agreement.

Section 8. **Termination by the Company.** Each of AFG and the Company shall have the right to terminate this Agreement on the occurrence of any of the following events (each a “Company Termination Event”) by giving written notice in accordance with Section 15 below to the other Parties:

(a) a material breach of any of the undertakings, representations, warranties, or covenants set forth in this Agreement by any Holder that is not, by its terms, curable or that is, by its terms, curable and is not cured by the 10th day after notice of such breach.

Notwithstanding anything herein to the contrary, AFG and the Company may not seek to terminate this Agreement based upon a Company Termination Event arising out of its own actions or omissions in violation of this Agreement.

Section 9. **Termination of Agreement.** Each Party shall have the right to terminate this Agreement on the occurrence of any of the following events by giving written notice in accordance with Section 15 below to the other Parties:

(a) any court of competent jurisdiction has entered a final, non-appealable judgment or order (i) declaring this Agreement or any material portion hereof to be illegal or unenforceable or (ii) restricting, preventing or prohibiting in any material respect the Purchases in a way that cannot reasonably be remedied by the Parties within the time periods set forth in Sections 7 and 8 hereof; or

(b) the Purchase Offer has been withdrawn;

(c) the Purchases have not been consummated by September 7, 2018 (the “Outside Date”); or

(d) the Parties mutually agree to do so upon the receipt of written notice delivered in accordance with Section 15 hereof.

Notwithstanding anything to the contrary in this Agreement, the Term Sheet, or any other agreement, this Agreement shall terminate on the earlier of (a) the election of the Holders to terminate this Agreement upon the occurrence of a Holder Termination Event after expiration of any cure periods and satisfaction of any conditions set forth in Section 7 hereof; (b) the election of the Company or AFG to terminate this Agreement upon the occurrence of a Company Termination Event after expiration of any cure periods and satisfaction of any conditions set forth in Section 8 hereof and (c) the consummation of the Purchases and the effectiveness of the Amendments.

Section 10. **Effect of Termination and of Waiver of Termination Event.** On the delivery of the written notice referred to in Section 7, 8, or 9 in connection with the valid termination of this Agreement, the obligations of each of the Parties hereunder shall thereupon terminate and be of no further force and effect (subject to the last sentence of this paragraph). Prior to the delivery of such notice the Holders may waive the occurrence of a Holder Termination Event and AFG and the Company may waive the occurrence of a Company

Termination Event. No such waiver shall affect any subsequent termination event or impair any right consequent thereon. Upon termination of this Agreement, no Party shall have any continuing liability or obligation to the other Parties hereunder except as expressly provided otherwise herein; *provided, however*, that no such termination shall relieve any Party from liability for its breach or non-performance of its obligations hereunder prior to the date of such termination.

Section 11. **Disclosure; Publicity.** Each of AFG and the Company shall submit to Holder Counsel drafts of any press releases, public documents and the portion of any and all filings with the SEC that constitute disclosure of the existence or terms of this Agreement or any amendment to the terms of this Agreement or the Purchases at least two (2) Business Days prior to making any such disclosure. Except as required by applicable law, no Party or its Representatives shall disclose to any person or entity (including, for the avoidance of doubt, any other Holder), other than Representatives to AFG and the Company, the number of shares, liquidation preference or percentage of any AMPS held by any Holder, in each case, without such Holder's prior written consent; *provided that* (i) the Company may disclose to the Regulator, to the extent required by law, the names of the Holders and the consideration provided in the Purchases and (ii) any Party may disclose information requested by a Regulator to the Regulator without limitation or notice to any Party or other person. Each of the Company and AFG shall be permitted to disclose the number of shares, liquidation preference or percentage of AMPS held by the Holders in the aggregate.

Section 12. **Amendments.** This Agreement may be modified, amended, or supplemented by a written agreement executed by the Company, AFG and Holders that (i) own, in the aggregate, 66 2/3% of the liquidation preference of AMPS held by the Holders as a whole and (ii) represent at least 33% in number of the Holders party to this Agreement that hold at least \$5,000,000 face amount of AMPS (any Holders that are affiliated counting as a single Holder); *provided that*, without the consent of each Holder, no such modification, amendment or supplement may have an adverse impact on such Holder that is disproportionate to such Holder relative to the other Holders by its terms; may decrease the amount of consideration to be paid in the Purchases; extend the Outside Date, the Commencement Date or the Notice Date beyond 30 days; or amend Section 5(c)(2) or the Term Sheet beside the caption "Senior Surplus Notes"; *provided further that*, without the prior consent of the Holders, the Company and AFG may modify, amend or supplement the transaction mechanics to the extent reasonably necessary to mechanically effectuate the economic terms of this Agreement on the terms contemplated hereby; *provided that* such modification, amendment or supplement does not impact the economic terms or substantive requirements of this Agreement or the Transactions or otherwise adversely affect the Holders and the Holders are promptly notified thereof.

Section 13. **Further Assurances.** Each of the Parties hereby further covenants and agrees to cooperate in good faith to execute and deliver all further documents and agreements and take all further action that may be commercially reasonably necessary or desirable in order to enforce and effectively implement the terms and conditions of this Agreement.

Section 14. **Governing Law; Jurisdiction.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York. By its execution and delivery

of this Agreement, each of the Parties hereby irrevocably and unconditionally agrees for itself that any legal action, suit, or proceeding against it with respect to any matter under or arising out of or in connection with this Agreement or for recognition or enforcement of any judgment rendered in any such action, suit, or proceeding, shall be brought in a federal court of competent jurisdiction in the Southern District of New York. By execution and delivery of this Agreement, each of the Parties hereto hereby irrevocably accepts and submits to the jurisdiction of such court, generally and unconditionally, with respect to any such action, suit, or proceeding.

Section 15. **Notices.** All demands, notices, requests, consents, and communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or by courier service, messenger, facsimile, telecopy, or if duly deposited in the mails, by certified or registered mail, postage prepaid-return receipt requested, and shall be deemed to have been duly given or made (i) upon delivery, if delivered personally or by courier service, or messenger, in each case with record of receipt, (ii) upon transmission with confirmed delivery, if sent by facsimile or telecopy, or (iii) two (2) Business Days after being sent by certified or registered mail, postage pre-paid, return receipt requested, to the following addresses, or such other addresses as may be furnished hereafter by notice in writing, to the following parties:

If to AFG or the Company, to:

Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004
Facsimile: (212) 208-3384
Attn: Stephen M. Ksenak, Esq.

with a copy to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, NY 10022
Facsimile: (212) 521-7036
Attn: Steven J. Slutzky, Esq.

If to the Holders, or any Holder, in accordance with the information set forth on its signature page hereto:

with a copy to:

Kramer Levin Naftalis & Frankel LLP
1177 Avenue of the Americas
New York, NY 10036
Facsimile: (212) 715-8000
Attn: Stephen Zide, Esq. and John Bessonette, Esq.

Section 16. **Entire Agreement; Survival.** This Agreement together with any confidentiality agreement entered into by Parties hereto constitutes the full and entire understanding and agreement among the Parties with regard to the subject matter hereof, and

supersedes all prior agreements with respect to the subject matter hereof. Except as expressly provided otherwise herein, none of the covenants or agreements of the Parties contained in this Agreement shall survive consummation of the Purchases.

Section 17. **Settlement Discussions.** This Agreement and the Term Sheet are part of a proposed settlement of matters that could otherwise be the subject of litigation among the Parties. Pursuant to Rule 408 of the Federal Rules of Evidence, Section 904.08 of the Wisconsin Statutes and any other applicable state rules of evidence and any other applicable law, foreign or domestic, this Agreement and all negotiations relating thereto shall not be admissible into evidence in any proceeding other than a proceeding to enforce its terms.

Section 18. **Expenses.** The Company shall pay the reasonable fees and expenses of Holder Counsel (i) (x) that are accrued through the date of this Agreement and that remain unpaid as of such date, within a reasonable time after receiving an invoice from Holder Counsel, and (y) that are accrued from the date of this Agreement through the Closing Date and that remain unpaid as of such date, within a reasonable time after receiving an invoice from Holder Counsel; and in any event such fees and expenses in (x) and (y) shall be paid within five business days of delivery of an invoice. In connection with any litigation or other adversarial proceeding involving the matters contemplated by this Agreement or the Transactions to which the Holders are made a party or threatened to be made a party, the Company shall pay the reasonable and customary fees and expenses of Holder Counsel and one local counsel retained by the Holders reasonably acceptable to the Company.

Section 19. **Headings.** The headings of the paragraphs and subparagraphs of this Agreement are inserted for convenience only and shall not affect the interpretation hereof.

Section 20. **Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of the Parties and their respective permitted successors and assigns, *provided, however*, that nothing contained in this paragraph shall be deemed to permit sales, assignments, or transfers other than in accordance with Section 6.

Section 21. **Specific Performance.** Each Party hereto recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause other parties to sustain damages for which such parties would not have an adequate remedy at law for money damages, and therefore each Party hereto agrees that in the event of any such breach, such other parties shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which such parties may be entitled, at law or in equity.

Section 22. **Several, Not Joint, Obligations.** The agreements, representations, and obligations of the Parties under this Agreement are, in all respects, several and not joint.

Section 23. **Remedies Cumulative.** All rights, powers, and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any right, power, or remedy thereof by any Party shall not preclude the simultaneous or later exercise of any other such right, power, or remedy by such Party.

Section 24. **No Waiver.** The failure of any Party hereto to exercise any right, power, or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other Party hereto with its obligations hereunder, and any custom or practice of the Parties at variance with the terms hereof, shall not constitute a waiver by such Party of its right to exercise any such or other right, power, or remedy or to demand such compliance.

Section 25. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement. Delivery of an executed signature page of this Agreement by telecopier or email shall be as effective as delivery of a manually executed signature page of this Agreement.

Section 26. **Severability.** Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 27. **No Third-Party Beneficiaries.** Unless expressly stated herein, this Agreement shall be solely for the benefit of the Parties, and no other person or entity shall be a third party beneficiary hereof.

Section 28. **Additional Parties.** Without in any way limiting the provisions hereof, additional holders of AMPS may elect to become Parties by executing and delivering to AFG and the Company a counterpart hereof. Each such additional holder shall become a Party to this Agreement as a Holder in accordance with the terms of this Agreement and notice thereof shall be promptly provided to the Holders (which may be effected by provision of notice to Holder Counsel).

Section 29. **No Solicitation.** This Agreement is not intended to be, and each signatory to this Agreement acknowledges that this Agreement is not, a solicitation with respect to the Purchases.

Section 30. **Consideration.** It is hereby acknowledged by the Parties hereto that, other than as described or permitted herein and in the Term Sheet, no consideration shall be due or paid to the Holders for their agreement to sell their AMPS in the Purchases or provide a proxy with an instruction to vote in favor of the Purchases and the Charter Amendment at the Special Meeting in accordance with the terms and conditions of this Agreement and the Definitive Documentation.

Section 31. **Receipt of Adequate Information; Representation by Counsel.** Each Party acknowledges that it has received adequate information to enter into this Agreement and that it has been represented by counsel in connection with this Agreement and the transactions contemplated by this Agreement. Accordingly, any rule of law or any legal decision that would provide any Party with a defense to the enforcement of the terms of this Agreement against such Party shall have no application and is expressly waived. The provisions of the Agreement shall be interpreted in a reasonable manner to effect the intent of the Parties.

Section 32. **Interpretation.** Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The Parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the Parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties hereto have duly executed and delivered this Agreement as of the date first above written.

AMBAC ASSURANCE CORPORATION

By: /s/ Claude LeBlanc _____
Name: Claude LeBlanc
Title: President

AMBAC FINANCIAL GROUP, INC.

By: /s/ Claude LeBlanc _____
Name: Claude LeBlanc
Title: President

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

CVI AA Lux Securities S.à.r.l
By CarVal Investors, LLC
Its Attorney-in-Fact

By: /s/ Jeremiah Gerhardson _____
Name: Jeremiah Gerhardson
Title: Authorized Signer
Attn: GCS Operations
9320 Excelsior Boulevard, 7th Floor
Hopkins, Minnesota 55343
E-mail: Carval_Gesadminmpls@carval.com
Fax: (952) 367-1473

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

CVI CVF Lux Securities Trading S.à.r.l
By CarVal Investors, LLC
Its Attorney-in-Fact

By: /s/ Jeremiah Gerhardson _____

Name: Jeremiah Gerhardson

Title: Authorized Signer

Attn: GCS Operations

9320 Excelsior Boulevard, 7th Floor

Hopkins, Minnesota 55343

E-mail: Carval_Gesadminmpls@carval.com

Fax: (952) 367-1473

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

CVIC Lux Securities Trading S.à.r.l

By CarVal Investors, LLC

Its Attorney-in-Fact

By: /s/ Jeremiah Gerhardson _____

Name: Jeremiah Gerhardson

Title: Authorized Signer

Attn: GCS Operations

9320 Excelsior Boulevard, 7th Floor

Hopkins, Minnesota 55343

E-mail: Carval_Gesadminmpls@carval.com

Fax: (952) 367-1473

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

CVIC II Lux Securities Trading S.à.r.l

By CarVal Investors, LLC

Its Attorney-in-Fact

By: /s/ Jeremiah Gerhardson

Name: Jeremiah Gerhardson

Title: Authorized Signer

Attn: GCS Operations

9320 Excelsior Boulevard, 7th Floor

Hopkins, Minnesota 55343

E-mail: Carval_Gesadminmpls@carval.com

Fax: (952) 367-1473

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

CVI CHVF Lux Securities S.à.r.l

By CarVal Investors, LLC

Its Attorney-in-Fact

By: /s/ Jeremiah Gerhardson _____

Name: Jeremiah Gerhardson

Title: Authorized Signer

Attn: GCS Operations

9320 Excelsior Boulevard, 7th Floor

Hopkins, Minnesota 55343

E-mail: Carval_Gesadminmpls@carval.com

Fax: (952) 367-1473

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

EJF CAPITAL LLC

By: /s/ Neal Wilson

Name: Neal Wilson

Title: COO

Address: 2107 Wilson Blvd

Suite 400

Arlington, VA 22201

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

GOLDEN TREE ASSET MANAGEMENT LP

By: /s/ Peter Alderman

Name: Peter Alderman

Title: Vice President

Address: 300 Park Avenue

New York, NY 10022

Facsimile No.: 212-847-3496

Attn: Peter Alderman

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

THE IBS TURNAROUND FUND (QP) (A LIMITED PARTNERSHIP)

By: /s/ David Taft

Name: David Taft

Title: President, IBS Capital LLC, its General Partner

Address: One International Place, Suite 3120

Boston, MA 02110

Facsimile No.: (617) 261-5373

Attn: David Taft

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

THE IBS TURNAROUND FUND, L.P.

By: /s/ David Taft

Name: David Taft

Title: President, IBS Capital LLC, its General Partner

Address: One International Place, Suite 3120

Boston, MA 02110

Facsimile No.: (617) 261-5373

Attn: David Taft

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

THE IBS OPPORTUNITY FUND, LTD.

By: /s/ David Taft

Name: David Taft

Title: President, IBS Capital LLC, its Investment Manager

Address: One International Place, Suite 3120

Boston, MA 02110

Facsimile No.: (617) 261-5373

Attn: David Taft

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

NEW GENERATION, ADVISORS, LLC

By: /s/ Frederick Baily Dent, III

Name: Frederick Baily Dent, III

Title: Vice President of the General Partner

Address: 13 Elm Street

Manchester, MA 01944

Facsimile No.: 978-704-6210

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

PLUSTICK MANAGEMENT LLC

By: /s/ Thomas J. Hill

Name: Thomas J. Hill

Title: Managing Partner

Address: 200 6th St, NE

Charlottesville, VA 22902

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

WILFRID INVESTMENT PARTNERS LP

By: /s/ Nicholas W. Walsh_____

Name: Nicholas W. Walsh

Title: Principal

Address: 4 Westchester Park Drive Suite #330

White Plains, NY 10604

Facsimile No.: nww@wilfridaubrey.com

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

ALIMCO Financial Corporation

By: /s/ Alan B. Howe

Name: Alan B. Howe

Title: President, ALIMCO Financial Corporation

Address: 3300 S. Dixie Highway, Suite 1-365

West Palm Beach, FL 33405

Facsimile No.: 858-815-7899

Attn: Alan B. Howe

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

MILFAM II, LP

By: /s/ Neil S. Subin_____

Name: Neil S. Subin

Title: President, Milfam LLC as Manager of
Milfam II, LP

Address: 3300 S. Dixie Highway, Suite 1-365
West Palm Beach, FL 33405

Attn: Neil S. Subin

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

BLACK RHINO, LP

By: /s/ Jeffrey F. Magee, Jr

Name: Jeffrey F. Magee, Jr

Title: Chief Operation Officer

Of: Broadbill Investment Partners, LLC

As: Sub-advisor to Black Rhino, LP

Address: c/o Broadbill Investment Partners, LLC

157 Columbus Avenue, 5th FL

New York, NY 10023

Facsimile No.: (646) 792-7264

Attn: Kurt Lageschulte

[Signature Page – Preferred Stock Repurchase and Support Agreement]

HOLDER:

**UNITED STATES DEBT RECOVERY XII
UNITED STATES DEBT RECOVERY XVI
UNITED STATES DEBT RECOVERY XVII**

By: /s/ Nate E. Jones
Name: Nate E. Jones
Title: Managing Director
Address: 190 W. Huffaker
Suite 408
Reno, NV 89511

[Signature Page – Preferred Stock Repurchase and Support Agreement]

Exhibit A

Term Sheet

(see attached)

Term Sheet

THIS TERM SHEET DOES NOT CONSTITUTE (NOR SHALL IT BE CONSTRUED AS) AN OFFER WITH RESPECT TO ANY SECURITIES OR A SOLICITATION OF ACCEPTANCES OR REJECTIONS AS TO ANY OFFER WITH RESPECT TO ANY SECURITIES, IT BEING UNDERSTOOD THAT SUCH A SOLICITATION, IF ANY, WILL BE MADE ONLY IN COMPLIANCE WITH APPLICABLE PROVISIONS OF SECURITIES OR OTHER APPLICABLE LAWS. CAPITALIZED TERMS USED HEREIN AND NOT OTHERWISE DEFINED SHALL HAVE THE MEANINGS GIVEN THERETO IN THE PREFERRED STOCK REPURCHASE AND SUPPORT AGREEMENT TO WHICH THIS TERM SHEET IS ATTACHED.

The Purchases

Subject to the satisfaction of the conditions precedent set out below (a) the Company will repurchase AMPS from the Holders of the AMPS (the “Repurchase”) by exchanging Senior Surplus Notes with a total outstanding amount (including accrued and unpaid interest thereon through the Signing Date) equal to \$555 for each \$1,000 of liquidation preference of AMPS subject to the Purchases (as defined below), plus accrued interest thereon from the day following the Signing Date through the day immediately prior to the Closing Date, and (b) AFG will purchase AMPS from such Holders of the AMPS (the “AFG Purchase”) and, together with the Repurchase, the “Purchases”) in exchange for (i) \$20 in cash for each \$1,000 of liquidation preference of AMPS subject to the Purchases and (ii) 1.49230 warrants⁽¹⁾ (rounded down to the nearest whole warrant) to purchase an equivalent number of shares of common stock of AFG at a strike price of \$16.67 for each \$1,000 of liquidation preference of AMPS subject to the Purchases.⁽²⁾ For each share of each series of AMPS repurchased with a liquidation preference of \$25,000, each Holder will receive Senior Surplus Notes with a total outstanding amount (including accrued and unpaid interest thereon through the Signing Date) equal to \$13,875, plus accrued interest thereon from the day following the Signing Date through the day immediately prior to the Closing Date, from AAC and \$500 in cash from AFG and 37.308 warrants (\$354.42⁽³⁾ in value in warrants) to purchase an equivalent number of shares of common stock of AFG at a strike price of \$16.67. The Purchases shall be effectuated through an exchange offer open to all holders of AMPS, subject to the eligibility requirements set forth in the column opposite the heading “Holders Eligible to Participate in the Repurchase.” The Purchases may be structured so that the consideration described above is available only to holders of AMPS that tender within a specified time period, as determined by the Company in its sole discretion; *provided* that any decrease in the consideration described above shall not occur prior to the 9th business day following commencement of the Purchase Offer. Any AMPS purchased by the Company pursuant to the Repurchase shall be cancelled.

-
- 1 Equivalent to \$14.177 in value in warrants based on assumed value of \$9.50 and a maximum number of warrants to be issued of 985,331 assuming 100% participation.
 - 2 The Purchases shall be consummated simultaneously and, for the avoidance of doubt, approximately \$0.4108 of each dollar of AMPS purchased in the Purchases (taken together) will be surrendered as discount by the Holder of such AMPS.
 3. Based on assumed value of \$9.50.
-

Special Meeting

The Company shall call a special meeting of the Company's shareholders (the "Special Meeting"), and each Holder shall cast all votes held by the Holder in favor of the Purchases and the Charter Amendments, as defined below, at the Special Meeting.

Amendments

Each Holder shall support and cast all votes held by the Holder in favor of the following amendment (the "Charter Amendment") to the Company's Restated Articles of Incorporation, dated February 13, 2004, as amended by the Articles of Amendment, dated December 4, 2008, June 7, 2010 and February 16, 2018, as may be further amended from time to time (the "Articles of Incorporation"): deleting Section 7(c) of the Articles of Incorporation (the Charter Amendment together with the Purchases, the "Transactions").

Transaction Sequencing

Following approval at the Special Meeting, the Charter Amendment will become effective upon filing with the Wisconsin Office of the Commissioner of Insurance on the Closing Date and will become operative immediately following the Purchases on the terms specified herein and in the Agreement and the Purchase Documentation (as such terms are defined in the Agreement to which this Term Sheet is attached).

Conditions Precedent to the Purchases

Consummation of the Purchases is subject to the following conditions precedent being satisfied or, in the Company's sole discretion, in the case of (i) or (iv) below, waived:

- i. An aggregate of 80% participation by liquidation preference outstanding from holders of AMPS in both Purchases (the "Minimum Participation Condition");
 - ii. The affirmative vote of holders of at least two-thirds in aggregate liquidation preference of AMPS in favor of the Transactions at the Special Meeting;
 - iii. Receipt of approval of Wisconsin Office of the Commissioner of Insurance pursuant to applicable law and operative documents;
 - iv. Receipt by the Company of a satisfactory opinion of Sidley Austin LLP as to certain tax matters;
 - v. The Preferred Stock Repurchase and Support Agreement, dated as of June 22, 2018, among the Company, AFG, and the Holders party thereto, has not been terminated;
 - vi. Neither Purchase has been determined to violate any applicable law or interpretation of the staff of the Securities and Exchange Commission;
 - vii. The absence of any statute, law, rule, regulation, judgment, order, decree or injunction which prohibits or prevents the closing of either Purchase or any other transactions to be effected on the Closing Date; and
 - viii. The existing fiscal agent of the Senior Surplus Notes shall not have taken any action that would reasonably be expected to prevent the consummation of either Purchase.
-

Holders Eligible to Participate in the Repurchase

The Purchases are being made in reliance on the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and only to holders of AMPS who are either (x) institutional “accredited investors” within the meaning of subsection (1), (2), (3) or (7) of Rule 501(a) under the Securities Act of 1933, as amended, (y) a “qualified institutional buyer” within the meaning of Rule 144A of the Securities Act, or (z) a non-U.S. person within the meaning of Rule 902 of the Securities Act. Additionally, to be eligible for either Purchase, a Holder must participate in both Purchases.

Senior Surplus Notes

The Company’s outstanding 5.1% surplus notes due 2020 (the “Senior Surplus Notes”) (CUSIP 023138AA8). All of the Senior Surplus Notes to be issued in the Purchases are held in and will be issued from Treasury, will be issued through DTC, will have the same CUSIP and seniority as the existing outstanding Senior Surplus Notes, and will be able to be resold pursuant to Rule 144A.

Closing Date

The closing date for the Purchases (the “Closing Date”) will be promptly after the waiver by the Company and AFG or satisfaction of all conditions precedent. It is expected that the Closing Date will be the [business day] immediately following such satisfaction or waiver of all conditions precedent. The Amendments will become automatically operative immediately following the Purchases.

Exhibit B

Proxy

(see attached)

PROXY

THIS PROXY IS GIVEN TO AMBAC ASSURANCE CORPORATION (THE "COMPANY") TO BE VOTED AT THE SPECIAL MEETING OF HOLDERS OF AUCTION MARKET PREFERRED SHARES (THE "AMPS") AND HOLDERS OF COMMON STOCK TO BE HELD PURSUANT TO THE AGREEMENT, AS DEFINED BELOW, AND ANY ADJOURNMENTS THEREOF.

The undersigned, as a holder of AMPS, hereby appoints [Claude LeBlanc, David Trick, Stephen Ksenak and William White] and each of them, as proxies for the undersigned, with full power of substitution in each of them, to attend the Special Meeting of holders of AMPS and common stock to be held pursuant to the Agreement and any adjournments thereof (the "Special Meeting"), to cast on behalf of the undersigned all votes that the undersigned is entitled to cast at the Special Meeting with all powers possessed by the undersigned if the undersigned was personally present at the Special Meeting. The undersigned hereby revokes any proxy heretofore given with respect to the matters to be voted on at the Special Meeting. Any capitalized terms used, but not defined, herein have the meaning assigned to such terms in the Preferred Stock Repurchase and Support Agreement, dated as of June 22, 2018 (the "Agreement"), among the Company, Ambac Financial Group, Inc. ("AFG") and the undersigned and certain other holders party thereto (collectively with the undersigned, the "Holders").

The purposes of the meeting shall be to vote on the following matters (as more thoroughly described in the shareholder resolution substantially in the form attached hereto as Exhibit A):

- The proposal for (i) the Company to repurchase AMPS from the Holders of the AMPS (the "Repurchase") by exchanging Senior Surplus Notes with a total outstanding amount (including accrued and unpaid interest thereon through the date of the Agreement) equal to \$555 for each \$1,000 of liquidation preference of AMPS subject to the Purchases (as defined below), plus accrued interest thereon from the day following the date of the Agreement through the day immediately prior to the closing date, and (ii) AFG to purchase AMPS from the Holders of the AMPS (the "AFG Purchase" and, together with the Repurchase, the "Purchases") in exchange for \$20 in cash for each \$1,000 of liquidation preference subject to the Purchases and 1.49230⁽⁴⁾ warrants to purchase an equivalent number of shares of common stock of AFG at a strike price of \$16.67 for each \$1,000 of liquidation preference of AMPS subject to the Purchases;
- The proposal for the Company's Restated Articles of Incorporation, dated February 13, 2004, as amended by the Articles of Amendment, dated December 4, 2008, June 7, 2010 and February 16, 2018, as may be further amended from time to time (the "Articles of Incorporation") to be amended as follows: deleting Section 7(c) of the Articles of Incorporation (together, the "Charter Amendment" and together with the Purchases, the "Transactions"); and
- The proposal for the adjournment, postponement or continuation of the Special Meeting to a later date to solicit additional proxies in favor of the Transactions in the event that there are not sufficient votes to approve and adopt the Transactions at the Special Meeting.

Any holder of AMPS giving a proxy has the power to revoke it prior to the Special Meeting by: (1) giving notice of such revocation in writing to the Secretary of the Company at Ambac Assurance Corporation, One State Street Plaza, New York, NY 10004; (2) by executing a subsequent proxy, provided that any such action is taken prior to the Special Meeting; or (3) by attending and voting in person at the Special Meeting. Attendance at the Special Meeting by a holder of AMPS who has executed and delivered a proxy to the Company shall not in and of itself constitute a revocation of such proxy. If a holder of AMPS holds such shares in "street name" by a broker and has directed their broker to vote their AMPS, they should instruct their broker to change the holder's vote or obtain a proxy to vote their AMPS if they wish to cast their vote in person at the Special Meeting. In the event the Agreement is terminated in accordance with its terms, this proxy shall automatically terminate.

The votes entitled to be cast by the undersigned will be cast as instructed below. If this Proxy is executed but no instruction is given, the votes entitled to be cast by the undersigned will be cast "FOR" the proposals. Please mark your choice like this:

4. Equivalent to \$14.177 in value in warrants based on assumed value of \$9.50 and a maximum number of warrants to be issued of 985,331 assuming 100% participation.
-

Proposals

Holders of AMPS are asked to vote on the Purchases and Charter Amendments substantially in such form as in the resolutions attached hereto as Exhibit A.

1. The proposal to approve the Purchases.

£ FOR

£ AGAINST

£ ABSTAIN

2. The proposal to approve the Charter Amendment.

£ FOR

£ AGAINST

£ ABSTAIN

3. The proposal to approve the adjournment, postponement or continuation of the Special Meeting, if necessary.

£ FOR

£ AGAINST

£ ABSTAIN

Print and sign your name below exactly as it appears [above/below] and date this proxy card. When signing as attorney, executor, administrator, trustee, guardian or in another representative capacity, please give full title, as such. Joint owners should each sign. If a corporation, please sign in full corporate name by president or authorized officer. If a partnership, please sign in partnership name by an authorized person.

£ CHECK HERE ONLY IF YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON

Date: _____ 2018⁷

Signature

Signature, if held jointly

Name of Shareholder

Address

On the date hereof, the above signing shareholder owns the following:

- (a) _____ Series A AMPS
 - (b) _____ Series B AMPS
 - (c) _____ Series C AMPS
 - (d) _____ Series D AMPS
 - (e) _____ Series E AMPS
 - (f) _____ Series F AMPS
 - (g) _____ Series G AMPS
 - (h) _____ Series H AMPS
-

PLEASE MARK, SIGN, AND DATE AND PROMPTLY RETURN THIS PROXY TO

Ambac Assurance Corporation
Attn: General Counsel
One State Street Plaza
New York, New York 10004
email:
fax:

Exhibit C

Joinder

This Joinder Agreement to the Preferred Stock Repurchase and Support Agreement, dated as of June [___], 2018 (as amended, supplemented or otherwise modified from time to time, the "Agreement"), entered into by and among Ambac Assurance Corporation (the "Company"), Ambac Financial Group, Inc. ("AFG"), and the holders (each, a "Holder") of a material portion of outstanding Auction Market Preferred Shares, is executed and delivered by _____ (the "Joining Party") as of _____, 2018. Each capitalized term used herein but not otherwise defined shall have the meaning set forth in the Agreement.

1. **Agreement to be Bound.** The Joining Party hereby agrees to be bound by all of the terms of the Agreement, a copy of which is attached to this Joinder Agreement as **Annex I** (as the same has been or may be hereafter amended, restated, or otherwise modified from time to time in accordance with the provisions hereof). The Joining Party shall hereafter be a "Holder" and "Party" for all purposes under the Agreement and with respect to any and all AMPS held by such Joining Party following the transfer.

2. **Representations and Warranties.** With respect to the aggregate amount of the AMPS set forth below its name on the signature page hereto, the Joining Party hereby makes the representations and warranties of a Holder as set forth in Section 5 of the Agreement to each other Party to the Agreement.

3. **Governing Law.** This Joinder Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

[Signature page follows.]

[NAME OF JOINING PARTY]

By:___

Name:

Title:

Address:___

—

—

Facsimile No.:

Attn.:

Liquidation Preference of Series A AMPS Owned:	\$[●]
Liquidation Preference of Series B AMPS Owned:	\$[●]
Liquidation Preference of Series C AMPS Owned:	\$[●]
Liquidation Preference of Series D AMPS Owned:	\$[●]
Liquidation Preference of Series E AMPS Owned:	\$[●]
Liquidation Preference of Series F AMPS Owned:	\$[●]
Liquidation Preference of Series G AMPS Owned:	\$[●]
Liquidation Preference of Series H AMPS Owned:	\$[●]



Ambac Executes Repurchase and Support Agreement with AMPS Holders
Significant Deleveraging and Simplification of Capital Structure
Exchange Offer to be Launched

NEW YORK, June 25, 2018 (GLOBE NEWSWIRE)—Ambac Financial Group, Inc. (Nasdaq: AMBC) (“AFG”), a holding company whose subsidiaries, including Ambac Assurance Corporation (“AAC” and together with AFG, “Ambac”), provide financial guarantees, announced today that Ambac has entered into a preferred stock repurchase and support agreement with holders (the “Holders”) of AAC’s outstanding Auction Market Preferred Shares (“AMPS”). Under the terms of the agreement Ambac will purchase AMPS held by the Holders in exchange for AAC senior surplus notes and cash and warrants from AFG. Holders of approximately 89% of the aggregate liquidation preference of outstanding AMPS have agreed to support and vote in favor of the Transactions (as defined below) and have also committed to tender 80% of the \$660.2 million aggregate liquidation preference of outstanding AMPS.

Assuming the minimum participation in the tender by supporting holders of at least 80% of the aggregate liquidation preference of outstanding AMPS, Ambac will capture a discount of \$217 million on \$528.2 million (80% of the total outstanding AMPS), significantly deleveraging Ambac’s capital structure and providing for enhanced financial and strategic flexibility going forward in addition to other significant benefits. In exchange, AAC will deliver \$293.2 million in principal and interest outstanding of 5.1% surplus notes due 2020 (the “Senior Surplus Notes”) and AFG will pay \$10.6 million of cash and deliver 788,265 in warrants held in Treasury to purchase an equivalent number of shares of common stock of AFG at a strike price of \$16.67. Based on an 80% participation level, the Transactions are expected to reduce Total Ambac Financial Group, Inc. stockholders’ equity (“Book Value”) and Adjusted Book Value¹ by approximately \$71.9 million or \$1.59 per share. The AMPS are carried on Ambac’s consolidated balance sheet under Noncontrolling interest at \$264.1 million. The carry value of the AMPS was established at fair value upon AFG’s exit from bankruptcy. The impact on Book Value and Adjusted Book Value¹ is a result of the value of the Purchases (as defined below) exceeding the carry value of the AMPS. The amounts described above will increase proportionally if there is a higher participation in the Transactions during the exchange offer.

“We are extremely pleased with the execution of today’s agreement with the majority of AMPS holders,” said Claude LeBlanc, President and Chief Executive Officer. “While still subject to regulatory approval, and the satisfaction of other conditions, if completed this transaction will materially advance our strategic goals by accelerating the deleveraging and simplification of our capital structure among other significant benefits.”

Terms of the agreement are as follows:

- For each share of AMPS repurchased with a liquidation preference of \$25,000, each Holder will receive Senior Surplus Notes with a total outstanding amount (including accrued and unpaid interest thereon through the date of the agreement) equal to \$13,875 from AAC, and from AFG, \$500 in cash from AFG and approximately 37.31 in warrants (NASDAQ: AMBCW) to purchase an equivalent number of shares of common stock of AFG at a strike price of \$16.67 (the “Purchases”), and provide a discount to Ambac of approximately \$10,271.
- The Holders agree to approve the purchase, as required by AAC’s Restated Articles of Incorporation, as amended (the “Articles”).

¹ See Non-GAAP Financial Data section and Proforma Financial Information section of this press release for further information.

- The Holders agree to support and vote in favor of removing from the Articles the purported right of holders of AMPS to elect AAC directors in certain circumstances (the “Charter Amendment” and, together with the Purchases, the “Transactions”) at a special meeting of AAC’s shareholders.

Consummation of the Transactions is subject to satisfaction or waiver of a number of conditions precedent, including, among others:

- Approval by the Wisconsin Office of the Commissioner of Insurance;
- Receipt of certain tax opinions;
- Participation by holders of an aggregate of at least 80% in outstanding liquidation preference of AMPS; and
- The affirmative vote of holders of at least two-thirds in aggregate liquidation preference of AMPS in favor of the Transactions at the special meeting of AAC’s shareholders.

The agreement terminates if the Purchases have not been consummated by September 7, 2018.

Under the agreement, Ambac is required to launch an exchange offer by July 13, 2018 to all holders of AMPS. Ambac expects to launch such exchange offer as soon as reasonably practicable. Moelis & Company LLC acted as financial advisor, Debevoise & Plimpton LLP acted as counsel and Sidley Austin LLP acted as tax counsel to Ambac with respect to the Transactions. Kramer Levin Naftalis & Frankel LLP acted as counsel to certain holders of the AMPS with respect to the Transactions.

In connection with these discussions, AAC entered into a non-disclosure agreement with the holders pursuant to which AAC agreed to publicly disclose all material non-public information provided to the holders (the “Cleansing Materials”) in connection with the termination of the non-disclosure agreement. Ambac has filed a Form 8-K with the Securities and Exchange Commission containing the preferred stock repurchase and support agreement and has posted the other Cleansing Materials on the Company’s website at www.ambac.com under the heading “Information for Investors Concerning Discussions with AMPS Holders.”

This press release is neither an offer to purchase nor a solicitation of an offer to sell any securities. The Purchases are being offered only to the Holders pursuant to the agreement. In addition, this press release is not a proxy statement or a solicitation of proxies from the holders of AAC’s AMPS.

Non-GAAP Financial Data

Adjusted Book Value. Adjusted Book Value is non-GAAP financial measure which is a numerical measure of financial performance or financial position that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. The most directly comparable GAAP measure is Total Ambac Financial Group, Inc. stockholders’ equity. We are presenting this non-GAAP financial measure because it provides greater transparency and enhanced visibility into the underlying drivers of our business. Adjusted Book Value is not a substitute for Ambac’s GAAP reporting, should not be viewed in isolation, may be subject to change, and may differ from similar reporting provided by other companies, which may define these non-GAAP measures differently.

Adjusted Book Value is defined as Total Ambac Financial Group, Inc. stockholders’ equity as reported under GAAP, adjusted for after-tax impact of the following:

- *Non-credit impairment fair value losses on credit derivatives:* Elimination of the non-credit impairment fair value loss on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit loss. GAAP fair values are affected by, and in part fluctuate with, changes in market factors such as interest rates, credit spreads, including Ambac’s CVA that are not expected to result in an economic gain or loss. These adjustments
-

allow for all financial guarantee contracts to be accounted for within Adjusted Book Value consistent with the provisions of the Financial Services—Insurance Topic of the ASC, whether or not they are subject to derivative accounting rules.

- *Insurance intangible asset:* Elimination of the financial guarantee insurance intangible asset that arose as a result of Ambac's emergence from bankruptcy and the implementation of Fresh Start reporting. This adjustment ensures that all financial guarantee contracts are accounted for within Adjusted Book Value consistent with the provisions of the Financial Services—Insurance Topic of the ASC.
- *Net unearned premiums and fees in excess of expected losses:* Addition of the value of the unearned premium revenue ("UPR") on financial guarantee contracts, in excess of expected losses, net of reinsurance. This non-GAAP adjustment presents the economics of UPR and expected losses for financial guarantee contracts on a consistent basis. In accordance with GAAP, stockholders' equity reflects a reduction for expected losses only to the extent they exceed UPR. However, when expected losses are less than UPR for a financial guarantee contract, neither expected losses nor UPR have an impact on stockholders' equity. This non-GAAP adjustment adds UPR in excess of expected losses, net of reinsurance, to stockholders' equity for financial guarantee contracts where expected losses are less than UPR.
- *Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income:* Elimination of the unrealized gains and losses on the Company's investments that are recorded as a component of accumulated other comprehensive income ("AOCI"). The AOCI component of the fair value adjustment on the investment portfolio may differ from realized gains and losses ultimately recognized by the Company based on the Company's investment strategy. This adjustment only allows for such gains and losses in Adjusted Book Value when realized.

Ambac has a significant tax NOL that is offset by a full valuation allowance in the GAAP consolidated financial statements. As a result of this and other considerations, for purposes of non-GAAP measures, we utilize a 0% effective tax rate, which is subject to change in the future.

Adjusted Book Value was \$1,430.9 million, or \$31.56 per share, at March 31, 2018.

Pro Forma Financial Information

The following unaudited pro forma calculation of Ambac Financial Group Inc.'s stockholders equity and Adjusted Book Value below assumes that the preferred stock repurchase and support agreement closed on March 31, 2018 with 80% participation of outstanding AMPS.

(\$ in millions, except per share data)	Reported March 31, 2018		Adjustments March 31, 2018		Pro-Forma March 31, 2018	
	\$ Amount	Per Share	\$ Amount	Per Share	\$ Amount	Per Share
Total Ambac Financial Group, Inc. stockholders' equity	\$ 1,845.1	\$ 40.70	\$ (71.9)	\$ (1.59)	\$ 1,773.2	\$ 39.12
Adjustments:						
Non-credit impairment fair value losses on credit derivatives	1.0	0.02	—	—	1.0	0.02
Insurance intangible asset	(833.0)	(18.37)	—	—	(833.0)	(18.38)
Net unearned premiums and fees in excess of expected losses	570.9	12.59	—	—	570.9	12.59
Net unrealized investment (gains) losses in Accumulated Other Comprehensive Income	(153.1)	(3.38)	—	—	(153.1)	(3.38)
Adjusted book value	\$ 1,430.9	\$ 31.56	\$ (71.9)	\$ (1.59)	\$ 1,359.0	\$ 29.98
Shares Outstanding (in millions)		45.33				

About Ambac

Ambac Financial Group, Inc. ("Ambac"), headquartered in New York City, is a holding company whose subsidiaries, including its principal operating subsidiaries, Ambac Assurance Corporation ("AAC"), Everspan Financial Guarantee Corp. and Ambac Assurance UK Limited ("Ambac UK"), provide financial guarantees to clients in both the public and private sectors globally. AAC is a guarantor of public finance and structured finance obligations. Ambac's common stock trades on the NASDAQ Global Select Market under the symbol "AMBC". The Amended and Restated Certificate of Incorporation of Ambac contains substantial restrictions on the ability to transfer Ambac's common stock. Subject to limited exceptions, any attempted transfer of common stock shall be prohibited and void to the extent that, as a result of such transfer (or any series of transfers of which such transfer is a part), any person or group of persons shall become a holder of 5% or more of Ambac's common stock or a holder of 5% or more of Ambac's common stock increases its ownership interest. Ambac is committed to providing timely and accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, we use our website to convey information about our businesses, including the anticipated release of quarterly financial results, quarterly financial, statistical and business-related information, and the posting of updates to the status of certain residential mortgage backed securities litigations. For more information, please go to www.ambac.com.

Contact

Lisa A. Kampf
Managing Director, Investor Relations
(212) 208-3177
lkampf@ambac.com

Forward-Looking Statements

In this press release, statements that may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “estimate,” “project,” “plan,” “believe,” “anticipate,” “intend,” “planned,” “potential” and similar expressions, or future or conditional verbs such as “will,” “should,” “would,” “could,” and “may,” or the negative of those expressions or verbs, identify forward-looking statements. We caution readers that these statements are not guarantees of future performance. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, which may by their nature be inherently uncertain and some of which may be outside our control. These statements may relate to plans and objectives with respect to the future, among other things which may change. We are alerting you to the possibility that our actual results may differ, possibly materially, from the expected objectives or anticipated results that may be suggested, expressed or implied by these forward-looking statements. Important factors that could cause our results to differ, possibly materially, from those indicated in the forward-looking statements include, among others, those discussed under “Risk Factors” in our most recent SEC filed quarterly or annual report.

Any or all of management’s forward-looking statements here or in other publications may turn out to be incorrect and are based on 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 highly speculative nature of Ambac’s common stock and volatility in the price of Ambac’s common stock; (2) uncertainty concerning the Company’s ability to achieve value for holders of its securities, whether from Ambac Assurance Corporation (“Ambac Assurance”) or from transactions or opportunities apart from Ambac Assurance; (3) adverse effects on Ambac’s share price resulting from future offerings of debt or equity securities that rank senior to Ambac’s common stock; (4) potential of rehabilitation proceedings against Ambac Assurance; (5) dilution of current shareholder value or adverse effects on Ambac’s share price resulting from the issuance of additional shares of common stock; (6) inadequacy of reserves established for losses and loss expenses and possibility that changes in loss reserves may result in further volatility of earnings or financial results; (7) decisions made by Ambac Assurance’s primary insurance regulator for the benefit of policyholders that may result in material adverse consequences for holders of the Company’s securities or holders of securities issued or insured by Ambac Assurance; (8) increased fiscal stress experienced by issuers of public finance obligations or an increased incidence of Chapter 9 filings or other restructuring proceedings by public finance issuers; (9) failure to recover claims paid on Puerto Rico exposures or incurrence of losses in amounts higher than expected; (10) the Company’s inability to realize the expected recoveries included in its financial statements; (11) changes in Ambac Assurance’s estimated representation and warranty recoveries or loss reserves over time; (12) insufficiency or unavailability of collateral to pay secured obligations; (13) credit risk throughout the Company’s business, including but not limited to credit risk related to residential mortgage-backed securities, student loan and other asset securitizations, public finance obligations and exposures to reinsurers; (14) credit risks related to large single risks, risk concentrations and correlated risks; (15) concentration and essentiality risk in connection with Military Housing insured debt; (16) the risk that the Company’s risk management policies and practices do not anticipate certain risks and/or the magnitude of potential for loss; (17) risks associated with adverse selection as the Company’s insured portfolio runs off; (18) adverse effects on operating results or the Company’s financial position resulting from measures taken to reduce risks in its insured portfolio; (19) intercompany disputes or disputes with Ambac Assurance’s primary insurance regulator; (20) our inability to mitigate or remediate losses, commute or reduce insured exposures or achieve recoveries or investment objectives, or the failure of any transaction intended to accomplish one or more of these objectives to deliver anticipated results; (21) the Company’s substantial indebtedness could adversely affect its financial condition and operating flexibility; (22) the Company may not be able to obtain financing or raise capital on acceptable terms or at all due to its substantial indebtedness and financial condition; (23) restrictive covenants in agreements and instruments may impair the Company’s ability to pursue or achieve its business strategies; (24) loss of control rights in transactions for which we provide insurance due to a finding that Ambac Assurance has

defaulted, whether due to the Segregated Account rehabilitation proceedings or otherwise; (25) the Company's results of operation may be adversely affected by events or circumstances that result in the accelerated amortization of the Company's insurance intangible asset; (26) adverse tax consequences or other costs resulting from the Segregated Account rehabilitation plan, or from the characterization of the Company's surplus notes or other obligations as equity; (27) risks attendant to the change in composition of securities in the Company's investment portfolio; (28) changes in tax law; (29) changes in prevailing interest rates; (30) changes on inter-bank lending rate reporting practices or the method pursuant to which LIBOR rates are determined; (31) factors that may influence the amount of installment premiums paid to the Company, including the Segregated Account rehabilitation proceedings; (32) default by one or more of Ambac Assurance's portfolio investments, insured issuers or counterparties; (33) market risks impacting assets in the Company's investment portfolio or the value of our assets posted as collateral in respect of interest rate swap transactions; (34) risks relating to determinations of amounts of impairments taken on investments; (35) 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 the Company's business, operations, financial position, profitability or cash flows; (36) actions of stakeholders whose interests are not aligned with broader interests of the Company's stockholders; (37) the Company's inability to realize value from Ambac UK or other subsidiaries of Ambac Assurance; (38) system security risks; (39) market spreads and pricing on interest rate derivative insured or issued by the Company; (40) the risk of volatility in income and earnings, including volatility due to the application of fair value accounting; (41) changes in accounting principles or practices that may impact the Company's reported financial results; (42) legislative and regulatory developments, including intervention by regulatory authorities; (43) the economic impact of "Brexit" may have an adverse effect on the Company's insured international portfolio and the value of its foreign investments, both of which primarily reside with its subsidiary Ambac UK; (44) operational risks, including with respect to internal processes, risk and investment models, systems and employees, and failures in services or products provided by third parties; (45) the Company's financial position that may prompt departures of key employees and may impact the Company's ability to attract qualified executives and employees; (46) implementation of new tax legislation signed into law on December 22, 2017 (commonly known as the "Tax Cuts and Jobs Act") may have unexpected consequences for the Company and the value of its securities, particularly its common shares; (47) implementation of the Tax Cuts and Jobs Act may negatively impact the economic recovery of Puerto Rico, which could result in higher loss severities or an extended moratorium on debt service owed on Ambac Assurance-insured bonds of Puerto Rico and its instrumentalities; (48) implementation of the Tax Cuts and Jobs Act could have a negative impact on municipal issuers of Ambac-insured bonds; and (49) other risks and uncertainties that have not been identified at this time.

Source: Ambac Financial Group

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