

**CHARTER OF THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS OF AMBAC FINANCIAL GROUP, INC.
As of May 6, 2003**

I. PURPOSE

The primary purpose of the Compensation and Organization Committee is to ensure that the human resource and compensation strategies of the Company support and enhance its strategic objectives. The Committee is charged with oversight responsibility for executive management performance, succession planning and ensuring that management compensation is reasonable in light of all relevant factors. The responsibilities of the Committee include determining executive officer compensation and producing an annual report on executive compensation, which shall be included in the Company's proxy statement. The Committee also will review, recommend and advise the Board with respect to the Company's compensation principles, human resource strategies and establishment and administration of adequate and effective employee compensation, benefit and other employee plans.

II. COMPOSITION AND MEETING REQUIREMENTS

The Committee shall consist of three or more independent directors, who shall be appointed by the Board of Directors for a one-year term, with the Chairman of the Committee elected by the Board. A person may serve on the Committee and shall be considered an independent director ("**Independent Directors**") only if he or she (i) is a " Non-Employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "**1934 Act**"), (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code, and (iii) satisfies the requirements of "independent director" as defined under the rules of the New York Stock Exchange. No member of the Committee shall be employed or otherwise affiliated with any compensation consultant employed by the Company, the Board, or the Committee.

Vacancies on the Committee shall be filled by majority vote of the Board at the next meeting of the Board following the occurrence of the vacancy. No member of the Committee shall be removed except by majority vote of the Independent Directors then in office.

A majority of the members of the Committee present in person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other shall constitute a quorum. The action of a majority of those present at a meeting, at which a quorum is present, shall be the act of the Committee.

The Committee will meet at least three times per year in conjunction with the Company's quarterly board meetings and at such other times, as it deems necessary to fulfill its responsibilities.

The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

The Committee will report to the Board from time to time as to its activities and its recommendations. The Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company and available to the full Board for its review.

III. DUTIES AND RESPONSIBILITIES

The Committee shall have the following responsibilities and duties:

1. **Adopt and Annually Review the Overall Compensation Philosophy and Policy of the Company.** Adopt and annually review a "Pay for Performance" compensation program consistent with the Company's compensation philosophy. Review annually the overall compensation principles of the Company governing the compensation and benefits of the officers and other employees of the Company and its subsidiaries to ensure that they provide the appropriate motivation to achieve the Company's stated objectives.
2. **Executive Compensation Programs.** Adopt and annually review a comprehensive statement of executive compensation philosophy, strategy and principles and determine whether it remains effective to attract, motivate and retain executive officers capable of making significant contributions to the long-term success of the Company, consistent with stockholder interest. Ensure appropriate oversight of the Company's executive compensation programs, including establishing and periodically reviewing policies for the administration of executive compensation programs, reviewing on a periodic basis the Company's principal executive compensation programs and taking steps to modify any executive compensation programs that yield payments and benefits not reasonably related to performance. The Committee shall administer the Company's 1997 Executive Incentive Plan and any successor plan.
3. **Selection of Peer Group.** Select the peer group of companies that shall be used as a reference in determining competitive compensation packages.
4. **Evaluate the CEO and other Executive Officers' Performance.** Establish procedures to evaluate the performance of the Chief Executive Officer and perform annually such evaluation. The Committee also shall review the procedures for the evaluation of other executive officers and the results of the Chief Executive Officer's evaluation of such officers.
5. **Establish CEO and Executive Officer Compensation.** Establish the annual salary, bonus, and other benefits of the Chief Executive Officer based on the Company's performance, its compensation philosophy and relative shareholder return, the compensation of CEOs at peer group companies, past compensation and other relevant factors. Establish the annual salary, bonus, and other benefits of the Company's other executive officers based on the CEO's recommendations, the Company's performance and relative shareholder return, the

compensation of executive officers at peer group companies, past compensation and other relevant factors

6. **Annual Review of Managing Directors' Compensation.** Review on an annual basis all compensation awarded to each of the Company's Managing Directors.
7. **Evaluate Succession Planning.** Ensure appropriate oversight of the Company's succession planning process, including periodically reviewing succession plans for key senior management positions, processes used to identify potential successors for key positions, and processes associated with development of potential successors.
8. **Performance Standards.** Where appropriate, review performance standards for executive officers to be used in succession planning, development, and implementation of the Company's compensation programs.
9. **Executive Officer Perquisites.** Review and approve the Company's policies with respect to executive officer perquisites and incidental benefits, such as club dues, automobiles, professional association dues, and similar benefits.
10. **Establish Annually the Company's Bonus Pool.** Review and approve the Company's incentive bonus pool for the year, based on the Company's financial condition and prospects, performance against objectives during the year, relative stockholder return and past bonus pools.
11. **Employee Benefit Plans.** Review and approve any new employee benefit plan (including without limitation any long term incentive compensation or equity plan) and submit such plans to the full Board and stockholders for approval as required by applicable SEC and other regulatory agency rules. Review and approve all material changes to an existing plan and obtain full Board and stockholders approval of such amendments when required by applicable SEC and other regulatory agency rules. Periodically review the Company's material benefit plans to ensure appropriateness and the extent to which such plans are meeting the intended objectives. The Committee shall administer the Company's 1997 Equity Incentive Plan and the Executive Incentive Plans and any successor plans.
12. **Stockholders Report.** Publish an annual Compensation and Organization Committee Report to Stockholders on the Company's executive compensation policies and programs and the relationship of corporate performance to executive compensation, including the factors and criteria on which the Chief Executive Officer's compensation for the previous fiscal year was based and the relationship of the Company's performance to the Chief Executive Officer's compensation, for inclusion in the Company's proxy statement.
13. **Review of all Executive Officer Employment and Severance Contracts.** All employment and severance contracts proposed for executive officers shall be subject to Committee review and approval, including any consulting contracts or other special retirement arrangements for retiring executive officers or directors, and will be periodically evaluated for continuing appropriateness.

14. **Review the Company's Stock Ownership Guidelines.** Review annually the Company's Stock Ownership Guidelines to determine appropriateness against stated objectives and that those officers subject to the Program are in compliance and that the Program continues to function in the best interests of the Company and its stockholders and, if appropriate, modify such Program..
15. **Evaluate Human Resources Strategies.** Ensure appropriate oversight of the Company's human resources policies, including periodically reviewing major strategies established to fulfill the Company's ethical and legal human resources responsibilities.
16. **Other Duties.** Perform any additional duties and responsibilities as the Board may from time to time determine.

The foregoing list of duties and responsibilities is not intended to be either complete or exclusive, and the Committee shall have, in addition, such powers as may be necessary or appropriate for the performance of its duties hereunder. All interpretations and determinations of the Committee made in accordance with the authority granted to it herein shall be binding on all interested parties.

IV. EVALUATION OF THE COMMITTEE

The Committee shall, on an annual basis, evaluate its performance under this Charter. In conducting this review, the Committee shall evaluate whether this Charter appropriately addresses the matters that are or should be within its scope. The Committee shall address all matters that the Committee considers relevant to its performance, including at least the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Committee to the Board, the manner in which they were discussed or debated, and whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner.

The Committee shall deliver to the Board a report setting forth the results of its evaluation, including any recommended amendments to this Charter and any recommended changes to the Company's or the Board's policies or procedures.

V. INVESTIGATIONS AND STUDIES; OUTSIDE ADVISERS

The Committee is authorized to retain compensation consultants having special competence to assist the Committee in evaluating executive compensation. The Committee has sole authority to retain or terminate such consultants, including sole authority to approve the consulting firm's fees and other retention terms, such fees to be borne by the Company. The Committee also is authorized to seek outside legal, accounting or other advice to the extent it deems necessary or appropriate.

The Committee also may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities, and may retain, at the Company's expense, such independent counsel or other advisers as it deems necessary.

VI. OTHER AUTHORITY

The Committee may designate persons other than its members to carry out such responsibilities under the Company's employee benefit plans to the extent permitted under such plans and applicable laws and regulations.

VII. CHARTER AMENDMENTS

The Board shall have the authority to amend this Charter from time to time by a resolution approved by a majority of the Board members, provided that at all times the Charter shall satisfy the requirements of law and the New York Stock Exchange or other principal exchange on which the Company's securities are listed.