

**CHARTER OF THE GOVERNANCE COMMITTEE  
OF THE BOARD OF DIRECTORS OF AMBAC FINANCIAL GROUP, INC.**

**(As of MAY 6, 2003)**

**I. PURPOSE OF THE COMMITTEE**

The purposes of the Nominating and Corporate Governance Committee (the "*Committee*") of the Board of Directors (the "*Board*") of Ambac Financial Group, Inc. (the "*Company*") shall be to recommend to the Board individuals qualified to serve as directors of the Company and on committees of the Board; to advise the Board with respect to the Board composition, procedures and committees; to advise the Board with respect to the corporate governance principles applicable to the Company; and to oversee the evaluation of the Board.

**II. COMPOSITION AND MEETING REQUIREMENTS**

The Committee shall be comprised of three or more directors who qualify as independent directors ("*Independent Directors*") under the listing standards of the New York Stock Exchange (the "*NYSE*").

The Board shall designate one member of the Committee as its Chairperson. The Chairperson of the Committee or a majority of the members of the Committee may also call a special meeting of the Committee.

The Committee shall meet at least two 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 or more frequently as circumstances require.

The members of the Committee shall be elected annually to one-year terms by majority vote of the Board. 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 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.

### **III. DUTIES OF THE COMMITTEE**

#### **A. Board Candidates and Nominees**

The Committee shall have the following responsibilities and duties with respect to Board candidates and nominees:

(a) To establish criteria for the selection of new directors. Such criteria shall include the possession of such knowledge, experience, skills, expertise and diversity so as to enhance the Board's ability to manage and direct the affairs and business of the Company, including, when applicable, to enhance the ability of committees of the Board to fulfill their duties and/or to satisfy any independence requirements imposed by law, regulation or NYSE listing requirement.

(b) To establish procedures for evaluating the suitability of potential director nominees proposed by directors, management or shareholders.

(c) To recommend to the Board director nominees for election by the stockholders or appointment by the Board, as the case may be, pursuant to the Bylaws of the Company, which recommendations shall be consistent with the Board's criteria for selecting new directors.

(d) To review the suitability for continued service as a director of each Board member when his or her term expires and when he or she has a significant change in status, including but not limited to an employment change, and to recommend whether or not the director should be re-nominated.

## **B. Board Composition, Compensation and Procedures**

The Committee shall have the following responsibilities and duties with respect to the composition and procedures of the Board as a whole:

(a) To review annually with the Board the size and the composition of the Board as a whole and to recommend, if necessary, measures to be taken so that the Board reflects the appropriate balance of knowledge, experience, skills, expertise and diversity required for the Board as a whole and contains at least the minimum number of Independent Directors required by the NYSE.

(b) To review at least every three years director compensation and to recommend to the Board appropriate director compensation for non-employee directors, after consulting with the Committee's outside executive compensation consulting firm regarding appropriate market place director retainers, meeting fees, stock plan and other similar components of compensation and report the results to the full Board.

(c) To make recommendations on the frequency and structure of Board meetings.

(d) To make recommendations concerning any other aspect of the procedures of the Board that the Committee considers warranted, including but not limited to procedures with respect to the waiver by the Board of any Company rule, guideline, procedure or corporate governance principle.

## **C. Board Committees**

The following shall be the responsibilities and duties of the Committee with respect to the committee structure of the Board:

(a) To make recommendations to the Board regarding the size and composition of each standing committee of the Board of Directors, including the identification of individuals qualified to serve as members of a committee, including the Committee, and to recommend individual directors to fill any vacancy that might occur on a committee, including the Committee.

(b) To monitor the functioning of the committees of the Board and to make recommendations for any changes, including the creation and elimination of committees and the policy with respect to the rotation of committee memberships and/or chairpersonships.

(c) To review annually and recommend to the Board committee assignments and chairpersonships.

(d) To recommend that the Board establish such special committees as may be desirable or necessary from time to time in order to address ethical, legal or other matters that may arise. The Committee's power to make such a recommendation under this Charter shall be without prejudice to the right of any other committee of the Board, or any individual director, to make such a recommendation at any time.

#### **D. Corporate Governance**

The following shall be the responsibilities and duties of the Committee with respect to corporate governance:

v. (a) To develop and review periodically, and at least annually, the corporate governance principles adopted by the Board to assure that they are appropriate for the Company and comply with the requirements of the NYSE and all other applicable statutory or regulatory requirements, and to recommend any desirable changes to the Board.

(b) To monitor and advise the Board of significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies.

(c) To consider any other corporate governance issues that arise from time to time, and to develop appropriate recommendations for the Board.

#### **E. Evaluation of the Board**

The Committee shall be responsible for overseeing the evaluation of the Board as a whole. The Committee shall establish criteria and processes for, and lead the Board in, its annual performance self-evaluation.

### **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 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. The Committee also is authorized to seek outside legal or other advice, at the Company's expense, to the extent it deems necessary or appropriate.

The Committee shall have the sole authority to retain or terminate any search firm to be used to identify director candidates, including sole authority to approve the search firm's fees and other retention terms, such fees to be borne by the Company.

#### **VI. 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 NYSE or other principal exchange on which the Company's securities are listed.