A. Introduction.

In connection with the Plan and Disclosure Statement, the following hypothetical liquidation analysis (the "Liquidation Analysis") has been prepared by the Debtor with the assistance of its financial advisor. This Liquidation Analysis should be read in conjunction with the Plan and the Disclosure Statement.

Pursuant to section 1129(a)(7) of the Bankruptcy Code, often called the "best interests test," holders of allowed claims must either (a) accept the plan of reorganization or (b) receive or retain under the plan property of a value, as of the plan's assumed effective date, that is not less than the value such non-accepting holders would receive or retain if the debtor were to be liquidated under chapter 7 of the Bankruptcy Code on such date. The Debtor believes that the Plan meets the "best interest test" as set forth in section 1129(a)(7) of the Bankruptcy Code.

To demonstrate compliance with the "best interests test," the Debtor, with the assistance of its financial advisor, estimated a range of proceeds, net of liquidation-related costs, which would be generated from a hypothetical chapter 7 liquidation. The Liquidation Analysis indicates the values, if a chapter 7 trustee (the "Trustee") were appointed and charged with disposing of any and all of the Debtor's assets for cash, as an alternative to continued operation of the business as proposed under the Plan. Accordingly, values discussed herein are different than amounts referred to in the Plan, which illustrate the value of the Debtor's business as a going concern. The Debtor compared this hypothetical liquidation value to the value and recovery provided for under the Plan. As reflected in more detail in the Liquidation Analysis, the Debtor believes that the value of any distributions if the Chapter 11 case were converted to a case under chapter 7 of the Bankruptcy Code would not be greater than the value of distributions under the Plan.

The Liquidation Analysis reflects management's estimated net value of the Debtor's assets if the Debtor were liquidated under the provisions of chapter 7 of the Bankruptcy Code, and the net proceeds of the liquidation were applied in strict priority to satisfy Claims against the Debtor. The Liquidation Analysis has been prepared assuming the Debtor's current chapter 11 case converts to a chapter 7 proceeding under the Bankruptcy Code on December 8, 2011 (the "Liquidation Date") and its assets are liquidated in a traditional liquidation with the loss of going concern value attributable to these assets. The Liquidation Analysis assumes a range of recoveries for these assets assuming a forced liquidation asset sale process conducted by the Debtor's Trustee. To maximize recovery, the liquidation is assumed to occur over a three to six month period (the "Wind Down Period"). The Liquidation Analysis is based on unaudited book values as of July 31, 2011 (except as indicated), and these values, in total, are assumed to be representative of the Debtor's assets and liabilities as of the Liquidation Date. However, the Liquidation Analysis does not include recoveries resulting from any potential preference claims, fraudulent conveyance litigation, or other avoidance actions.

B. Scope, Intent, and Purpose of the Liquidation Analysis.

Estimating recoveries in any hypothetical chapter 7 liquidation case is an uncertain process due to the number of unknown variables and is necessarily speculative. Thus, extensive use of estimates and assumptions has been made that, although considered reasonable by Debtor's management and its financial advisor, are inherently subject to significant business, economic and competitive uncertainties and contingencies beyond the control of the Debtor. Inevitably, some assumptions in the Liquidation Analysis would not materialize in an actual chapter 7 liquidation. In addition, the Debtor's management cannot judge with any degree of certainty the effect of the forced liquidation asset sales on the recoverable value of the Debtor's assets. The Liquidation Analysis was prepared for the sole purpose of generating a reasonable good faith estimate of the proceeds that would be generated if the Debtor were liquidated in accordance with chapter 7 of the Bankruptcy Code. THE DEBTOR MAKES NO REPRESENTATIONS OR WARRANTIES REGARDING THE ACCURACY OF THE ESTIMATES AND ASSUMPTIONS OR A TRUSTEE'S ABILITY TO ACHIEVE FORECASTED RESULTS. IN THE EVENT THE CHAPTER 11 CASE IS CONVERTED TO CHAPTER 7 PROCEEDINGS, ACTUAL RESULTS MAY VARY MATERIALLY FROM THE ESTIMATES AND PROJECTIONS SET FORTH IN THE LIQUIDATION ANALYSIS.

In preparing the Liquidation Analysis, the amount of Allowed Claims has been projected based upon a review of scheduled Claims and all Proofs of Claims associated with pre-petition and post-petition obligations. Additional Claims were estimated to include certain post-petition obligations on account of which Claims have not been asserted, but which would be asserted in a hypothetical chapter 7 liquidation. These potential Claims include, without limitation, Claims for trade payables incurred during the chapter 11 case. In the event litigation were necessary to resolve Claims asserted in a chapter 7 liquidation, the delay could be prolonged and Claims could further increase. The effects of this delay on the value of distributions under the hypothetical liquidation have not been considered. No Order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Claims at the estimated amounts set forth in the Liquidation Analysis. NOTHING CONTAINED IN THIS HYPOTHETICAL LIQUIDATION ANALYSIS IS INTENDED TO BE OR CONSTITUTES A CONCESSION OR ADMISSION OF THE DEBTOR. THE ESTIMATED AMOUNT OF ALLOWED CLAIMS SET FORTH IN THE LIQUIDATION ANALYSIS SHOULD NOT BE RELIED UPON FOR ANY OTHER PURPOSE, INCLUDING, WITHOUT LIMITATION, ANY DETERMINATION OF THE VALUE OF ANY DISTRIBUTION TO BE MADE ON ACCOUNT OF ALLOWED CLAIMS UNDER THE PLAN. THE ACTUAL AMOUNT OF ALLOWED CLAIMS IN THE CHAPTER 11 CASE COULD MATERIALLY AND SIGNIFICANTLY DIFFER FROM THE AMOUNT OF CLAIMS ESTIMATED IN THE LIQUIDATION ANALYSIS.

EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THIS LIQUIDATION ANALYSIS WAS PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED, OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT THIS ANALYSIS IN A MATERIALLY ADVERSE OR MATERIALLY BENEFICIAL MANNER. THE DEBTOR AND REORGANIZED DEBTOR DO NOT INTEND AND DO NOT UNDERTAKE ANY OBLIGATION TO UPDATE OR OTHERWISE REVISE THE LIQUIDATION ANALYSIS (OR ANY OTHER PART OF THE DISCLOSURE STATEMENT) TO REFLECT EVENTS OR CIRCUMSTANCES EXISTING OR ARISING AFTER THIS LIQUIDATION ANALYSIS IS INITIALLY FILED OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. THEREFORE, THE LIQUIDATION ANALYSIS MAY NOT BE RELIED UPON

AS A GUARANTEE OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR. IN DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, HOLDERS OF CLAIMS OR INTERESTS MUST MAKE THEIR OWN DETERMINATIONS AS TO THE REASONABLENESS OF SUCH ASSUMPTIONS AND THE RELIABILITY OF THE LIQUIDATION ANALYSIS.

THIS LIQUIDATION ANALYSIS WAS DEVELOPED SOLELY FOR PURPOSES OF THE FORMULATION AND NEGOTIATION OF THE PLAN AND TO ENABLE THE HOLDERS OF CLAIMS AND INTERESTS ENTITLED TO VOTE UNDER THE PLAN TO MAKE AN INFORMED JUDGMENT ABOUT THE PLAN AND SHOULD NOT BE USED OR RELIED UPON FOR ANY OTHER PURPOSE, INCLUDING THE PURCHASE OR SALE OF SECURITIES OF, OR CLAIMS OR INTERESTS IN, THE DEBTOR OR ANY OF ITS AFFILIATES.

C. Results of the Liquidation Analysis.

The estimated proceeds of a hypothetical chapter 7 liquidation for all assets of the Debtor was calculated based on assumptions provided herein and applied to estimated Claims values for this entity to determine recovery estimates among creditor Classes. In addition, these recovery estimates among creditor Classes were compared to estimated recoveries under the Plan.

As is demonstrated in the analysis, all impaired creditor Classes are estimated to receive less in the Liquidation Analysis than under the Plan. Based on the estimated recoveries in the Plan and Liquidation Analysis, it is the Debtor's opinion that the Plan satisfies the "best interests test." Under the Plan, each Class will receive at least the same value or more than it would if the business were to be subject to a chapter 7 liquidation.

D. Global Notes to the Liquidation Analysis.

1. Conversion Date and Appointment of a Chapter 7 Trustee.

The Liquidation Analysis assumes conversion of the Debtor's chapter 11 case to a chapter 7 liquidation case on December 8, 2011. On the conversion date, it is assumed that the Bankruptcy Court would appoint one Trustee to oversee the liquidation of the estate. Should multiple Trustees be appointed to administer the estate, lower recoveries and higher administrative costs could result and distributions to creditors could be delayed.

2. Assets to be liquidated.

The Liquidation Analysis assumes a liquidation of all of the Debtor's assets, which primarily consist of Cash and securities as well as its investment in AAC.

3. Estimated Costs of Liquidation.

The Liquidation Analysis includes expenses expected to be incurred during the Wind Down Period, including those related to Trustee fees, legal fees and other professional fees and operating/wind-down expenses.

Hypothetical Liquidation Analysis

(unaudited, $ in thousands)

	Notes		Book Value	Recovery (%) Low	Recovery (%) High	Recovery ($) Low	Recovery ($) High
Assets							
Unrestricted cash & equivalents	A		$ 14,757.6	100.0%	100.0%	$ 14,757.6	$ 14,757.6
Restricted cash & cash equivalents	B		2,500.0	0.0%	100.0%	-	2,500.0
Professional retainers	C		4,061.7	100.0%	100.0%	4,061.7	4,061.7
Variable rate demand obligations	D		22,500.0	100.0%	100.0%	22,500.0	22,500.0
Notes receivable	E		918.7	100.0%	100.0%	918.7	918.7
Receivable for securities	F		0.0	0.0%	0.0%	-	-
Investment income due and accrued	G		43.1	0.0%	0.0%	-	-
State franchise tax receivable	H		38.5	0.0%	0.0%	-	-
Total current assets			44,819.6			42,237.9	44,737.9
Amount due from insiders	I		470.0	0.0%	0.0%	-	-
Investment in subsidiaries	J		(1,053,668.1)	0.0%	0.0%	-	-
Other receivables	K		282.5	0.0%	48.2%	-	136.1
Loan receivable	L		2,370.8	89.8%	95.1%	2,129.3	2,255.2
Total assets			**$ (1,005,725.3)**			**$ 44,367.2**	**$ 47,129.2**
Other proceeds	M					114.8	114.8
Total proceeds						**$ 44,482.0**	**$ 47,244.1**
Estimated Costs of Chapter 7 Liquidation							
Wind-down operating costs	N					$ -	$ -
Intercompany services rendered in liquidation	O					600.0	225.0
Trustee fees	P					1,334.5	1,417.3
Trustee appointed professional fees	Q					5,000.0	2,500.0
Total Estimated Costs of Chapter 7 Liquidation						**$ 6,934.5**	**$ 4,142.3**
Net proceeds available for payment of claims						**$ 37,547.6**	**$ 43,101.7**
		Claim					
		High	**Low**				
Administrative claims							
503(b)(9) claims	R	-	-	n/a	n/a	-	-
Professional fees	S	6,729.0	3,822.2	100.0%	100.0%	6,729.0	3,822.2
Total administrative claims		**$ 6,729.0**	**$ 3,822.2**	100.0%	100.0%	**$ 6,729.0**	**$ 3,822.2**
Excess in proceeds over administrative claims						**$ 30,818.6**	**$ 39,279.5**
Unsecured claims							
General unsecured claims		16,000.0	16,000.0	1.8%	2.3%	289.0	368.3
Senior Debt		1,246,129.5	1,246,129.5	2.4%	3.1%	30,529.6	38,911.2
Subordinated Debt		444,182.6	444,182.6	0.0%	0.0%	-	-
Total unsecured claims		**$ 1,706,312.1**	**$ 1,706,312.1**	1.8%	2.3%	**$ 30,818.6**	**$ 39,279.5**

This Liquidation Analysis should be read in conjunction with the accompanying Notes. Financial information is based on the Debtor's July 31, 2011 Unaudited Balance Sheet Data per the Monthly Operating Report for the period from July 1, 2011 through July 31, 2011 except as otherwise indicated.

E. Footnotes to the Liquidation Analysis

1. Assets

A) Unrestricted Cash and Equivalents – Unrestricted Cash and Equivalents are assumed to be recovered at 100% of stated value in both the high and low recovery cases. Balance shown is the ending balance as of November 30, 2011 [(1)], as per the Debtor's liquidity forecast, dated September 9, 2011.

B) Restricted Cash and Cash Equivalents – Restricted Cash and Cash Equivalents represent $2.5 million being held in escrow in connection with certain litigation. This cash was transferred into the escrow account prepetition. In the low recovery case, Restricted Cash and Cash Equivalents are assumed to be unrecoverable 0% as they will be paid out in the settlement of the securities litigation. However, in the absence of an approved plan of reorganization, it is possible that this amount could be retained by AFG, so it is given a 100% recovery assumption in the high recovery case. Balance shown is the ending balance as of November 30, 2011 [(1)], as per the Debtor's liquidity forecast, dated September 9, 2011.

C) Professional Retainers – Professional Retainers includes funds transferred to and held by certain of the Debtor's professionals to secure payments for fees and expenses not yet billed for legal and financial advisors as well as other professionals. Professional Retainers are not readily convertible into unrestricted cash. At the end of the respective engagement, the balance of the retainer should be applied against any outstanding invoices, with any excess remaining after such application returned to AFG. For purposes of this liquidation analysis, Professional Retainers are assumed to be fully recoverable 100% under both high and low recovery scenarios. Balance shown is the ending balance as of November 30, 2011 [(1)], as per the Debtor's liquidity forecast, dated September 9, 2011.

D) Variable Rate Demand Obligations: $22,500,000 of VRDOs were repaid as of August 1, 2011. Currently 100% of proceeds are being held in cash pending reinvestment.

E) Notes Receivable – Notes Receivable represents the current amount due within one year from the buyer of a former AFG subsidiary. The amount includes approximately $862,000 of principal and $56,000 of interest anticipated to be paid in December 2011. Notes Receivable is short term and assumed to be received 100% under both high and low recovery scenarios.

F) Receivable for Securities – Represents money due on a money market fund investment that was sold after the fund's net asset value dropped below $1 per share. The manager has been remitting cash as funds become available, but the likelihood that they will continue to do so is very uncertain. Receivable for Securities are assumed to be

[(1)] For purposes of this liquidation analysis, amounts listed as of November 30, 2011 are assumed to approximate the amounts as of December 8, 2011, or the Liquidation Date.

unrecoverable and will be written off by September. Therefore, recovery value in both cases is 0%.

G) Investment Income Due and Accrued – Represents accrued interest as of month-end on short term high quality loans and investments. This Income Due and Accrued was received as of September 2011. The amounts are reflected in the ending cash balance as of November 30, 2011 [(1)], as per the Debtor's liquidity forecast, dated September 9, 2011. As such, it is deemed 0% recoverable under both scenarios to avoid double-counting.

H) State Franchise Tax Receivable – The Debtor made a Delaware franchise tax estimated payment in 2010 based on the traditional share method. Based on the Debtor's balance sheet at December 31, 2010, the Debtor was able to compute its tax liability using an alternative method. As a result, the Debtor believes a refund is due, but its ability to obtain this refund is uncertain, as the justification for the refund must be presented to the state in March 2012 with the annual filing. Outcome will be unknown until second quarter 2012, at the earliest. Given the uncertainty surrounding this receivable, the receivable was written off in September 2011. Therefore, the recovery value is deemed to be 0% in both the high and low recovery cases.

I) Amounts Due from Insiders – Amounts Due from Insiders represents amounts owed by Ambac Assurance and other affiliated companies to be settled through the group's intercompany settlement process that takes place monthly and quarterly. This amount has been settled as of September 2011 and is reflected in the ending cash balance as of November 30, 2011 [(1)], as per the Debtor's liquidity forecast, dated September 9, 2011. As such, it is deemed 0% recoverable under both scenarios to avoid double-counting.

J) Investment in Subsidiaries – Investment in Subsidiaries includes the GAAP equity value of the Debtor's primary subsidiary, AAC, as well as Ambac Bermuda Ltd. The Debtor's investment in AAC is not a positive value and therefore has a 0% deemed recovery value in each scenario.

K) Other Receivables – Other Receivables consists of five obligations owing to AFG. Of the reported amount as of July 31, only $136,148 48.2% is deemed to be recoverable in the high recovery case. In the low recovery case, it is deemed 0% recoverable and would be written off.

L) Loans Receivable – Loans Receivable represents the long term amounts owed to AFG from the buyer of a former AFG subsidiary, the same obligor noted under Notes Receivable. Loans Receivable is deemed to be recoverable via sale of the receivable at a discount with recovery ranging from 95.1% in the high recovery scenario and 89.8% in the low recovery scenario.

[(1)] For purposes of this liquidation analysis, amounts listed as of November 30, 2011 are assumed to approximate the amounts as of December 8, 2011, or the Liquidation Date.

M) Other Proceeds – Other Proceeds represents the expected recovery of $114,810 of liquid assets in excess of Ambac Bermuda Ltd.'s reported book value.

2. Estimated Costs of Chapter 7 Liquidation

Estimated costs of Chapter 7 liquidation are assumed to comprise 3-6 months of certain operating expenses that would be required to maintain the operations during a sale process.

N) Wind-down operating costs – Wind-down operating costs are forecast to be unnecessary as services would be provided by the professionals appointed by the Trustee and through operations support of AAC.

O) Intercompany services rendered in liquidation – Intercompany services rendered in liquidation include cost allocation payments made to AAC for the operations support referenced above. Projected to be $100,000 per month for six months for the low recovery case and $75,000 per month for three months for the high recovery case.

P) Trustee Fees – Chapter 7 trustee fees include those fees associated with the compensation of a Chapter 7 trustee in accordance with section 326 of the Bankruptcy Code. Chapter 7 Trustee fees were assumed at the statutory maximum rate of 3% of available liquidation proceeds.

Q) Trustee Appointed Professional Fees – It is assumed that the Trustee would appoint his or her own legal and advisory professionals. In the low recovery case, trustee appointed professional fees are assumed to be as high as $5 million due to the complexity of the case. In the high recovery case, trustee appointed professional fees are assumed to be $2.5 million.

3. Administrative Claims

R) 503(b)(9) – Given the nature of the Debtor's business, it is not expected to have any 503(b)(9) administrative claims.

S) Professional Fees – Professional fees represent estimates for the professional fees (legal, investment banking / financial advisory, appraisal, brokerage, accounting and other) anticipated to be paid for services rendered during the chapter 11 proceeding prior to conversion to chapter 7.

Assumptions

- For both the high and low claim amounts:
  - All existing professional engagements are assumed to be terminated at the inception of the liquidation
  - Outstanding retainers, Dewey & Lebeouf $3.1 million and Wachtell $1.0 million, included in Professional Retainers, should be applied against submitted invoices
- For the high claim amount:

    - Remaining holdback amounts for the period Nov 2010-Nov 2011 $2.83 million in aggregate are assumed to be paid to professionals
    - 80% of earned fees for the period Oct-Nov 2011 $3.45 million in aggregate are assumed to be paid at the conclusion of the liquidation
    - 100% of KCC fees $0.45 million in aggregate are assumed to be paid monthly during the liquidation, with no holdback.
- For the low claim amount:
    - No remaining holdback amounts for the period Nov 2010-Nov 2011 are assumed to be paid to professionals
    - 80% of earned fees for the period Oct-Nov $3.45 million in aggregate are assumed to be paid at the conclusion of the liquidation
    - 100% of KCC fees $0.375 million in aggregate are assumed to be paid monthly during the liquidation, with no holdback.