

Rating Action: Ambac Assurance Corporation

Moody's Reviews Ambac's Ratings for Possible Downgrade

New York, January 16, 2008 -- Moody's Investors Service has placed the Aaa insurance financial strength ratings of Ambac Assurance Corporation and Ambac Assurance UK Limited on review for possible downgrade. In the same rating action, Moody's also placed the ratings of the holding company, Ambac Financial Group, Inc. (senior debt at Aa2), and related financing trusts on review for possible downgrade. Moody's stated that today's rating action follows Ambac's announcement of record losses, a capital raising plan, and the retirement of its CEO.

As a result of this review, the Moody's-rated securities that are "wrapped" or guaranteed by Ambac are also placed under review for possible downgrade, except those with higher public underlying ratings. A list of these securities will be made available under "Ratings Lists" at www.moody.com/guarantors.

Ambac has announced that it expects to record a \$5.4 billion pre-tax (\$3.5 billion after-tax) mark-to-market loss on its credit derivative portfolio for the quarter ended December 31, 2007. Of this amount approximately \$1.1 billion represents expected credit-related impairment on certain ABS CDO transactions. This is a significant change in Ambac's view of the ultimate losses to be realized from these transactions. According to James Eck, a Moody's VP-Senior Analyst, "This loss significantly reduces the company's capital cushion and heightens concern about potential further volatility within Ambac's mortgage and mortgage-related CDO portfolios."

Ambac also announced that it intends to augment its claims-paying resources through the issuance of at least \$1 billion of equity and equity-linked securities, as well as explore the use of other sources of capital. The company will also decrease its common share dividend by 67%.

Moody's also said that the departure of the chief executive, at a time of severe turbulence in the credit markets and in the financial guaranty industry, was a consideration in the decision to review the rating.

Moody's review of Ambac's ratings will focus on risk in the company's insured portfolio and execution of its capital plan, as well as new management's ability to formulate and execute strategic and operational plans in the rapidly evolving market for financial guaranty insurance.

Jack Dorer, Managing Director, added, "The market stresses contributing to Ambac's recent financial and organizational announcements are also evident at other financial guarantors, particularly those with significant mortgage and mortgage-related CDO exposures." Moody's will be evaluating, in the near term, the degree to which these issues -- including the extent of customer and investor support -- affect the ratings of other firms in the industry and communicate with the market as appropriate.

The following ratings have been placed on review for possible downgrade:

Ambac Assurance Corporation -- insurance financial strength at Aaa;

Ambac Assurance UK Limited -- insurance financial strength at Aaa;

Ambac Financial Group, Inc. -- senior unsecured debt at Aa2, junior subordinated debt at Aa3 and provisional rating on preferred stock at (P)A1;

Anchorage Finance Sub-Trusts I-IV -- contingent capital securities at Aa2; and

Dutch Harbor Finance Sub-Trusts I-IV -- contingent capital securities at Aa2.

The most recent rating action on Ambac occurred on December 14, 2007, when Moody's affirmed Ambac's insurance financial strength and debt ratings with a stable outlook.

Ambac Financial Group, Inc. (NYSE: ABK), headquartered in New York City, is a holding company whose affiliates provide financial guarantees and financial services to clients in both the public and private sectors around the world. For the nine months ended September 30, 2007, Ambac reported net income of \$26 million. As of September 30, 2007, Ambac had shareholders' equity of approximately \$5.65 billion.

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