

Rating Action: [Ambac Assurance Corporation](#)

Moody's downgrades Ambac to Baa1; outlook is developing

New York, November 05, 2008 -- Moody's Investors Service has downgraded to Baa1 from Aa3 the insurance financial strength rating of Ambac Assurance Corporation ("Ambac") and Ambac Assurance UK Limited. In the same rating action, Moody's downgraded the debt ratings of Ambac Financial Group, Inc. (NYSE: ABK -- senior unsecured debt to Ba1 from A3) and related financing trusts. Today's rating action concludes a review for possible downgrade that was initiated on September 18, 2008, and reflects Moody's view of Ambac's diminished business and financial profile resulting from its exposure to losses from US mortgage risks and disruption in the financial guaranty business more broadly. The outlook for the ratings is developing.

As a result of today's rating action, the Moody's-rated securities that are guaranteed or "wrapped" by Ambac are also downgraded to Baa1, except those with higher public underlying ratings. A list of these securities will be made available under "Ratings Lists" at www.moody.com/guarantors.

The downgrade results from four factors. First is Moody's expectation of greater losses on mortgage related exposure. The company's reported losses and related increases in loss reserves in the third quarter are broadly consistent with Moody's current expectations. Second is the possibility of even greater than expected losses in extreme stress scenarios. Third is the company's diminished business prospects. Fourth is the company's impaired financial flexibility.

In its 3Q2008 earnings release, Ambac reported incurred losses of \$608 million on financial guaranty policies, primarily related to direct RMBS exposures, and \$2.5 billion of credit-related impairments on credit default swaps referencing ABS CDOs. The increase in loss reserves and credit impairments has resulted in a significant reduction in regulatory capital; at 3Q2008, Ambac's policyholders' surplus was approximately \$1.1 billion and contingency reserves were approximately \$3.4 billion.

Ambac's insurance financial strength rating remains investment grade reflecting the rating agency's view that Ambac's aggregate resources (including statutory contingency reserves and contingent capital) provide a meaningful capital cushion above expected loss levels. Should Ambac's regulatory capital position continue to deteriorate, there would be further negative pressure on the firm's ratings.

Moody's stated that the developing outlook reflects both the potential for further deterioration in the insured portfolio as well as positive developments that could occur over the near to medium term, including the possibility of commutations or terminations of certain ABS CDO exposures and/or successful remediation efforts on poorly performing RMBS transactions, as well as the potential for various initiatives being pursued at the US Federal level to mitigate the rising trend of mortgage loan defaults. Moody's will continue to evaluate Ambac's ratings in the context of the future performance of the company's insured portfolio relative to expectations and resulting capital adequacy levels, as well as changes, if any, to the company's strategic and capital management plans.

LIST OF RATING ACTIONS

The following ratings have been downgraded, with a developing outlook:

Ambac Assurance Corporation -- insurance financial strength to Baa1 from Aa3;

Ambac Assurance UK Limited -- insurance financial strength to Baa1 from Aa3;

Ambac Financial Group, Inc. -- senior unsecured debt to Ba1 from A3, junior subordinated debt to Ba2 from Baa1 and provisional rating on preferred stock to (P)Ba3 from (P)Baa2;

Anchorage Finance Sub-Trusts I-IV -- contingent capital securities to Ba1 from A3; and

Dutch Harbor Finance Sub-Trusts I-IV -- contingent capital securities to Ba1 from A3.

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

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