

**Rating Action: Moody's downgrades Ambac debt to C and reviews Caa2 insurance rating for upgrade**

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New York, March 26, 2010 -- Moody's Investors Service has lowered the rating of the senior unsecured debt of Ambac Financial Group Inc. (Ambac Financial) to C from Ca, and placed the Caa2 insurance financial strength ratings (IFSR) of Ambac Assurance Corporation (AAC) on review for possible upgrade. Moody's also placed the Caa2 IFSR for Ambac Assurance UK Limited (AUK) on review with direction uncertain.

Today's rating actions may have implications for certain transactions wrapped by AAC and AUK as discussed later in this press release.

**TRANSACTION OVERVIEW**

Today's rating action was prompted by Ambac's announced restructuring. AAC established a segregated account, containing AAC's most risky exposures such as RMBS and Las Vegas Monorail. The Office of the Commissioner of Insurance of the State of Wisconsin (OCI), Ambac's regulator, has placed the segregated account under rehabilitation. AAC also entered into a non-binding agreement to commute all of its remaining ABS CDOs. These actions are expected to improve the credit standing of AAC's senior unsecured policyholders by settling the insurer's most risky exposures, and effectively subordinating (via the segregated account) policyholders with outstanding claims. Moody's IFSR addresses senior policy obligations residing within AAC's general account, but not the now-subordinated segregated account claims.

The segregated account is capitalized by a \$2 billion secured note due 2050 issued by AAC, and an aggregate excess of loss reinsurance agreement provided by AAC. The secured note is collateralized by installment premiums, reinsurance premiums and certain recoveries related to the policies in the segregated account. All claims payments related to the segregated account will be suspended, until the Segregated Account Rehabilitation Plan is approved by the court. The OCI indicated that the process may take about six months. The rehabilitation plan calls for the future payment of claims out of the segregated account to be made with a combination of cash and surplus notes.

Ambac also reached a non-binding agreement to settle ABS CDOs with counterparties. In exchange for the termination of the ABS CDO obligations, AAC would pay the counterparties \$2.6 billion in cash, and \$2 billion surplus notes issued by AAC. The surplus notes would have the same terms as the ones issued as part of the rehabilitation plan. Given the non-cash component of the payments and the size of the payments compared to likely losses that would have been sustained from these contracts, Moody's considers this transaction to represent a distressed exchange.

**RATIONALE FOR AMBAC ASSURANCE CORPORATION**

The review for upgrade of AAC's financial strength rating reflects the enhanced credit profile of general account policyholders following the group's restructuring. Policies allocated to the segregated account have been effectively subordinated to the policies remaining in the general account, said Moody's. The general account's insured book contains mainly less risky public finance securities, largely free of legacy risks, and appears to be well supported by the corresponding claims paying resources (such as loss reserves and unearned premiums) and surplus notes to fund future reinsurance claims. The surplus notes are subordinated to general account's insurance claims.

Moody's said that the potential for upward rating movement is tempered, however, by charges related to potential lawsuits and AAC's inability to write new business before the full repayment of the surplus notes. During its review, Moody's will evaluate the full impact of the restructuring on AAC's financial strength, including the extent to which senior unsecured policyholders of the general account are truly insulated from segregated account losses.

Moody's believes that policies allocated to the segregated account are no longer appropriately considered to be senior policyholder obligations of AAC and that, consequently, Moody's insurance financial strength rating for AAC would not apply to such exposures.

**RATIONALE FOR AMBAC ASSURANCE UK LIMITED**

AUK has sent AAC notices of termination with respect to AUK's reinsurance agreement (from AAC), but per Ambac's

Form 8-K filing, AAC does not believe that AUK has a right to terminate the agreement. AUK has demanded payment of unearned premium reserves, loss reserves, contingency reserves and loss adjustment expense reserves related to the reinsured policies, less ceding commissions and certain adjustments. Currently, the liabilities of AAC under the AUK reinsurance agreement have been allocated to the segregated account, and they are subject to the same payment terms as the other obligations under the segregated account.

The review direction uncertain of AUK's Caa2 insurance financial strength rating reflects the potential for AUK's financial profile to either improve, if successful in its efforts to terminate the reinsurance agreement and obtain cash in lieu of previously ceded reserves. The rating may be lowered if such efforts are unsuccessful and its reinsurance protection becomes further subordinated to AAC's general account policyholder claims.

#### RATIONALE FOR AMBAC FINANCIAL GROUP, INC

The downgrade of Ambac Financial's senior debt rating to C, in Moody's opinion, reflects the heightened risk of default and very low ultimate recovery on the debt, whether through distressed exchange or potential bankruptcy proceedings, due to the holding company's modest cash position and limited financial flexibility. In Moody's view, it is unlikely that the holding company will be able to access operating company resources over a reasonable timeframe to satisfy its obligations.

#### TREATMENT OF WRAPPED TRANSACTIONS

Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's special comment entitled "Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade" (May, 2008); and Moody's November 10, 2008 announcement entitled "Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors".

In light of today's rating actions, Moody's will position the ratings of wrapped transactions remaining in AAC's general account, and the ratings of transactions wrapped by AUK, according to these criteria. If the rating of AAC or AUK should subsequently move back into the investment grade range, or if the agency should subsequently publish the underlying rating, Moody's would reinstate the rating to the wrapped instruments.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to repay punctually senior policyholder claims and obligations and the rating agency believes that policies allocated to the segregated account are no longer senior obligations of Ambac Assurance Corporation. As a result, wrapped transactions allocated to the segregated account will be rated at the published underlying rating (and for structured securities, the published or unpublished underlying rating).

A list of the securities wrapped by Ambac will be made available under "Ratings Lists" at [www.moody.com/guarantors](http://www.moody.com/guarantors).

#### LIST OF RATING ACTIONS

The following ratings actions have taken place:

Ambac Assurance Corporation -- insurance financial strength to Caa2 on review for upgrade, from Caa2;

Ambac Assurance UK Limited -- insurance financial strength to Caa2 on review with direction uncertain, from Caa2;

Ambac Financial Group, Inc. -- senior unsecured debt to C, from Ca.

The last rating action related to Ambac was on July 29, 2009, when Moody's downgraded Ambac's financial strength ratings to Caa2 and Ambac Financial's ratings (senior debt to Ca).

The principal methodology used in rating Ambac was Moody's Rating Methodology for the Financial Guaranty Insurance Industry, which can be found at [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating Ambac can also be found in the Rating Methodologies sub-directory on Moody's website.

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.

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