

Announcement: [Ambac Assurance Corporation](#)

Moody's reiterates negative outlook on Ambac's Aaa rating following earnings announcement

New York, April 24, 2008 -- Moody's announced today that it continues to maintain a negative rating outlook on Ambac Assurance Corporation's ("Ambac") Aaa insurance financial strength rating, following its parent company's earnings announcement. Moody's stated that Ambac's incurred losses in its direct RMBS portfolio and ABS CDO portfolio are now somewhat higher than the rating agency's prior expected-case loss estimate, but remain below the stress-case losses used to evaluate the company's capital adequacy.

In Moody's view, the substantial increase in losses reflects both the significant volatility of the company's mortgage-related risk exposures as well as the challenges inherent in estimating the losses that will ultimately develop from this portfolio over time. Moody's will continue to evaluate Ambac's mortgage-related exposures in the context of actual performance as well as its developing view of the depth of the housing market's decline. In the event that Moody's ongoing evaluation of US mortgage market dynamics leads us to revise upward the stress case assumptions used to evaluate Ambac's capitalization, the insurer's rating could be placed on review for possible downgrade if it fails to meet Moody's Aaa target capital threshold.

On April 23, 2008, Ambac Financial Group, Inc. ("Ambac Financial") reported significant incurred losses in its mortgage-related insured portfolio during 1Q2008 that contributed to a GAAP pre-tax net loss of \$2.8 billion (\$1.7 billion after-tax), including nearly \$2 billion of combined credit impairment losses on ABS CDOs and loss reserve charges on direct RMBS exposures. Adding these losses to charges taken during prior periods, Ambac's cumulative credit impairment and loss reserve charge for its mortgage-related exposures was approximately \$3.3 billion. Moody's prior expected case loss estimate for these exposures was \$2.4 billion, with a stress case loss estimate of \$5.4 billion (all figures are on a pre-tax basis).

As calculated by Moody's, Ambac's claims-paying resources approximated \$15 billion at 1Q2008. The company estimates that portfolio amortization net of par written during the quarter, and before consideration of losses incurred, resulted in capital relief of approximately \$390 million during the quarter. Given the modest amount of current new business production at the company, Moody's expects a meaningful amount of net portfolio amortization to occur during 2008.

In Moody's opinion, holding company liquidity remains adequate, as the company kept \$100 million from its recent \$1.5 billion capital raise at the holding company to bolster liquidity. Ambac Financial recently amended its \$400 million bank credit facility to exclude non-credit impairment related mark to market losses on credit derivatives from the calculation of shareholders' equity for the minimum net worth covenant. However, mark to market losses on the company's investment portfolios are not excluded from the calculation. As a result, the company's adjusted shareholders' equity is now approximately \$115 million below the minimum net worth financial covenant in its credit facility due to significant mark to market losses on investments. Since this credit facility is currently undrawn, Moody's does not believe there are immediate consequences from this development other than an incremental negative impact on the company's financial flexibility. The company has stated it will attempt to amend the credit facility to restore its availability.

Finally, Moody's stated that in the current environment, future rating actions on the financial guarantors, including Ambac, will likely be driven significantly by: 1) Performance of the mortgage markets and the economy more broadly and the resulting impact on guarantor capitalization; and 2) Moody's judgment about the guarantor's ability and willingness to maintain capitalization consistent with the rating level, including its ability to respond rapidly if target capital levels are jeopardized. While Ambac responded to deterioration in its capital position below target thresholds as of year-end 2007, with a capital raise, it remains below the Aaa target capital level as of the end of the first quarter 2008. This situation heightens the risk of a rating downgrade -- including perhaps over the near term -- both because capitalization is currently below the target level and because the firm may find it difficult (given weakened financial flexibility) to quickly remedy further deterioration in its capital position if markets continue to worsen.

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