Announcement: Ambac Assurance Corporation

Moody's comments on continuing review of Ambac

New York, February 29, 2008 -- Moody's Investors Service announced today that it has concluded its analysis of the residential mortgage and mortgage-related CDO exposures of Ambac Assurance Corporation, and is continuing a review for possible downgrade that was initiated on January 16, 2008. Based on an updated assessment of Ambac's mortgage risk, Moody's believes that Ambac's capital exceeds the minimum Aaa standard but falls below the Aaa target level. As outlined in Moody's previous communications with the market about such situations, it is our practice to evaluate plans the company is pursuing to close the gap between actual capitalization and target levels, including the certainty of those plans and the timeframe over which they would likely be realized. Ambac is actively pursuing capital strengthening activities that, if successful, are expected to result in the company meeting Moody's current estimate of the Aaa target level. Moody's continuing review will focus on both the further refinement of, and execution of, those capital plans, as well as on substantive changes that Ambac is implementing to its risk and operating strategies going forward.

OVERVIEW OF RATING APPROACH

As outlined in Moody's Rating Methodology for Financial Guarantors, we have evaluated Ambac along five key rating factors: 1) franchise value and strategy, 2) insurance portfolio characteristics, 3) capital adequacy, 4) profitability, and 5) financial flexibility.

Of these factors, capital adequacy is given particular emphasis. To estimate capital adequacy, Moody's has applied its traditional portfolio risk model for determining stress losses on the non-mortgage related portion of Ambac's insured portfolio, and alternative stress tests for the mortgage and mortgage-related CDO exposure. For mortgage-related exposures, stress losses were estimated using assumptions consistent with a scenario where 2006 subprime first-lien mortgages realize an average of 21% cumulative pool losses, with other vintages and products stressed accordingly. Stress-level losses for RMBS transactions were assessed on a transaction-by-transaction basis, while loss estimates for ABS CDOs were derived using a stochastic simulation model which applied stress to specific underlying collateral tranches within the CDOs. Estimated tranche-level losses were computed based on the structure of those tranches (e.g., attachment and detachment points) and estimates of their performance relative to the average.

Losses estimated under the approach described above were present-valued to reflect estimates of the payout pattern that would emerge, based on the collateral type. For ABS CDOs, consideration was given to specific contractual features within associated CDS contracts. These factors resulted in aggregate present value discounts to principal loss estimates of approximately 8% for RMBS and 22% for ABS CDOs. Non-mortgage risks are discounted within the portfolio model based on estimates of payout patterns as well.

In view of the expected correlation between the prospective experience of Ambac and its reinsurers, and given reviews for possible downgrade of RAM Reinsurance Company Ltd. (Aa3) and BluePoint Re Limited (Aa3), Moody's has also, for purposes of estimating capital adequacy, reduced the estimated credit given for reinsurance in the stress case, to 73%, on average, across the portfolio.

In comparing estimated stress losses to claims paying resources and associated rating levels, Moody's combines an estimated loss distribution for mortgage risks with one for non-mortgage risks, assuming a correlation between the two that ranges from 90% (for Aaa) down to 30% (for Baa3). Claims paying resources are then compared to the indicated capital need, at the target benchmark (1.3x required capital).

KEY RATING FACTORS -- CAPITAL ADEQUACY

Based on the risks in Ambac's portfolio, as assessed by Moody's according to the approach outlined above, estimated stress-case losses would approximate $12.1 billion. This compares to Moody's estimate of Ambac's claims paying resources of approximately $13.7 billion, resulting in a total capital ratio of 1.13x, which exceeds the "minimum" Aaa level, but is short of the 1.3x Aaa "target" level by about $2 billion. Moody's further noted that in the most likely or "expected" scenario, Ambac's insured portfolio will incur lifetime losses of approximately $4.2 billion in present value terms, and that Ambac's current claims-paying resources cover this expected loss estimate by about 3.2x.

KEY RATING FACTORS -- BUSINESS AND FINANCIAL PROFILE

In Moody's opinion, Ambac's significant exposure to mortgage-related risk has had consequences for its business and financial profile beyond the associated impact on capitalization, and affects our opinion about Ambac's other key rating factors. Nonetheless, despite some of the recent challenges faced by the company related to investor confidence, Moody's believes that Ambac is better-positioned relative to certain less-established competitors with respect to business franchise, prospective profitability and financial flexibility.

With respect to underwriting and risk management, Moody's believes that Ambac's significant exposure to the mortgage sector is indicative of a risk posture greater than would be consistent with a Aaa rating going forward. The company's participation in several 2007 vintage CDO-squared transactions, in particular, contributed to this view. Moody's expects Ambac to implement significant changes to its underwriting and risk management guidelines to reduce volatility in its insured portfolio, including the exit from certain types of structured finance business, as well as tighter risk controls around the structured finance business the company intends to pursue going forward. In Moody's opinion, it will be critical for the company to focus on reducing single risk concentrations across its portfolio. Moody's also believes that Ambac's non-core asset management activities, including GICs and interest rate and total return swaps, place incremental negative pressure on its ratings.

Prospectively, Ambac's profitability is likely to remain below historical levels over the near to intermediate term, particularly given the reduced issuance volumes generally, and investor caution about financial guarantors with mortgage-related exposures. It is uncertain how long this situation will persist. However, some earnings stability is provided by Ambac's large in-force portfolio, which will continue to provide significant premium revenue even if new business production remains sluggish over the near term.

The ability of the company to reestablish its strong market position in the US public finance market will take time. In Moody's opinion, however, Ambac's extensive relationships with issuers, as well as its prominent market position, expertise and execution capabilities in several market sectors, provide the company with a good foundation from which to regain market confidence in the US public finance sector.

In terms of financial flexibility, Ambac, like other financial guarantors, benefits from its ability to pay claims over an extended period of time, typically scheduled interest and principal at maturity. Moody's has also considered in its rating review the potential for calls on liquidity at Ambac in the context of available resources, including the investment profile of the operating insurance entities and its asset management activities. Ambac's financial leverage profile could increase if incurred losses further erode shareholders' equity. Additional debt in the capital structure would increase leverage and place additional demands on the operating companies to service fixed charges. Here, Moody's believes that holding company liquidity is currently adequate, supported by dividend capacity from Ambac Assurance Corporation and additional debt service coverage available through cash and investments held at the holding company.

VIEW ON POSSIBLE SPLIT OF MUNICIPAL AND STRUCTURED BUSINESSES

Ambac could elect to pursue public finance and structured finance businesses through distinct legal entities. The ratings appropriate for separate insurers operating under such a strategy would depend on their specific business and financial characteristics, including capitalization and underwriting frameworks. In this scenario, Moody's believes that the structured finance guarantor would be more challenged than its public finance affiliate to maintain a Aaa rating, due to the relatively greater complexity of risks and higher risk concentrations evident in that sector of the market. Those risks are more muted within a single-company structure where more granular and lower-risk public finance exposures provide diversification across risk and time dimensions. Moody's further believes that guarantors splitting their business among distinct legal entities might have a greater incentive to allocate capital in favor of the public sector guarantor, given the somewhat greater importance attached to Aaa ratings by customers in that market. The effect of these structural changes would likely be to reduce the risk of downgrade for the guarantor's insured municipal debt and to increase the risk of downgrade for the insurer's other exposures.

OVERVIEW OF AMBAC

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 year ended December 31, 2007, Ambac reported a net loss of approximately $3.3 billion. As of December 31, 2007, Ambac had shareholders' equity of approximately $2.3 billion.

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