

**Rating Action: Ambac Assurance Corporation**

**Moody's downgrades Ambac to Aa3; outlook is negative**

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New York, June 19, 2008 -- Moody's Investors Service has downgraded to Aa3, from Aaa, the insurance financial strength ratings of Ambac Assurance Corporation ("Ambac") and Ambac Assurance UK Limited. In the same rating action, Moody's also downgraded the debt ratings of Ambac Financial Group, Inc. (NYSE: ABK -- senior unsecured debt to A3 from Aa3) and related financing trusts. Today's rating action concludes a review for possible downgrade that was initiated on June 4, 2008, and reflects Moody's views on Ambac's overall credit profile in the current environment, including the company's significantly constrained new business prospects, its impaired financial flexibility and increased expected and stress loss projections among its mortgage-related risk exposures relative to previous estimates. The outlook for the ratings is negative, reflecting uncertainties regarding the company's strategic plans going forward, as well as the possibility of further adverse developments in its insured portfolio. Moody's noted, however, that these risks are mitigated somewhat by the company's substantive capital cushion at the current rating level and that this was an important consideration in arriving at the Aa3 insurance financial strength rating.

As a result of today's rating action, the Moody's-rated securities that are guaranteed or "wrapped" by Ambac are also downgraded to Aa3, except those with higher public underlying ratings. A list of these securities will be made available under "Ratings Lists" at [www.moody.com/guarantors](http://www.moody.com/guarantors).

Moody's said that the uncertainty about the ultimate performance of Ambac's mortgage-related exposures continues to adversely affect market perceptions of the firm, greatly impairing its financial flexibility and ability to write new business. Ambac has recorded more than \$3.3 billion of cumulative loss reserves and credit impairments on its mortgage-related portfolio, mostly related to recent vintage second-lien and Alt-A RMBS and ABS CDOs. Moody's noted that Ambac has written little new business in the last few months. Furthermore, the company's financial flexibility has deteriorated substantially since its \$1.5 billion capital raise in March 2008, as evidenced by the profound decline in Ambac's market capitalization and high current spreads on its debt securities, making it extremely difficult to economically address potential capital shortfalls should markets continue to worsen.

Moody's has re-estimated expected and stress loss projections on Ambac's insured portfolio, focusing on the company's mortgage-related exposures, as well as other sectors of the portfolio potentially vulnerable to deterioration in the current environment. Based on Moody's revised assessment of the risks in Ambac's portfolio, estimated stress-case losses would approximate \$12.1 billion at the Aaa threshold and \$9.6 billion at the Aa3 threshold. This compares to Moody's estimate of Ambac's total claims paying resources of approximately \$15.4 billion. Moody's noted that its stress case estimates for Ambac's residential mortgage-related exposures increased by roughly \$200 million to \$5.6 billion, which was largely offset by insured portfolio amortization since year-end 2007. Relative to Moody's 1.3x "target" level for capital adequacy, Ambac is currently \$225 million below the Aaa target level and is approximately \$3 billion above the Aa3 target level.

Moody's said that, beyond Ambac's affected mortgage-related exposures, portfolio risks appear to be well-contained as reflected by its core low-risk municipal book and high average underlying ratings. Most non-mortgage-related structured segments are performing well, although certain exposures, such as private student loans, may be more sensitive to economic or sector deterioration. While portfolio losses could increase in a sharp economic downturn, strong premium accretion, investment earnings and portfolio amortization should help to offset any resulting impact on capital adequacy. Moody's noted, however, that downward rating pressure could occur if Ambac's capital cushion at the current rating level were to be materially eroded through the extraction of capital from Ambac Assurance Corporation, or due to further increases in projected stress loss estimates on the insured portfolio.

Moody's will continue to evaluate Ambac's ratings in the context of the future performance of the company's risk exposures relative to expectations and resulting capital adequacy levels, as well as changes to the company's strategic and capital management plans as a Aa-rated company. Ambac has announced it intends to pursue opportunities in the public finance market through its Connie Lee Insurance Company subsidiary.

**LIST OF RATING ACTIONS**

The following ratings have been downgraded:

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

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

Ambac Financial Group, Inc. -- senior unsecured debt to A3 from Aa3, junior subordinated debt to Baa1 from A1 and provisional rating on preferred stock to (P)Baa2 from (P)A2;

Anchorage Finance Sub-Trusts I-IV -- contingent capital securities to A3 from Aa3; and

Dutch Harbor Finance Sub-Trusts I-IV -- contingent capital securities to A3 from Aa3.

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 three months ended March 31, 2008, the company reported a GAAP net loss of approximately \$1.7 billion. As of March 31, 2008, ABK had shareholders' equity of approximately \$1.3 billion.

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