

November 19, 2008

Research Update:

Ambac Assurance Corp. Rating Lowered To 'A' From 'AA'; Outlook Negative

Primary Credit Analyst:

Dick P Smith, New York (1) 212-438-2095; dick_smith@standardandpoors.com

Table Of Contents

Rationale

Outlook

Ratings List

Research Update:

Ambac Assurance Corp. Rating Lowered To 'A' From 'AA'; Outlook Negative

Rationale

On Nov. 19, 2008, Standard & Poor's Ratings Services lowered its financial strength rating on Ambac Assurance Corp. (Ambac) to 'A' from 'AA'. At the same time, Standard & Poor's lowered its ratings on holding company Ambac Financial Group Inc.'s (Ambac Financial) senior debt and hybrid security to 'BBB' and 'BB+' from 'A' and 'BBB+', respectively. The outlook on the ratings is negative.

In addition, Standard & Poor's lowered to 'BBB' from 'A' its ratings on preferred stock issued by Anchorage Finance Sub-Trusts I, II, III, and IV and Dutch Harbor Finance Sub-Trusts I, II, III, and IV (committed capital facilities supported by, and for the benefit of, Ambac).

The rating action on Ambac reflects our view that the company's exposures in the U.S. residential mortgage sector and particularly the related collateralized debt obligation (CDO) structures have been a source of significant and comparatively greater-than-competitor losses and will continue to expose the company to the potential for further adverse loss development. These losses have slightly more than offset the benefits to the company of lower capital requirements that result from a declining book of business.

In addition, to support funding needs at affiliate Ambac Capital Funding Inc., a provider of investment agreements, to meet increased collateralization and termination requirements, Ambac has purchased assets from and made loans to the affiliate that have lowered slightly the credit quality of Ambac's investment portfolio and increased the gap between the book value and fair market value of the assets in the portfolio. Nevertheless, in our opinion, the company still exhibits sound claims-paying ability at its current rating and adequate liquidity levels.

The rating action on Ambac Financial incorporates the previously identified loss development, capital adequacy and liquidity assessments for Ambac, plus added liquidity stress at the holding company level due to the inability of Ambac to pay dividends in 2009 without specific approval from the Wisconsin Office of Insurance Commissioner. While the holding company currently holds cash in excess of its 2009 debt service and cash expense requirements, resumption of dividends from Ambac in 2010 and beyond, without gaining specific regulatory approval, will be dependent on Ambac's return to meaningful profitability.

Outlook

The negative outlook reflects our view that Ambac's exposure to domestic nonprime mortgages and related exposures to CDO of ABS have likely damaged its

franchise and that the company faces extremely limited new business flow. A revision of the negative outlook will be dependent on, among other factors, clarification of ultimate potential losses as well as future business prospects, the outcome of strategic business decisions, and potential regulatory developments.

Lists of the ratings that have changed as a result of these actions will be posted at www.spviews.com. Go to the left-hand navigation bar and click on "Deals Affected" to view or download the lists. Our analysis of the impact of the ratings actions announced today is ongoing; we may publish additional ratings changes.

Ratings List

Downgraded

	To	From
Ambac Assurance Corp. Connie Lee Insurance Co. Ambac Assurance U.K. Ltd. Issuer Credit Rating Local Currency	A/Negative/--	AA/Negative/--
Financial Strength Rating Local Currency	A/Negative/--	AA/Negative/--
Ambac Assurance Corp. Ambac Assurance U.K. Ltd. Financial Enhancement Rating Local Currency	A/--/--	AA/--/--
Ambac Financial Group, Inc. Issuer Credit Rating Local Currency	BBB/Negative/--	A/Negative/--
Ambac Financial Group, Inc. Senior Unsecured (5 issues) Subordinated (1 issue)	BBB BB+	A BBB+
Anchorage Fin Sub-Trust I Preferred Stock (1 issue)	BBB	A
Anchorage Fin Sub-Trust II Preferred Stock (1 issue)	BBB	A
Anchorage Fin Sub-Trust III Preferred Stock (1 issue)	BBB	A
Anchorage Fin Sub-Trust IV Preferred Stock (1 issue)	BBB	A

Research Update: Ambac Assurance Corp. Rating Lowered To 'A' From 'AA'; Outlook Negative

Dutch Harbor Fin Sub-Trust I Preferred Stock (1 issue)	BBB	A
Dutch Harbor Fin Sub-Trust II Preferred Stock (1 issue)	BBB	A
Dutch Harbor Fin Sub-Trust III Preferred Stock (1 issue)	BBB	A
Dutch Harbor Fin Sub-Trust IV Preferred Stock (1 issue)	BBB	A

Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017.

Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.9823 or by e-mail to: research_request@standardandpoors.com.