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Ambac Assurance Corporation

On June 11th Ambac Assurance Corp's CDS settled at $20*

On March 24, 2010, Wisconsin regulators took control of $64 billion in illiquid assets guarantees issued by Ambac Assurance. Considered a default under the bond indentures, the event triggered CDS, forcing payment. On March 26, Ambac's 9.375% bonds due 2011 plunged more than 10 cents to 40 cents on the dollar, according to MarketAxess. June 8, Ambac Assurance announced it could default on loan obligations, and the parent company, Ambac Financial Group Inc, facing difficulty the past few years after significant losses stemming from risky mortgage securities, converted $16.4 billion of collateralized debt obligations backed by subprime mortgages to $2.6 billion in cash and $2 million of newly issued surplus notes in Ambac Assurance.

- Major subsidiary and operating unit of Ambac Financial Group Inc
- Provides insurance to mutual and structured finance obligations in the US and abroad
- Defaulted on March 24, 2010

In this case study, we use the LossCalc model to estimate recovery for Ambac Assurance. This case is unusual, as the deliverables for the CDS auction were securities insured by Ambac Assurance but issued by others, including Bear Stearns and Countrywide Financial. Given the wide range of securities that could be delivered into the contract, we chose to treat the "worst to deliver" as a Subordinated Bond, which results in a low recovery.

For a Subordinated Bond, LossCalc Estimates Recovery at $18.70

Ambac Assurance Corp is a major subsidiary of Ambac Financial Group, thus, we use the parent company's EDF™ (Expected Default Frequency) credit measure in the LGD calculation.

Loss Given Default (LGD) Calculator

Edit

Company: AMBAC FINANCIAL GP

Input Date:	**Feb 2010**
Evaluation Date:	**Feb 2010**
EDF Date:	**Feb 2010**
Country:	**United States**
Industry:	**NDY, Insurance - prop/cas/health**
EDF:	**EDF1=35.00%, EDF2=31.80%, EDF3=28.13%, EDF4=24.88%, EDF5=22.32%**
Debt Seniority:	**Subordinate Bond**
Capital Structure:	**Has Debt Above**

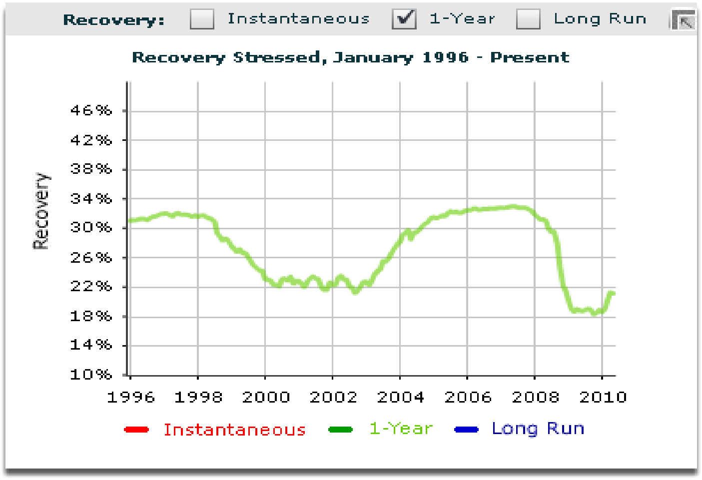
Estimated Recovery

	Instantaneous Model	1-Year Model	Long Run Model
Recovery	18.7%	19.1%	27.7%
LGD	81.3%	80.9%	72.3%

*CDS prices obtained from Markit Partners, www.markit.com/cds

LossCalc Penalizes Ambac Assurance Corp for:

- Being a subordinated bond
- Negative stage of the Credit Cycle



Ambac loses about $22 dollars in Recovery due to the negative stage of the economy. From the Stress Test table, we can see that the best estimated recovery is 40.3%, and the estimated recovery for Subordinated Bonds before default is18.7%.

Stressed LGD

	Instantaneous Model	1-Year Model	Long Run Model
Best Recovery (1/96-Present)	40.3%	33.0%	27.7%
Worst Recovery (1/96-Present)	17.4%	18.3%	27.7%
Historical Avg.Recovery	31.2%	31.2%	31.2%

In the Stress Test, we kept firm characteristics constant and run the model back to 1996. Dynamic characteristics such as firm-specific DD, industry DD, and aggregate default rate change monthly.

Being Subordinate Decreases Recovery Estimates by $14.

Loss Given Default (LGD) Calculator

Print Export

Company: AMBAC FINANCIAL GP

Input Date:	Feb 2010
Evaluation Date:	Feb 2010
EDF Date:	Feb 2010
Country:	United States
Industry:	NDY, Insurance - prop/cas/health
EDF:	EDF1=35.00%, EDF2=31.80%, EDF3=28.13%, EDF4=24.88%, EDF5=22.32%
Debt Seniority:	Subordinate Bond
Capital Structure:	Has Debt Above

Company: B

Input Date:	Feb 2010
Evaluation Date:	Feb 2010
Country:	United States
Industry:	NDY, Insurance - prop/cas/health
PD:	PD1=35.00%, PD2=31.80%, PD3=28.13%, PD4=24.88%, PD5=22.32%
Debt Seniority:	Senior Unsecured Bond
Capital Structure:	Has Debt Above

Estimated Recovery

	Instantaneous Model	1-Year Model	Long Run Model
Recovery	18.7%	19.1%	27.7%
LGD	81.3%	80.9%	72.3%

	Instantaneous Model	1-Year Model	Long Run Model
Recovery	32.8%	31.3%	38.6%
LGD	67.2%	68.7%	61.4%

Term Structure

	Recovery	Weighted Avg.Recovery	Expected Loss
Month 1	18.7%	18.7%	35.007%
Year 1	19.1%	18.9%	34.938%
Year 2	22.2%	19.6%	30.781%
Year 3	23.6%	20.3%	26.316%
Year 4	24.6%	20.9%	22.633%
Year 5	25.4%	21.4%	19.860%

	Recovery	Weighted Avg.Recovery	Expected Loss
Month 1	32.8%	32.7%	28.992%
Year 1	31.3%	32.1%	29.258%
Year 2	34.0%	32.3%	25.923%
Year 3	35.1%	32.8%	22.203%
Year 4	36.0%	33.2%	19.109%
Year 5	36.6%	33.6%	16.780%

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Moody's Analytics **LossCalc™ 3.0** is a Loss Given Default (LGD) model that incorporates both static and forward-looking dynamic drivers of recovery, ranging from firm-specific variables to broader geography and industry factors. LossCalc calculates the LGD for loans, bonds, sovereigns, municipals, and preferred stock.

LossCalc models the following LGD drivers:

- Firm-specific default probability
- Collateral
- Debt type
- Seniority class
- Geography
- Industry

LossCalc uses the following dynamic inputs:

- Forward-looking probability of default for more than 35,000 publicly listed firms
- Probability of default or leverage for private firms
- Monthly updates to regional and industry-specific dynamic factors
- Index of 12-month corporate default rates

LossCalc provides detailed LGD insights:

- One-off calculations for individual transactions or input portfolio analytics
- Obligation-specific LGD estimates at default for one-year and long run time horizons
- Term Structure of LGD over five years
- Estimate of expected loss (EL)
- Term Structure of EL over five years

LossCalc facilitates Basel II Compliance:

- Calibrate LGD estimates to an institution's own recovery experience
- Stressed LGD outputs over the last ten years

LossCalc is easy to use:

- Web-based access for single name analysis and side-by-side comparison of two firms
- Batch submission directly from web interface
- XML system-to-system interface
- Data File Service (DFS)

For more details on LossCalc™ 3.0, please visit www.moodyskmv.com/products or contact Norman Stewart at 212-553-4877 or norman.stewart@moodys.com.