

Exhibit 2

Company Name: Ambac Financial Group
Company Ticker: AMBC US
Date: 2016-02-19
Event Description: Q4 2015 Earnings Call

Market Cap: 684.76
Current PX: 15.21
YTD Change(\$): +1.12
YTD Change(%): +7.949

Bloomberg Estimates - EPS
Current Quarter: 1.035
Current Year: 4.023
Bloomberg Estimates - Sales
Current Quarter: 127.000
Current Year: 474.500

Q4 2015 Earnings Call

Company Participants

- Abbe F. Goldstein
- Nader Tavakoli
- David Trick

Other Participants

- Andrew E. Gadlin
- Michael Cohen
- Charles Post
- Alexander Klipper
- Alfred John Knapp

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Ambac Financial Group Incorporated's Fourth Quarter 2015 Conference Call. At this time, all participant lines are in a listen-only-mode to reduce background noise. But later, we will be conducting a question-and-answer session; instructions will follow at that time. [Operator Instructions] As a reminder, today's conference call is being recorded.

I would now like to introduce your first speaker for today, Abbe Goldstein, Head of Investor Relations and Corporate Communications. You have the floor ma'am.

Abbe F. Goldstein

Thank you. Good morning, and thank you all for joining today's conference call to discuss Ambac Financial Group's fourth quarter 2015 financial results. We'd like to remind you that today's presentation may contain forward-looking statements which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Any forward-looking statements are not guarantees of future performance or events.

Actual performance and events may differ, possibly materially, from such forward-looking statements. Factors that could cause this include the factors described in our most recent SEC filed quarterly or annual reports under management's discussion and analysis of financial conditions and results of operations and under risk factors. Ambac is not under any obligation and expressly disclaims any obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Today's presentation contains non-GAAP financial measures. The reconciliation of such measures to the most comparable GAAP figures are included in our earnings press release, which is available on our website at ambac.com. Please note we have posted slides on our website to accompany this call. Our speakers today are Nader Tavakoli, President and CEO; and David Trick, our CFO. At the conclusion of their prepared remarks, we will open the call for your questions.

I would now like to turn the call over to Mr. Tavakoli.

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Nader Tavakoli

Thank you, Abbe, and thank you all for joining us for our fourth quarter and year-end conference call. Needless to say, we're extremely pleased with our fourth quarter and full-year 2015 performance and accomplishments. While David will take you through the details of our financial performance shortly, I'd first like to highlight certain of our accomplishments in the quarter and for the year.

Operating earnings of \$481 million, or \$10.64 per diluted share for the quarter were the highest they have been for any quarter, since Ambac emerged from its restructuring proceedings in 2013. For the full-year 2015, operating earnings were nearly \$1.2 billion or \$25.32 per diluted share.

Since our emergence from bankruptcy proceedings in May 2013, we've now generated \$2.5 billion of operating income. Our book value now stands at over \$37 and our adjusted book value is nearly \$25 a share. To put this in context, shortly after we emerged less than three years ago, adjusted book value per share was a negative \$7.23 per share. What this quarter and year clearly demonstrate is the leverage of our operations with active and opportunistic management.

I'd like to go over some of our key 2015 accomplishments and benchmark our progress against our strategic goals that we set out in our annual report last year. I can confidently say today that we've either achieved or are well on our way to achieving each of these. I'd like to spend a few minutes reviewing these goals and our related accomplishments then I'll discuss Puerto Rico before closing with some thoughts on our strategic priorities for 2016.

A top priority for us in 2015 was to drive a greater sense of urgency at Ambac around everything we do, especially as it relates to our risk and loss management efforts. We've armed our risk teams with more comprehensive, risk-prioritized credit and market tools to systematically identify and address potential credit issues. Once identified, the credits undergoing extensive and frequent analysis to dimension risk profiles and drive outcomes.

We've selectively added analytical expertise and reorganized staff to drive effectiveness and best outcomes in our underperforming credits, including through a formation of a special situations team. In addition, we've implemented an enterprise-wide risk management framework. We've also built stronger ties between risk management and legal to get faster and more targeted analysis of transaction structures and our contractual rights, making us more alert to potentially first developments and more cohesive in evaluating contractual and legal rights.

This heightened vigilance and integrated approach has already paid significant dividends. The cancellation of a significant portion of our HTA exposure in the third quarter was a significant example. Another example in the fourth quarter was our teams' recognition and successful confirmation of Ambac's right to reimbursement in certain of our RMBS transactions. This latter effort resulted in the expected recovery of approximately \$50 million for our RMBS portfolio.

As it relates to its management, we've surpassed even our own expectations in the reduction of our insured risk. We reduced our insured book by 9% in the fourth quarter. And for the full-year 2015, the insured portfolio was reduced by 25% from a \$144.7 billion, down to \$108.3 billion. Importantly, we reduced our adversely classified credits by 9% in the fourth quarter compared to the third quarter, and for the full-year 2015 we reduced adversely classified credits 23% from \$26.5 billion down to \$20.4 billion.

While a large portion of this reduction has occurred as a result of natural runoff and refundings, much of it has been the result of active engagement and negotiation by Ambac. For example, we undertook a nearly eight month effort to commute our student loan exposure to the South Carolina Student Loan Corporation, which culminated in a successful transaction in the fourth quarter. More recently, our Ambac UK team was instrumental in negotiating the derisking of nearly \$1 billion exposure to Eurotunnel. In this situation, we were able to leverage our consent rights to convert a proposed partial bond refinancing into a full termination of our exposure to Eurotunnel.

In addition to derisking in many of these situations, we achieve accelerated premiums of unearned premiums and in some cases termination premiums or even a consent fee. In the fourth quarter, we've recognized accelerated premiums of \$72.5 million associated with the reduction of our insured book.

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We've continued our derisking momentum in 2016. And in February, we've reached an agreement to commute \$225 million net par of our most at-risk student loan exposure, which will reduce insured exposure in the first quarter of 2016. This commutation resulted in a significant reduction of our student loan related reserves in the fourth quarter. As you can see, we've been extremely active and strategic in our risk and loss management and mitigation efforts, and we'll continue to be so.

Our second strategic priority for 2015 was defective prosecution of our major RMBS related cases. Based on my substantial experience both handling and managing litigation, I'm a firm believer that the only way to truly succeed as a plaintiff is to get your litigation team ready to try your case as quickly and as forcefully as possible. We have and continue to make it clear to our own RMBS defendants that we will not tolerate delay tactics, and that in addition to compensatory damages, we intend to hold them responsible for pre-judgment interest to the full extent of the law, making further delays potentially very costly to them.

We intend to aggressively pursue our fraud claims and all potentially available damages including punitive damage. As a result of our efforts, in January we've reached settlement with JP Morgan for \$995 million, well above our previously recorded remediation claim related to those claims. This settlement was all in cash and has already been paid directly to Ambac. We were extremely gratified by this result. We believe this settlement now positions us extraordinarily well to pursue our remaining RMBS related claims, both in terms of its validation of our claims and our approach to the cases.

We will continue to push forward as quickly as possible to press our Bank of America Countrywide case to try. In fact, just yesterday we submitted a request to the court seeking a conference to seek a trial date in that case. While we may have to tolerate some further delays in the process, we remain confident in the merits of our case against Bank of America and the ultimate outcome.

Our third strategic priority for the year was a strategic and accretive allocation of our capital for the benefit of our policy and shareholders. Despite a short period of an activity in the third quarter related to discussions with certain claimholders, we returned to the market in the fourth quarter and purchased \$235 million of insured securities, including \$200 million of insured RMBS. We purchased a total of \$635 million of our insured securities in 2015. At year-end, Ambac held nearly \$1.2 billion or 34% of the deferred obligations of the Segregated Account.

During the year, we also directly commuted nearly \$0.5 billion of our most troubled exposures. And we want to remind you that we sold our entire non-Ambac high-yield investments in the first half of the year, thereby averting the significant correction in the credit markets. We'll continue to diligently and prudently pursue capital allocation decisions across our capital stack that improves our claims-paying ability and shareholder value.

Next and perhaps most importantly, we committed ourselves this year to continue to improve our relationship with our regulator the Commission of Insurance for the State of Wisconsin. To this end, we increased our communication and transparency with the Commissioner's office. We've redoubled our efforts to meet the Commissioner's expectations relative to our core business and our responsibilities under the management services agreement with the Segregated Account.

As a result, I can say with confidence that Ambac now enjoys a very constructive relationship with our regulator that is premised on trust and shared goals. On Wednesday, the Commissioner appointed Dan Schwarzer as the Special Deputy Commissioner for the Segregated Account. We've been working with Mr. Schwarzer for many years in his capacity as the Deputy Commissioner of Insurance, a role he will continue to hold, while he acts as SDC. Mr. Schwarzer replaces the rehabilitator's former full-time Special Deputy Commissioner, Roger Peterson, whose departure was announced in January.

Next, we set out to improve our efficiency and consolidated the company for its changing needs and size. To this end, in the third quarter, we streamlined our risk teams. We also announced that we'd reduced head count for the year by 9%, resulting in annualized savings of about \$5 million.

We've also implemented a company-wide vendor management and review process where every agreements and invoice, including legal invoices, are reviewed under our strict vendor management process. We're already seeing

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substantial cost savings from these initiatives. Rest assured, we continue to be focused on streamlining work, increasing productivity, enhancing efficiency and seeking opportunities to lower our costs.

Finally, in 2015, we worked to enhance our communication and transparency with our stakeholders. During 2015, we attended a number of investor conferences, hosted numerous investor meetings, and countless telephone conferences. We make every effort to accommodate requests for calls and meetings with investors and potential investors.

In addition, we have enhanced and increased our distribution of important developments and enhanced our public disclosures in our presentations and collateral material. This area, of course, is always a work-in progress and we look forward to your feedback and how we can improve further our communications.

I'll now turn to Puerto Rico. Ambac has supported Puerto Rico for over a decade having helped to build some of its most important infrastructure. We have a long-term commitment to the Commonwealth that extends to the year 2054 and are only interested in long-term and sustainable solutions to the Island's fiscal issues.

To this end, we've taken a very active role on the Island with other creditors and in Washington D.C. We were early in our recognition of Puerto Rico's fiscal issues. We were instrumental in the negotiation of a series of a structural modifications designed to assist the HTA in reducing its overall debt burden and operating costs and meet its obligations, as well as the legislation that was passed in San Juan to facilitate those potential improvements.

As the situation on the Island has evolved, we've led an effort to organize creditors, particularly the monolines and mutual funds to take a united stand in discussions with the Commonwealth. We've led conversations in New York, Washington and San Juan to affect outcomes. I've personally met with numerous policymakers and business people to drive intelligent solutions.

Just last week, I participated on a panel at the Puerto Rico Investment Summit in San Juan. My message for fiscal responsibility and against the economic destruction that bankruptcy would cause for the Puerto Rican people was greeted with open applause. The debt service issues focused on so much by the Governor are only a small part of the fiscal and structural imbalances gripping the Island. Puerto Rico has a spending and management problem, not a solvency problem. Puerto Rico needs to grow its economy and create private sector jobs.

To this end, bankruptcy would be incredibly destructive for the Island. The disrespect for the rule of law will discourage private investment needed to create jobs and grow the economy. Bankruptcy would be very costly and would add an entire layer of litigation and complexity. Based on our review of precedent cases, we believe that bankruptcy for Puerto Rico could cost 5% to 10% of the total amount of its debt stack, or some \$4 billion to \$7 billion.

Given the possibility of 15 or more different debtors and the many, many legal issues that a retroactive Chapter 9 would invariably result in, we believe overall costs would be at the higher-end of that range, if not even more. Most importantly, bankruptcy would grip the Island in a many year struggle that would cause catastrophic destruction of the investor and consumer confidence.

Studies of the economies of Argentina, Russia and other jurisdictions that have defaulted demonstrate that it can take many years for a jurisdiction to regain GDP growth and normal market access following a default or bankruptcy. Given administrative costs and damage to the economy, bankruptcy will cost far more than whatever haircuts Puerto Rico's advisers hope to obtain by going bankrupt.

This combined with the fact that bankruptcy is and will be used as a crutch to avoid real fiscal and structural change, renders bankruptcy as not only – not an appropriate vehicle for Puerto Rico, but completely counterproductive. What Puerto Rico must have is assistance to an independent control board and real help from the federal government by way of some assistance and regulatory relief. To the extent Puerto Rico has a liquidity problem; Ambac is prepared to be a constructive part of a solution to that problem.

And as it relates to the Island's solvency and debt capacity, let's have an honest conversation. When you add PR's total revenues to debt service, it is at about 15% right in line with the 50 states, not the 36% the Governor and his advisers have been touting. And debt service as a percentage of GDP is at 98% versus 118% for the states, when you adjust for lack of federal taxes on Puerto Rico. So, we this Puerto Rico is neither overleveraged nor overtaxed and ought to be

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able to fit within its debt service requirements over time.

As we look forward to 2016 given the now obvious accretive power of our extant book of business, our principal strategic focus in 2016 must remain the optimal execution of our asset liability management program at AAC. This is even more true now than it was last year, given the ongoing developments and importance of Puerto Rico.

We need to keep our eyes on the price, and the substantial bulk of our time and effort will remain dedicated to AAC. To that end, we intend, first and foremost, to continue the strategic priorities set for 2015 and to build on the substantial progress we have made thus far. Having said that, there is room to explore disciplined and very selective extensions of our business. First, given the long- duration tail of our liability book, asset management is and will remain a core focus of Ambac if we're to meet our obligations to our long-duration policyholders.

First, we're giving substantial thought to deploying our capital strategically in asset management businesses. Second, we have substantial expertise relationships and infrastructure in our core monoline business, and I think we've demonstrated our excellence in managing the runoff business. Naturally, we're giving serious consideration to the possibility of leveraging our operating platform to manage other similar runoff businesses.

Finally, we're confident that our Ambac UK operations represent a source of substantial value for our stakeholders. As discussed in previous calls, we've already begun substantially increased focus on our AUK operations, and working closely with our UK management board and regulator, we plan to increase that focus in 2016.

With respect to the Segregated Account, while our effort to reach consensual agreements with the holders of our DPOs and surplus notes ended when they chose to seek near-term acceleration of their claim payments, we remain interested in pursuing a transaction if it can result in a durable exit that benefits such holders, but also our policyholders at large and our shareholders.

We reiterate, however, that the rehabilitator of the Segregated Account retains sole discretion as to the timing and level of payments of Segregated Account obligations and any plan for the Segregated Account to exit rehabilitation must satisfy the rehabilitator and the rehabilitation court.

To sum up, throughout 2015, we made significant progress in executing on our strategic goals and improving our claims-paying ability to AAC and driving shareholder value, working toward the successful rehabilitation of Segregated Account and optimally managing our assets and liabilities. This progress manifested itself in the form of very substantial growth in operating income and adjusted book value and the first tolling payments from AAC to Ambac.

I want to thank our very capable team at Ambac for their dedication and hard work toward meeting our goals in 2015. We appreciate the ongoing support of our shareholders and stakeholders and we hope to continue adding to the strong track record we've put in place in 2015, during the coming year and beyond. We look forward to sharing our progress with you as this year progresses.

I'll now turn the call over to David for financial review before returning to answer your questions.

David Trick

Thank you, Nader, and good morning. Ambac generated net income of \$387 million or \$8.56 per diluted share in the fourth quarter of 2015, compared to a net loss of \$391 million or \$8.66 per diluted share in the third quarter. Operating earnings were \$481 million or \$10.64 per diluted share in the fourth quarter, nearly triple the \$170.5 million or \$3.77 per diluted share, we generated in the third quarter.

The significant quarter-over-quarter improvement in net income and operating earnings was driven by higher loss and loss expense benefits, derivative product revenues, and accelerated premiums. As for the net loss in the third quarter, as you may recall, this was driven by a \$515 million goodwill impairment charge, which did not impact operating earnings.

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Driven by operating earnings, adjusted book value increased \$314.2 million or almost \$7 per share to over \$1.1 billion or \$24.78 per share at December 31, 2015, a 39% per share increase from \$17.81 per share at the end of September.

For the fourth quarter, net premiums earned were \$114.5 million as compared to \$71.5 million in the third quarter, an increase of \$43 million or 60%. The quarterly increase was fueled by an increase in accelerated premiums of \$44 million from \$28.4 million in the third quarter to \$72.5 million in the fourth quarter.

Normal premiums earned, however, continue to be adversely impacted by the runoff of the insured portfolio, declining 3% quarter-over-quarter to \$42 million. The 156% increase in accelerated premiums included the impact of our active risk reduction initiatives including in regards to exposures such as Eurotunnel and Puerto Rico HTA.

Overall, we experienced an 18% increase in public finance call activity during the quarter based on net par, but a 10% decrease based on single risk volume, indicating the influence of few large transactions during the quarter. Net investment income for the fourth quarter of 2015 was \$64.4 million as compared to \$64.2 million for the third quarter of 2015.

Financial guarantee net investment income for the fourth quarter was \$61.4 million, virtually unchanged as mark-to-market gains in the trading portfolio offset a decrease in income associated with the variability in cash flows from the RMBS available-for-sale portfolio.

During the fourth quarter, we acquired an additional distressed Ambac insured securities, including \$200 million of insured RMBS and \$35 million of other insured securities. These investments, along with other investment activity, contributed to an increase in our domestic financial guarantee long-term portfolio yield from 5.93% at September 30 to 6.01% at December 31. As of year-end, we owned approximately \$1.2 billion of deferred obligations or 34% of the total amount outstanding, inclusive of the \$590 million of insured RMBS acquired in 2015.

The fair value of the consolidated investment portfolio was \$5.6 billion at December 31, 2015, a decrease of approximately \$56.8 million from September 30. The decline was attributable mostly to interest rate movements, and to a lesser degree wider credit spreads in certain sectors.

Loss and loss expenses for the fourth quarter of 2015 were a benefit of \$337.1 million, compared with a benefit of \$133.2 million for the third quarter. The fourth quarter RMBS benefit of \$312.7 million was driven by a \$272 million increase in the estimated value of RMBS representation and warranty related litigation, partially due to the settlement with JP Morgan, a favorable outcome of approximately \$50 million related to our active remediation efforts related to a few RMBS transactions and to a lesser extent the reverse of loss expense reserves related to the JP Morgan settlement.

The student loan benefit of \$110.4 million is primarily driven by the higher probability assigned to executing \$225 million commutation of distressed exposures in February 2016 and the commutation of the South Carolina Student Loan Corp in the fourth quarter of 2015.

Incurred student loan losses also benefited from a marginal improvement in credit considerations offset by the high – impact of higher interest rates. Domestic public finance losses incurred were \$93.1 million, largely as a result of an increase in Puerto Rico related reserves offset by a net benefit and loss reserves for other domestic public finance exposures.

During the fourth quarter, net claim and loss expenses paid were \$28.3 million, which included \$89.8 million of loss and loss expenses paid including commutations and \$61.5 million as subrogation received. During the third quarter, net claim and loss expenses recovered were \$26.6 million, which included \$57.5 million of loss and loss expenses paid and \$84.1 million of subrogation received.

Gross loss and loss expense reserves were \$2.9 billion at December 31, 2015, and \$3.3 billion at September 30. The decline in the loss and loss expense reserves resulted primarily from the affirmation developments in RMBS and student loans.

Included in reserves are approximately \$3.5 billion of deferred amounts, including accrued interest payable of \$491 million. Gross loss and loss expense reserves as of year-end, the September 30, 2015 were also net of approximately

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\$2.8 billion and \$2.6 billion of estimated rep and warranty subrogation recoveries of which \$995 million was received in January 2016.

Underwriting and operating expenses for the fourth quarter of 2015 were \$27.3 million compared to \$25 million for the third quarter of 2015. Expenses increased primarily due to an increase in costs associated with a potential recapitalization of AAC and Ambac compensation accruals. Ambac has reduced head count by 9%, since the beginning of 2015.

The provision for income taxes, consisting primarily of alternative minimum taxes, was \$8.9 million for the fourth quarter of 2015, compared to \$2.8 million for the third quarter. As part of the tax-sharing agreement, AAC's taxable income is subject to annual tolling payments to Ambac, which depend on the aggregate amount of taxable income produced in September 30, 2011 and a prescribed schedule, or NOL usage tier.

AAC has fully utilized its post-determination data NOLs, its Tier A NOLs and part of its Tier B NOLs. As a result, AAC will make its first ever tolling payment of \$70.9 million to Ambac in May 2016. At December 31, 2015, the company had \$4.2 billion of remaining NOLs, including \$1.4 billion at Ambac and \$2.8 billion at AAC.

As previously announced, the Financial Guaranty insurance portfolio and net par amount outstanding was reduced during the quarter, ended December 31, 2015, to approximately \$108 billion from \$119 billion at September 30, 2015, a reduction of 9% with adversely classified credits also declined by approximately \$2 billion or 9% to \$20.4 billion in the fourth quarter of 2015.

The \$10.7 billion reduction in net par was accelerated by several of our risk reduction initiatives, including \$882 million of net par exposure to Eurotunnel; \$111 million of stressed net par exposure to pooled aircraft lease securitizations; \$603 million of student loan net par exposure, including a \$182 million to South Carolina Student Loan Corp and \$399 million to National Collegiate Student Loan Trust, and \$229 million of net par exposure to the Puerto Rico HTA.

These reductions in par do not include the impact of the previously referenced February 2016 commutation of \$225 million of student loan net par exposure, which will reduce insured exposures in the first quarter of 2016.

Total cash and investments at Ambac, the Holding Company, were \$261 million at December 31, 2015, including investment in AAC surplus notes that were eliminated in consolidation. Pro forma for the impact of tolling payments, cash and investments at Ambac were \$332 million or approximately \$7.38 per share.

That concludes our prepared remarks. Now, we open the call to Q&A.

Q&A

Operator

[Operator Instructions] Our first question comes from line of Andrew Gadlin from Odeon Capital Group. Your line is open.

<Q - Andrew E. Gadlin>: Thank you. Congratulations on a very nice quarter, guys.

<A - Nader Tavakoli>: Thank you, Andrew, and good morning.

<A - Abbe F. Goldstein>: Good morning, Andrew.

<Q - Andrew E. Gadlin>: In terms of the Holding Company, David, you just referenced, could you walk us through the assets without consolidation at the Holding Company?

<A - David Trick>: Sure, Andrew. Most of the assets are really broken down to two categories. One is the non-Ambac investments and the other is Ambac investments. So, we – at the Holding Company, we have approximately – a little less than \$100 million invested in Ambac insured RMBS and the remaining balance is invested in the short-term cash

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and ABS. And we also maintain, as you may recall, a stub piece of our investment in junior surplus notes that we monetized back in 2014.

<Q - Andrew E. Gadlin>: So it's about \$100 million of Ambac RMBS and it's about \$150 million of non-Ambac investments?

<A - David Trick>: Well, that \$150 million includes about \$25 million of the junior surplus notes.

<Q - Andrew E. Gadlin>: Got it. And then you mentioned that there's surplus notes at the Holding Company that are not recorded in consolidation? How much is that?

<A - David Trick>: The par plus accrued is just over \$15 million on those and market value is around \$12 million.

<Q - Andrew E. Gadlin>: Got it, thanks. And then given the results this year, can you comment at all on the dual CEO role at AFGI and AAC? Kind of what led to that structure and why does it make sense?

<A - Nader Tavakoli>: Yeah, Andrew, thanks for your question. I think the board is continuing to evaluate the situation as it relates AFG, AAC, CEO role and positions, and I'm sure we'll come to a decision in due course. I think that from a functional perspective, David and I continue to work very well together and it really is not presenting issues for us. And so, it doesn't really have an impact in terms of the performance of the company, as demonstrated by our fourth quarter results.

<Q - Andrew E. Gadlin>: Great, thanks. And then one last question, in terms of the risk reduction initiatives discussed earlier, I mean those are big numbers. Can you talk about – can you give us a frame of reference in terms of loss reserve impact from all that?

<A - David Trick>: Sure, Andrew. So, overall, since we've reported incurred – a negative incurred about \$337 million. So most of that falls to the bottom-line, excluding the impact of claims payments, in terms of an overall reduction in our reserves. So a total loss and loss expense reserves at the end of the year were about \$2.8 billion. And that's about a reduction of about \$400 million or so.

<Q - Andrew E. Gadlin>: All right. Thank you very much.

<A - Nader Tavakoli>: Thanks, Andrew.

Operator

Thank you. Our next question comes from the line of [ph] David Bourne from Bourne Investment Management (0:32:17). Your line is open.

<Q>: Hi and thanks for taking my questions. A question on trustee actions. Are those included in your \$2.9 billion segregation number, especially the JP Morgan trustee settlement that's pending? And did anything change on your reserves with the effective – with your effective JP Morgan settlement?

<A - David Trick>: Well, we're not really anticipating any material impact from the JP Morgan settlement. We do anticipate recoveries from the Countrywide Article 77 case. So, we do include those in our recoveries, or subrogation recoveries. To be clear that those amounts are not part of our rep and warranty, what we quote as our rep and warranty recovery amounts, which are the amounts that we expect to receive from direct recoveries from our litigation that we filed of about \$2.8 billion. The impact of items such as the Countrywide Article 77 case are recorded as part of our overall loss reserves and a bulk of which shows up in our segregation recoverable line item on the asset side of our balance sheet.

<Q>: Okay, thank you. And then, David, it sounded like from your comments that there wasn't really any meaningful increase in RMBS litigation recovery expectations from other litigation, other than JP Morgan as an effect of the settlement?

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<A - David Trick>: No. I wouldn't say that. I think I mentioned, we increased our rep and warranty recovery estimate by about \$272 million, a portion of that relates to the difference between the ultimate settlement value of JP Morgan versus what we had on the books and another portion of that relates to our reevaluation, which we do every quarter of our remaining RMBS litigation cases.

<Q>: Okay. Thank you.

<A - David Trick>: You're welcome.

Operator

Thank you. Our next question comes from the line of [ph] Don Tringali, a Private Investor (0:34:35). Your line is open.

<Q>: Good morning. First of all, thanks for your – not only your performance in the last quarter, but your candor on the call and I love that you started off your comments that one of the things you've brought to the company as an increased sense of urgency in attacking these short-term goals. I think that's really a great short in the arm that we needed. So I think your short-term goals are pretty clear, and there is a couple overhangs here, obviously Puerto Rico being a big one; and still being under the regulation in Wisconsin being a big one.

But I wonder if you could comment a bit on what I would call your kind of intermediate strategic goals? And what I mean by that is after we get through these short-term obstacles and let's say, Puerto Rico, we get some more certainty on that. What is Ambac going to be in the short-term? Are we going to be – is it a wind-down opportunity that's going to bring the value to the shareholders ultimately? Is it doing some repositioning, perhaps using your large NOLs to reconstitute the company and create shareholder value and liquidity as an operating entity?

I was just wondering if you could put that perspective, because a lot of us, who have been in this for a longtime, have thought the ultimate value and return to shareholder was a transaction or wind-down play. So I wonder if you can comment on that please.

<A - Nader Tavakoli>: Don, thanks for your question and thanks for your interest in the company and you're sticking with us. As I said in the prepaid remarks, I think that our near-term and perhaps medium-term focus needs to remain on AAC. I think we've demonstrated now the operating earnings power of this platform and the optimized management of the asset liability program, particularly on the liability side for the near-term and then on the asset management side for the longer-term, how much value we can drive for policyholders and shareholders.

And if you were to run a sort of corporate model for us, you would see that it's not super complicated. I mean the recoveries on our rep and warranty cases are very important. Our management of the risk side of the portfolio and mitigating losses, managing Puerto Rico, continuing to runoff the book is extremely powerful. And then the reinvestment of the proceeds, resulting from all of that activity for the long-term, can generate tremendous amounts of value for shareholders here.

And as we look at that it's obvious that asset management has to be an important strategic part of what we do because of the tail on our book. And so, as long as we're sitting here, managing this liability book, we're going to have to manage a fair amount of assets. And I think the strategic deployments of that capital to leverage our abilities is going to be critical to that medium-term and longer-term vision for the company. And then as well we've got 160 or so very talented, very hard working people here.

And while it's unfortunate that we have had to reduce head count then we'll probably have to continue to do some of that going forward. We'd really like to figure out what we can do to put them to work productively, constructively for the benefit of the company and the benefit of the shareholders. And so, we look all the time at things that are strategic and synergistic for our book of business.

And the obvious thing that comes to mind is to leverage our operating platform by looking for additional runoff businesses and primarily in the monoline space, but they can be otherwise as well. So that's a big part of it. And then beyond that, when we think about what we're going to do, we're only focused on things that are either strategic or

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accretive.

And we really haven't turned in a material way yet to thinking beyond those two things. We want to make sure that we keep our eyes on the price here, as I said before, in terms of the embedded value of AAC, what we can do with it and then what we can do by extension around our existing core competencies. And that's our principal focus right now.

<Q>: Thank you.

Operator

[Operator Instructions] Our next question comes from the line of Michael Cohen from Opportunistic Research. Your line is open.

<Q - Michael Cohen>: Hi, guys. Thanks for taking my question. I was wondering if we could go back and perhaps recover some of the sort of numbers and figures that you discussed on the rep and warranty. The \$272 million that you referenced, could you just provide a description of exactly what that was and what's included in that again, please?

<A - David Trick>: So it really breaks down to two components. One is the increase in value as between our ultimate settlement with JP Morgan, the \$995 million, versus what we had it on the books at. That was one component of it, which was of course producing a gain. And the second component was the reevaluation of our remaining litigation cases, primarily the Bank of America Countrywide transaction, or litigation I should say. And as we do every quarter, we evaluate the value of those cases. And there was an increase in the value of that valuation as of the end of year as well.

<Q - Michael Cohen>: Okay. And then you had mentioned the, I believe the term used was under 77, or there's a certain statute under which the Bank of America fraud case was filed under. Could you just review what your commentary was on that?

<A - Nader Tavakoli>: I had referenced the Article 77 case. That's the Countrywide, what is often referred their sort of market settlement with several investors and trustees. It's a multibillion-dollar settlement, I believe it was about \$8 billion, if I recall correctly, with the market that had to go through multiple layers of litigation and Court approvals and trustee approvals in order to come to conclusion.

So that settlement, which includes some of the secured transactions that we have insured. So we will benefit from the proceeds of that settlement to some degree. And to be clear that does not interfere or impair in any way our estimate of our rep and warranty recoveries via our own direct litigation against Countrywide, but we will benefit from that case. And the amount that we expect to recover on the trusts that we have insured is included in our subrogation recovery results.

<Q - Michael Cohen>: Okay. And approximately how much is that?

<A - David Trick>: It's about \$100 million benefit that we expect.

<A - Nader Tavakoli>: And again to be clear, that's in our subrogation recovery line item on the balance sheet. It is not part of our rep and warranty litigation recoveries.

<Q - Michael Cohen>: Understood. Next question. As we think about runoff and as we think about the ratio of claims-paying resources to – or your total claims-paying ratio haven't fallen under 20, can you just walk us through within the context of AAC and the Segregated Account, is there a point at which just naturally things run into a certain level that you could exit rehab just based on the sort of underlying runoff?

<A - Nader Tavakoli>: Yes. I think it's hard to put a ratio on what that might be. The determination of whether or not the Segregated Account can exit from rehabilitation, as I said previously, is really in the discretion of the OCI and the rehab court. We were having ongoing conversations with the Commissioner's office in that regard, and will have a shared view of what those – what the metrics might be pursuant to which we can agree that the Segregated Account can

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merged back into AAC.

So I don't want to speculate on what that might be. But I would not think that it has to necessarily just do with ratios. As you know, the Segregated Account has certain obligations. We would have to provide for some sort of satisfaction of those obligations and get approval from the rehabilitation court in that process. And again, I don't want to speculate as to what those requirements might be at this time.

<Q - **Michael Cohen**>: Understood. Meaning the surplus notes, or what have you, the unpaid claims would have to be fully paid before you could exit rehab based on sort of a ratio basis? Or is there a certain point at which you sit down with the rehabilitator and go over the various exposures and delineate the lack of volatility around those charge-offs, right? Those exposures are now behaving presumably in a very actuarial way at this point. Are you following me?

<A - **Nader Tavakoli**>: Yes, Michael. And I'm sorry not to answer your question specifically and I think I understand what you're trying to get to. But I just really don't want to speculate on what the Commissioner's office and the rehab court may want to do with the existing DPOs and surplus notes as a prerequisite for allowing the rehab court to exit.

What we have to demonstrate to the rehab court pursuant to appropriate Wisconsin, applicable Wisconsin statute is that the Segregated Account is no longer in a zone of, I forget the exact words, but financial danger. And within the bounds of that, what the Commissioner's office and the rehab court require us to do with those outstanding DPOs and surplus notes is a subject of conversation. And I just really don't want to get ahead of ourselves as far as that goes today.

<Q - **Michael Cohen**>: Understood. I appreciate it. Thanks for taking my question.

<A - **Abbe F. Goldstein**>: Okay. Thanks, Michael.

Operator

Thank you. Our next question comes from the line of Charles Post from Sterling Grace. Your line is open.

<A - **Nader Tavakoli**>: Hey, Charles.

<Q - **Charles Post**>: Hi. How are you? On the \$35 million of Ambac-insured paper that was non-obvious, was that seg account policies or general account?

<A - **David Trick**>: They were not seg account policies, no.

<Q - **Charles Post**>: Thank you. Can you give us an update on the lawsuit against JP Morgan Investment Management from Ambac UK?

<A - **Nader Tavakoli**>: Yes. That lawsuit is continuing. We filed summary judgment papers recently with respect to certain of the counts in that claim. And we're waiting for the preceding on that summary judgment motion. Discovery is completed. We are ready to take that case to trial, irrespective of how that summary judgment motion is decided. And we continue to be very confident about the prospects of that lawsuit.

<Q - **Charles Post**>: Got it. And on Ballantyne, is there any update on that?

<A - **Nader Tavakoli**>: Ballantyne, generally?

<Q - **Charles Post**>: Yes.

<A - **Nader Tavakoli**>: David, do you want to...

<A - **David Trick**>: There's really nothing specific or noteworthy to say with regards to Ballantyne. We've established significant reserves against that exposure. And at this point the transaction is generally performing in line with our expectations as reflected in those reserves. So outside the litigation that we filed against JPM Investment Management, there's not much noteworthy around the status of that transaction.

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To be clear that that transaction is one that has a claim profile that is very beneficial to our sort of asset liability management program and in that it is a very long-tailed exposure. We expect a very few claim payments on that transaction in the near or intermediate term. And the bulk by far of our claim experience in that transaction will be out in 2036. So besides that, there's nothing necessarily important to report on it.

<A - Nader Tavakoli>: Charles, just to elaborate on that just generally, though, as I said in the prepared remarks, we are very focused on the Ambac UK operations. We've increased our activity in terms of assisting them with their entire asset liability management program, the reduction of risk there of certain buybacks that we're helping them execute in the marketplace.

We also have quite a bit of infrastructure expertise through our AUK personnel and operations, and we're looking at best ways to maximize those core skills around infrastructure, infrastructure management, liability management. And so, again, it's going to be an active part of what we're going to be focused on this year going forward.

<Q - Charles Post>: Great. With all your Ambac-insured purchases, you own a lot of your future losses. How does that factor into your reserves?

<A - David Trick>: It doesn't. We include all the paper that we have acquired; Ambac- insured RMBS or other, in our investment portfolio and mark that to market, as any other investment on the balance sheet. And it does not reduce our loss reserves, as described in our balance sheet. So effectively we have not netted down – to be clear, we have not netted down the balance sheet as a result of those acquisitions.

<Q - Charles Post>: So if we have \$1 billion of reserve, just picking a number, of RMBS, and you own 30% of it, that's \$300 million of it right there.

<A - David Trick>: Right. And that \$300 million would be included on the asset side of the balance sheet at its current market value as of the reporting period date.

<Q - Charles Post>: Okay. That's the investment. That's not the loss, the future losses that you have to pay out?

<A - David Trick>: Right. That's the investment and the future losses at par, the \$300 million of par will be on the liability side.

<Q - Charles Post>: Right. Okay. I think that's it for me. My last thing. We talked about it a little bit last quarter was the amount of cash flow you guys through off, which is a very significant number. And all your losses, we keep talking about with this Ambac UK, RMBS, student loans, they're going down and they're also long tail. We got have the Puerto Rico issue, obviously. But have you guys thought about including sort of a value for – present value of that cash flow? We present value losses. What about present valuing the cash flow that we can earn?

<A - Nader Tavakoli>: We haven't really considered that. As you point out, the claims that we're paying are going down. Cash flow can be somewhat variable in a few regards, particularly with regards to timing of a premium payments, some of the investments that we've made. But we haven't put out what you're suggesting, which to some degree is a sort of MPV analysis of the Company. We haven't put that out for a whole host of reasons.

And I just – at this point, don't really, to be honest with you foresee us [indiscernible] (0:52:04) putting that long-term forecast of our cash flows out. I can tell you from based on experience of what we're seeing in terms of claim payments and our claim profile, after the next couple of years we will see a very significant lull in our claims payments overall and then the book becomes very, very long tailed in terms of our student loan exposures, certain very long-dated items, as we just mentioned Ballantyne, a couple ultimate pay, RMBS transactions.

All those long-term exposures don't become real claim payments until the 30s and beyond. So, we will be in a position where our cash flows from loss payments will go into a lull, absent developments in Puerto Rico after 2018. And based on our current estimates of cash flow, we are confident that we have sufficient cash flow from premiums and investment income to cover the near-term claim payments, including the potential stresses from Puerto Rico.

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<Q - **Charles Post**>: Yes, I mean it's [indiscernible] (0:53:23). It could be a couple hundred million dollars a year for the next, what, 20 years before your future payments start back up again. So something to consider. Appreciate it. Great quarter. Thanks, guys.

<A - **Abbe F. Goldstein**>: Thanks, Charles.

<A - **Nader Tavakoli**>: Thanks, Charles.

Operator

Thank you. Our next question comes from the line of Alex Klipper from Bank of America. Your line is open.

<Q - **Alexander Klipper**>: Hi. A couple of questions...

<A - **Nader Tavakoli**>: Hi.

<Q - **Alexander Klipper**>: The \$35 – hey, guys. The \$35 million that you bought away from RMBS, it wasn't in the Segregated Account. But wasn't Puerto Rico-related or non-Puerto Rico exposure?

<A - **Nader Tavakoli**>: There was some opportunistic acquisitions of Puerto Rico. It doesn't account for the full amount of the purchase, but it did include some Puerto Rico positions.

<Q - **Alexander Klipper**>: Got it. And could you just, I guess, this dovetails into the next question I have, is how do you think about pushing – obviously, it's the decision of the Commissioner, but you guys can decide how you push for things.

How do you think about pushing for pay-downs on the surplus notes, given the accrual thereof 5.1% versus other returns on the portfolio? Do you think that there's better uses of capital from your perspective versus paying down the surplus notes? Or would you prioritize paying down the surplus notes versus asset liability opportunities?

<A - **Nader Tavakoli**>: Yes, Alex, as you said, that's a decision to be made by the commissioner. And while our – as I said before, our relationship now has evolved tremendously with the Commissioner's office and we have more dialogue than we have in the past, that's still very much within the exclusive discretion of the Commissioner. From our perspective, we don't really think about it that way, though. We want to pay the DPO and surplus noteholders off as quickly as possible, but we want to do that prudently and responsibly.

And notwithstanding all of the positives around the situation right now, there are also a fair number of uncertainties around the situation relating to Puerto Rico, Chicago, Illinois, military housing and other things. And so, we want to make sure that any pay down of surplus notes or any transaction pursuant to which the surplus notes and DPOs are satisfied result in a durable exit for the Segregated Account from rehabilitation.

And that we're not again confronting the kinds of stresses that got this Company in trouble in 2009/2010. So that's really the way we think about it. What is the responsible thing to do for the Company and for its policyholders at large? And not really, are we doing better with the cash than what we're paying against surplus notes and DPOs in the short-term.

<Q - **Alexander Klipper**>: Got it. And then just on the student loan commutation you did in February. What was the vintage on that? Or can you comment, maybe you can tell us what you were able to commute?

<A - **David Trick**>: So the 2007 vintage transaction and on a par basis – net par basis, \$225 million of variable rate bond exposure.

<Q - **Alexander Klipper**>: Got it. Okay, great. All right, thanks a lot. One last question. Can you just tell us the actual cash balance at the Holding Company today?

<A - **David Trick**>: Sure. Just give me one second. Actual cash, short-term investments is about \$48 million. And as I mentioned earlier, the rest is vested in Ambac wrapped securities, short-term other mortgage and asset-backed

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securities and our junior surplus notes.

<Q - **Alexander Klipper**>: Got it. All right. Thanks a lot guys.

<A - **Nader Tavakoli**>: Sure.

Operator

Thank you. Our next question comes from the line of Michael Cohen from Opportunistic Research. Your line is open.

<Q - **Michael Cohen**>: Hi, guys. Sorry, I had a quick follow-up. Could you give us a quick refresher on how the 40% tier of the loss sharing and tolling payment works over the next 12 months?

<A - **Nader Tavakoli**>: Sure. So, as you may recall, there is a tier schedule of how Ambac Assurance pays for its NOLs to Ambac. And we're now into the second tier of that based on where our cumulative taxable income has been since September 30, 2011. So, any NOLs that we generated after September 30, 2011 at the AAC level first had to be utilized. And then after that, you start using the NOLs, which is about \$3.65 billion at the time, at September 30, 2011; you start to eat into those NOLs?

So, through the year, we have gone through the tier A level NOLs, which was just under \$500 million and we are now into the tier B. Both of those tiers have a \$5 million credit against them. So even though you're eating into those different – those tiers before you actually start accruing tolling payments from AAC up to AFG, you first have to net out \$5 million credit against each one of those tiers. So we're now into the Tier B category and that category is just over \$1 billion of available NOLs in total.

<Q - **Michael Cohen**>: And obviously the settlement with JP Morgan – it was the sort of largest factor in accelerating the movement into Tier B?

<A - **Nader Tavakoli**>: I wouldn't necessarily say that, because you have to look at the results from a full year perspective, certainly we got a boost in the fourth quarter from the JP Morgan settlement as well as our reevaluation of the other cases. But looking at the year in full in terms of our taxable income as against those tiering schedules, there are multiple factors that drove the ultimate tolling amount, including the premium collections, the reversal, a significant amount of loss reserves, as well as the change in value of our rep and warranty cases. So all those factored significantly into the ultimate taxable income, which was over \$800 million at Ambac Assurance in 2015.

<Q - **Michael Cohen**>: Understood. Thank you, guys. Very helpful. And then just last follow-up. This \$7.81, I believe, that you discussed in potential cash and assets at the HoldCo level, is that pro forma for the future tolling payment or is that where you stand today?

<A - **David Trick**>: No, it's not – that \$7.81 per share that's pro forma for the tolling payment.

<Q - **Michael Cohen**>: Okay, great. Thanks guys.

<A - **Nader Tavakoli**>: Sure.

<A - **David Trick**>: Thank you.

Operator

Thank you. Our next question comes from the line of John Knapp from CCM Opportunistic Partner. Your line is open.

<Q - **Alfred John Knapp**>: Thank you.

<A - **Nader Tavakoli**>: HI, John.

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<Q - Alfred John Knapp>: Nader and Dave, your numbers were impressive. And quite honestly, Nader, you eloquently delivered some remarks. To some degree, my questions have been answered. However, the previous question that was – that addressed the dual CEO status that you all are currently operating on. And you did a great job, Nader, of talking about how well you work with David and that was a relief to us that are common holders.

However, in order for a firm to have a vision and move forward and there was another question that addressed, beautifully, and Nader, you work towards working toward about intermediate goals. But if Ambac is to be viewed as anything else other than a runoff insurance company, it's inevitably must trade at discount to adjusted book. It will need a culture and a vision to move forward. How does that get resolved? And that would be one question.

And the second question would be, would it be possible, Nader, you talk about specific meetings and the interaction you have with investors. But would it be possible to have an Investor Day where you concretely describe your vision moving forward so that those holders that think they might be holding Ambac's common for years into the future will have an idea about what it is that they are investing in? I think that summarizes my questions.

<A - Nader Tavakoli>: Thank you, John, and thanks for your support and your comments. We very much appreciate it. As it relates to the CEO role, I'll just repeat what I said before. David and I work well together. And as the CEO of AFG, I'm the ultimate executive authority at the company. And I'm confident that the board is going through a prudent deliberate process and will come to a decision at AAC in near-term, short order.

As it relates to an Investor Day, we are giving that some serious thought. And we will hope to have something to say on that score in the near future. We want to make sure that before we firm that up or create expectations that we can make it a productive and useful day, or certainly a decent part of the day and have some new news for our investors. So, we are working on that and we will have something to say on that in the coming weeks and months.

<Q - Alfred John Knapp>: Thank you.

<A - Nader Tavakoli>: Thanks, John.

Operator

Thank you. That's all the time that we have questions for today. So, I'd like to turn the call back over to Nader Tavakoli for closing remarks.

Nader Tavakoli

Thank you, operator. We'd like to thank all of our shareholders for the continued support in Ambac. We're as frustrated as you are by our stock price and the performance of the stock price. And you can be confident that we're doing all we can to drive our equity valuation.

I'm hopeful that our success this quarter will help put Puerto Rico into perspective and that we will stop trading as though we're a proxy for developments in Puerto Rico. And I think our ability to deliver value notwithstanding the issues in Puerto Rico should now be clear to all. So we look forward to following up with you in the near-term. And thank you again for joining us.

Operator

Ladies and gentlemen, thank you again for your participation in today's conference. This now concludes the program. And you may all disconnect your telephone lines at this time. Everyone have a great weekend.

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