SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1996

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 1-10777

AMBAC INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	13-3621676
(STATE OF INCORPORATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

ONE STATE STREET PLAZA NEW YORK, NEW YORK	10004
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(212) 668-0340
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

As of March 31, 1996, 35,026,355 shares of Common Stock, par value $0.01 per share, (net of 313,837 treasury shares) and -0- shares of Class A Common Stock, par value $0.01 per share, of the Registrant were outstanding.

AMBAC INC. AND SUBSIDIARIES

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PART 1 - FINANCIAL INFORMATION
Item 1 - Financial Statements of AMBAC Inc. and Subsidiaries

AMBAC Inc. and Subsidiaries
Consolidated Balance Sheets
March 31, 1996 and December 31, 1995
(Dollars in Thousands)

	March 31, 1996 (unaudited)	December 31, 1995
Assets		
Investments:		
Bonds, at fair value (amortized cost of $4,454,699 in 1996 and $4,082,791 in 1995)	$4,492,651	$4,264,904
Short-term investments, at cost (approximates fair value)	196,865	176,689
Total investments	4,689,516	4,441,593
Cash	3,878	12,167
Securities purchased under agreements to resell	172,393	240,280
Receivable for municipal investment contracts	4,717	204,797
Receivable for securities	29,091	14,523
Investment income due and accrued	54,318	56,370
Investment in affiliate	45,646	45,019
Deferred acquisition costs	85,405	82,620
Prepaid reinsurance	158,169	153,372
Other assets	69,254	58,538
Total assets	$5,312,387	$5,309,279
Liabilities and Stockholders' Equity		
Liabilities:		
Unearned premiums	$920,305	$903,026
Losses and loss adjustment expenses	58,106	65,996
Ceded reinsurance balances payable	5,932	14,654
Obligations under municipal investment contracts	2,318,955	2,185,746
Obligations under municipal investment repurchase contracts	226,017	241,112
Deferred income taxes	51,596	103,697
Current income taxes	15,567	5,125
Debentures	223,749	223,732
Accrued interest payable	35,449	25,494
Accounts payable and other liabilities	41,536	44,578
Payable for securities	59,795	92,131
Total liabilities	3,957,007	3,905,291
Stockholders' equity:		
Preferred stock	-	-
Common stock, Class A	-	-
Common stock	353	353
Additional paid-in capital	493,147	492,495
Unrealized gains on investments, net of tax	17,509	102,470
Retained earnings	858,709	819,479
Common stock held in treasury at cost	(14,338)	(10,809)
Total stockholders' equity	1,355,380	1,403,988
Total liabilities and stockholders' equity	$5,312,387	$5,309,279

See accompanying Notes to Consolidated Financial Statements

AMBAC Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

For the Periods Ended March 31, 1996 and 1995
(Dollars in Thousands Except Common Share Data)

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1995
Financial guarantee insurance operations:		
Gross premiums written	$50,287	$40,196
Ceded premiums written	(9,612)	(3,459)
Net premiums written	40,675	36,737
Increase in unearned premiums	(12,482)	(12,520)
Net premiums earned	28,193	24,217
Net investment income	34,827	31,755
Net realized gains (losses)	2,356	(4,674)
Other income	1,392	1,561
	66,768	52,859
Losses and loss adjustment expenses	810	1,028
Underwriting and operating expenses	8,748	8,045
	9,558	9,073
Financial guarantee insurance operating income	57,210	43,786
Financial services operating income	4,875	1,527
Equity in income of affiliate	627	226
Interest expense	(5,258)	(4,987)
Other income (deductions), net	(447)	(227)
Income before income taxes	57,007	40,325
Income tax expense:		
Current taxes	12,974	5,441
Deferred taxes	(520)	1,583
Total income taxes	12,454	7,024
Net income	$44,553	$33,301
Per share amounts -		
Net income per common share	$1.27	$0.95
Weighted average number of common shares outstanding	35,053,910	35,068,591

See accompanying Notes to Consolidated Financial Statements

AMBAC Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
For The Periods Ended March 31, 1996 and 1995
(Dollars in Thousands)

	Three Months Ended March 31,	
	1996	1995
Cash flows from operating activities:		
Net income	$44,553	$33,301
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	504	1,663
Amortization of bond premium and discount	(228)	309
Current income taxes payable	10,442	5,141
Deferred income taxes payable	(683)	1,878
Premium balances in course of collection	(8,852)	329
Deferred acquisition costs	(2,785)	(3,786)
Unearned premiums, net	12,482	12,520
Losses and loss adjustment expenses	(7,890)	68
Ceded reinsurance balances payable	(8,722)	58
Accrued interest payable	9,955	(525)
(Gain) loss on sale of investments	(2,356)	4,872
Accounts payable and other liabilities	(3,042)	9,038
Other, net	(3,846)	4,393
Net cash provided by operating activities	39,532	69,259
Cash flows from investing activities:		
Proceeds from sales of bonds	425,410	771,202
Proceeds from matured bonds	203,810	102,232
Purchases of bonds	(1,040,283)	(904,771)
Change in short-term investments	(20,176)	(28,885)
Securities purchased under agreements to resell	67,887	(42,877)
Other, net	6,130	(2,075)
Net cash used in investing activities	(357,222)	(105,174)
Cash flows from financing activities:		
Dividends paid	(5,264)	(4,733)
Proceeds from issuance of municipal investment contracts	530,238	288,965
Payments for municipal investment contract draws	(212,044)	(225,259)
Proceeds from sale of treasury stock	4,693	1,940
Purchases of treasury stock	(8,222)	(231)
Net cash provided by financing activities	309,401	60,682
Net cash flow	(8,289)	24,767
Cash at beginning of year	12,167	4,441
Cash at March 31	$3,878	$29,208
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income taxes	$2,152	$250
Interest expense on debt	$7,524	$7,396
Interest expense on municipal investment contracts	$24,843	$28,505

See accompanying Notes to Consolidated Financial Statements

AMBAC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

AMBAC Inc. (the "Company") is a holding company that provides through its affiliates financial guarantee insurance and financial services to both public and private clients. AMBAC Indemnity Corporation ("AMBAC Indemnity"), the Company's principal operating subsidiary, is a leading insurer of municipal and structured finance obligations. AMBAC Indemnity has been assigned triple-A claims-paying ability ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Ratings Group and Fitch Investors Service, L.P. AMBAC Inc.'s Financial Services Division provides investment contracts, interest rate swaps and investment advice primarily to states, municipalities and municipal authorities.

The Company's consolidated unaudited interim financial statements have been prepared on the basis of generally accepted accounting principles ("GAAP") and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's financial condition, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the three months ended March 31, 1996 may not be indicative of the results that may be expected for the full year ending December 31, 1996. These consolidated financial statements and notes should be read in conjunction with the financial statements and notes included in the audited consolidated financial statements of AMBAC Inc. and its subsidiaries contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1995, which was filed with the Securities and Exchange Commission (the "Commission") on April 1, 1996.

The consolidated financial statements include the accounts of the Company and each of its subsidiaries. All significant intercompany balances have been eliminated.

(2) INCOME TAXES

The effect of temporary differences giving rise to significant portions of the deferred tax liabilities and deferred tax assets as of March 31, 1996 and December 31, 1995, are presented below:

(Dollars in Thousands)	March 31, 1996	December 31, 1995
Deferred tax liabilities:		
Net unrealized gains on bonds.................	$ 6,841	$ 58,258
Deferred acquisition costs...................	29,892	28,917
Unearned premiums...........................	24,264	22,167
Unrealized gain on investment in affiliate....	7,730	7,730
Investments..................................	684	3,638
Other..	2,510	2,566
Total deferred tax liabilities...........	71,921	123,276
Deferred tax assets:		
Loss reserves................................	10,506	9,631
Insurance in force...........................	2,786	2,870
Compensation.................................	2,396	2,672
Other..	4,637	4,406
Total deferred tax assets................	20,325	19,579
Valuation allowance..........................	-	-
Net deferred tax assets..................	20,325	19,579
Total net deferred tax liabilities........	$ 51,596	$103,697

The valuation allowance for deferred tax assets did not change during the three months ended March 31, 1996. The Company believes that no valuation allowance is necessary in connection with the deferred tax assets.

The tax provisions in the accompanying consolidated financial statements reflect effective tax rates differing from the prevailing federal corporate income tax rates. A reconciliation of these differences is as follows:

	Three Months Ended March 31,			
(Dollars in Thousands)	1996	%	1995	%
Computed expected tax expense at statutory rate.................	$19,952	35.0%	$14,114	35.0%
Increases (reductions) in expected tax resulting from :				
Tax-Exempt interest............	(7,012)	(12.3)	(6,940)	(17.2)
Other, net.....................	(486)	(0.9)	(150)	(0.4)
	$12,454	21.8%	$ 7,024	17.4%

(3) SUBSEQUENT EVENT

On May 6, 1996, the Company sold its 4,159,505 shares of HCIA common stock, including 2,378,672 shares which had been previously transferred via extraordinary dividend from AMBAC Indemnity to the Company, in a secondary public offering yielding net proceeds to the Company of $202.6 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following paragraphs describe the consolidated results of operations of AMBAC Inc. and its subsidiaries (sometimes collectively referred to as the "Company") for the three months ended March 31, 1996 and 1995, and its financial condition as of March 31, 1996 and December 31, 1995. These results are presented for the Company's two business segments: Financial Guarantee Insurance and Financial Services.

RESULTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 1996 VERSUS THREE MONTHS ENDED MARCH 31, 1995

OVERVIEW

The Company's net income for the three months ended March 31, 1996 was $44.6 million or $1.27 per common share, an increase of 34% from $33.3 million or $0.95 per common share in the three months ended March 31, 1995. The increase in net income for the quarter over the comparable prior period was the result of higher financial guarantee insurance operating income resulting from the continued growth in net premiums earned from the underlying book of business, higher net investment income and realized gains on sales of investments, as well as higher financial services operating income.

FINANCIAL GUARANTEE INSURANCE

The Company provides financial guarantee insurance through its principal operating subsidiary, AMBAC Indemnity Corporation ("AMBAC Indemnity"), which is a leading insurer of municipal and structured finance transactions. Financial guarantee insurance operating income for the three months ended March 31, 1996 was $57.2 million, an increase of 31% from $43.8 million in the three months ended March 31, 1995. The increase was primarily the result of increased premiums earned from the underlying book of business, increased investment income, and realized gains on sales of investments, partially offset by higher underwriting and operating expenses in the period.

AMBAC Indemnity insured $6.4 billion in par value bonds during the three months ended March 31, 1996, an increase of 16% from $5.5 billion in the three months ended March 31, 1995. Par value written for the first quarter of 1996 was comprised of $4.6 billion from municipal bond insurance and $1.8 billion from structured finance insurance, versus $4.1 billion and $1.4 billion, respectively, in the first quarter of 1995. According to estimates based on industry sources, the total volume of new issues of municipal bonds increased 36% to $39.1 billion during the three months ended March 31, 1996 from $28.7 billion in the three months ended March 31, 1995. During the three months ended March 31, 1996, the insured portion of the new issue municipal bond market increased to 47.9% from 29.5% for the three months ended March 31, 1995, reflecting increased demand for insured bonds. During the three months ended March 31, 1996, AMBAC Indemnity's share of the long-term insured new issue municipal bond market, based on gross par amount of insurance written and stated as a percentage of total insured new issue municipal bonds, was approximately 25%, as compared to approximately 26% during the three months ended March 31, 1995. (Market size amounts, insured

percentage and market share percentage figures used in this paragraph were determined on a sale date basis, in conformity with industry practices; all other amounts and percentage figures in this discussion were determined on a closing date basis.)

Gross premiums written for the three months ended March 31, 1996 were $50.3 million, an increase of 25% from $40.2 million in the three months ended March 31, 1995. The following table sets forth the amounts of gross premiums written by type and percent of total:

	Three Months Ended March 31,			
(Dollars in Millions)	1996	%	1995	%
Municipal premiums:				
Up-front policies:				
New issue	$29.2	58%	$24.0	60%
Secondary market	4.8	9	10.1	25
Sub-total up-front	34.0	67	34.1	85
Installment policies:				
Annual policies	1.4	3	0.6	1
Portfolio products	1.0	2	1.5	4
Sub-total installment	2.4	5	2.1	5
Total municipal premiums	36.4	72	36.2	90
Structured finance premiums:				
Up-front	12.4	25	3.4	8
Installment	1.5	3	0.6	2
Total structured finance premiums	13.9	28	4.0	10
Total gross premiums	$50.3	100%	$40.2	100%

While most of AMBAC Indemnity's premiums written are collected up-front at policy issuance, a growing portion of premiums are collected on an installment basis. The present value of estimated future installment premiums written in the first quarter of 1996 was $7.6 million, an increase of 111% from $3.6 million in the first quarter of 1995. The aggregate present value of estimated future installment premiums was $115.5 million and $110.0 million as of March 31, 1996 and December 31, 1995, respectively. Adjusted gross premiums, which represent up-front premiums written plus the present value of estimated future installment premiums written in the period, in the first quarter of 1996 were $57.9 million, up 32% from $43.8 million in the first quarter of 1995.

Ceded premiums written for the first quarter of 1996 were $9.6 million, versus $3.5 million in the first quarter of 1995. The increase reflects higher premiums ceded under facultative reinsurance agreements primarily related to structured finance transactions written in the first quarter of 1996.

Net premiums written for the three months ended March 31, 1996 were $40.7 million, an increase of 11% from $36.7 million in the three months ended March 31, 1995. The increase reflects higher gross premiums written, partially offset by higher ceded premiums in the three months ended March 31, 1996.

Net premiums earned during the three months ended March 31, 1996 were $28.2 million, an increase of 17% from $24.2 million in the three months ended March 31, 1995. The increase was primarily the result of increased premiums earned from the underlying book of

business and a slight increase in premiums earned from refundings, calls and other accelerations in the three months ended March 31, 1996.

Net premiums earned for the three months ended March 31, 1996 included $4.3 million (which had a net income per common share effect of $0.07) from refundings, calls and other accelerations of previously insured issues. Net premiums earned in the three months ended March 31, 1995 included $3.5 million (which had a net income per common share effect of $0.06) from refundings, calls and other accelerations. Refunding levels vary depending upon a number of conditions, primarily the relationship between current interest rates and interest rates on outstanding debt. Excluding the effect of accelerated earnings from refundings, calls and other accelerations, net premiums earned for the three months ended March 31, 1996 were $23.9 million, an increase of 15% from $20.7 million in the three months ended March 31, 1995. This increase was due to the growth in unearned premiums from premium writings in prior periods, partially offset by the continuing decline of net premiums earned from unit investment trusts and mutual funds policies. Net premiums earned from unit investment trusts and mutual funds policies decreased 29% to $1.0 million in the three months ended March 31, 1996 from $1.4 million in the three months ended March 31, 1995.

Net investment income for the three months ended March 31, 1996 was $34.8 million, an increase of 9% from $31.8 million in the three months ended March 31, 1995. The increase was primarily attributable to the growth of the investment portfolio partially offset by a slightly lower investment yield in the first quarter of 1996. AMBAC Indemnity's investments in tax-exempt securities amounted to 69% of the total market value of its portfolio as of March 31, 1996, versus 78% at March 31, 1995. The average pre-tax yield-to-maturity on the financial guarantee insurance investment portfolio was 6.41% and 6.57% as of March 31, 1996 and 1995, respectively.

AMBAC Indemnity's net realized gains for the three months ended March 31, 1996 were $2.4 million, versus net realized losses of ($4.7) million in the three months ended March 31, 1995.

Losses and loss adjustment expenses for the three months ended March 31, 1996 were $0.8 million, versus $1.0 million in the three months ended March 31, 1995. Losses and loss adjustment expenses are generally based upon estimates of the ultimate aggregate losses inherent in the obligations insured in each period, and are accrued as related premiums are earned. Losses and loss adjustment expenses, exclusive of salvage recognized, were $0.9 million and $1.0 million for the three months ended March 31, 1996 and 1995, respectively. Salvage recognized amounted to $0.1 million and $0 for the three month periods ended March 31, 1996 and 1995, respectively.

Underwriting and operating expenses for the first quarter of 1996 were $8.7 million, an increase of 9% from $8.0 million in the first quarter of 1995 primarily due to higher amortization of previously deferred acquisition costs. Underwriting and operating expenses consist of gross underwriting and operating expenses, less the deferral to future periods of expenses and reinsurance commissions related to the acquisition of new insurance contracts, plus the amortization of previously deferred expenses and reinsurance commissions. During the three month period ended March 31, 1996, AMBAC Indemnity's gross underwriting and operating

expenses were $12.7 million, essentially unchanged from the comparable period in 1995. Underwriting and operating expenses deferred were $7.0 million and $6.7 million for the three months ended March 31, 1996 and 1995, respectively. Reinsurance commissions which relate to the current period were ($0.3) million and $0 million for the three months ended March 31, 1996 and 1995, respectively. The amortization of previously deferred expenses and reinsurance commissions was $2.8 million and $2.0 million for the three months ended March 31, 1996 and 1995, respectively.

FINANCIAL SERVICES

The Company's financial services, which it provides through its financial services subsidiaries include municipal investment contracts, municipal interest rate swaps and investment management. Financial services operating income for the three months ended March 31, 1996 was $4.9 million, versus $1.5 million in the three months ended March 31, 1995. The increase was primarily due to the recognition of $3.4 million in net unrealized mark-to-market gains in the Company's portfolio of municipal interest rate swaps following diminished market fears of broad based tax reform. Including realized gains and losses, total financial services revenues for the three months ended March 31, 1996 were $7.0 million versus $3.4 million in 1995. Financial services expenses for the three months ended March 31, 1996, were $2.1 million versus $1.9 million in the three months ended March 31, 1995. The increase was primarily due to costs related to the new investment management subsidiary.

CORPORATE ITEMS

Equity in income of affiliate represents the Company's share of income from HCIA Inc., its 46.3%-owned health care information content affiliate. Equity in income of affiliate for the first quarter of 1996 was $0.6 million versus $0.2 million for the first quarter of 1995. As discussed below under "Part II, Item 5. - Other Information," on May 6, 1996, the Company sold all of its shares of common stock of HCIA Inc.

Interest expense for the three months ended March 31, 1996 was $5.3 million, an increase of 6% from $5.0 million in the three months ended March 31, 1995, primarily due to higher commitment fees for credit facilities. Other income (deductions), net, includes investment income and operating expenses of the parent company, AMBAC Inc.

Income taxes for the three months ended March 31, 1996 were at an effective rate of 21.8%, versus 17.4% in the three months ended March 31, 1995. The increase is primarily the result of realized gains from sales of investments, an increase in financial services operating income and an increase in taxable investment income.

SUPPLEMENTAL ANALYTICAL FINANCIAL DATA

Core earnings, which the Company reports as analytical data, exclude the effect on consolidated net income from net realized gains and losses, net insurance premiums earned from refundings and calls and certain non-recurring items. Core earnings is not a substitute for net income computed in accordance with Generally Accepted Accounting Principles ("GAAP"), but is an important measure used by management, equity analysts and investors to measure the financial results of the Company. For the three months ended March 31, 1996, core earnings were $40.6 million, an increase of 18% from $34.5 million for the three months ended March 31, 1995. The increase in core earnings was primarily due to the continued growth in net premiums earned and net investment income from financial guarantee insurance operations, as well as increased operating income from its financial services division. The definition of core earnings used by the Company may differ from definitions of core earnings used by other public financial guarantors and should be considered in such context.

Operating earnings for the first quarter of 1996 were $43.0 million, an increase of 18% from $36.5 million in the first quarter of 1995. Operating earnings is defined as net income, less the effect of net realized gains and losses and certain non-recurring items and is not a substitute for net income computed in accordance with GAAP.

The following table reconciles net income computed in accordance with GAAP to operating earnings and core earnings for the three months ended March 31, 1996 and 1995:

(Dollars in Millions)	1996/(1)/	1995/(1)/
Net Income..............................	$ 44.6	$ 33.3
Net realized (gains)/losses, after tax...	(1.5)	3.2
Operating earnings...................	43.0	36.5
Premiums earned from refundings, calls and other accelerations, after tax..............................	(2.4)	(2.0)
Core earnings.....................	$ 40.6	$ 34.5

/(1)/ Numbers may not add due to rounding.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond the next twelve months), is largely dependent upon AMBAC Indemnity's ability to pay dividends or make payments to the Company and external financings.

Pursuant to Wisconsin insurance laws, AMBAC Indemnity may declare dividends, provided that, after giving effect to the distribution, it would not violate certain statutory equity, solvency and asset tests. As of December 31, 1995, the maximum amount available during 1996 under Wisconsin's insurance laws and regulations for payment of dividends to the Company by AMBAC Indemnity without prior approval of regulatory authorities was approximately $86 million. On April 30, 1996, however, AMBAC Indemnity, with the approval of the Office of the Commissioner of Insurance of the State of Wisconsin (the "Wisconsin Commissioner"), transferred its 2,378,672 shares of HCIA to the Company, in the form of an extraordinary dividend, at fair value. As a result of such dividend, any dividends paid by AMBAC Indemnity to the Company for the twelve months following April 30, 1996, will require pre-approval from the Wisconsin Commissioner. However, the Wisconsin Commissioner has stated to AMBAC Indemnity management that, based on AMBAC Indemnity's financial position as of the date of the Wisconsin Commissioner's approval of the extraordinary dividend, it anticipates that quarterly dividend payments for the balance of 1996 similar to those made during 1995 will not be disapproved. During the three months ended March 31, 1996, AMBAC Indemnity paid dividends to the Company totaling $10 million.

The holding company's principal uses of liquidity are for the payment of its operating expenses, interest on its debt, dividends on its shares of Common Stock and capital investments in its subsidiaries. Based on the amount of dividends that AMBAC Indemnity expects to pay during 1996 with the anticipated prior approval of regulatory authorities along with the proceeds from its sale of HCIA common stock (discussed in more detail below under "Part II, Item 5. - Other Information") the Company believes it will have sufficient liquidity to satisfy its liquidity needs over the next twelve months, including the payment of dividends on the Common Stock in accordance with its dividend policy. Beyond the next twelve months, AMBAC Indemnity's ability to declare and pay dividends to the Company may be influenced by a variety of factors, including adverse market changes, insurance regulatory changes and changes in general economic conditions. Consequently, although the Company believes that it will continue to have sufficient liquidity to meet its debt service and other obligations over the long term, no assurance can be given that AMBAC Indemnity will be permitted to dividend amounts sufficient to pay all of the Company's operating expenses, debt service obligations and dividends on its Common Stock.

The principal uses of AMBAC Indemnity's liquidity are the payment of operating expenses, reinsurance premiums, income taxes and dividends to the Company. The Company believes that AMBAC Indemnity's operating liquidity needs can be funded exclusively from its operating cash flow. The principal sources of AMBAC Indemnity's liquidity are gross premiums written, scheduled investment maturities and net investment income. Premiums for AMBAC Indemnity's financial guarantee insurance policies are, in most cases, payable in full at the outset of the term of the policy even though premiums are earned over the life of such policies for financial accounting purposes.

The principal uses of liquidity by the Company's financial services subsidiaries are the payment of municipal investment contract obligations pursuant to defined terms, obligations under municipal interest rate swaps, operating expenses and income taxes. The Company believes that its financial services operating liquidity needs can be funded primarily from its operating cash flow and the maturity of its invested assets. The principal sources of financial services liquidity are proceeds from issuance of municipal investment contracts, net investment income, maturities of securities from its investment portfolio which are invested with the objective of matching the duration of its obligations under the municipal investment contracts, and receipts from municipal interest rate swaps. The Company's investment objective with respect to municipal investment contracts is to achieve the highest after-tax total return, subject to a minimum average quality rating of Aa/AA on invested assets and maintaining cash flow matching of invested assets to funded liabilities to minimize interest rate and liquidity exposure. The Company maintains a portion of its financial services assets in short-term investments and repurchase agreements in order to meet unexpected liquidity needs.

As of March 31, 1996, the Company and AMBAC Indemnity had a three-year revolving credit facility with two major international banks, as co-agents, for $100 million, which expires in July 1998. This facility is available for general corporate purposes, including the payment of claims. As of March 31, 1996 and 1995, no amounts were outstanding under this credit facility or its predecessor.

AMBAC Indemnity has an agreement with another major international bank, as agent, for a $300 million credit facility, expiring in 2002. This facility is a seven-year stand-by irrevocable limited recourse line-of-credit, which will provide liquidity to AMBAC Indemnity in the event claims from municipal obligations exceed specified levels. Repayment of any amounts drawn under the line will be limited primarily to the amount of any recoveries of losses related to policy obligations. As of March 31, 1996 and 1995, no amounts were outstanding under this line.

During the three months ended March 31, 1996, the Company acquired 171,000 treasury shares in the open market under its existing stock repurchase program.

Adjusted Book Value ("ABV") is used by management, equity analysts and investors as a measure of the company's intrinsic value, with no benefit given for ongoing business activity. ABV per common share remained relatively flat at $56.34 at March 31, 1996 compared to $56.47 at December 31, 1995. Management derives ABV by beginning with stockholders' equity (book value) and adding or subtracting the after-tax effect of: (i) balance sheet items where revenue has been collected and deferred or an expense has been incurred and deferred, which will be recognized in income with the passage of time; (ii) material off-balance sheet assets and liabilities; and (iii) material mark-to-market adjustments to assets and liabilities recorded on the balance sheet using an accounting policy which differs materially from market value. While the concept of ABV is not promulgated under GAAP, management believes equity analysts and investors nonetheless view it as a conservative, relevant and helpful measure in evaluating the intrinsic value and performance of the Company. The definition of ABV used by the Company differs from definitions of ABV used by other public financial guarantors, and should be considered in such context. The adjustments described above will not be realized until future periods and may materially differ from the amounts used in determining ABV.

Following is a reconciliation from Book Value Per Share to Adjusted Book Value Per Share as of March 31, 1996 and December 31, 1995:

	March 31, 1996	December 31, 1995
Book value per share....................	$38.70	$40.04
After-tax value of:		
Net unearned premium reserve.........	14.13	13.89
Deferred acquisition costs...........	(1.60)	(1.54)
Present value of installment premiums...........................	2.14	2.05
Unrealized gain on investment in HCIA...............................	2.77	2.77
Unrealized gain (loss) on investment contract liabilities.....	0.20	(0.74)
Adjusted book value per share...........	$56.34	$56.47

As of March 31, 1996, the fair value of the Company's consolidated investment portfolio was $4.69 billion, an increase of 6% from $4.44 billion at December 31, 1995. The increase was primarily due to the growth of the Company's financial guarantee insurance and financial

services operations, partially offset by a decline in market value of the Company's bond portfolio resulting from the increase in interest rates during the three months ended March 31, 1996.

Net cash provided by operating activities was $39.5 million and $69.3 million during the three months ended March 31, 1996 and 1995, respectively. These cash flows were primarily provided by the financial guarantee insurance operations.

Net cash provided by financing activities was $309.4 million and $60.7 million during the three months ended March 31, 1996 and 1995, respectively. This activity included $318.2 million and $63.7 million, respectively, in municipal investment contracts issued (net of draws paid).

The total cash provided by operating and financing activities was $348.9 million and $130.0 million during the three months ended March 31, 1996 and 1995, respectively. From these totals, $357.2 million and $105.2 million, was used in investing activities, principally purchases of bonds, offset by proceeds from sales and maturities of bonds, during the three months ended March 31, 1996 and 1995, respectively.

The Company has made no commitments for material capital expenditures within the next twelve months. However, management continually evaluates opportunities to expand the Company's businesses through internal development of new products as well as acquisitions.

In the normal course of business, the Company uses interest rate contracts for hedging purposes as part of its overall interest rate risk management. In addition, the Company's financial services subsidiaries include a dealer of interest rate swaps primarily to states, municipalities, municipal authorities and other entities in connection with their financings. The subsidiary manages its interest rate swap business with the goal of being market neutral to changes in overall interest rates, while retaining "basis risk," the relationship between changes in floating tax-exempt and floating taxable interest rates. If actual or projected floating tax-exempt interest rates rise in relation to floating taxable interest rates, the subsidiary will experience an unrealized mark-to-market loss. Conversely, if actual or projected floating tax-exempt interest rates decline in relation to floating taxable interest rates, the subsidiary will experience an unrealized mark-to-market gain. Additionally, in the ordinary course of business, the Company manages a variety of other risks - principally credit, market, liquidity, operational, and legal. These risks are identified, measured, and monitored through a variety of control mechanisms, which are in place at different levels throughout the organization.

PART II -- OTHER INFORMATION

Items 1, 2, 3 and 4 are omitted either because they are inapplicable or because the answer to such question is negative.

ITEM 5 - OTHER INFORMATION

On May 6, 1996, the Company completed its secondary public offering of all of its 4,159,505 shares of HCIA common stock at $51.00 per share. The offering resulted in net proceeds (pre-tax) to the Company of $202.6 million. The Company intends to use the net after-tax proceeds from the sale for general corporate purposes, which may include investment in the Company's subsidiaries, repurchase of the Company's common stock and other business and investment opportunities.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) THE FOLLOWING ARE ANNEXED AS EXHIBITS:

EXHIBIT NUMBER	DESCRIPTION
10.16	AMBAC Inc. specimen stock certificate, amended as of February 14, 1996.
11.00	Statement re computation of per share earnings.
27.00	Financial Data Schedule.
99.03	AMBAC Indemnity Corporation and Subsidiaries (a wholly owned subsidiary of AMBAC Inc.) Consolidated Unaudited Financial Statements as of March 31, 1996 and December 31, 1995 and for the periods ended March 31, 1996 and 1995.

(B) REPORTS ON FORM 8-K

On February 2, 1996, the Company filed a Current Report on <u>Form 8-K</u> with its January 31, 1996 press release containing unaudited financial information and accompanying discussion for the three months ended December 31, 1995 and the year ended December 31, 1995. On February 28, 1996, the Company filed a Current Report on <u>Form 8-K</u> containing its Stockholder Rights Plan, which was adopted by the Company's Board of Directors on January 31, 1996, and the amended by-laws of AMBAC Inc., dated January 31, 1996. On March 14, 1996, the Company filed a Current Report on <u>Form 8-K</u>, and on March 15, 1996, the Company filed a First Amendment to such Current Report on <u>Form 8-K/A</u>, containing its consolidated financial statements (with independent auditors' report thereon) as of December 31, 1995 and 1994, and the consolidated financial statements (with independent auditors' report thereon) of AMBAC Indemnity Corporation and Subsidiaries as of December 31, 1995 and 1994. The filing of these Current Reports on Form 8-K and Form 8-K/A were previously noted in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, which was filed on April 1, 1996.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

AMBAC INC.
(REGISTRANT)

DATED: MAY 15, 1996 BY: /s/ Frank J. Bivona

FRANK J. BIVONA
SENIOR VICE PRESIDENT, CHIEF
FINANCIAL OFFICER AND TREASURER
(PRINCIPAL FINANCIAL AND ACCOUNTING
OFFICER AND DULY AUTHORIZED OFFICER)

INDEX TO EXHIBITS

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(EXHIBIT NUMBER 10.16)

NUMBER
A6445

AMBAC (R)
- - -----

[OMITTED GRAPHIC]
Graphic of Ambac Inc.
Corporate Seal
1991
Delaware

COMMON STOCK

SHARES

AMBAC INC.

[GRAPHIC OMITTED] graphic of the Statue of Liberty in foreground; planet earth in background

INCORPORATED UNDER THE LAWS OF
THE STATE OF DELAWARE

SEE REVERSE FOR CERTAIN DEFINITIONS

SEE LEGEND ON REVERSE

CUSIP 023139 10 8

THIS IS TO CERTIFY THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

AMBAC INC., transferable in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated

Countersigned and Registered:
CITIBANK, N.A.
Transfer Agent and Registrar

By
Authorized Signatory

/s/ Richard B. Gross Senior Vice President and Secretary	/s/ P. Lassiter Chairman of the Board and Chief Executive Officer

AMBAC INC.

The Corporation will furnish without charge to any stockholder who so requests the designations, preferences and relative, participating, optional or other special rights of each class and series of stock which the Corporation is authorized to issue and the qualifications, limitations or restrictions of such preferences and/or rights. Such request may be made to the Secretary of the Corporation or to the Transfer Agent named on the face hereof.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they where written out in full according to applicable laws or regulations:

```
TEN COM -- as tenants in common         UNIF GIFT MIN ACT -- .....Custodian.....
TEN ENT -- as tenants by the entireties                      (Cust)      (Minor)
JT TEN  -- as joint tenants with right                    under Uniforn Gifts to
           of survivorship and not as                     Minors Act ...........
           tenants in common                                           (State)
```

Additional abbreviations may also be used though not in the above list.

For value received, ________________ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

- - --

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

- - --

- - --

- - -- shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint ____________________________________ Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated __________________________

(SIGN HERE) ____

NOTICE: THE SIGNATURES TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITH ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in the Rights Agreement between AMBAC Inc. (the "Company") and the Rights Agent thereunder (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The Company will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge, promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void.

(EXHIBIT NUMBER 11.00)

AMBAC INC. AND SUBSIDIARIES
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
FOR THE THREE MONTHS ENDED MARCH 31, 1996
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED MARCH 31, 1996
Net income................................	$44,553
Fully diluted shares:	
Average number of common shares outstanding..........................	35,054
Assumed exercise of dilutive stock options (1)..........................	542
	35,596
Earnings per share assuming full dilution (2).............................	$ 1.25

(1) As of March 31, 1996, approximately 2,151,000 stock options and restricted stock units had been granted and were outstanding. Based upon various exercise prices, the total consideration for the options and restricted stock units will be approximately $77.4 million. The dilution would be the equivalent of approximately 542,000 shares, using the treasury stock method, based upon a market value of $48.13 per share.

(2) In accordance with Accounting Principles Board Opinion No. 15, any reduction of less than 3% need not be considered as dilution. Accordingly, the consolidated statements of operations on page 4 of this report reflect net income per common share of $1.27 for the three months ended March 31, 1996.

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(EXHIBIT NUMBER 99.03)

AMBAC Indemnity Corporation and Subsidiaries
(a wholly owned subsidiary of AMBAC Inc.)
Consolidated Unaudited Financial Statements
as of March 31, 1996 and December 31, 1995
and for the periods ended March 31, 1996 and 1995

AMBAC Indemnity Corporation and Subsidiaries
Consolidated Balance Sheets
(Dollars in Thousands Except Share Data)

	March 31, 1996	December 31, 1995
	(unaudited)	
Assets		
Investments:		
Bonds held in available for sale account, at fair value (amortized cost of $2,054,545 in 1996 and $2,090,101 in 1995)	$2,101,319	$2,224,528
Short-term investments, at cost (approximates fair value)	186,959	163,953
Total investments	2,288,278	2,388,481
Cash	542	6,912
Securities purchased under agreements to resell	7,823	4,120
Receivable for securities	29,091	8,136
Investment income due and accrued	34,045	38,319
Investment in affiliate	26,185	25,827
Deferred acquisition costs	85,405	82,620
Current income taxes	-	2,171
Prepaid reinsurance	158,169	153,372
Other assets	56,725	48,472
Total assets	$2,686,263	$2,758,430
Liabilities and Stockholder's Equity		
Liabilities:		
Unearned premiums	$924,004	$906,136
Losses and loss adjustment expenses	58,106	65,996
Ceded reinsurance balances payable		
	5,932	14,654
Deferred income taxes	54,426	85,008
Current income taxes	4,788	-
Accounts payable and other liabilities	41,928	43,625
Payable for securities	59,795	86,304
Total liabilities	1,148,979	1,201,723
Stockholder's equity:		
Preferred stock, par value $1,000.00 per share; authorized shares - 285,000; issued and outstanding shares - none	-	-
Common stock, par value $2.50 per share; authorized shares - 40,000,000; issued and outstanding shares - 32,800,000 at March 31, 1996 and December 31, 1995	82,000	82,000
Additional paid-in capital	481,427	481,059
Unrealized gains on investments, net of tax	30,403	87,112
Retained earnings	943,454	906,536
Total stockholder's equity	1,537,284	1,556,707
Total liabilities and stockholder's equity	$2,686,263	$2,758,430

See accompanying Notes to Consolidated Financial Statements.

AMBAC Indemnity Corporation and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
For The Periods Ended March 31, 1996 and 1995
(Dollars in Thousands)

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1995
Revenues:		
Gross premiums written	$51,292	$40,572
Ceded premiums written	(9,612)	(3,459)
Net premiums written	41,680	37,113
Increase in unearned premiums	(13,070)	(12,437)
Net premiums earned	28,610	24,676
Net investment income	34,905	31,874
Net realized gains (losses)	2,356	(4,674)
Other income	6,052	2,378
Total revenues	71,923	54,254
Expenses:		
Losses and loss adjustment expenses	810	1,028
Underwriting and operating expenses	10,083	9,330
Interest expense	514	331
Total expenses	11,407	10,689
Income before income taxes	60,516	43,565
Income tax expense:		
Current taxes	13,648	6,847
Deferred taxes	(46)	1,208
Total income taxes	13,602	8,055
Net income	46,914	35,510

See accompanying Notes to Consolidated Unaudited Financial Statements

AMBAC Indemnity Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
For The Periods Ended March 31, 1996 and 1995
(Dollars in Thousands)

Three Months Ended
March 31,

	1996	1995
Cash flows from operating activities:		
Net income	$46,914	$35,510
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	456	337
Amortization of bond premium and discount	(386)	(163)
Current income taxes payable	6,959	6,768
Deferred income taxes payable	(46)	1,208
Deferred acquisition costs	(2,785)	(3,786)
Unearned premiums	13,070	12,437
Losses and loss adjustment expenses	(7,890)	68
Ceded reinsurance balances payable	(8,722)	58
(Gain) loss on sales of investments	(2,356)	4,674
Other, net	(9,735)	(8,219)
Net cash provided by operating activities	35,479	48,892
Cash flows from investing activities:		
Proceeds from sales of bonds at amortized cost	378,129	431,966
Proceeds from maturities of bonds at amortized cost	24,374	13,917
Purchases of bonds at amortized cost	(406,425)	(505,448)
Change in short-term investments	(23,006)	23,163
Securities purchased under agreements to resell	(3,703)	77
Other, net	(1,218)	(178)
Net cash used in investing activities	(31,849)	(36,503)
Cash flows from financing activities:		
Dividends paid	(10,000)	(10,000)
Net cash used in financing activities	(10,000)	(10,000)
Net cash flow	(6,370)	2,389
Cash at beginning of year	6,912	2,117
Cash at March 31	$542	$4,506
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	$6,300	$ -

See accompanying Notes to Consolidated Financial Statements.

AMBAC INDEMNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

AMBAC Indemnity Corporation ("AMBAC Indemnity") is a leading insurer of municipal and structured finance obligations. Financial guarantee insurance underwritten by AMBAC Indemnity guarantees payment when due of the principal of and interest on the obligation insured. In the case of a default on the insured obligation, payments under the insurance policy may not be accelerated by the policyholder without AMBAC Indemnity's consent. As of March 31, 1996, AMBAC Indemnity's net insurance in force (principal and interest) was $203.7 billion. AMBAC Indemnity is a wholly-owned subsidiary of AMBAC Inc., which is a holding company that provides through its affiliates financial guarantee insurance and financial services to both public and private clients.

AMBAC Indemnity has one wholly-owned subsidiary, American Municipal Bond Holding Company ("AMBH"), which is a holding company for certain real estate interests.

AMBAC Indemnity, at March 31, 1996 owned approximately 26.5% of the outstanding common stock of an affiliate, HCIA Inc. (NASDAQ:HCIA) ("HCIA"), a leading health care information content company.

AMBAC Indemnity, as the sole limited partner, owns 90% of the total partnership interests of AMBAC Financial Services, Limited Partnership ("AFS"), a limited partnership which provides interest rate swaps primarily to states, municipalities and municipal authorities. The sole general partner of AFS, AMBAC Financial Services Holdings, Inc., a wholly-owned subsidiary of AMBAC Inc., owns a general partnership interest representing 10% of the total partnership interest in AFS.

AMBAC Indemnity's consolidated unaudited interim financial statements have been prepared on the basis of generally accepted accounting principles and, in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company's financial condition, results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 1996 may not be indicative of the results that may be expected for the full year ending December 31, 1996. These financial statements and notes should be read in conjunction with the financial statements and notes included in the audited consolidated financial statements of AMBAC Indemnity Corporation and its subsidiaries as of December 31, 1995 and 1994, and for each of the years in the three-year period ended December 31, 1995.

(2) INCOME TAXES

The tax provisions in the accompanying financial statements reflect effective tax rates differing from prevailing federal corporate income tax rates, primarily as a result of tax-exempt interest income.

(3) SUBSEQUENT EVENTS

As previously announced by AMBAC Inc., on April 15, 1996, HCIA filed an amendment with the Securities and Exchange Commission to HCIA's previously filed Registration Statement to cover a proposed secondary public offering by AMBAC Inc. of 4,159,505 shares of HCIA common stock. After completion of the proposed offering, AMBAC Indemnity and AMBAC Inc. will no longer own any shares of HCIA common stock.