

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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
(STATE OF INCORPORATION)

13-3621676
(I.R.S. EMPLOYER IDENTIFICATION NO.)

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

10004
(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 No

As of June 30, 1996, 34,839,706 shares of Common Stock, par value \$0.01
per share, (net of 500,486 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
June 30, 1996 and December 31, 1995
(Dollars in Thousands)

	June 30, 1996	December 31, 1995
	-----	-----
	(unaudited)	
Assets		
- -----		
Investments:		
Bonds, at fair value		
(amortized cost of \$4,782,496 in 1996 and		
\$4,082,791 in 1995)	\$4,814,547	\$4,264,904
Short-term investments, at cost (approximates fair value)	230,975	176,689
	-----	-----
Total investments	5,045,522	4,441,593
Cash	5,386	12,167
Securities purchased under agreements to resell	148,586	240,280
Receivable for municipal investment contracts	47,968	204,797
Receivable for securities	65,688	14,523
Investment income due and accrued	62,684	56,370
Investment in affiliate	-	45,019
Deferred acquisition costs	88,107	82,620
Prepaid reinsurance	162,166	153,372
Other assets	64,835	58,538
	-----	-----
Total assets	\$5,690,942	\$5,309,279
	=====	=====
Liabilities and Stockholders' Equity		
- -----		
Liabilities:		

Unearned premiums	\$932,935	\$903,026
Losses and loss adjustment expenses	59,429	65,996
Ceded reinsurance balances payable	6,765	14,654
Obligations under municipal investment contracts	2,382,653	2,185,746
Obligations under municipal investment repurchase contracts	302,939	241,112
Deferred income taxes	42,969	103,697
Current income taxes	60,874	5,125
Debentures	223,765	223,732
Accrued interest payable	29,300	25,494
Accounts payable and other liabilities	47,121	44,578
Payable for securities	129,988	92,131
	-----	-----
Total liabilities	4,218,738	3,905,291
	-----	-----
Stockholders' equity:		
Preferred stock	-	-
Common stock, Class A	-	-
Common stock	353	353
Additional paid-in capital	493,501	492,495
Unrealized gains on investments, net of tax	12,918	102,470
Retained earnings	989,431	819,479
Common stock held in treasury at cost	(23,999)	(10,809)
	-----	-----
Total stockholders' equity	1,472,204	1,403,988
	-----	-----
Total liabilities and stockholders' equity	\$5,690,942	\$5,309,279
	=====	=====

See accompanying Notes to Consolidated Financial Statements

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AMBAC Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
For the Periods Ended June 30, 1996 and 1995
(Dollars in Thousands Except Common Share Data)

	Three Months Ended June 30		Six Months Ended June 30,	
	1996	1995	1996	1995
	-----	-----	-----	-----
Financial guarantee insurance operations:				
Gross premiums written	\$58,115	\$36,402	\$108,402	\$76,598
Ceded premiums written	(9,836)	6,514	(19,448)	3,055
	-----	-----	-----	-----
Net premiums written	48,279	42,916	88,954	79,653
Increase in unearned premiums	(8,634)	(15,069)	(21,116)	(27,589)
	-----	-----	-----	-----
Net premiums earned	39,645	27,847	67,838	52,064
Net investment income	35,498	32,292	70,325	64,047
Net realized losses	(22,100)	(2,202)	(19,744)	(6,876)
Other income	2,236	1,628	3,628	3,189
	-----	-----	-----	-----
Total financial guarantee revenues	55,279	59,565	122,047	112,424
	-----	-----	-----	-----
Losses and loss adjustment expenses	1,700	341	2,510	1,369
Underwriting and operating expenses	10,351	9,130	19,099	17,175
	-----	-----	-----	-----
Total financial guarantee expenses	12,051	9,471	21,609	18,544
	-----	-----	-----	-----
Financial guarantee insurance operating income	43,228	50,094	100,438	93,880
Financial services operating income (loss)	2,737	(752)	7,612	775
Equity in income of affiliate	-	1,867	627	2,093
Interest expense	(5,167)	(5,221)	(10,425)	(10,208)
Other income (deductions), net	1,366	(209)	919	(436)
Other net realized gains	155,613	-	155,613	-
	-----	-----	-----	-----
Income before income taxes	197,777	45,779	254,784	86,104
	-----	-----	-----	-----
Income tax expense:				
Current taxes	66,939	5,789	79,913	11,230
Deferred taxes	(5,109)	3,005	(5,629)	4,588
	-----	-----	-----	-----

Total income taxes	61,830	8,794	74,284	15,818
	-----	-----	-----	-----
Net income	\$135,947	\$36,985	\$180,500	\$70,286
	=====	=====	=====	=====
Per share amounts -				
Net income per common share	\$3.89	\$1.05	\$5.16	\$2.00
	=====	=====	=====	=====
Weighted average number of common shares outstanding	34,915,449	35,091,221	34,984,680	35,090,641
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements

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AMBAC Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
For The Periods Ended June 30, 1996 and 1995
(Dollars in Thousands)

	Six Months Ended June 30,	
	1996	1995
	-----	-----
Cash flows from operating activities:		
Net income	\$180,500	\$70,286
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,077	3,726
Amortization of bond premium and discount	(453)	321
Current income taxes payable	55,749	2,758
Deferred income taxes payable	(5,756)	4,857
Deferred acquisition costs	(5,487)	(9,366)
Unearned premiums, net	21,115	27,590
Losses and loss adjustment expenses	(6,567)	45
Ceded reinsurance balances payable	(7,889)	(422)
Accrued interest payable	3,806	2,357
(Gain) loss on sale of investments	(135,850)	7,058
Other, net	(15,954)	(16,352)
	-----	-----
Net cash provided by operating activities	84,291	92,858
	-----	-----
Cash flows from investing activities:		
Proceeds from sales of bonds	815,183	1,330,441
Proceeds from matured bonds	444,344	266,957
Purchases of bonds	(1,985,878)	(1,829,763)
Change in short-term investments	(54,286)	46,622
Securities purchased under agreements to resell	91,694	(9,392)
Proceeds from sale of affiliate	202,609	-
Other, net	3,389	(5,010)
	-----	-----
Net cash used in investing activities	(482,945)	(200,145)
	-----	-----
Cash flows from financing activities:		
Dividends paid	(10,500)	(9,470)
Proceeds from issuance of municipal investment contracts	938,111	643,853
Payments for municipal investment contract draws	(522,548)	(526,833)
Proceeds from sale of treasury stock	7,701	3,331
Purchases of treasury stock	(20,891)	(734)
	-----	-----
Net cash provided by financing activities	391,873	110,147
	-----	-----
Net cash flow	(6,781)	2,860
Cash at beginning of year	12,167	4,441
	-----	-----
Cash at June 30	\$5,386	\$7,301
	=====	=====

Supplemental disclosure of cash flow information

Cash paid during the year for:		
Income taxes	\$23,392	\$8,250
	=====	=====
Interest expense on debt	\$10,846	\$10,583
	=====	=====
Interest expense on municipal investment contracts	\$68,493	\$58,558
	=====	=====

See accompanying Notes to Consolidated Financial Statements

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AMBAC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED UNAUDITED 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 clients in both the public and private sectors. 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 management principally 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 and six months ended June 30, 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 (i) 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, (ii) the Company's Quarterly Report on Form 10-Q for the quarterly period ended on March 31, 1996, which was filed with the Commission on May 15, 1996, and (iii) the Company's Current Report on Form 8-K dated January 31, 1996, which was filed on February 28, 1996.

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

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NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

(2) INCOME TAXES

The effect of temporary differences giving rise to significant portions of the deferred tax liabilities and deferred tax assets as of June 30, 1996 and December 31, 1995, are presented below:

(Dollars in Thousands)	June 30, 1996	December 31, 1995
	-----	-----

Deferred tax liabilities:

Net unrealized gains on bonds.....	\$ 3,286	\$ 58,258
Deferred acquisition costs.....	30,837	28,917
Unearned premiums.....	25,609	22,167
Unrealized gain on investment in affiliate Investments.....	-	7,730
Other.....	1,530	3,638
	1,767	2,566
	-----	-----
Total deferred tax.....	63,029	123,276
	-----	-----
Deferred tax assets:		
Loss reserves.....	11,096	9,631
Insurance in force.....	2,702	2,870
Compensation.....	2,507	2,672
Other.....	3,755	4,406
	-----	-----
Total deferred tax assets.....	20,060	19,579
Valuation allowance.....	-	-
	-----	-----
Net deferred tax assets.....	20,060	19,579
	-----	-----
Total net deferred tax liabilities..	\$42,969	\$103,697
	=====	=====

The valuation allowance for deferred tax assets did not change during the six months ended June 30, 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:

(Dollars in Thousands)	Three Months Ended		June 30,	
	1996	%	1995	%
	-----	----	-----	----
Computed expected tax expense at statutory rate.....	\$69,222	35.0%	\$16,023	35.0%
Increases (reductions) in expected tax resulting from:				
Tax-Exempt interest.....	(7,413)	(3.7)	(7,242)	(15.8)
Other, net.....	21	-	13	-
	-----	----	-----	----
	\$61,830	31.3%	\$ 8,794	19.2%
	=====	=====	=====	=====

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NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

(Dollars in Thousands)	Six Months Ended		June 30,	
	1996	%	1995	%
	-----	----	-----	----
Computed expected tax expense at statutory rate.....	\$ 89,174	35.0%	\$ 30,136	35.0%
Increases (reductions) in expected tax resulting from:				
Tax-Exempt interest.....	(14,425)	(5.7)	(14,182)	(16.5)
Other, net.....	(465)	(0.1)	(136)	(0.1)
	-----	----	-----	----
	\$ 74,284	29.2%	\$ 15,818	18.4%
	=====	=====	=====	=====

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 and six month periods ended June 30, 1996 and 1995, and its financial condition as of June 30, 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 JUNE 30, 1996 VERSUS THREE MONTHS ENDED JUNE 30, 1995

OVERVIEW

The Company's net income for the three months ended June 30, 1996 was \$135.9 million or \$3.89 per common share, an increase of 267% from \$37.0 million or \$1.05 per common share in the three months ended June 30, 1995. The increase in net income for the quarter over the comparable prior period was primarily the result of the net realized gain of \$155.6 million from the Company's sale of its affiliate, HCIA Inc. This gain was partially offset by realized losses on sales of securities in its investment portfolio of \$22.1 million. The net effect of these actions was a net realized gain of \$133.5 million, which had a net income per common share effect of \$2.47. The increase in net income also resulted from increased premiums earned, higher investment income and higher financial services operating income, partially offset by higher expenses.

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 June 30, 1996 was \$43.2 million, a decrease of 14% from \$50.1 million in the three months ended June 30, 1995. The decrease was primarily the result of increased net realized losses on sales of investments and higher expenses, partially offset by increased premiums earned and increased investment income.

AMBAC Indemnity insured \$9.2 billion in par value bonds during the three months ended June 30, 1996, an increase of 104% from \$4.5 billion in the three months ended June 30, 1995. Par value written for the second quarter of 1996 comprised \$7.1 billion from municipal bond insurance and \$2.1 billion from structured finance insurance, versus \$4.0 billion and \$0.5 billion, respectively, in the second quarter of 1995. According to estimates based on industry sources, the total volume of new issues of municipal bonds increased 15% to \$47.3 billion during the three months ended June 30, 1996 from \$41.3 billion in the three months ended June 30, 1995. During the three months ended June 30, 1996, the insured portion of the new issue municipal bond market increased to 50.4% from 45.1% for the three months ended June 30, 1995, reflecting increased demand for insured bonds. During the three months ended June 30, 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 27%, as compared to approximately 24% during the three months ended June 30, 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.)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Gross premiums written for the three months ended June 30, 1996 were \$58.1 million, an increase of 60% from \$36.4 million in the three months ended June 30, 1995. The following table sets forth the amounts of gross premiums written by type and percent of total:

(Dollars in Millions)	Three Months Ended June 30,			
	1996	%	1995	%
Municipal premiums:				
Up-front policies:				
New issue.....	\$47.0	81%	\$21.4	59%
Secondary market.....	2.5	4	6.4	17
Sub-total up-front.....	49.5	85	27.8	76
Installment policies:				
Annual policies.....	2.5	4	3.0	8
Portfolio products.....	1.0	2	1.4	4
Sub-total installment.....	3.5	6	4.4	12
Total municipal premiums.....	53.0	91	32.2	88
Structured finance premiums:				
Up-front.....	2.7	5	3.5	10
Installment.....	2.4	4	0.7	2
Total structured finance premiums	5.1	9	4.2	12
Total gross premiums.....	\$58.1	100%	\$36.4	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 second quarter of 1996 was \$22.0 million, an increase of 93% from \$11.4 million in the second quarter of 1995. The net aggregate present value of estimated future installment premiums was \$128.0 million and \$110.0 million as of June 30, 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, were \$74.1 million in the second quarter of 1996, up 74% from \$42.7 million in the second quarter of 1995.

Ceded premiums written for the second quarter of 1996 were \$9.8 million, versus (\$6.5) million in the second quarter of 1995. Ceded premiums written in the second quarter of 1995 included the collection of \$18.1 million in return premiums from the cancellation of reinsurance contracts. Excluding such return premiums, ceded premiums written in the second quarter of 1996 decreased by 16% compared to the second quarter of 1995. The decrease reflects lower premiums ceded under facultative reinsurance agreements in the second quarter of 1996.

Net premiums written for the three months ended June 30, 1996 were \$48.3 million, an increase of 13% from \$42.9 million in the three months ended June 30, 1995. The increase in net premiums written in the second quarter of 1996 over the comparable prior period is less significant than the increase in gross premiums written. This is because net premiums written in the second quarter of 1995 reflect return premiums from the cancellation of reinsurance contracts in that period.

Net premiums earned during the three months ended June 30, 1996 were \$39.6 million, an increase of 42% from \$27.8 million in the three months ended June 30, 1995. The increase was primarily the result of increased premiums earned from refundings and calls in the second quarter of 1996 and growth in premiums earned from the underlying book of business during the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Net premiums earned for the three months ended June 30, 1996 included \$13.8 million (which had a net income per common share effect of \$0.22) from refundings, calls and other accelerations of previously insured issues. Net

premiums earned in the three months ended June 30, 1995 included \$5.4 million (which had a net income per common share effect of \$0.08) 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 June 30, 1996 were \$25.8 million, an increase of 15% from \$22.5 million in the three months ended June 30, 1995.

Net investment income for the three months ended June 30, 1996 was \$35.5 million, an increase of 10% from \$32.3 million in the three months ended June 30, 1995. The increase was primarily attributable to the growth of the investment portfolio partially offset by a slightly lower investment yield in the second quarter of 1996. AMBAC Indemnity's investments in tax-exempt securities amounted to 76% of the total market value of its portfolio as of June 30, 1996, versus 78% at June 30, 1995. The average pre-tax yield-to-maturity on the financial guarantee insurance investment portfolio was 6.49% and 6.57% as of June 30, 1996 and 1995, respectively.

AMBAC Indemnity's net realized losses for the three months ended June 30, 1996 were (\$22.1) million, versus (\$2.2) million in the three months ended June 30, 1995. The net realized losses in the second quarter of 1996 were generated to partially offset the realized gain from the sale of HCIA.

Losses and loss adjustment expenses for the three months ended June 30, 1996 were \$1.7 million, versus \$0.3 million in the three months ended June 30, 1995. Losses and loss adjustment expenses are generally based upon estimates of the ultimate aggregate losses inherent in the obligations insured in each period. Losses and loss adjustment expenses, exclusive of salvage recognized, were \$1.7 million and \$0.9 million for the three months ended June 30, 1996 and 1995, respectively. No salvage was recognized in the three month period ended June 30, 1996, as compared to \$0.6 million in the comparable period in 1995.

Underwriting and operating expenses for the second quarter of 1996 were \$10.4 million, an increase of 14% from \$9.1 million in the second quarter of 1995, primarily due to a non-recurring charge for severance of \$1.0 million and 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 June 30, 1996, AMBAC Indemnity's gross underwriting and operating expenses were \$15.1 million, an increase of 24% from \$12.2 million in the three months ended June 30, 1995 primarily due to higher premium taxes and the severance charge discussed above. Underwriting and operating expenses deferred were \$8.5 million and \$6.4 million for the three months ended June 30, 1996 and 1995, respectively. Reinsurance commissions which relate to the current period were \$0.3 million and (\$0.6) million for the three months ended June 30, 1996 and 1995, respectively. The amortization of previously deferred expenses and reinsurance commissions was \$3.4 million and \$2.7 million for the three months ended June 30, 1996 and 1995, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

FINANCIAL SERVICES

Through its financial services subsidiaries, the Company provides investment contracts, interest rate swaps and investment management principally to states, municipalities and municipal authorities. Financial services operating income (loss) for the three months ended June 30, 1996 was \$2.7 million, versus (\$0.8) million in the three months ended June 30, 1995. Financial services revenues for the second quarter of 1996 were \$5.1 million, versus \$1.1 million in the second quarter of 1995. The increase was primarily due to revenues on interest rate swaps during the second quarter of 1996. In the comparable prior period, market fears of broad based tax reform caused the Company to recognize net unrealized losses in the swap portfolio. Financial services expenses for the second quarter of 1996 were \$2.4 million versus \$1.8 million in the second quarter of 1995. The increased expenses were primarily due to start-up costs associated with the new investment management business which began in late 1995.

CORPORATE ITEMS

On May 6, 1996, the Company sold its 4,159,505 shares of HCIA common stock in a secondary public offering yielding net proceeds to the Company of \$202.6 million. The sale resulted in a net realized gain of \$155.6 million, pre-tax, \$100.6 million, after-tax, (net income per common share effect of \$2.88).

Interest expense for the three months ended June 30, 1996 was \$5.2 million, unchanged from the comparable period in 1995. Other income (deductions), net, includes investment income and operating expenses of the parent company, AMBAC Inc. Other income (deductions) increased to \$1.4 million in the second quarter of 1996 from (\$0.2) million in the comparable period of 1995 due to additional investment income generated by the holding company from the proceeds of the HCIA sale.

Income taxes for the three months ended June 30, 1996 were at an effective rate of 31.3%, versus 19.2% in the three months ended June 30, 1995. The increase is primarily the result of the realized gain from the sale of HCIA.

SUPPLEMENTAL ANALYTICAL FINANCIAL DATA

Core earnings for the three months ended June 30, 1996, were \$41.8 million, an increase of 18% from \$35.5 million for the three months ended June 30, 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. 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. 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 second quarter of 1996 were \$49.6 million, an increase of 29% from \$38.5 million in the second quarter of 1995. The Company defines operating earnings as net income, less the effect of net realized gains and losses and certain non-recurring items. Similar to core earnings, operating earnings is used by management, equity analysts and

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

investors to measure the financial results of the Company but 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 June 30, 1996 and 1995:

(Dollars in Millions)/(1)/	1996	1995
	-----	-----
Net Income.....	\$135.9	\$37.0
Net realized (gains)/losses, after tax.....	(86.3)	1.5
	-----	-----
Operating earnings.....	49.6	38.5
Premiums earned from refundings, calls and other accelerations, after tax	(7.8)	(2.9)
	-----	-----
Core earnings.....	\$ 41.8	\$35.5
	=====	=====

(1) Numbers may not add due to rounding.

The weighted average number of shares outstanding during the second quarter of 1996 and 1995 was 34.9 million and 35.1 million, respectively.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1996 VERSUS SIX MONTHS ENDED JUNE 30, 1995

OVERVIEW

The Company's net income for the six months ended June 30, 1996 was \$180.5 million or \$5.16 per common share, an increase of 157% from \$70.3 million or \$2.00 per common share in the six months ended June 30, 1995. The increase in net income for the six month period over the comparable prior period was primarily the result of the net realized gain of \$155.6 million from the Company's sale of its affiliate, HCIA Inc. in May 1996. This gain was partially offset by net realized losses on sales of securities in its investment portfolio of \$19.7 million. The increase in net income also resulted from higher financial guarantee insurance operating income resulting from the continued growth in net premiums earned and higher net investment income, as well as higher financial services operating income, partially offset by higher expenses.

FINANCIAL GUARANTEE INSURANCE

Financial guarantee insurance operating income for the six months ended June 30, 1996 was \$100.4 million, an increase of 7% from \$93.9 million in the six months ended June 30, 1995. The increase was primarily the result of increased premiums earned, increased investment income, partially offset by higher expenses in the period.

AMBAC Indemnity insured \$15.5 billion in par value bonds during the six months ended June 30, 1996, an increase of 57% from \$9.9 billion in the six months ended June 30, 1995. Par value written for the six months ended June 30, 1996 comprised \$11.7 billion from municipal bond insurance and \$3.8 billion from structured finance insurance, versus \$8.0 billion and \$1.9 billion, respectively, in the comparable period in 1995. According to estimates based on industry sources, the total volume of new issues of municipal bonds increased 27% to \$88.6 billion during the six months ended June 30, 1996 from \$70.0 billion in the six months ended June 30,

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

1995. During the six months ended June 30, 1996, the insured portion of the new issue municipal bond market increased to 48.7% from 38.7% for the six months ended June 30, 1995, reflecting increased demand for insured bonds. During the six months ended June 30, 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 27%, as compared to approximately 24% during the six months ended June 30, 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 six months ended June 30, 1996 were \$108.4 million, an increase of 42% from \$76.6 million in the six months ended June 30, 1995. The following table sets forth the amounts of gross premiums written by type and percent of total:

(Dollars in Millions)	Six Months Ended June 30,			
	1996	%	1995	%
Municipal premiums:				
Up-front policies:				
New issue.....	\$ 76.2	70%	\$45.5	60%
Secondary market.....	7.3	7	16.4	21

Sub-total up-front.....	83.5	77	61.9	81
	-----	---	-----	---
Installment policies:				
Annual policies.....	3.9	4	3.5	4
Portfolio products.....	2.1	2	2.9	4
	-----	---	-----	---
Sub-total installment.....	6.0	6	6.4	8
	-----	---	-----	---
Total municipal premiums.....	89.5	83	68.3	89
	-----	---	-----	---
Structured finance premiums:				
Up-front.....	15.0	14	7.0	9
Installment.....	3.9	3	1.3	2
	-----	---	-----	---
Total structured finance premiums	18.9	17	8.3	11
	-----	---	-----	---
Total gross premiums.....	\$108.4	100%	\$76.6	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 six month period ended June 30, 1996 was \$29.6 million, an increase of 97% from \$15.0 million in the same period of 1995. The aggregate present value of estimated future installment premiums was \$128.0 million and \$110.0 million as of June 30, 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 six months of 1996 were \$128.1 million, up 53% from \$83.8 million in the comparable period of 1995.

Ceded premiums written for the first six months of 1996 were \$19.4 million, versus \$(3.1) million in the comparable period of 1995. Ceded premiums written in the six months ended June 30, 1995, included the collection of \$18.1 million in return premiums from the cancellation of reinsurance contracts. Excluding these return premiums, ceded premiums written in the six months ended June 30, 1996, increased by 29% compared to the same period

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

of 1995. The increase reflects higher premiums ceded under facultative and surplus share reinsurance agreements primarily related to structured finance transactions written in 1996.

Net premiums written for the six months ended June 30, 1996 were \$89.0 million, an increase of 12% from \$79.7 million in the six months ended June 30, 1995.

Net premiums earned during the six months ended June 30, 1996 were \$67.8 million, an increase of 30% from \$52.1 million in the six months ended June 30, 1995. The increase was primarily the result of higher premiums earned from refundings and calls and the growth in premiums earned from the underlying book of business in the six months ended June 30, 1996.

Net premiums earned for the six months ended June 30, 1996 included \$18.1 million (which had a net income per common share effect of \$0.29) from refundings, calls and other accelerations of previously insured issues. Net premiums earned in the six months ended June 30, 1995 included \$8.9 million (which had a net income per common share effect of \$0.14) from refundings, calls and other accelerations. Excluding the effect of accelerated earnings from refundings, calls and other accelerations, net premiums earned for the six months ended June 30, 1996 were \$49.8 million, an increase of 15% from \$43.2 million in the six months ended June 30, 1995.

Net investment income for the six months ended June 30, 1996 was \$70.3 million, an increase of 10% from \$64.0 million in the six months ended June 30, 1995. The increase was primarily attributable to the growth of the investment portfolio partially offset by a slightly lower investment yield in the first six months of 1996.

AMBAC Indemnity's net realized losses for the six months ended June 30, 1996 were (\$19.7) million, versus (\$6.9) million in the six months ended June 30, 1995. The net realized losses in 1996 were generated mostly during the second quarter to partially offset the realized gain from the sale of HCIA.

Losses and loss adjustment expenses for the six months ended June 30, 1996 were \$2.5 million, versus \$1.4 million in the six months ended June 30, 1995. Losses and loss adjustment expenses, exclusive of salvage recognized, were \$2.6 million and \$2.0 million for the six months ended June 30, 1996 and 1995, respectively. Salvage recognized amounted to \$0.1 million and \$0.6 for the six month periods ended June 30, 1996 and 1995, respectively.

Underwriting and operating expenses for the first six months of 1996 were \$19.1 million, an increase of 11% from \$17.2 million in the comparable period of 1995, primarily due to a one time severance charge of \$1.0 million incurred in the second quarter and higher amortization of previously deferred acquisition costs during the period. During the six month period ended June 30, 1996, AMBAC Indemnity's gross underwriting and operating expenses were \$27.8 million, an increase of 12% from \$24.8 million in the six months ended June 30, 1995, primarily due to higher premium taxes and the severance charge discussed above. Underwriting and operating expenses deferred were \$15.5 million and \$13.0 million for the six months ended June 30, 1996 and 1995, respectively. Reinsurance commissions which relate to the current period were \$0.6 million and (\$0.6) million for the six months ended June 30, 1996 and 1995, respectively. The amortization of previously deferred expenses and reinsurance commissions was \$6.2 million and \$4.8 million for the six months ended June 30, 1996 and 1995, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

FINANCIAL SERVICES

Financial services operating income for the six months ended June 30, 1996 was \$7.6 million, versus \$0.8 million in the six months ended June 30, 1995. Financial services revenues for the six months ended June 30, 1996, were \$12.1 million, versus \$4.5 million in the comparable period of 1995. The increase was primarily due to revenues on interest rate swaps during 1996. In comparison, during the second quarter of 1995 market fears of broad based tax reform caused the Company to recognize net unrealized losses in the swap portfolio. Financial services expenses for the six months ended June 30, 1996, were \$4.5 million versus \$3.7 million in the six months ended June 30, 1995. The increased expenses were primarily due to start-up costs associated with the new investment management business which began in late 1995.

CORPORATE ITEMS

Interest expense for the six months ended June 30, 1996 was \$10.4 million, an increase of 2% from \$10.2 million in the six months ended June 30, 1995, primarily due to higher commitment fees for credit facilities. Other income (deductions), net, which includes the investment income and operating expenses of the parent company, AMBAC Inc. increased to \$0.9 million in the first six months of 1996 from (\$0.4) million in the comparable period of 1995 due to additional investment income generated by AMBAC Inc. from the proceeds of the HCIA sale.

Income taxes for the six months ended June 30, 1996 were at an effective rate of 29.2%, versus 18.4% in the six months ended June 30, 1995. The increase is primarily the result of the realized gain from the sale of HCIA.

SUPPLEMENTAL ANALYTICAL FINANCIAL DATA

For the six months ended June 30, 1996, core earnings were \$82.4 million, an increase of 18% from \$70.0 million for the six months ended June 30, 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, partially offset by increased expenses.

Operating earnings for the first six months of 1996 were \$92.7 million, an increase of 24% from \$74.9 million in the comparable period of 1995.

The following table reconciles net income computed in accordance with GAAP to operating earnings and core earnings for the six months ended June 30, 1996 and 1995:

(Dollars in Millions)/(1)/	1996	1995
	-----	-----
Net Income.....	\$180.5	\$70.3
Net realized (gains)/losses, after tax..	(87.8)	4.6
	-----	-----
Operating earnings.....	92.7	74.9
Premiums earned from refundings, calls and other accelerations, after tax.....	(10.2)	(4.9)
Core earnings.....	\$ 82.4	\$70.0
	=====	=====

(1) Numbers may not add due to rounding.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

See "Management's Discussion and Analysis - Results of Operations, Three Months Ended June 30, 1996 Versus Three Months Ended June 30, 1995," for definitions of "core earnings" and "operating earnings".

The weighted average number of shares outstanding during the six month periods ended June 30, 1996 and 1995 were 35.0 million and 35.1 million, respectively.

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. However, on April 30, 1996, 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. The Company subsequently sold all 4,159,505 of its shares on May 6, 1996. 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 six months ended June 30, 1996, AMBAC Indemnity paid dividends to the Company totaling \$20 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, 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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 investment contract obligations pursuant to defined terms, obligations under 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 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 investment contracts, and receipts from interest rate swaps. The Company's investment objective with respect to 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 June 30, 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 June 30, 1996 and 1995, no amounts were outstanding under this credit facility.

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 June 30, 1996 and 1995, no amounts were outstanding under this line.

During the six months ended June 30, 1996, the Company acquired 430,000 treasury shares in the open market under its existing stock repurchase program.

Adjusted Book Value ("ABV") per common share increased 3% to \$57.89 at June 30, 1996 from \$56.47 at December 31, 1995. ABV, which is not promulgated under Generally Accepted Accounting Principles ("GAAP"), 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. 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. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

above will not be realized until future periods and may materially differ from the amounts used in determining ABV.

The following table reconciles Book Value Per Share to Adjusted Book Value Per Share as of June 30, 1996 and December 31, 1995:

	June 30, 1996/(1)/ -----	December 31, 1995/(1)/ -----
Book value per share.....	\$42.26	\$40.04
After-tax value of:		
Net unearned premium reserve.....	14.38	13.89
Deferred acquisition costs.....	(1.64)	(1.54)
Present value of installment premiums.....	2.38	2.05
Unrealized gain on investment in HCIA/(2)/.....	-	2.77
Unrealized gain (loss) on investment contract liabilities....	0.50	(0.74)
Adjusted book value per share.....	----- \$57.89 =====	----- \$56.47 =====

(1) Numbers may not add due to rounding.

(2) The Company sold its remaining investment in HCIA on May 6, 1996.

As of June 30, 1996, the fair value of the Company's consolidated investment portfolio was \$5.05 billion, an increase of 14% 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 and the proceeds from the sale of HCIA, partially offset by a decline in market value of the Company's investment portfolio resulting from the increase in interest rates during the six months ended June 30, 1996.

Net cash provided by operating activities was \$84.3 million and \$92.9 million during the six months ended June 30, 1996 and 1995, respectively. These cash flows were primarily provided by the financial guarantee insurance operations.

Net cash provided by financing activities was \$391.9 million and \$110.1 million during the six months ended June 30, 1996 and 1995, respectively. This activity included \$415.6 million and \$117.0 million, respectively, in municipal investment contracts issued (net of draws paid).

The total cash provided by operating and financing activities was \$476.2 million and \$203.0 million during the six months ended June 30, 1996 and 1995, respectively. From these totals, \$482.9 million and \$200.1 million was used in investing activities, principally purchases of bonds, offset by proceeds from sale of affiliate and sales and maturities of bonds during the six months ended June 30, 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. The Company also 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. In addition, one of the Company's financial services subsidiaries, AMBAC Financial Services, Limited Partnership

("AFS"), is an interest

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

rate swaps dealer principally to states, municipalities and municipal authorities. AFS 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 taxable interest rates. If actual or projected floating tax-exempt interest rates rise in relation to floating taxable interest rates, AFS 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, AFS will experience an unrealized mark-to-market gain.

PART II - OTHER INFORMATION

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

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The following matters were voted upon at the Annual Meeting of Stockholders of the Company held on May 15, 1996, and received the votes set forth below:

PROPOSAL 1. The following directors were elected to serve on the

Company's Board of Directors:

	Number of Votes Cast	
	For	Withheld
Phillip B. Lassiter	30,778,914	1,300
Michael A. Callen	30,778,914	1,300
Renso L. Caporali	30,778,764	1,450
Richard Dulude	30,778,769	1,445
W. Grant Gregory	30,778,914	1,300
C. Roderick O'Neil	30,778,869	1,345

There were 4,239,874 broker non-votes for this proposal.

PROPOSAL 2 The proposal to ratify the selection of KPMG Peat Marwick

LLP as independent auditors of the Company and its subsidiaries for 1996 was adopted, with 30,704,254 votes in favor, 11,313 votes against and 3,996 votes abstaining. There were 4,300,525 broker non-votes for this proposal.

ITEM 5 - OTHER INFORMATION

On August 8, 1996, AMBAC Capital Corporation, a wholly-owned subsidiary of the Company, acquired a controlling equity interest in USA Services, Inc., a Delaware corporation ("USA Services"), and a successor corporation to Advanced Procurement Systems, Inc., a Texas corporation. USA Services is an Austin, Texas based computer software company that provides procurement software to state and local governments.

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS

THE FOLLOWING ARE ANNEXED AS EXHIBITS:

EXHIBIT NUMBER -----	DESCRIPTION -----
11.00	Statement re computation of per share earnings.
27.00	Financial Data Schedule.
99.04	AMBAC Indemnity Corporation and Subsidiaries Consolidated Unaudited Financial Statements as of June 30, 1996 and December 31, 1995 and for the periods ended June 30, 1996 and 1995.

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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: AUGUST 14, 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)

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INDEX TO EXHIBITS

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AMBAC INC. AND SUBSIDIARIES
 STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
 FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 1996
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED JUNE 30, 1996	SIX MONTHS ENDED JUNE 30, 1996
	-----	-----
Net income.....	\$135,947	\$180,500
	-----	-----
Fully diluted shares:		
Average number of common shares outstanding	34,915	34,985
Assumed exercise of dilutive stock.....	662	662
options (1).....	-----	-----
	35,577	35,647
	=====	=====
Earnings per share assuming full dilution (2)	\$ 3.82	\$ 5.06
	=====	=====

- (1) As of June 30, 1996, approximately 2,425,000 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 \$91.9 million. The dilution would be the equivalent of approximately 662,000 shares, using the treasury stock method, based upon a market value of \$52.13 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 \$3.89 and \$5.16 for the three and six months ended June 30, 1996, respectively.

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EXHIBIT 99.04

AMBAC Indemnity Corporation and Subsidiaries
 Consolidated Unaudited Financial Statements
 as of June 30, 1996 and December 31, 1995
 and for the six months ended June 30, 1996 and 1995

AMBAC Indemnity Corporation and Subsidiaries
 Consolidated Balance Sheets
 June 30, 1996 and December 31, 1995
 (Dollars in Thousands Except Share Data)

	June 30, 1996	December 31, 1995
	-----	-----
	(unaudited)	
Assets		
- - - - -		
Investments:		
Bonds held in available for sale account, at fair value		
(amortized cost of \$2,162,449 in 1996 and \$2,090,101 in 1995)	\$2,214,817	\$2,224,528
Short-term investments, at cost (approximates fair value)	133,629	163,953
	-----	-----
Total investments	2,348,446	2,388,481
Cash	3,888	6,912
Securities purchased under agreements to resell	3,992	4,120
Receivable for securities	64,288	8,136
Investment income due and accrued	40,207	38,319
Investment in affiliate	-	25,827
Deferred acquisition costs	88,107	82,620
Current income taxes	-	2,171
Prepaid reinsurance	162,166	153,372
Other assets	54,378	48,472
	-----	-----
Total assets	\$2,765,472	\$2,758,430
	=====	=====
Liabilities and Stockholder's Equity		
Liabilities:		
Unearned premiums	\$936,870	\$906,136
Losses and loss adjustment expenses	59,429	65,996
Ceded reinsurance balances payable	6,765	14,654
Deferred		
income taxes	57,190	85,008
Current income taxes	3,116	-
Accounts payable and other liabilities	47,035	43,625
Payable for securities	112,413	86,304
	-----	-----
Total liabilities	1,222,818	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 June 30, 1996 and December 31, 1995	82,000	82,000
Additional paid-in capital	514,305	481,059
Unrealized gains (losses) on investments, net of tax	34,039	87,112
Retained earnings	912,310	906,536
	-----	-----
Total stockholder's equity	1,542,654	1,556,707
	-----	-----
Total liabilities and stockholder's equity	\$2,765,472	\$2,758,430
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

AMBAC Indemnity Corporation and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
For The Periods Ended June 30, 1996 and 1995
(Dollars in Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
Revenues:				
Gross premiums written	\$58,768	\$36,893	\$110,060	\$77,465
Ceded premiums written	(9,836)	6,514	(19,448)	3,055
Net premiums written	48,932	43,407	90,612	80,520
Increase in unearned premiums	(8,870)	(15,126)	(21,940)	(27,563)
Net premiums earned	40,062	28,281	68,672	52,957
Net investment income	35,584	32,419	70,489	64,293
Net realized gains (losses)	67,580	(2,202)	69,936	(6,876)
Other income	4,753	(393)	10,805	1,985
Total revenues	147,979	58,105	219,902	112,359
Expenses:				
Losses and loss adjustment expenses	1,700	341	2,510	1,369
Underwriting and operating expenses	11,583	9,916	21,666	19,246
Interest expense	514	306	1,028	637
Total expenses	13,797	10,563	25,204	21,252
Income before income taxes	134,182	47,542	194,698	91,107
Income tax expense:				
Current taxes	38,665	6,696	52,313	13,543
Deferred taxes	806	2,458	760	3,666
Total income taxes	39,471	9,154	53,073	17,209
Net income	94,711	38,388	141,625	73,898

See accompanying Notes to Consolidated Unaudited Financial Statements

AMBAC Indemnity Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
For The Periods Ended June 30, 1996 and 1995
(Dollars in Thousands)

Six Months Ended
June 30,

	1996	1995
Cash flows from operating activities:		
Net income	\$141,625	\$73,898
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	950	678
Amortization of bond premium and discount	(811)	(440)
Current income taxes payable	5,287	574
Deferred income taxes payable	760	3,666
Deferred acquisition costs	(5,487)	(9,366)
Unearned premiums	21,940	27,563
Losses and loss adjustment expenses	(6,567)	45
Ceded reinsurance balances payable	(7,889)	(422)
(Gain) loss on sales of investments	(69,936)	6,876
Other, net	(8,685)	(6,538)
Net cash provided by operating activities	71,187	96,534
Cash flows from investing activities:		
Proceeds from sales of bonds at amortized cost	742,407	837,619
Proceeds from maturities of bonds at amortized cost	43,165	70,281
Purchases of bonds at amortized cost	(901,331)	(1,001,767)
Change in short-term investments	30,324	19,183
Proceeds from sale of affiliate	115,865	-
Securities purchased under agreements to resell	128	(392)
Other, net	(1,404)	(223)
Net cash provided by (used in) investing activities	29,154	(75,299)
Cash flows from financing activities:		
Dividends paid	(135,865)	(20,000)
Capital contribution	32,500	-
Net cash used in financing activities	(103,365)	(20,000)
Net cash flow	(3,024)	1,235
Cash at beginning of year	6,912	2,117
Cash at June 30	\$3,888	\$3,352
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	\$13,300	\$12,700

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 June 30, 1996, AMBAC Indemnity's net insurance in force (principal and interest) was \$209.3 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.

On May 6, 1996, AMBAC Inc. sold its 4,159,505 shares of common stock of its affiliate, HCIA Inc. (NASDAQ:HCIA) ("HCIA") in a secondary public offering. Prior to consummation of the secondary public offering, AMBAC Indemnity delivered to AMBAC Inc. (in the form of an extraordinary dividend) its 2,378,672 shares of HCIA common stock, at fair value. The fair value of the HCIA shares was \$115.9 million, based on the offering price per share of HCIA common stock in the secondary public offering. The carrying value of AMBAC Indemnity's HCIA shares was \$26.2 million, and the resulting gain to AMBAC Indemnity from the disposition of the shares was \$89.7 million. As a result of the secondary public offering, neither AMBAC Indemnity, nor AMBAC Inc. owned any shares of HCIA.

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 six months ended June 30, 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.

AMBAC INDEMNITY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

(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.