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 September 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	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 September 30, 1996, 34,952,571 shares of Common Stock, par value $0.01 per share, (net of 387,621 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
September 30, 1996 and December 31, 1995
(Dollars in Thousands)

	September 30, 1996 (unaudited)	December 31, 1995
Assets		
Investments:		
Bonds, at fair value (amortized cost of $4,846,229 in 1996 and $4,082,791 in 1995)	$4,909,604	$4,264,904
Short-term investments, at cost (approximates fair value)	179,252	176,689
Total investments	5,088,856	4,441,593
Cash	13,307	12,167
Securities purchased under agreements to resell	217,055	240,280
Receivable for municipal investment contracts	-	204,797
Receivable for securities	23,049	14,523
Investment income due and accrued	62,880	56,370
Investment in affiliate	-	45,019
Deferred acquisition costs	90,022	82,620
Prepaid reinsurance	166,588	153,372
Other assets	65,050	58,538
Total assets	$5,726,807	$5,309,279
Liabilities and Stockholders' Equity		
Liabilities:		
Unearned premiums	$961,413	$903,026
Losses and loss adjustment expenses	60,170	65,996
Ceded reinsurance balances payable	11,280	14,654
Obligations under municipal investment contracts	2,389,271	2,185,746
Obligations under municipal investment repurchase contracts	288,014	241,112
Deferred income taxes	54,785	103,697
Current income taxes	31,013	5,125
Debentures	223,782	223,732
Accrued interest payable	40,346	25,494

Accounts payable and other liabilities	50,262	44,578
Payable for securities	80,736	92,131
Total liabilities	4,191,072	3,905,291
Stockholders' equity:		
Preferred stock		
Common stock, Class A		
Common stock	353	353
Additional paid-in capital	493,917	492,495
Unrealized gains on investments, net of tax	33,013	102,470
Retained earnings	1,027,317	819,479
Common stock held in treasury at cost	(18,865)	(10,809)
Total stockholders' equity	1,535,735	1,403,988
Total liabilities and stockholders' equity	$5,726,807	$5,309,279

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Financial guarantee insurance operations:				
Gross premiums written	$ 67,613	$ 43,531	$ 176,015	$ 120,129
Ceded premiums written	(9,813)	(7,369)	(29,261)	(4,314)
Net premiums written	57,800	36,162	146,754	115,815
Increase in unearned premiums	(24,055)	(9,929)	(45,171)	(37,518)
Net premiums earned	33,745	26,233	101,583	78,297
Net investment income	36,887	33,192	107,212	97,239
Net realized losses	(5,381)	(2,455)	(25,125)	(9,331)
Other income	1,305	1,498	4,933	4,687
Total financial guarantee revenues	66,556	58,468	188,603	170,892
Losses and loss adjustment expenses	1,301	841	3,811	2,210
Underwriting and operating expenses	8,646	8,208	27,745	25,383
Total financial guarantee expenses	9,947	9,049	31,556	27,593
Financial guarantee insurance operating income	56,609	49,419	157,047	143,299
Financial services operating income	1,133	935	8,745	1,710
Equity in income of affiliate	-	868	627	2,961
Interest expense	(5,248)	(5,417)	(15,673)	(15,625)
Other income (deductions), net	2,191	545	3,110	109
Other net realized gains	-	19,103	155,613	19,103
Income before income taxes	54,685	65,453	309,469	151,557
Income tax expense:				
Current taxes	9,994	13,355	89,907	24,585
Deferred taxes	863	2,613	(4,766)	7,201
Total income taxes	10,857	15,968	85,141	31,786
Net income	$ 43,828	$ 49,485	$ 224,328	$ 119,771
Per share amounts -				
Net income per common share	$ 1.26	$ 1.41	$ 6.42	$ 3.41
Weighted average number of common shares outstanding	34,905,558	35,130,021	34,958,306	35,108,662

See accompanying Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
Cash flows from operating activities:		
Net income	$ 224,328	$ 119,771
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,696	4,343
Amortization of bond premium and discount	(980)	344
Current income taxes payable	25,888	12,031
Deferred income taxes payable	(5,154)	7,048
Deferred acquisition costs	(7,402)	(11,398)
Unearned premiums, net	45,171	37,518
Losses and loss adjustment expenses	(5,826)	218
Ceded reinsurance balances payable	(3,374)	2,089
Accrued interest payable	14,852	5,270
Gain on sale of investments	(130,473)	(9,630)
Other, net	(13,600)	(18,824)
Net cash provided by operating activities	145,126	148,780
Cash flows from investing activities:		
Proceeds from sales of bonds	1,324,619	1,894,500
Proceeds from matured bonds	713,445	459,066
Purchases of bonds	(2,840,183)	(2,514,006)
Change in short-term investments	(2,563)	(10,109)
Securities purchased under agreements to resell	23,225	(79,772)
Proceeds from sale of affiliate	202,609	28,502
Other, net	3,424	(5,746)
Net cash used in investing activities	(575,424)	(227,565)
Cash flows from financing activities:		
Dividends paid	(15,730)	(14,212)
Proceeds from issuance of municipal investment contracts	1,268,896	1,052,668
Payments for municipal investment contract draws	(813,672)	(966,073)
Proceeds from sale of treasury stock	12,835	5,829
Purchases of treasury stock	(20,891)	(1,739)
Net cash provided by financing activities	431,438	76,473
Net cash flow	1,140	(2,312)
Cash at beginning of year	12,167	4,441
Cash at September 30	$ 13,307	$ 2,129
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income taxes	$ 59,401	$ 8,250
Interest expense on debt	$ 18,375	$ 17,988
Interest expense on municipal investment contracts	$ 96,540	$ 86,912

See accompanying Notes to Consolidated Financial Statements

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. The Company's principal operating subsidiary, AMBAC Indemnity Corporation ("AMBAC Indemnity"), a leading insurer of municipal and structured finance obligations, has been assigned triple-A claims-paying ability ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Ratings Group, Fitch Investors Service, L.P. and Nippon Investors Services, Inc. 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 nine months ended September 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 (i) 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, (ii) the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996, which was filed with the Commission on May 15, 1996, (iii) the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996, which was filed with the Commission on August 14, 1996, and (iv) the Company's Current Report on Form 8-K dated January 31, 1996, which was filed with the Commission 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.

(2) Income Taxes

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

(Dollars in Thousands)	September 30, 1996	December 31, 1995
Deferred tax liabilities:		
Net unrealized gains on bonds	$14,500	$58,258
Deferred acquisition costs	31,508	28,917
Unearned premiums	26,788	22,167
Unrealized gain on investment in affiliate	-	7,730
Investments	1,867	3,638
Other	1,816	2,566
Total deferred tax liabilities	76,479	123,276
Deferred tax assets:		
Loss reserves	12,924	9,631
Insurance in force	2,618	2,870
Compensation	2,569	2,672
Other	3,583	4,406
Total deferred tax assets	21,694	19,579
Valuation allowance	-	-

Net deferred tax assets	21,694	19,579
Total net deferred tax liabilities	$54,785	$103,697

The valuation allowance for deferred tax assets did not change during the nine months ended September 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:

	Three Months Ended September 30,			
(Dollars in Thousands)	1996	%	1995	%
Computed expected tax expense at statutory rate	$19,140	35.0%	$22,909	35.0%
Increases (reductions) in expected tax resulting from:				
Tax-exempt interest	(7,920)	(14.5)	(7,266)	(11.1)
Other, net	(363)	(0.6)	325	0.5
	$10,857	19.9%	$15,968	24.4%

Notes to Consolidated Unaudited Financial Statements (Continued)

	Nine Months Ended September 30,			
(Dollars in Thousands)	1996	%	1995	%
Computed expected tax expense at statutory rate	$108,314	35.0%	$53,045	35.0%
Increases (reductions) in expected tax resulting from:				
Tax-exempt interest	(22,345)	(7.2)	(21,448)	(14.1)
Other, net	(828)	(0.3)	189	0.1
	$85,141	27.5%	$31,786	21.0%

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 nine month periods ended September 30, 1996 and 1995, and its financial condition as of September 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 September 30, 1996 Versus Three Months Ended September 30, 1995

Consolidated Net Income

The Company's net income for the three months ended September 30, 1996 was $43.8 million or $1.26 per common share, a decrease of 12% from $49.5 million or $1.41 per common share in the three months ended September 30, 1995. The decrease in net income was the result of a realized gain of $19.1 million (which had a net income per common share effect of $0.34) recognized in the third quarter of 1995 from the sale of 1.1 million shares of HCIA Inc. ("HCIA"), a former affiliate of the Company. Excluding the realized gain in the third quarter of 1995, third quarter 1996 net income increased 16% over the corresponding period of 1995. This increase was attributable to increased premiums earned for the period and higher net investment income, partially offset by higher net realized losses on sales of securities and higher expenses.

Financial Guarantee Insurance

Operating Income. 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 September 30, 1996 was $56.6 million, an increase of 15% from $49.4 million in the three months ended September 30, 1995. The increase was primarily the result of increased premiums earned and increased net investment income partially offset by increased net realized losses on sales of investments and higher expenses.

Gross Par Value Written. AMBAC Indemnity insured $8.3 billion in par value bonds during the three months ended September 30, 1996, an increase of 41% from $5.9 billion in the three months ended September 30, 1995. Par value written for the third quarter of 1996 comprised $6.8 billion from municipal bond insurance and $1.5 billion from structured finance insurance, versus $5.2 billion and $0.7 billion, respectively, in the third quarter of 1995. The increase in the amount of structured finance gross par value written reflects the gradual change in mix of the Company's insured portfolio. It also reflects the Company's expanding international efforts.

According to estimates based on industry sources, the total volume of new issues of municipal bonds decreased 3% to $35.5 billion during the three months ended September 30, 1996 from $36.7 billion in the three months ended September 30, 1995. During the three months ended September 30, 1996, the insured portion of the new issue municipal bond market increased to approximately 52% from approximately 46% for the three months ended September 30, 1995, reflecting increased demand for insured bonds. During the three months ended September 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 37%, as compared to approximately 29% during the three months ended September 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. Gross premiums written for the three months ended September 30, 1996 were $67.6 million, an increase of 55% from $43.5 million in the three months ended September 30, 1995. The following table sets forth the amounts of gross premiums written by type and percent of total:

	Three Months Ended September30,			
(Dollars in Millions)	1996	%	1995	%
Municipal premiums written:				
Up-front policies:				
New issue..	$49.1	73%	$32.5	75%
Secondary market...................................	10.2	15	6.5	15

Sub-total up-front	59.3	88	39.0	90
Installment policies:				
Annual policies	2.3	4	1.9	4
Portfolio products	0.9	1	1.3	3
Sub-total installment	3.2	5	3.2	7
Total municipal premiums written	62.5	93	42.2	97
Structured finance premiums written:				
Up-front	1.7	2	0.5	1
Installment	3.4	5	0.8	2
Total structured finance premiums written	5.1	7	1.3	3
Total gross premiums written	$67.6	100%	$43.5	100%

Adjusted Gross Premiums. 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 third quarter of 1996 was $16.7 million, an increase of 132% from $7.2 million in the third quarter of 1995. The net aggregate present value of estimated future installment premiums was $137.2 million and $110.0 million as of September 30, 1996 and December 31, 1995, respectively. Adjusted gross premiums, which are defined as up-front premiums written plus the present value of estimated future installment premiums written in the period, were $77.7 million in the third quarter of 1996, up 66% from $46.7 million in the third quarter of 1995.

Ceded Premiums Written. Ceded premiums written for the third quarter of 1996 were $9.8 million, versus $7.4 million in the third quarter of 1995. The increase is reflective of the higher gross premiums written in the third quarter of 1996. Ceded premiums written were 14.5% and 16.9% of gross premiums written for the three month periods ended September 30, 1996 and 1995, respectively.

Net Premiums Earned. Net premiums earned during the three months ended September 30, 1996 were $33.7 million, an increase of 29% from $26.2 million in the three months ended September 30, 1995. The increase was the result of increased premiums earned from refundings and calls in the third quarter of 1996 and growth in premiums earned from the underlying book of business during the period. Net premiums earned for the three months ended September 30, 1996 included $7.1 million from refundings, calls and other accelerations of previously insured issues (which had a net income per common share effect of $0.12). Net premiums earned in the three months ended September 30, 1995 included $3.2 million from refundings, calls and other accelerations (which had a net income per common share effect of $0.05). 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 September 30, 1996 were $26.7 million, an increase of 16% from $23.0 million in the three months ended September 30, 1995.

Net Investment Income. Net investment income for the three months ended September 30, 1996 was $36.9 million, an increase of 11% from $33.2 million in the three months ended September 30, 1995. The increase was primarily attributable to the growth of the investment portfolio partially offset by a lower investment yield in the third quarter of 1996. AMBAC Indemnity's investments in tax-exempt securities amounted to 76% of the total market value of its portfolio as of September 30, 1996, versus 75% at September 30, 1995. The average pre-tax yield-to-maturity on the financial guarantee insurance investment portfolio was 6.47% and 6.57% as of September 30, 1996 and 1995, respectively.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses for the three months ended September 30, 1996 were $1.3 million, versus $0.8 million in the three months ended September 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.

Underwriting and Operating Expenses. Underwriting and operating expenses for the third quarter of 1996 were $8.6 million, an increase of 5% from $8.2 million in the third quarter of 1995, primarily due to higher gross underwriting expenses 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 September 30, 1996, AMBAC Indemnity's gross underwriting and operating expenses were $12.8 million, an increase of 7% from $12.0 million in the three months ended September 30, 1995, primarily due to increased compensation expenses. Underwriting and operating expenses deferred were $7.3 million and $6.6 million for the three months ended September 30, 1996 and 1995, respectively. The amortization of previously deferred expenses and reinsurance commissions was $3.2 million and $2.5 million for the three months ended September 30, 1996 and 1995, respectively.

Financial Services

Operating Income. 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 for the three months ended September 30, 1996 was $1.1 million, versus $0.9 million in the three months ended September 30, 1995. Financial services revenues for the third quarter of 1996 were $3.9 million, versus $2.6 million in the third quarter of 1995. The increase was primarily due to revenues on interest rate swaps during the third quarter of 1996. Financial services expenses for the third quarter of 1996 were $2.8 million versus $1.7 million in the third quarter of 1995. The increased expenses were primarily due to costs associated with the new investment management business, as well as increased operating expenses at the other financial services subsidiaries.

Corporate Items

Interest Expense and Other Income. Interest expense for the three months ended September 30, 1996 was $5.2 million, versus $5.4 million in the third quarter of 1995. Other income (deductions), net, includes investment income and operating expenses of the holding company, AMBAC Inc. Other income (deductions) increased to $2.2 million in the third quarter of 1996 from $0.5 million in the comparable period of 1995, due to additional investment income generated by the holding company from the proceeds of the sale of HCIA in the second quarter of 1996.

Income Taxes. Income taxes for the three months ended September 30, 1996 were at an effective rate of 19.9%, versus 24.4% in the three months ended September 30, 1995. The Company's effective income tax rate was higher in the third quarter of 1995 primarily due to the $19.1 million realized gain on the sale of HCIA holdings during that quarter.

Supplemental Analytical Financial Data

Core Earnings. Core earnings for the three months ended September 30, 1996, were $43.3 million, an increase of 16% from $37.3 million for the three months ended September 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. Operating earnings for the third quarter of 1996 were $47.3 million, an increase of 21% from $39.2 million in the third 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 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 September 30, 1996 and 1995:

(Dollars in Millions) /(1)/	1996	1995
Net Income	$43.8	$49.5
Net realized (gains)/losses, after tax	3.5	(10.3)
Operating earnings	47.3	39.2
Premiums earned from refundings, calls and other accelerations, after tax	(4.0)	(1.9)
Core earnings	$43.3	$37.3

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

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

Results of Operations
Nine Months Ended September 30, 1996 Versus Nine Months Ended September 30, 1995

Consolidated Net Income

The Company's net income for the nine months ended September 30, 1996 was $224.3 million or $6.42 per common share, an increase of 87% from $119.8 million or $3.41 per common share in the nine months ended September 30, 1995. The increase in net income in 1996 was largely due to the second quarter net realized gain of $155.6 million from the sale of the Company's remaining holdings of HCIA, (which had a net income per common share effect of $2.88). Excluding the effects of the respective gains from the sales of HCIA stock in the second quarter of 1996 and the third quarter of 1995 (discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations - Three Months Ended September 30, 1996 Versus Three Months Ended September 30, 1995), net income for the first nine months of 1996 increased 15%

over the corresponding period of 1995. This increase in year-to-date net income is primarily the result of higher premiums earned and net investment income as well as higher financial services operating income, partially offset by higher net realized losses on sales of securities and higher expenses.

Financial Guarantee Insurance

Operating Income. Financial guarantee insurance operating income for the nine months ended September 30, 1996 was $157.0 million, an increase of 10% from $143.3 million in the nine months ended September 30, 1995. The increase was primarily the result of increased premiums earned and increased investment income, partially offset by higher net realized losses on sales of securities and higher expenses during the period.

Gross Par Value Written. AMBAC Indemnity insured $23.8 billion in par value bonds during the nine months ended September 30, 1996, an increase of 51% from $15.8 billion in the nine months ended September 30, 1995. Par value written for the nine months ended September 30, 1996 comprised $18.5 billion from municipal bond insurance and $5.3 billion from structured finance insurance, versus $13.2 billion and $2.6 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 19% to $126.8 billion during the nine months ended September 30, 1996 from $106.7 billion in the nine months ended September 30, 1995. During the nine months ended September 30, 1996, the insured portion of the new issue municipal bond market increased to approximately 49% from approximately 41% for the nine months ended September 30, 1995, reflecting increased demand for insured bonds. During the nine months ended September 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 30%, as compared to approximately 26% during the nine months ended September 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. Gross premiums written for the nine months ended September 30, 1996 were $176.0 million, an increase of 47% from $120.1 million in the nine months ended September 30, 1995. The following table sets forth the amounts of gross premiums written by type and percent of total:

	Nine Months Ended September 30,			
(Dollars in Millions)	1996	%	1995	%
Municipal premiums written:				
Up-front policies:				
New issue	$125.3	71%	$78.0	65%
Secondary market	17.5	10	22.9	19
Sub-total up-front	142.8	81	100.9	84
Installment policies:				
Annual policies	6.2	3	5.4	5
Portfolio products	3.0	2	4.2	3
Sub-total installment	9.2	5	9.6	8
Total municipal premiums written	152.0	86	110.5	92

Structured finance premiums written:				
Up-front	16.7	10	7.5	6
Installment	7.3	4	2.1	2
Total structured finance premiums written	24.0	14	9.6	8
Total gross premiums written	$176.0	100%	$120.1	100%

Adjusted Gross Premiums. 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 nine month period ended September 30, 1996 was $46.3 million, an increase of 109% from $22.1 million in the same period of 1995. 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 nine months of 1996 were $205.8 million, up 58% from $130.5 million in the comparable period of 1995.

Ceded Premiums Written. Ceded premiums written for the first nine months of 1996 were $29.3 million, versus $4.3 million in the comparable period of 1995. Ceded premiums written in the nine months ended September 30, 1995, were reduced by $18.1 million in return premiums from the cancellation of reinsurance contracts in the second quarter of 1995. Excluding the 1995 return premiums, ceded premiums written for the first nine months of 1996 increased 31% from the corresponding period of 1995 primarily due to increased gross premiums written. Ceded premiums written were 16.6% of gross premiums written for the first nine months of 1996. Excluding the return premiums, ceded premiums written were 18.7% of gross premiums written for the corresponding period of 1995.

Net Premiums Earned. Net premiums earned during the nine months ended September 30, 1996 were $101.6 million, an increase of 30% from $78.3 million in the nine months ended September 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 nine months ended September 30, 1996. Net premiums earned for the nine months ended September 30, 1996 included $25.2 million from refundings, calls and other accelerations of previously insured issues (which had a net income per common share effect of $0.41). Net premiums earned in the nine months ended September 30, 1995 included $12.1 million from refundings, calls and other accelerations (which had a net income per common share effect of $0.19). Excluding the effect of accelerated earnings from refundings, calls and other accelerations, net premiums earned for the nine months ended September 30, 1996 were $76.4 million, an increase of 15% from $66.2 million in the nine months ended September 30, 1995.

Net Investment Income. Net investment income for the nine months ended September 30, 1996 was $107.2 million, an increase of 10% from $97.2 million in the nine months ended September 30, 1995. The increase was primarily attributable to the growth of the investment portfolio partially offset by a lower investment yield in the first nine months of 1996.

Net Realized Losses. AMBAC Indemnity's net realized losses for the nine months ended September 30, 1996 were ($25.1) million, versus ($9.3) million in the nine months ended September 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. Losses and loss adjustment expenses for the nine months ended September 30, 1996 were $3.8 million, versus $2.2 million in the nine months ended September 30, 1995. Losses and loss adjustment expenses, exclusive of salvage recognized, were $3.9 million and $2.7 million for the nine months ended September 30, 1996 and 1995, respectively. Salvage recognized amounted to $0.1 million and $0.5 for the nine month periods ended September 30, 1996 and 1995, respectively.

Underwriting and Operating Expenses. Underwriting and operating expenses for the first nine months of 1996 were $27.7 million, an increase of 9% from $25.4 million in the comparable period of 1995, primarily due to higher amortization of previously deferred acquisition costs during the period. During the nine month period ended September 30, 1996, AMBAC Indemnity's gross underwriting and operating expenses were $40.6 million, an increase of 10% from $36.9 million in the nine months ended September 30, 1995, primarily due to higher compensation expenses and increased premium taxes related to the increased level of premium writings. Underwriting and operating expenses deferred were $22.9 million and $19.7 million for the nine months ended September 30, 1996 and 1995, respectively. The amortization of previously deferred expenses and reinsurance commissions was $9.5 million and $7.3 million for the nine months ended September 30, 1996 and 1995, respectively.

Financial Services

Operating Income. Financial services operating income for the nine months ended September 30, 1996 was $8.7 million, versus $1.7 million in the nine months ended September 30, 1995. Financial services revenues for the nine months ended September 30, 1996, were $16.0 million, versus $7.2 million in the comparable period of 1995. The increase was primarily due to revenues on interest rate swaps during the first nine months 1996. Financial services expenses for the nine months ended September 30, 1996, were $7.3 million versus $5.5 million in the nine months ended September 30, 1995. The increased expenses were primarily due to expenses associated with the new investment management business.

Corporate Items

Interest Expense and Other Income. Interest expense for the nine months ended September 30, 1996 was $15.7 million, nearly unchanged from the $15.6 million incurred in the nine months ended September 30, 1995. Other income (deductions), net, which includes the investment income and operating expenses of the holding company, AMBAC Inc., increased to $3.1 million in the first nine months of 1996 from $0.1 million in the comparable period of 1995 due to additional investment income generated by AMBAC Inc. from the proceeds of the HCIA sale in the second quarter of 1996.

Income Taxes. Income taxes for the nine months ended September 30, 1996 were at an effective rate of 27.5%, versus 21.0% in the nine months ended September 30, 1995. The increase is primarily the result of the realized gain from the sale of HCIA in the second quarter of 1996.

Supplemental Analytical Financial Data

Core Earnings. For the nine months ended September 30, 1996, core earnings were $125.7 million, an increase of 17% from $107.4 million for the nine months ended September 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 revenues from its financial services division, partially offset by increased expenses at both divisions.

Operating Earnings. Operating earnings for the first nine months of 1996 were $140.0 million, an increase of 23% from $114.1 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 nine months ended September 30, 1996 and 1995:

(Dollars in Millions)/(1)/	1996	1995
Net Income	$224.3	$119.8
Net realized (gains)/losses, after tax	(84.3)	(5.7)
Operating earnings	140.0	114.1
Premiums earned from refundings, calls and other accelerations, after tax	(14.3)	(6.8)
Core earnings	$125.7	$107.4

(1) Numbers may not add due to rounding.

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

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Three Months Ended September 30, 1996 Versus Three Months Ended September 30, 1995," for definitions of "core earnings" and "operating earnings" and other explanatory information.

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, 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 nine months ended September 30, 1996, AMBAC Indemnity paid dividends to the Company totaling $30 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 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 September 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 September 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 September 30, 1996 and 1995, no amounts were outstanding under this line.

During the nine months ended September 30, 1996, the Company acquired 430,000 treasury shares in the open market under its existing stock repurchase program. Since the inception of the program the Company has acquired 895,000 shares and, as of September 30, 1996, has remaining authorization to acquire 2,105,000 additional shares.

Adjusted Book Value ("ABV") per common share increased 6% to $60.05 at

September 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 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 September 30, 1996 and December 31, 1995:

	September 30, 1996/(1)/	December 31, 1995/(1)/
Book value per share...	$43.94	$40.04
After-tax value of:		
Net unearned premium reserve.................................	14.79	13.89
Deferred acquisition costs...................................	(1.69)	(1.54)
Present value of installment premiums.........................	2.55	2.05
Unrealized gain on investment in HCIA/(2)/....................	--	2.77
Unrealized gain (loss) on investment contract liabilities.....	0.46	(0.74)
Adjusted book value per share..................................	$60.05	$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 September 30, 1996, the fair value of the Company's consolidated investment portfolio was $5.09 billion, an increase of 15% 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 nine months ended September 30, 1996.

Net cash provided by operating activities was $145.1 million and $148.8 million during the nine months ended September 30, 1996 and 1995, respectively. These cash flows were primarily provided by the financial guarantee insurance operations.

Net cash provided by financing activities was $431.4 million and $76.5 million during the nine months ended September 30, 1996 and 1995, respectively. This activity included $455.2 million and $86.6 million, respectively, in municipal investment contracts issued (net of draws paid).

The total cash provided by operating and financing activities was $576.5 million and $225.3 million during the nine months ended September 30, 1996 and 1995, respectively. From these totals, $575.4 million and $227.6 million was used in investing activities during the nine months ended September 30, 1996 and 1995, respectively, principally for purchases of bonds, offset by proceeds from the sale of HCIA and sales and maturities of bonds.

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 a dealer specializing in providing interest rate swaps 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 interest rates and floating 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, 3 and 4 are omitted either because they are inapplicable or because the answer to such question is negative.

Item 5-Other Information

The Company has announced that the Financial Services Division has signed a definitive agreement to acquire the assets of Lake Ronkonkoma, New York-based Cadre Financial Services, Inc., an investment adviser and fund administrator, and Cadre Securities, Inc., its affiliated broker-dealer. The acquisition is expected to close by December 31, 1996.

Item 6-Exhibits

The following are annexed as exhibits:

Exhibit Number	Description
10.17	Letter Agreement between Gregory & Hoenemeyer, Inc. and AMBAC Capital Corporation dated August 1, 1996.
11.00	Statement re computation of per share earnings.
27.00	Financial Data Schedule.
99.05	AMBAC Indemnity Corporation and Subsidiaries Consolidated Unaudited Financial Statements as of September 30, 1996 and December 31, 1995 and for the periods ended September 30, 1996 and 1995.

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: November 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)

INDEX TO EXHIBITS

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EXHIBIT 10.17

August 1, 1996

Gregory & Hoenemeyer, Inc.
660 Steamboat Road
Greenwich, Connecticut 06830

Attention: W. Grant Gregory
Chairman

Dear Mr. Gregory:

This letter agreement sets forth the terms of the retention of Gregory & Hoenemeyer, Inc. ("G & H") by AMBAC Capital Corporation (collectively with its affiliates, "AMBAC").

1. (a) G & H will assist AMBAC as its financial advisor in connection with any Transaction (as such term is defined in clause (b) of this paragraph 1) with or involving Cadre Financial Services, Inc. and its broker-dealer affiliate Cadre Securities, Inc. (collectively, together with their respective subsidiaries and affiliates, including Cadre Consulting Services, Inc., "Cadre"). G & H's services will include advice on valuation and structuring of any Transaction and assisting AMBAC in negotiations with Cadre.

   (b) As used in this letter agreement, the term "Transaction" means (i) any merger, consolidation, reorganization, or other business combination pursuant to which the business of Cadre is acquired by, or combined with, AMBAC, (ii) the acquisition, directly or indirectly, by AMBAC in a single transaction or a series of transactions, of (A) all or substantially all of the assets of Cadre or (B) more than fifty percent of Cadre's outstanding capital stock or (iii) the acquisition, directly or indirectly, by AMBAC of control of Cadre otherwise than through the acquisition of Cadre's voting capital stock.

2. In connection with G & H's activities on AMBAC's behalf, AMBAC will cooperate with G & H and will furnish G & H with all information and data concerning AMBAC, Cadre and any Transaction that G & H deems appropriate. G & H agrees to (a) keep any such non-public information

confidential so long as it remains non-public, unless disclosure is required by law or requested by any governmental or regulatory agency or body, and (b) not make any use of such confidential information, except in connection with G & H's services for AMBAC under this letter agreement.

3. AMBAC agrees to pay the following fees to G & H:

   (a) An advisory fee of Thirty Thousand Dollars ($30,000), payable in cash on the date of this letter agreement.

   (b) A transaction fee of Two Hundred Fifteen Thousand Dollars ($215,000), if, during the period G & H is retained by AMBAC, or within eighteen (18) months after the date of termination of this letter agreement, (i) a Transaction is consummated with Cadre, or (ii) AMBAC enters into an agreement with Cadre which subsequently results in a Transaction. The transaction fee shall be payable in cash upon the closing of such Transaction.

4. In addition to any fees that may be payable to G & H under this letter agreement, AMBAC agrees to reimburse G & H for its reasonable out-of-pocket expenses incurred in connection with its activities under this letter agreement, including the reasonable fees and disbursements of its legal counsel.

5. AMBAC agrees to indemnify G & H and its directors, officers, employees, agents and controlling persons (G & H and each such person being an "Indemnified Party") from and against any and all losses, claims, damages and liabilities, joint or several, to which such Indemnified Party may become subject in connection with G & H's engagement under this letter agreement, and will reimburse any Indemnified Party for all legal and other expenses, except to the extent that any loss, claim, damage or liability is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily from G & H's bad faith, gross negligence or willful misconduct.

6. G & H's engagement under this letter agreement may be terminated by either AMBAC or G & H at any time with or without cause upon written notice to that effect to the other party, it being understood that the provisions relating to payment of fees and reimbursement of reasonable expenses and indemnification shall survive any such termination.

7. No waiver, amendment or other modification of this letter agreement shall be effective unless in writing and signed by each party to be bound thereby. This letter agreement shall be governed by, and construed in accordance with, the laws of the State of New York, applicable to contracts executed in and to be performed in that state.

If the foregoing is in accordance with your understanding, please sign and return to me the enclosed copy of this letter agreement.

Very truly yours,

AMBAC CAPITAL CORPORATION

By:/s/ W. Dayle Nattress

W. Dayle Nattress
Chairman, President and
Chief Executive Officer

Accepted and agreed to as of the
date first above written:

GREGORY & HOENEMEYER, INC.

By:/s/ W. Grant Gregory

W. Grant Gregory
Chairman

Enclosure

(Exhibit Number 11.00)

AMBAC Inc. and Subsidiaries
Statement Re Computation of Per Share Earnings
For The Three and Nine Months Ended September 30, 1996
(Dollars in Thousands Except Per Share Amounts)

	Three months ended September 30, 1996	Nine months ended September 30, 1996
Net income	$ 1.26	$ 6.42
Fully diluted shares:		
Average number of common shares outstanding	34,906	34,958
Assumed exercise of dilutive stock options (1)	739	739
	35,645	35,697
Earnings per share assuming full dilution (2)	$ 1.23	$ 6.28

(1) As of September 30, 1996, approximately 2,311,000 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 $87.6 million. The dilution would be the equivalent of approximately 739,000 shares, using the treasury stock method, based upon a market value of $55.75 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 $1.26 and $6.42 for the three and nine months ended September 30, 1996, respectively.

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(Exhibit 99.05)

AMBAC Indemnity Corporation and Subsidiaries
(a wholly-owned subsidiary of AMBAC Inc.)
Consolidated Unaudited Financial Statements
as of September 30, 1996 and December 31, 1995
and for the periods ended September 30, 1996 and 1995

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

	September 30, 1996	December 31, 1995
	(unaudited)	
Assets		
Investments:		
Bonds held in available for sale account, at fair value (amortized cost of $2,224,021 in 1996 and $2,090,101 in 1995)	$2,302,605	$2,224,528
Short-term investments, at cost (approximates fair value)	151,107	163,953
Total investments	2,453,712	2,388,481
Cash	9,138	6,912
Securities purchased under agreements to resell	8,466	4,120
Receivable for securities	23,433	8,136
Investment income due and accrued	39,135	38,319
Investment in affiliate	-	25,827
Deferred acquisition costs	90,022	82,620
Current income taxes	-	2,171
Prepaid reinsurance	166,588	153,372
Other assets	51,443	48,472
Total assets	$2,841,937	$2,758,430
Liabilities and Stockholder's Equity		
Liabilities:		
Unearned premiums	$ 965,192	$ 906,136
Losses and loss adjustment expenses	60,170	
65,996		
Ceded reinsurance balances payable	11,280	14,654
Deferred income taxes	67,253	85,008
Current income taxes	12,963	-
Accounts payable and other liabilities	48,982	43,625
Payable for securities	80,737	86,304
Total liabilities	1,246,577	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 September 30, 1996 and December 31, 1995	82,000	82,000
Additional paid-in capital	514,809	481,059
Unrealized gains on investments, net of tax	51,079	87,112
Retained earnings	947,472	906,536
Total stockholder's equity	1,595,360	1,556,707
Total liabilities and stockholder's equity	$2,841,937	$2,758,430

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Revenues:				
Gross premiums written	$67,875	$43,960	$177,935	$121,425
Ceded premiums written	(9,813)	(7,369)	(29,261)	(4,314)
Net premiums written	58,062	36,591	148,674	117,111
Increase in unearned premiums	(23,900)	(9,919)	(45,840)	(37,482)
Net premiums earned	34,162	26,672	102,834	79,629
Net investment income	36,977	33,320	107,466	97,613
Net realized gains (losses)	(5,381)	(2,455)	64,555	(9,331)
Other income	2,377	1,762	13,182	3,747
Total revenues	68,135	59,299	288,037	171,658
Expenses:				
Losses and loss adjustment expenses	1,301	841	3,811	2,210
Underwriting and operating expenses	9,713	8,900	31,379	28,146
Interest expense	514	505	1,542	1,142
Total expenses	11,528	10,246	36,732	31,498
Income before income taxes	56,607	49,053	251,305	140,160
Income tax expense:				
Current taxes	10,521	5,113	62,834	18,656
Deferred taxes	888	5,123	1,648	8,789
Total income taxes	11,409	10,236	64,482	27,445
Net income	45,198	38,817	186,823	112,715

See accompanying Notes to Consolidated Unaudited Financial Statements

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

	Nine Months Ended September 30,	
	1996	1995
Cash flows from operating activities:		
Net income	$ 186,823	$ 112,715
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,463	1,240
Amortization of bond premium and discount	(1,525)	(707)

Current income taxes payable	15,134	4,282
Deferred income taxes payable	1,648	8,789
Deferred acquisition costs	(7,402)	(11,398)
Unearned premiums	45,840	37,482
Losses and loss adjustment expenses	(5,826)	218
Ceded reinsurance balances payable	(3,374)	2,089
(Gain) loss on sales of investments	(64,555)	9,331
Other, net	(2,004)	(1,978)
Net cash provided by operating activities	166,222	162,063
Cash flows from investing activities:		
Proceeds from sales of bonds at amortized cost	1,210,927	1,085,062
Proceeds from maturities of bonds at amortized cost	78,368	121,470
Purchases of bonds at amortized cost	(1,462,567)	(1,323,132)
Change in short-term investments	12,846	(15,125)
Proceeds from sale of affiliate	115,865	
Securities purchased under agreements to resell	(4,346)	(531)
Other, net	(1,724)	(959)
Net cash used in investing activities	(50,631)	(133,215)
Cash flows from financing activities:		
Dividends paid	(145,865)	(30,000)
Capital contribution	32,500	-
Net cash used in financing activities	(113,365)	(30,000)
Net cash flow	2,226	(1,152)
Cash at beginning of year	6,912	2,117
Cash at September 30	$ 9,138	$ 965
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	$ 13,300	$ 13,700

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 September 30, 1996, AMBAC Indemnity's net insurance in force (principal and interest) was $215.4 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 clients in both the public and private sectors.

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. own 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 ("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 nine months ended September 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.

(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.