



QUARTERLY STATEMENT

AS OF MARCH 31, 2011
OF THE CONDITION AND AFFAIRS OF THE

ACA Financial Guaranty Corporation

NAIC Group Code 0000 (Current Period), 0000 (Prior Period) NAIC Company Code 22896 Employer's ID Number 52-1474358

Organized under the Laws of Maryland, State of Domicile or Port of Entry Maryland
Country of Domicile United States

Incorporated/Organized 06/25/1986 Commenced Business 10/31/1986

Statutory Home Office 7 Saint Paul Street, Suite 1660 (Street and Number), Baltimore, MD 21202 (City or Town, State and Zip Code)

Main Administrative Office 600 Fifth Avenue, 2nd Floor (Street and Number), New York, NY 10020 (City or Town, State and Zip Code), 212-375-2000 (Area Code) (Telephone Number)

Mail Address 600 Fifth Avenue, 2nd Floor (Street and Number or P.O. Box), New York, NY 10020 (City or Town, State and Zip Code)

Primary Location of Books and Records 600 Fifth Avenue, 2nd Floor (Street and Number), New York, NY 10020 (City or Town, State and Zip Code), 212-375-2000 (Area Code) (Telephone Number)

Internet Web Site Address http://www.aca.com

Statutory Statement Contact Eugene Thomas Carew (Name), 212-375-2041 (Area Code) (Telephone Number) (Extension)
ecarew@aca.com (E-Mail Address), 212-375-2100 (Fax Number)

OFFICERS

Name	Title	Name	Title
<u>Raymond John Brooks, Jr.</u>	<u>President and CEO</u>	<u>Steven Joseph Berkowitz</u>	<u>Secretary and General Counsel</u>
<u>Arnold Barry Jay Brousell</u>	<u>Treasurer and CFO</u>		

OTHER OFFICERS

DIRECTORS OR TRUSTEES

<u>Raymond John Brooks, Jr.</u>	<u>Richard Joseph Caplan</u>	<u>Roger Dale Cunningham</u>	<u>Bradley Irving Dietz</u>
<u>Willis Thomas King, Jr.</u>	<u>Dwight Edward Lacey</u>	<u>Paul Douglas McFarlane</u>	<u>Andrew Nathan Rothseid</u>
<u>John Bruce Sprung</u>			

State of New York

ss

County of New York

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Raymond John Brooks, Jr.
President and CEO

Steven Joseph Berkowitz
Secretary and General Counsel

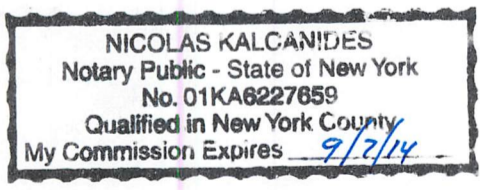
Arnold Barry Jay Brousell
Treasurer and CFO

Subscribed and sworn to before me this 13th day of May, 2011

Nicolas Kalcanides,

a. Is this an original filing? Yes [X] No []

b. If no,
1. State the amendment number _____
2. Date filed _____
3. Number of pages attached _____



STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds	423,097,843		423,097,843	434,056,424
2. Stocks:				
2.1 Preferred stocks				
2.2 Common stocks				0
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate:				
4.1 Properties occupied by the company (less \$ encumbrances)				
4.2 Properties held for the production of income (less \$ encumbrances)				
4.3 Properties held for sale (less \$ encumbrances)				
5. Cash (\$2,064,255), cash equivalents (\$) and short-term investments (\$29,319,093)	31,383,348		31,383,348	25,999,053
6. Contract loans (including \$premium notes)				
7. Derivatives				
8. Other invested assets				1,090,454
9. Receivables for securities	4,308,953		4,308,953	
10. Securities lending reinvested collateral assets.....				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	458,790,144		458,790,144	461,145,931
13. Title plants less \$ charged off (for Title insurers only)				
14. Investment income due and accrued	3,536,684		3,536,684	3,587,675
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection				
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ earned but unbilled premiums).....				
15.3 Accrued retrospective premiums.....				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers				
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon				
18.2 Net deferred tax asset.....	37,722,936	37,722,936		
19. Guaranty funds receivable or on deposit				
20. Electronic data processing equipment and software.....	32,813	391	32,422	39,314
21. Furniture and equipment, including health care delivery assets (\$)	246,886	246,886		
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates				
24. Health care (\$) and other amounts receivable.....				
25. Aggregate write-ins for other than invested assets	2,664,816	271,882	2,392,934	22,749
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	502,994,279	38,242,095	464,752,184	464,795,669
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....				
28. Total (Lines 26 and 27)	502,994,279	38,242,095	464,752,184	464,795,669
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)				
2501. Prepaid Expenses.....	211,377	211,377		
2502. Security Deposit.....	60,167	60,167		
2503. Salvage Recoverable.....	2,385,305		2,385,305	
2598. Summary of remaining write-ins for Line 25 from overflow page	7,967	338	7,629	22,749
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	2,664,816	271,882	2,392,934	22,749

STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$12,238,045)	58,877,013	62,132,634
2. Reinsurance payable on paid losses and loss adjustment expenses		
3. Loss adjustment expenses	2,436,160	2,875,000
4. Commissions payable, contingent commissions and other similar charges		
5. Other expenses (excluding taxes, licenses and fees)	2,777,486	4,691,024
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	102,156	105,729
7.1 Current federal and foreign income taxes (including \$ on realized capital gains (losses))		
7.2 Net deferred tax liability		
8. Borrowed money \$ and interest thereon \$		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$366,194 and including warranty reserves of \$)	186,647,292	190,450,036
10. Advance premium		
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)		
13. Funds held by company under reinsurance treaties		
14. Amounts withheld or retained by company for account of others		
15. Remittances and items not allocated		
16. Provision for reinsurance		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		
19. Payable to parent, subsidiaries and affiliates		
20. Derivatives		
21. Payable for securities	4,018,857	
22. Payable for securities lending		
23. Liability for amounts held under uninsured plans		
24. Capital notes \$ and interest thereon \$		
25. Aggregate write-ins for liabilities	100,088,840	97,340,130
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	354,947,804	357,594,553
27. Protected cell liabilities		
28. Total liabilities (Lines 26 and 27)	354,947,804	357,594,553
29. Aggregate write-ins for special surplus funds		
30. Common capital stock	15,000,000	15,000,000
31. Preferred capital stock		
32. Aggregate write-ins for other than special surplus funds		
33. Surplus notes		
34. Gross paid in and contributed surplus	363,974,000	363,974,000
35. Unassigned funds (surplus)	(269,169,620)	(271,772,884)
36. Less treasury stock, at cost:		
36.1 shares common (value included in Line 30 \$)		
36.2 shares preferred (value included in Line 31 \$)		
37. Surplus as regards policyholders (Lines 29 to 35, less 36)	109,804,380	107,201,116
38. Totals (Page 2, Line 28, Col. 3)	464,752,184	464,795,669
DETAILS OF WRITE-INS		
2501. Contingency Reserve.....	99,588,467	96,829,169
2502. Collateral Deposit.....	500,373	500,148
2503. Other Payables.....		10,813
2598. Summary of remaining write-ins for Line 25 from overflow page		
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	100,088,840	97,340,130
2901.		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page		
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)		
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page		
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)		

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct (written \$91,288)	3,846,069	3,642,144	15,204,613
1.2 Assumed (written \$)	57,129	57,124	
1.3 Ceded (written \$)	9,166	8,728	
1.4 Net (written \$91,288)	3,894,032	3,690,540	15,204,613
DEDUCTIONS:			
2. Losses incurred (current accident year \$13,091,470):			
2.1 Direct	(120,525)	15,972,869	36,145,338
2.2 Assumed			
2.3 Ceded			
2.4 Net	(120,525)	15,972,869	36,145,338
3. Loss adjustment expenses incurred	5,291	177,336	2,984,849
4. Other underwriting expenses incurred	5,421,377	4,221,688	18,929,944
5. Aggregate write-ins for underwriting deductions		12,986,882	12,986,882
6. Total underwriting deductions (Lines 2 through 5)	5,306,143	33,358,775	71,047,013
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(1,412,111)	(29,668,235)	(55,842,400)
INVESTMENT INCOME			
9. Net investment income earned	4,567,190	4,418,951	18,364,193
10. Net realized capital gains (losses) less capital gains tax of \$0	892,905	1,324,341	5,113,772
11. Net investment gain (loss) (Lines 9 + 10)	5,460,095	5,743,292	23,477,965
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ amount charged off \$)			
13. Finance and service charges not included in premiums			
14. Aggregate write-ins for miscellaneous income	1,230,561	3,575,951	8,336,095
15. Total other income (Lines 12 through 14)	1,230,561	3,575,951	8,336,095
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	5,278,545	(20,348,992)	(24,028,340)
17. Dividends to policyholders			
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	5,278,545	(20,348,992)	(24,028,340)
19. Federal and foreign income taxes incurred		0	(34,335)
20. Net income (Line 18 minus Line 19)(to Line 22)	5,278,545	(20,348,992)	(23,994,005)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year	107,201,117	137,456,387	137,456,387
22. Net income (from Line 20)	5,278,545	(20,348,992)	(23,994,005)
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$(4,232)	(4,232)	25,486	590,952
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax	3,972,964	8,089,934	(6,013,701)
27. Change in nonadmitted assets	(3,884,715)	(4,095,661)	10,351,973
28. Change in provision for reinsurance			
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders			
36. Change in treasury stock			
37. Aggregate write-ins for gains and losses in surplus	(2,759,299)	(2,759,299)	(11,190,489)
38. Change in surplus as regards policyholders (Lines 22 through 37)	2,603,263	(19,088,531)	(30,255,270)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	109,804,380	118,367,856	107,201,117
DETAILS OF WRITE-INS			
0501. Lease Termination Cost		11,636,032	11,636,032
0502. Fixed Asset Write-off related to Lease Termination		1,350,850	1,350,850
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page			
0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above)		12,986,882	12,986,882
1401. Other Income	561	189,451	194,908
1402. Equity Earnings in Affiliates	1,200,000	3,303,000	7,659,000
1403. Surveillance Consent Fees	30,000	83,500	482,187
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)	1,230,561	3,575,951	8,336,095
3701. Change In Contingency Reserve	(2,759,299)	(2,759,299)	(11,190,489)
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. TOTALS (Lines 3701 through 3703 plus 3798) (Line 37 above)	(2,759,299)	(2,759,299)	(11,190,489)

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance.....	91,288	5,304	486,855
2. Net investment income	5,031,795	4,815,595	19,995,196
3. Miscellaneous income	1,230,561	3,575,951	8,336,094
4. Total (Lines 1 to 3)	6,353,644	8,396,850	28,818,145
5. Benefit and loss related payments	3,135,096	142,980	3,282,013
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			
7. Commissions, expenses paid and aggregate write-ins for deductions	7,753,760	18,301,424	31,232,239
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses).....		(51,363,276)	(51,407,611)
10. Total (Lines 5 through 9)	10,888,856	(32,918,872)	(16,893,359)
11. Net cash from operations (Line 4 minus Line 10)	(4,535,212)	41,315,721	45,711,504
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	35,535,142	12,540,091	100,193,931
12.2 Stocks		0	784,953
12.3 Mortgage loans			
12.4 Real estate			
12.5 Other invested assets	1,148,356		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments		0	
12.7 Miscellaneous proceeds		0	
12.8 Total investment proceeds (Lines 12.1 to 12.7)	36,683,498	12,540,092	100,978,884
13. Cost of investments acquired (long-term only):			
13.1 Bonds	24,152,907	3	160,523,521
13.2 Stocks			
13.3 Mortgage loans			
13.4 Real estate			
13.5 Other invested assets			
13.6 Miscellaneous applications	2,675,402		
13.7 Total investments acquired (Lines 13.1 to 13.6)	26,828,309	3	160,523,521
14. Net increase (or decrease) in contract loans and premium notes			
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	9,855,189	12,540,089	(59,544,637)
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes			
16.2 Capital and paid in surplus, less treasury stock			
16.3 Borrowed funds			
16.4 Net deposits on deposit-type contracts and other insurance liabilities			
16.5 Dividends to stockholders			
16.6 Other cash provided (applied).....	64,317	2,818,366	2,201,602
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	64,317	2,818,366	2,201,602
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	5,384,294	56,674,176	(11,631,531)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	25,999,053	37,630,584	37,630,584
19.2 End of period (Line 18 plus Line 19.1)	31,383,347	94,304,761	25,999,053

NOTES TO FINANCIAL STATEMENTS

1. Basis of Accounting, Use of Estimates, and Summary of Significant Accounting Policies:

A. Basis of Accounting

ACA Financial Guaranty Corporation ("ACA or the "Company", a Maryland domiciled financial guarantee insurance company – see Note 21.J. for a description of financial guarantee insurance) prepares its statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Maryland Insurance Administration (the "MIA"). The MIA recognizes only statutory accounting practices prescribed or permitted by the State of Maryland for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under insurance law. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Maryland. The state has adopted certain prescribed accounting practices that differ with those found in NAIC SAP. The Maryland Insurance Commissioner has the right to permit other specific practices which deviate from prescribed practices.

With the exception of that discussed in the paragraph below, there are no differences between amounts reported in the accompanying financial statements which are prepared as prescribed or permitted by the MIA, and NAIC SAP.

In connection with ACA's restructuring in 2008 (see Note 21.B.), the Company received a permitted accounting practice in regard to its surplus notes. As no cash or other asset was received in exchange for the surplus notes, the Company recorded the surplus notes at a discount equal to 100% of their par value. This was accomplished through recording \$1.0 billion of par value surplus notes issued in the surplus note section of the accompanying Statement of Assets, Liabilities, Surplus and Other Funds along with, pursuant to the permitted accounting practice, an offsetting \$1.0 billion contra account. As a result of the establishment of the contra account pursuant to the permitted accounting practice, upon the MIA's approval of the payment of principal (which includes accreted discount), the amount of the Company's surplus notes and the contra account will be reduced by the amount of such payment, whereas, under NAIC SAP, a contra account would not be recorded and the discount would be accreted through a charge to the Company's earnings upon the approval of the related payment.

B. Use of Estimates

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the MIA requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from estimates and those differences may be material.

C. Summary of Significant Accounting Policies

- (1) Premiums charged in connection with the issuance of the Company's guarantees are received either upfront or in installments. Such premiums are recognized as written when due. Installment premiums written are earned ratably over the installment period, generally one year or less, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest scheduled to be paid on the underlying insured obligation during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation.

In addition, when an insured issue is retired early, is called by the issuer or is, in substance, paid in advance through a refunding accomplished by placing U.S. Government securities in escrow (hereafter referred to collectively as "Refundings"), the remaining deferred premium revenue is earned at that time since there is no longer risk to the Company. For the periods ended March 31, 2011 and December 31, 2010, the Company recorded earned premiums of \$1.5 million and \$7.0 million, respectively, related to Refundings. Unearned premiums, net of prepaid reinsurance premiums, represent the unearned portion of upfront and installment premiums written.

- (2) Short-term investments are stated at amortized cost.
- (3) Bonds and loan-backed securities assigned an NAIC Designation of 1 or 2 are valued at cost, adjusted for amortization of premium and accretion of discount which is calculated using the constant yield method. Bonds and loan-backed securities assigned an NAIC rating of 3 or lower are valued at the lower of amortized cost, adjusted for amortization of premium and accretion of discount which is calculated using the constant yield method, or fair value. The prospective method is used to value loan-backed securities. The Company employs State Street Global Services ("State Street") as its third party investment accounting service provider. State Street uses Bloomberg L.P. as the source to determine prepayment assumptions. The following table summarizes the Company's long-term and short-term bonds and loan-backed securities by NAIC Designation at March 31, 2011.

NAIC Designation 1	\$	399,056,766
NAIC Designation 2		49,702,747
NAIC Designation 3		858,500
NAIC Designation 4		430,000
NAIC Designation 5		340,774
NAIC Designation 6		2,028,151
Total	\$	<u>452,416,938</u>

Realized investment gains and losses on the sale of investments are determined on the basis of the specific identification method and are included in net income. Decreases in the fair value of bond and stock investments below their carrying value which are determined to be "other than temporary" are reflected as realized losses and are recorded in the Statement of Income. In accordance with periodic investment reviews by management, an impairment of a bond shall be considered to have occurred if it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the security. Net investment income includes interest and dividends received or accrued on investments. It also includes amortization of any purchase premium or discount using the interest method, adjusted prospectively for any change in estimated yield to maturity. Investment income is recognized when earned. Investment income due and accrued that is deemed uncollectible is charged against net investment income in the period

NOTES TO FINANCIAL STATEMENTS

such determination is made, while investment income greater than 90 days past due is non-admitted and charged directly to surplus. Net investment income is reduced by investment management expenses.

- (4) The Company has no common stock other than the common stock of subsidiary, controlled or affiliated insurance and non-insurance entities. See (7) below.
- (5) The Company has no preferred stocks.
- (6) The Company has no mortgage loans.
- (7) Investments in the common stocks of its subsidiary, controlled or affiliated insurance or non-insurance entities are accounted and reported under the equity method as prescribed by SSAP No. 97, "Investments in Subsidiary, Controlled and Affiliated Entities", and valued in accordance with section 3(ii)(D) of the NAIC Valuations Securities manual. Changes in the carrying value of such investments are reflected as unrealized gains or losses in capital and surplus. See Note 6 below.
- (8) The Company has no joint ventures.
- (9) The Company has no derivatives.
- (10) The Company has no premium deficiencies.
- (11) The Company records a loss with respect to an insurance guarantee upon a payment default by the issuer of the insured obligation (a payment default is generally considered the incident which gives rise to a claim under the Company's insurance policies and triggers loss recognition relating to the incident). The loss recorded by the Company represents its best estimate of the present value of its ultimate claim payments under the policy, net of its best estimate of the present value of any recoveries from salvage or subrogation rights under the policy. The Company's liability for losses reported on the accompanying Statement of Assets, Liabilities, Surplus and Other Funds (and also known as "loss reserves" "reserves for unpaid losses", "case reserves", or "case basis reserves") represents the present value of the Company's estimated ultimate losses that remain unpaid at the balance sheet date with respect to policies meeting the aforementioned criteria for loss recognition. Loss adjustment expenses ("LAE") are recorded by the Company in regard to insurance guarantees when costs are incurred or expected to be incurred to remediate losses under its policies. Accordingly, LAE may be recorded on policies for which claims have been paid or losses have been recognized, as well as on policies where no claim payments have been made or losses have been recorded but may be incurred in the future. LAE represents the estimated ultimate cost of remediating losses or potential losses under policies. The Company does not discount LAE.

Losses on the Company's insurance guarantees and related case reserves are determined using cash flow models to estimate the net present value of the anticipated shortfall between (i) scheduled payments on the insured obligation and (ii) anticipated cash flow from the obligor or the collateral supporting the obligation and other anticipated recoveries or cash flows. A number of quantitative and qualitative factors are considered when determining whether the Company will incur a loss and the amount of any case reserve. These factors may include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured, the projected cash flow or market value of any assets that collateralize or secure the insured obligation, and the historical and projected recoveries from such assets. Other factors that may affect the actual ultimate loss include the state of the economy, market conditions for municipal bond issuance, changes in interest rates, rates of inflation and the salvage values of specific collateral. Such factors and management's assessment thereof will be subject to the specific facts and circumstances associated with the specific insured transaction being considered for loss recognition. Losses and related case reserves are generally discounted at a rate reflecting the weighted average return on the Company's invested assets. Recognition of losses and related case reserves requires the use and exercise of significant judgment by management, including estimates regarding the amount and timing of a loss on an insured obligation. Actual experience may differ from estimates and such difference may be material, due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred. Examples of these events include changes in the level of interest rates, credit deterioration of insured obligations, and changes in the value of specific assets supporting insured obligations. Any estimate of future costs is subject to the inherent limitation on the Company's ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and LAE will vary, perhaps materially, from any estimate.

Reference should be made to Note 21.A. for further information regarding the Company's accounting policy for loss recognition on its in-force insurance guarantees, as well as in regard to losses expected to be incurred by the Company on its insurance guarantees which have not yet been recorded in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds because a payment default by the issuer of the insured obligation has not yet occurred.

- (12) A statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in "Aggregate write-ins for liabilities" in the Statement of Assets, Liabilities, Surplus and Other Funds. This reserve is calculated as the greater of a prescribed percentage applied to original insured principal or 50% of premiums written, net of ceded reinsurance. The prescribed percentage varies by the type of business. Once the reserve is calculated, as described above, it is incrementally recognized in the financial statements over a prescribed time period based on type of business. Reductions in the contingency reserve may be recognized under certain stipulated conditions, subject to the approval of the Maryland Insurance Commissioner. On February 17, 2011, the Maryland Insurance Commissioner approved a request by the Company to de-recognize contingency reserves on policies which were terminated or on which case reserves have been established. Such contingency reserves aggregated approximately \$42.2 million at December 31, 2010. Pursuant to the approval, the Company may release the aforementioned contingency reserves in amounts equal to future adverse loss development recorded by the Company, but up to no more than the approved aggregate amount. The Company did not release any contingency reserves during the quarterly period ended March 31, 2011, because it did not record, in the aggregate, adverse loss development during such period. Accordingly, as of March 31, 2011, the Company had the full \$42.2 million of approved contingency reserve release available to it to offset future adverse loss development.
- (13) There has been no change to the Company's capitalization policy.

NOTES TO FINANCIAL STATEMENTS

(14) The Company has no pharmaceutical rebate receivables.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

ACA received a claim during 2010 on an insured exposure and recognized a loss of approximately \$16.3 million, substantially all of which was recorded as an unpaid case basis reserve for losses at December 31, 2010. Subsequent to the issuance of ACA's 2010 Annual Statement, it was discovered that the claim received by the Company related to one of eight policies which comprised the insured exposure and, in accordance with its statutory accounting policy for loss recognition on insured guarantees, ACA should not have recognized losses on the other seven policies (as there were no payment defaults under these seven policies). As a result, ACA's loss reserves at December 31, 2010 were overstated by approximately \$15.3 million and, accordingly, its policyholders' surplus at such date was understated by the same amount. The Company corrected this misstatement during the quarterly period ended March 31, 2011.

3. BUSINESS COMBINATION AND GOODWILL

The Company was not party to any business combinations and does not hold goodwill.

4. DISCONTINUED OPERATIONS

The Company had no discontinued operations.

5. INVESTMENTS

A. Mortgage Loans

The Company had no investments in mortgage loans or mezzanine real estate loans as of March 31, 2011 and December 31, 2010.

B. Debt Restructuring

The Company had no investments in restructured debt as of March 31, 2011 and December 31, 2010.

C. Reverse Mortgages

The Company had no investments in reverse mortgages as of March 31, 2011 and December 31, 2010.

D. Loan-Backed Securities

(1) N/A.

(2) Prepayment assumptions are derived from an average of those forecast by a number of Wall Street dealers as tabulated by Bloomberg L.P. and referred to as Bloomberg consensus estimates.

(3) N/A

(4) During the 1st Quarter of 2011, the Company recognized an other than temporary impairment charge on the following loan-backed security:

CUSIP	Security Name	Amortized Cost Prior to Impairment	Impairment	Fair Value	Amortized Cost After the Impairment
1248MBAJ4	Credit Based Asset Servicing	\$ 1,449,000	\$ 302,700	\$ 1,146,300	\$ 1,146,300
	Total	\$ 1,449,000	\$ 302,700	\$ 1,146,300	\$ 1,146,300

The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous unrealized loss position for 12 months or longer at March 31, 2011 is \$0 and \$0, respectively. The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous unrealized loss position for less than 12 months at March 31, 2011 is \$90.2 million and \$2.0 million, respectively. All of the securities discussed above are rated investment grade by a nationally recognized security rating organization and have excess credit coverage within each structure and cash flows of the underlying collateral are expected to be sufficient to pay principal and interest.

(5) None

E. Repurchase Agreements and/or Securities Lending Transactions

The Company has not used repurchase agreements and has not engaged in any securities lending transactions as of March 31, 2011 and December 31, 2010.

F. Real Estate

The Company has no real estate investments.

G. Investments in Low-Income Housing Tax Credits

The Company has no low-income housing tax credit investments.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

As of March 31, 2011 and December 31, 2010, the Company held investments in ACA Service L.L.C., ("ACA Service") and ACA Singapore with an aggregate carrying value at such dates of \$0 million. Both of the aforementioned investments were non-admitted as of March 31, 2011 and December 31, 2010.

NOTES TO FINANCIAL STATEMENTS

7. INVESTMENT INCOME

See Note 1.C.(3) above.

8. DERIVATIVE INSTRUMENTS

The Company has not purchased or sold any derivative financial instruments for hedging or other purpose.

9. INCOME TAXES

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as of March 31, 2011:

(1) DTA/DIL Components	Description	3/31/2011			2010			Change		
		Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a)	Gross deferred tax assets	\$68,545,342	\$25,176,827	\$93,722,169	\$64,746,092	\$25,595,289	\$90,341,381	\$ 3,799,250	\$ (418,462)	\$ 3,380,788
(b)	Statutory valuation allowance adjustment (enter as "-")	(30,709,655)	(25,176,827)	(55,886,482)	(30,855,883)	(25,595,289)	(56,451,172)	146,228	418,462	564,690
(c)	Adjusted gross deferred tax assets	37,835,687	-	37,835,687	33,890,209	-	33,890,209	3,945,478	-	3,945,478
(d)	Gross deferred tax liabilities	(112,750)	-	(112,750)	(140,237)	-	(140,237)	27,486	-	27,486
(e)	Net deferred tax asset/(liability) before admissibility test	37,722,937	-	37,722,937	33,749,972	-	33,749,972	3,972,964	-	3,972,964
(f)	Deferred tax assets nonadmitted	(37,722,937)	-	(37,722,937)	(33,749,972)	-	(33,749,972)	(3,972,964)	-	(3,972,964)
(g)	Net admitted deferred tax asset/(liability)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(2) Has the Company elected to admit DTAs pursuant to paragraph 10.e.?	2011	2010
(2) Has the Company elected to admit DTAs pursuant to paragraph 10.e.? ("Y" for yes or "N" for no)	N	N

(3) Increase in admitted adjusted gross DTAs as the result of the application of paragraph 10.e.:

Description	3/31/2011			2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
With ¶ 10.e.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
With ¶s 10.a.-c.	-	-	-	-	-	-	-	-	-
Increase attributable to application of ¶ 10.e.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(4) Admission calculation components:

Description	3/31/2011			2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admission calculation under ¶10.a.-¶10.c.									
(a)	Admitted pursuant to ¶10.a.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(b)	Admitted pursuant to ¶10.b.(lesser of i. or ii.)	-	-	-	-	-	-	-	-
(c)	¶10.b.i.	-	-	-	N/A	N/A	-	N/A	N/A
(d)	¶10.b.ii.	N/A	N/A	12,056,891	N/A	N/A	12,056,891	N/A	N/A
(e)	Admitted pursuant to ¶10.c.	112,750	-	112,750	140,237	-	140,237	(27,487)	-
(f)	Total admitted under ¶10.a.-10.c.	112,750	-	112,750	140,237	-	140,237	(27,487)	-
	Deferred tax liabilities	(112,750)	-	(112,750)	(140,237)	-	(140,237)	27,486	-
	Net admitted deferred tax asset/liability under ¶10.a.-¶10.c.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ (1)
Admission calculation under ¶10.e.i.-10.e.iii.									
(g)	Admitted pursuant to ¶10.e.i.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(h)	Admitted pursuant to ¶10.e.ii. (lesser of a. or b.)	-	-	-	-	-	-	-	-
(i)	¶10.e.ii.a.	-	-	-	N/A	N/A	-	N/A	N/A
(j)	¶10.e.ii.b.	N/A	N/A	-	N/A	N/A	-	N/A	N/A
(k)	Admitted pursuant to ¶10.e.iii.	-	-	-	-	-	-	-	-
(l)	Total admitted under ¶10.e.i.-10.e.iii.	-	-	-	-	-	-	-	-
	Deferred tax liabilities	-	-	-	-	-	-	-	-
	Net admitted deferred tax asset/liability under ¶10.e.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Used in ¶10.d.

(m) Total adjusted capital	N/A	N/A	0	N/A	N/A	0	N/A	N/A	0
(n) Authorized control level	N/A	N/A	0	N/A	N/A	0	N/A	N/A	0
Adjusted capital/Authorized control level	N/A	N/A	0.00%	N/A	N/A	0.00%	N/A	N/A	0.00%

(5) Impact of ¶10.e. on the following:

Description	3/31/2011			2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admission calculation under ¶10.a.-¶10.c.									
(a)	Admitted DTAs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(b)	Admitted assets	N/A	N/A	495,331,409	N/A	N/A	464,795,669	N/A	N/A
(c)	Adjusted statutory surplus from most recently filed statement	N/A	N/A	107,201,116	N/A	N/A	121,264,693	N/A	N/A
(d)	Total adjusted capital from DTAs included above	N/A	N/A	-	N/A	N/A	-	N/A	N/A
Increases due to admission under ¶10.e.i.-10.e.iii.									
(e)	Admitted DTAs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(f)	Admitted assets	N/A	N/A	495,331,409	N/A	N/A	464,795,669	N/A	N/A
(g)	Statutory surplus	N/A	N/A	107,201,116	N/A	N/A	121,264,693	N/A	N/A

(6) Impact of tax planning strategies on adjusted gross DTAs and net admitted DTAs:

Description	3/31/2011		
	Ordinary	Capital	Total
Adjusted gross DTAs - Amount	\$ -	\$ -	\$ -
(a) Adjusted gross DTAs - Percentage	0.00%	0.00%	0.00%
Net admitted DTAs - Amount	-	-	-
(b) Net admitted DTAs - Percentage	0.00%	0.00%	0.00%

B. Temporary differences for which a DIL has not been established:

There are no temporary differences for which deferred tax liabilities are not recognized.

NOTES TO FINANCIAL STATEMENTS

C. Current tax and change in deferred tax:

(1) Current income taxes incurred consist of the following major components:

Description	2011	2010
(a) Current federal income tax expense	\$ -	\$ -
(b) Foreign taxes	-	-
(c) Subtotal	-	-
(d) Tax on capital gains/(losses)	418,462	1,789,820
(e) Utilization of capital loss carryforwards	(418,462)	(1,789,820)
(f) Other, including prior year underaccrual (overaccrual)	-	(34,335)
(g) Federal and foreign income taxes incurred	\$ -	\$ (34,335)

The current tax expense represents the current tax expense through March 31, 2011. The remainder of the footnote represents amounts through March 31, 2011 with the exception of the effective tax rate which is presented using annualized estimates of the statutory components.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

DTAs Resulting From	March 31, 2011	December 31, 2010	Change
(2) Book/Tax Differences In (projected as of March 31, 2011)			
(a) Ordinary			
(1) Discounting of unpaid losses and LAE	\$ 68,027	\$ 72,126	\$ (4,099)
(2) Unearned premiums	6,532,655	6,665,751	(133,096)
(3) Policyholder reserves	-	-	-
(4) Investments	-	-	-
(5) Deferred acquisition costs	-	-	-
(6) Policyholder dividends accrued	-	-	-
(7) Fixed assets	-	-	-
(8) Compensation and benefit accruals	-	-	-
(9) Pension accruals	-	-	-
(10) Nonadmitted assets	-	-	-
(11) Net operating loss carryforward	26,001,150	23,128,424	2,872,726
(12) Tax credit carryforward	615,212	615,212	-
(13) Contingency Reserve	34,855,964	33,890,209	965,754
(14) Other (separately disclose items >5%)	472,333	374,369	97,964
Gross ordinary DTAs	68,545,342	64,746,091	3,799,250
(b) Statutory valuation adjustment adjustment - ordinary (-)	(30,709,655)	(30,855,883)	146,228
(c) Nonadmitted ordinary DTAs (-)	(37,722,936)	(33,749,972)	(3,972,964)
(d) Admitted ordinary DTAs	\$ 112,750	\$ 140,236	\$ (27,486)
(e) Capital			
(1) Investments	\$ -	\$ -	\$ -
(2) Net capital loss carryforward	25,176,827	25,595,289	(418,462)
(3) Real estate	-	-	-
(4) Other (separately disclose items >5%)	-	-	-
Unrealized capital losses	-	-	-
Gross capital DTAs	25,176,827	25,595,289	(418,462)
(f) Statutory valuation adjustment adjustment - capital (-)	(25,176,827)	(25,595,289)	418,462
(g) Nonadmitted capital DTAs (-)	-	-	-
(h) Admitted capital DTAs	\$ -	\$ -	\$ -
(i) Admitted DTAs	\$ 112,750	\$ 140,236	\$ (27,485)
(3) DTLs Resulting From			
Book/Tax Differences In (projected as of March 31, 2011)			
(a) Ordinary			
(1) Investments	\$ -	\$ -	\$ -
(2) Fixed assets	(112,750)	(140,236)	27,486
(3) Deferred and uncollected premiums	-	-	-
(4) Policyholder reserves/salvage and subrogation	-	-	-
(5) Other (separately disclose items >5%)	-	-	-
Ordinary DTLs	\$ (112,750)	\$ (140,236)	\$ 27,486
(b) Capital			
(1) Investments	\$ -	\$ -	\$ -
(2) Real estate	-	-	-
(3) Other (separately disclose items >5%)	-	-	-
Unrealized capital gains	-	-	-
Capital DTLs	\$ -	\$ -	\$ -
(c) DTLs	\$ (112,750)	\$ (140,236)	\$ 27,486
(4) Net deferred tax assets/liabilities	\$ -	\$ -	\$ 1

NOTES TO FINANCIAL STATEMENTS

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of nonadmitted assets as the Change in Nonadmitted Assets is reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement):

	March 31, 2011	December 31, 2010	Change
Total deferred tax assets	\$ 93,722,169	\$ 90,341,381	\$ 3,380,788
Total deferred tax liabilities	(112,750)	(140,237)	27,487
Net deferred tax assets/liabilities	93,609,419	90,201,144	3,408,275
Statutory valuation allowance adjustment (*see explanation below)	(55,886,482)	(56,451,172)	564,690
Net deferred tax assets/liabilities after SVA	37,722,937	33,749,972	3,972,965
Tax effect of unrealized gains/(losses)	-	-	-
Statutory valuation allowance adjustment allocated to unrealized (+)	-	-	-
Change in net deferred income tax benefit	<u>\$ 37,722,937</u>	<u>\$ 33,749,972</u>	<u>\$ 3,972,965</u>

***Statutory valuation allowance**

The Company does not forecast enough taxable income in future tax years in order to recover the deferred tax assets. As a result, a full valuation allowance is being utilized against deferred tax assets.

F. The Company's federal income tax return is consolidated with the following entities:

The Company files its tax return on a standalone basis

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AFFILIATES AND OTHER RELATED PARTIES

- A.&B. There were no material transactions with parent, affiliates or other related parties in 2011 or 2010.
- C. Not applicable.
- D. The Company has \$0 payable to subsidiaries at March 31, 2011 and at December 31, 2010.
- E. The Company has no guarantees or undertakings for the benefit of an affiliate or related party.
- F. The Company has no material management or service contract with any related parties.
- G. At March 31, 2011, the majority common shareholder, ACA Holding, L.L.C. ("ACAH"), a Delaware holding company, held a 76.6% share in the common shares of the Company. The minority shareholder, KPR Ltd. ("KPR"), a Cayman Island company and a wholly-owned subsidiary of ACAH, held the remaining 23.4% share in the common shares of the Company. Each of ACAH and KPR are wholly-owned by Manifold Capital Corp. ("ACACH"), formerly ACA Capital Holdings, Inc., a Delaware corporation. Effective at the closing of the restructuring transaction entered into on August 8, 2008, ACACH and its wholly owned subsidiaries disclaimed control over the Company. This disclaimer of control was approved by the MIA. See Note 21.B. for a discussion of the restructuring transaction.
- H. The Company's majority common shareholder and ultimate parent, ACAH and ACACH, respectively, are not owned directly or indirectly via any of the Company's downstream subsidiaries or controlled or affiliated entities. See Note 21.B. for information regarding the ownership structure of the Company following the closing of its restructuring transaction that took place on August 8, 2008.
- I. The Company holds no investment in any subsidiary, controlled or affiliated entity that exceeds 10% of its admitted assets.
- J. The Company did not impair any subsidiary, controlled or affiliated in 2011 or 2010.
- K. Not applicable.
- L. The Company does not hold an investment in a downstream noninsurance holding company.

11. DEBT

As of March 31, 2011 and December 31, 2010, the Company had no capital notes or other debts.

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

- A. The Company has no Defined Benefit Plan.
- B. The Company sponsors a qualified defined contribution plan, which covers all full-time employees of the Company as of their start date with the Company. Eligible participants may contribute a percentage of their salary, subject to IRS limitations. The Company's contributions to the plan are based on a fixed percentage of employees' contributions subject to IRS limitations. At March 31, 2011 and December 31, 2010, the fair values of plan assets were \$6.3 million and \$6.1 million, respectively. For the periods ended March 31, 2011 and December 31, 2010, the Company recognized expense in the amount of \$124 thousand and \$230 thousand for the defined contribution plan, respectively.
- C. The Company has no Multi-employer Plan.
- D. The Company has no Consolidated/Holding Company Plan.
- E.&F. The Company has no Post-employment Benefits and Compensated Absences.

13. CAPITAL AND SURPLUS, DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATION

- (1) The Company has 1,000,000 shares of common stocks authorized, issued and outstanding with a par value of \$15.00 per share. See Note 10.G.

NOTES TO FINANCIAL STATEMENTS

- (2) The Company has no preferred stock outstanding.
- (3) As part of the Company's restructuring discussed in Note 21.B. below, the MIA Order restricts the Company from paying dividends without the prior approval of the Commissioner.
- (4) No dividends were paid in 2011 or 2010.
- (5) The Company had negative earned surplus at March 31, 2011 and December 31, 2010; therefore no dividends can be paid in 2011.
- (6) There are no restrictions on unassigned surplus.
- (7) The Company is not a mutual company.
- (8) The Company holds no stock for special purpose.
- (9) The Company holds no special surplus funds.
- (10) The portion of unassigned surplus represented by cumulative unrealized losses is \$4,237.
- (11) The following table sets forth certain information regarding the Company's surplus notes:

Date Issued	Interest Rate	Par Value (Face Value of Notes)	Carrying Value of Note	Principal And/or Interest Paid Current Year	Total Principal And/or Interest Paid	Unapproved Principal And/or Interest	Date of maturity
08/08/2008	no stated rate	\$1,000,000,000	-	-	-	-	Within 30 days after the expiration, commutation or bulk reinsurance of the last insurance policy issued by the Company

As part of the restructuring transaction which took place on August 8, 2008, surplus notes with a face amount of \$1 billion were issued. See Note 21.B. for a description of the notes. These notes were recorded in the surplus notes section of the balance sheet with an offsetting \$1 billion contra account since no cash was received by ACA upon their issuance. All payments made under the surplus notes require advance approval of the MIA.

- (12&13) The Company has not gone through any quasi-reorganization.

14. CONTINGENCIES

A. Contingency Commitments

The Company has no contingent commitments.

B. Assessments

The Company has no assessments other than those arising in the normal course of business. Such assessments are not material.

C. Gain Contingencies

Except for that discussed below, the Company has no gain contingencies.

On January 6, 2011, the Company commenced a lawsuit against Goldman, Sachs & Co. ("Goldman") in the Supreme Court of the State of New York, County of New York (the "Lawsuit"). The lawsuit seeks compensatory damages against Goldman in the amount of at least \$30 million and punitive damages in the amount of at least \$90 million in connection with the development of a structured finance product, a synthetic collateralized debt obligation called ABACUS 2007-AC1. On April 25, 2011, the Company filed its First Amended Complaint.

D. Claims Related Extra-Contractual Obligations and Bad Faith Contingency Losses Stemming from Lawsuits

The Company is one of a number of defendants in a lawsuit in the Superior Court of the State of California (Los Angeles County) brought by Retirement Housing Foundation and several affiliates relating to the plaintiffs' issuance of auction-rate securities insured by the Company. The plaintiffs allege that the Company's insurance of securities backed by sub-prime mortgages was not financially responsible and was contrary to the Company's statement about its investment practices, and that when the Company's credit rating was downgraded from "A" to "CCC" after the collapse of the sub-prime market, the plaintiffs were forced to refinance their securities. While this action is in the preliminary stages, the Company believes it has substantial defenses to the claims against it. Accordingly, on October 22, 2009, the Company filed a demurrer seeking to have the case dismissed. In response, plaintiffs filed a second amended complaint. The Company filed a demurrer to dismiss that complaint on June 25, 2010 and argument was held on August 16, 2010. On November 22, 2010, the Court dismissed the contract, implied contract and negligence claims on the theory that the parties' insurance contract did not contain a requirement that ACA maintain an "A" rating, but did not dismiss the fraud, negligent misrepresentation and unfair competition claims. The plaintiffs filed a third amended complaint on January 12, 2011. On March 29, 2011, the Court again dismissed plaintiffs' contract and implied contract claims, this time with prejudice. On April 19, 2011, the plaintiffs filed a fourth amended complaint, asserting causes of action for fraud, negligent misrepresentation and violations of California's unfair competition law. The Company's response is due on May 10, 2011.

The Company (specifically, ACA Management, LLC) is one of several defendants in an action pending in New Mexico

NOTES TO FINANCIAL STATEMENTS

state court brought by Frank foy on behalf of the State of New Mexico. The complaint alleges that Vanderbilt Capital Advisors (and certain affiliates) engaged in an unlawful “pay to play” scheme with various New Mexico state officials, causing New Mexico state agencies to purchase certain worthless CDO investments, including some with which the Company was allegedly connected. The complaint seeks compensatory damages in excess of \$90 million, plus interest and civil penalties which Plaintiff asserts raise the claim to several hundred million dollars, under certain New Mexico statutes, including the Fraud Against Taxpayers Act (“FATA”). The Company moved to dismiss the complaint for lack of jurisdiction. On April 28, 2010, without ruling on the Company’s jurisdictional motion, the Court dismissed the complaint in its entirety on a number of grounds including constitutionality and lack of standing. Just before this dismissal was issued, the plaintiff filed an amended complaint which added a number of additional plaintiffs and legal theories. The Court subsequently entered an order striking all portions of the amended complaint inconsistent with the April 28 dismissal. The only surviving portions of the amended complaint are allegations of FATA violations occurring after July 1, 2007. The Company has renewed its motion to dismiss for lack of personal jurisdiction, and has also joined in a motion by all defendants to dismiss the amended complaint for failure to state a claim and for lack of subject matter jurisdiction.

The Company is a named defendant in New York State Supreme Court in a suit brought by its parent company Manifold Capital Corporation (f/k/a ACA Capital Holdings, Inc.) (“Manifold”) for alleged breaches of an Intercompany Agreement dated August 6, 2008 (the “Intercompany Agreement”) and entered into among the Company, Manifold, and their affiliates. In particular, Manifold alleges that the Company breached the Intercompany Agreement by, among other acts, seeking under a separate Escrow Agreement dated as of August 5, 2008 (the “Escrow Agreement”), a determination from the Maryland Insurance Administration (the “MIA”) that specified fees and expenses it incurred to the law firm Fried, Frank, Harris, Shriver & Jacobson LLP (“Fried Frank”) and the Blackstone Group (“Blackstone”) were subject to indemnity under the Intercompany Agreement, and therefore, to be paid from the Escrow Account established under the Escrow Agreement. Manifold further seeks a determination that the claims the Company has asserted for indemnity under the Intercompany Agreement are not covered claims and that the Company is liable for Manifold’s legal fees and expenses incurred in enforcing its rights under the Intercompany Agreement. The Company denies any liability to Manifold, is vigorously defending the lawsuit and has countersued Manifold for, among other claims, a declaration that its claims for Fried Frank and Blackstone fees are subject to indemnity and for recovery of its legal fees and expenses incurred to enforce its rights under the Intercompany Agreement. The extent of liability to the Company, if any, would be for the fees and expenses Manifold incurred in responding to the Company’s claim before the MIA and in the Supreme Court action. The extent of any gain to the Company from a successful resolution to this litigation would be for it to receive the aforementioned indemnification in addition to its fees and expenses incurred in pursuing its counterclaim.

Various lawsuits against the Company have arisen in the course of the Company’s business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position or the results of operations of the Company.

15. LEASES

- A. In March 2010, ACA finalized negotiations with a new tenant for all of its office space at 140 Broadway. Under the terms of the transaction, ACA was released from its obligations under the lease, its security deposit of \$2.7 million was returned and it made cash payments of \$11.6 million. ACA recognized a loss of \$13.0 million on the lease termination, which included the carrying value of leasehold improvements and furniture and fixtures related to this space. The Company’s rental expense for the quarters ended March 31, 2011 and 2010 was \$ 42.4 thousand and \$598.8 thousand, respectively.

In 2010, ACA finalized a sublease of new office space at 600 Fifth Avenue running through September 30, 2016. Minimum future lease payments under the lease are: 2011-\$0.4 million; 2012- \$0.5 million; 2013- \$0.5 million; 2014-\$0.6 million; 2015- \$0.6 million; and 2016- \$0.5 million. The Company took possession of this space in July 2010.

- B. Not applicable.

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENT WITH CONCENTRATION OF CREDIT RISK

Except for that discussed below, the Company has no financial instruments with off-balance sheet risk.

While the Company establishes reserves for losses and loss adjustment expenses on obligations on which it has received a claim notice (see Note 1.C.(11) and Note 21. A.), the risk of loss under the Company’s guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see description of financial guarantee insurance in Note 21.J.). The tables below reflect certain information regarding the Company’s in-force par exposure at March 31, 2011 and December 31, 2010:

(\$ in millions)	March 31, 2011		December 31, 2010	
	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
Tax-exempt obligations:				
Healthcare	660	11.9%	708	12.8%
Tax backed	649	11.7%	663	12.0%
Higher education	1,236	22.3%	1,241	22.4%
Long-term care	458	8.3%	461	8.3%
General obligations	1,047	18.9%	1,047	18.9%
Utilities	116	2.1%	118	2.1%
Transportation	415	7.5%	419	7.6%
Housing	280	5.1%	283	5.1%
Not for Profit	442	8.0%	444	8.0%
Other, net of HCC cover (\$50)	234	4.2%	238	4.3%
Total municipal obligation	<u>5,537</u>	<u>99.9%</u>	<u>5,622</u>	<u>94.8%</u>
Taxable obligations				
Other	<u>6</u>	<u>0.1%</u>	<u>311</u>	<u>5.2%</u>
Total	<u>\$ 5,543</u>	<u>100.0%</u>	<u>\$ 5,933</u>	<u>100.0%</u>

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PAR EXPOSURE BY STATE (\$ in millions)	March 31, 2011		December 31, 2010	
	Net Par	% of Net Par	Net Par	% of Net Par
	Outstanding	Outstanding	Outstanding	Outstanding
California	\$ 1,031	18.6%	\$ 1,036	18.4%
New York	819	14.8%	827	14.7%
Texas	352	6.4%	358	6.4%
Washington	328	5.9%	329	5.8%
Massachusetts	298	5.4%	301	5.4%
Other states	2,709	48.9%	2,771	49.3%
Total municipal obligations	<u>\$ 5,537</u>	<u>100.0%</u>	<u>\$ 5,622</u>	<u>100.0%</u>

NET PAR OUTSTANDING BY MATURITY

(\$ in millions) Terms of Maturity	March 31, 2011
	Net Par
	Outstanding
0 to 5 years	\$ 905
5 to 10 years	1,074
10 to 15 years	1,306
15 to 20 years	1,206
20 and above	<u>1,052</u>
Total	<u>\$ 5,543</u>

17. SALES, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

- A. The Company had no transfer of receivables reported as sales.
- B. The Company had no transfer and servicing of financial assets.
- C. The Company had no wash sales.

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A&H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

- A. The Company has no Administrative Services Only (ASO) plan.
- B. The Company has no Administrative Services Contract (ASC) plan.
- C. The Company has no Medicare or other similarly structured cost based retirement contract.

19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATION

The Company has no direct premium written or produced by managing general agents or third party administration.

20. FAIR VALUE MEASUREMENT

With the exception of certain investments in bonds and loan-backed securities that are reported at the lower of cost or fair value, or such securities on which an other than temporary impairment has been recognized as of the balance sheet date, the Company has no assets or liabilities reported in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds that are measured at fair value (see Note 1.C.(3)). The aforementioned securities which are reported at fair value in the accompanying financial statements represent securities that are reported at fair value on a non-recurring basis. The carrying value of such securities in the Company's financial statements as of March 31, 2011 aggregated \$1.3 million and the fair values of such securities were based on "Significant other observable inputs (Level 2), as defined in SSAP No. 100 – Fair Value Measurements.

21. OTHER ITEMS**A. Description of Significant Risks and Uncertainties and the Company's On-Going Strategic Plan***Description of Significant Risks and Uncertainties*

- As discussed in Note 1.C. (11), ACA recognizes losses and establishes related loss reserves on bond obligations it has insured only upon the initial payment default by the issuer of such bond obligations (under the Company's accounting policy, the initial payment default is generally considered the incident which gives rise to a claim and triggers loss recognition relating to the incident). The loss recognized by ACA upon a payment default represents the Company's best estimate of its ultimate loss over the life of the policy, discounted to reflect the time value of money (not the amount of the claim under the policy received upon the initial payment default which generally reflects the shortfall by the obligor of the scheduled principal and/or interest payment then due under the terms of the bond indenture). However, ACA has policies in-force upon which it expects that payment defaults will occur in the future resulting in losses that will be incurred by the Company. Such expected future losses are not recorded by the Company in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds at March 31, 2011 because a payment default has not yet occurred. With consideration of the inherent uncertainty of estimating losses discussed further below, the Company's estimate of the ultimate losses that it will incur in the future on such policies (where payment defaults have not yet occurred but are expected) ranged from \$125 million to \$150 million at March 31, 2011, on a discounted basis. Accordingly, the Company believes it will incur material losses in the future which will materially adversely affect its policyholders' surplus. Notwithstanding the de-recognition of the Company's contingency reserves approved by the Maryland Insurance Commissioner discussed in Note 1.C.(12) and any further de-recognition of contingency reserves that may be approved by the Maryland Insurance Commissioner in the future, no assurance can be given that the

NOTES TO FINANCIAL STATEMENTS

recognition of such losses in the future will not cause the Company to fail to comply with its regulatory required minimum policyholders' surplus requirement of \$750,000. However, the Company believes that its policyholders' surplus will be in excess of the required minimum policyholders' surplus over the twelve months succeeding the date of the accompanying statement of Assets, Liabilities, Surplus and Other Funds and, that it has sufficient liquidity resources to satisfy its financial obligations as they come due for the foreseeable future.

- The Company is materially exposed to risks associated with deterioration in the tax exempt bond market through its insurance guarantees (see Note 16), as well as to the economy generally. The extent and duration of any future deterioration in the tax exempt bond market is unknown, as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed. As discussed in Note 36, the Company classifies its insured in-force portfolio in one of four credit quality categories. As noted therein, as of March 31, 2011, the Company had insured obligations with outstanding principal totaling \$332.9 million classified in category 4, which means that it either has paid claims on such exposures or expects to pay claims on such exposures in the future. In addition, as of such date, the Company had insured obligations with outstanding principal totaling \$494.8 million classified in category 3, which means those credits have materially violated financial and operational covenants and require remedial action to avoid further performance deterioration. As discussed in Note 16, the risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed. No assurance can be provided that further deterioration in ACA's insured guarantees will not occur resulting in a further migration of exposure to categories 3 and 4 or that ACA will not incur losses that may be materially in excess of what it currently estimates.
- Establishment of case basis reserves for unpaid losses and loss adjustment expenses on the Company's insured guarantees requires the use and exercise of significant judgment by management, including estimates regarding the probability of default, the severity of loss upon default and the amount and timing of claim payments and recoveries on a guaranteed obligation. Case basis reserves reflect management's best estimate of the present value of the Company's ultimate loss and not the worst possible outcome. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, changes in the value of specific assets supporting guaranteed obligations, and changes in the timing, and level of success of recoveries. Both qualitative and quantitative factors are used in making such estimates. Each quarter, in connection with the preparation of its financial statements, the Company reevaluates all such estimates. Changes in these estimates may be material and may result in material changes in the Company's policyholders' surplus. Any estimate of future costs is subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. The risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see Note 16).
- The Company is involved in a number of legal proceedings, both as plaintiff and defendant, as well as regulatory inquiries and investigations. Management cannot predict the outcomes of these proceedings and other contingencies with certainty. In addition, it is not possible to predict whether additional suits will be filed or whether additional inquiries or investigations will be commenced. The outcome of some of these proceedings and other contingencies could require the Company to take or refrain from taking actions which could have a material adverse effect on its business, financial position or cash flows or could require the Company to pay (or fail to receive) substantial amounts of money. Additionally, prosecuting and defending these lawsuits and proceedings may involve significant expense and diversion of resources from other matters. See Notes 14.C. and 14.D.
- ACA has experienced and likely will continue to experience substantial tax losses in the conduct of its business.

Section 382 of the Internal Revenue Code ("Section 382") contains rules that limit the ability of a corporation that experiences an "ownership change" to utilize its net operating loss carryforwards ("NOLs") and certain built-in losses recognized in periods following the ownership change. An ownership change is generally any change in ownership of more than 50 percentage points of a corporation's stock over a 3-year period. These rules generally operate by focusing on ownership changes among shareholders owning directly or indirectly 5% or more of the stock of a corporation or any change in ownership arising from a new issuance of stock by the corporation. For purposes of the aforementioned test, ACA's surplus notes are considered stock and ACA's surplus note holders are considered shareholders.

If ACA undergoes an ownership change for purposes of Section 382 as a result of future transactions involving its surplus notes, ACA's ability to utilize its NOLs and recognize certain built-in losses would be subject to further limitations under Section 382.

Depending on the resulting limitation, a significant portion of ACA's NOLs could be deferred or could expire before it would be able to use them to offset positive taxable income in current or future tax periods. ACA's inability to utilize its NOLs could have a significant adverse affect on its financial position and results of operations.

Description of the Company's On-Going Strategic Plan

Management is actively seeking to (i) remediate deteriorated insured exposures to minimize claim payments, maximize recoveries and mitigate ultimate expected losses, (ii) increase the Company's capital, surplus, liquidity and claims paying resources, (iii) realize maximum value from various legal proceedings described in Note 14.C. and from any other rights and remedies the Company may have, and (iv) take other actions to enhance its financial position (hereafter collectively referred to as "Strategic Actions"). In regard to the Strategic Actions, the Company is actively pursuing or exploring a number of options available to it which, individually or in the aggregate, may materially affect (favorably or adversely) the Company's policyholders' surplus or liquidity position or address other challenges that the Company faces. No assurances can be given that the Company will be successful in completing any of the aforementioned actions. Furthermore, certain of the Strategic Actions contemplated by the Company may be outside the ordinary course of the Company's operations or its control and may require consents or approvals of parties outside of the Company, including the MIA.

B. Restructuring Transaction

As a result of adverse developments in the credit markets generally and the mortgage market specifically that began in the second half of 2007 and continued to deepen in 2008 and thereafter, the Company experienced material adverse effects on its business, results of operations, and financial condition, which resulted in significant downgrades of the Company's financial strength ratings by Standard & Poor's Ratings Services ("S&P") and, ultimately, a restructuring of

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the Company to avoid a regulatory proceeding (the “Restructuring Transaction”), The Restructuring Transaction, which was consummated on August 8, 2008, was comprised of three main components.

The first of the three components of the Restructuring Transaction consisted of a Global Settlement Agreement whereby insured credit swap counterparties’ claims were settled by the payment in cash of an aggregate loss amount of approximately \$209 million. In addition, the counterparties received an aggregate 95% voting interest in newly created surplus notes (the “Surplus Notes”) with a total face amount of \$1 billion. The remaining 5% or \$50 million is non-voting and was issued to ACACH.

The second component of the Restructuring Transaction provided for the settlement of a \$100 million medium term note guaranteed by the Company. This obligation was settled by a cash payment of approximately \$48 million to the note holders in 2008 and the relinquishment by the Company of investments in CDO equity with an estimated value of \$2.5 million. Of the total cash settlement, approximately \$32 million was paid out of a cash collateral account supporting the issued note while the remaining amount of approximately \$16 million was funded by cash from the Company and its other subsidiaries.

The third component of the Restructuring Transaction centered on the Intercompany Agreement which treated ACACH and its non-ACA FG subsidiaries as one sub-group and ACA FG and its subsidiary as a separate sub-group. By its terms, the Intercompany Agreement provided for the cancellation of a previously issued intercompany surplus note as well as intercompany balances between the Company’s sub-group and the ACACH sub-group. It also provided for a global release of liability among the two sub-groups. In general, the release discharges the entities from any and all actions, cause of action, suits, debts, liens, contracts, rights and other legal obligations against each other, except those provided for in the Intercompany Agreement. In addition, ACACH has provided an indemnification for claims against ACA FG and its subsidiaries, including employee claims, up to a maximum of \$10 million for claims made prior to August 8, 2010, as well as a second indemnification collateralized with a \$5.0 million escrow, for certain other claims.

Subsequent to the closing of the Restructuring Transaction, the Company is required to and has operated under an order issued by the MIA, Case No.: MIA: 2008-08-011 dated August 7, 2008 (the “Order”). The Order provides, among other things, that the Company operate as a run-off company. In connection with the Order, following the Restructuring Transaction, the Company wound down all subsidiaries no longer necessary for the conduct of its ongoing business, including 73 special purpose entities created for the insured credit swap and CDO asset management businesses.

C. Extraordinary items

The Company had no extraordinary items during 2011 and 2010.

D. Troubled Debt Restructurings

The Company had no troubled debt restructuring during 2011 and 2010.

E. Assets on Deposit with States and Other Collateral Deposits

Assets in the amount of \$4.7 million at March 31, 2011 and December 31, 2010 were on deposit with state authorities or trustees as required by state licensing regulations.

As discussed in Note 15 – Leases. The Company’s security deposit was returned as part of the lease termination. The Company currently has \$60 thousand in security deposits outstanding for lease obligations. This collateral deposit is treated as a non-admitted asset as of March 31, 2011 and December 31, 2010.

F. Uncollected Balances

The Company had no uncollectible balances.

G. Business Interruption Insurance Recoveries

Not applicable.

H. State Transferable Tax Credits

The Company had no state transferable credits.

I. Subprime Exposure Related Risk Exposure

- (1) The Company no longer has risk in its insured exposures to subprime mortgages, except for one insured securitization of manufactured housing mortgages. Other previously insured subprime mortgage exposure was included in the Global Settlement Agreement described in Note 21.B. The one remaining exposure has a par amount of \$5.7 million at March 31, 2011 and the Company has an outstanding loss reserve against this exposure in the amount of \$1.7 million.
- (2) The Company has no investments consisting of direct exposure to subprime-mortgages.
- (3) The Company has the following indirect exposures to sub-prime mortgages included in its investment portfolio at March 31, 2011:

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	1 Actual Cost	2 Book/Adjusted Carrying Value (excluding interest)	3 Fair Value	4 Other Than Temporary Impairment Losses Recognized
a. Residential mortgage backed securities	\$ 18,161,112	\$ 18,320,573	\$ 19,231,994	\$ 302,700
b. Commercial mortgage backed securities				
c. Collateralized debt obligations	1,188,183	1,188,417	1,197,144	-
d. Structured securities				
e. Equity investment in SCAs				
f. Other assets				
g. Total	\$ 19,349,295	\$ 19,508,990	\$ 20,429,137	\$ 302,700

(4) As stated in I (1) above, the Company has an outstanding loss reserve in the amount of \$1.7 million.

J. Description of Financial Guarantee Insurance

Description of Financial Guarantee Insurance

Financial guarantee insurance provides an unconditional and irrevocable guarantee to the holder of a valid debt obligation with an enforceable guaranty of full and timely payment of the guaranteed principal and interest thereon when due. Financial guarantee insurance adds another potential source of repayment of principal and interest for an investor, namely the credit quality of the financial guarantor. Generally, in the event of any default on an insured debt obligation, payments made pursuant to the applicable insurance policy may not be accelerated by the holder of the insured debt obligation without the approval of the insurer. While the holder of such an insured debt obligation continues to receive guaranteed payments of principal and interest on schedule, as if no default had occurred, and each subsequent purchaser of the obligation generally receives the benefit of such guarantee, the insurer normally retains the option to pay the debt obligation in full at any time. Also, the insurer generally has recourse against the issuer of the defaulted obligation and/or any related collateral for amounts paid under the terms of the insurance policy as well as pursuant to general rights of subrogation. The issuer of an insured debt obligation generally pays the premium for financial guarantee insurance, either in full at the inception of the policy, as is the case in most public finance transactions, or in periodic installments funded by the cash flow generated by related pledged collateral, as is the case in most structured finance and international transactions. Typically, premium rates paid by an issuer are stated as a percentage of the total principal (in the case of structured finance and international transactions) or principal and interest (in the case of public finance transactions) of the insured obligation. Premiums are almost always non-refundable and are invested upon receipt. See Note I for a description of NAIC SAP for premium revenue recognition.

22. EVENTS SUBSEQUENT

The Company has evaluated all subsequent events through May 13, 2011, the date the financial statements were available to be issued. Except for the matter discussed below, there were no events that required adjustment to or disclosure in the financial statements.

During May 2011, an obligor on one of the Company's insured debt obligations announced that it had entered into a transaction that would allow it to retire its debt obligations. Should this transaction be consummated successfully, the Company would not expect to incur any loss with regard to its guarantee and, accordingly, will be able to de-recognize its reserve for loss on this transaction of approximately \$12.2 million which was recorded by the Company, and reflected in the accompanying financial statements as of March 31, 2011.

23. REINSURANCE

A. Unsecured Reinsurance Recoverables

The Company does not have an unsecured aggregate recoverable for losses paid and unpaid, including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceed 3% of the Company's policyholder surplus.

B. Reinsurance Recoverable in Dispute

The Company has no reinsurance recoverable in dispute.

C. Reinsurance Assumed and Ceded

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Affiliates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
All other	5,924,193	-	366,194	-	5,557,999	-
Total	\$ 5,924,193	\$ -	\$ 366,194	\$ -	\$ 5,557,999	\$ -

Direct Unearned Premium Reserve \$181,089,293

There are no contingent commission or profit sharing arrangements.

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D. Uncollectible Reinsurance

The Company has no uncollectible reinsurance balances.

E. Commutation of Ceded Reinsurance

The Company had no commutations in 2011.

F. Retroactive Reinsurance

The Company has no retroactive reinsurance contracts.

G. Reinsurance Accounted for as a Deposit

The Company did not account for any reinsurance as deposits.

24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

The Company has not entered into any retrospectively rated contracts or contracts subject to redetermination.

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

For the three month period ended March 31, 2011, the Company recorded net favorable loss development of \$.1 million, which consisted of \$13.1 million of incurred losses related to payment defaults that occurred in 2011 ("current accident year claims") and \$13.2 million of favorable development on reserves established in years prior to 2011 ("prior accident year claims"). As of March 31, 2011, the Company's liability for unpaid losses was \$58.9 million, which related to seven insured transactions, with a remaining aggregate in-force par outstanding of \$60.7 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of \$60.7 million represents the remaining maximum amount of exposure to loss the Company has in regard to these seven insured transactions. See Note 36(3)b for additional information regarding the Company's reserves for losses and loss adjustment expenses.

For the year ended December 31, 2010, the Company recorded a provision for losses of \$36.1 million, which consisted of \$34.4 million of incurred losses related to current accident year claims and \$1.7 million of incurred losses related to prior accident year claims. As of December 31, 2010, the Company's liability for unpaid losses was \$62.1 million, which related to six insured transactions, with a remaining aggregate par outstanding of \$57.4 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of \$57.4 million represents the remaining maximum amount of exposure to loss the Company has in regard to these six insured transactions.

Refer to Note 1.C.(11) and Note 21.A. for further information regarding the Company's reserves for losses and loss adjustment expenses.

26. INTERCOMPANY POOLING ARRANGEMENTS

The Company has no intercompany pooling arrangements.

27. STRUCTURED SETTLEMENTS

- A. The Company has not entered into any structured settlements for reserves no longer being carried.
- B. The Company does not hold any annuities under which the Company is the payee and the recorded asset balance due exceeds 1% of surplus.

28. HEALTH CARE RECEIVABLE

- A. The Company has no pharmaceutical rebate receivables as of March 31, 2011 and December 31, 2010.
- B. The Company has no risk sharing receivables as of March 31, 2011 and December 31, 2010.

29. PARTICIPATING POLICIES

The Company never issued participating policies.

30. PREMIUM DEFICIENCY RESERVE

The Company has no premium deficiency reserves.

31. HIGH DEDUCTIBLES ON UNPAID CLAIMS

The Company has no high deductibles on unpaid claims.

32. DISCOUNTING OF LIABILITIES FOR UNPAID LOSSES OR UNPAID LOSS ADJUSTMENT EXPENSES

The Company's case reserves for unpaid losses are discounted on a non-tabular basis. The discount rate used at March 31, 2011 and December 31, 2010 was 4.5%. The discount rate is based on the weighted average return on the Company's invested assets. The amount of discount associated with the Company's loss reserves at March 31, 2011 was \$22.2 million. Loss adjustment expenses are not discounted.

33. ASBESTOS/ENVIRONMENTAL RESERVES

The Company does not write this line of business and therefore has no asbestos/environmental reserves.

34. SUBSCRIBER SAVINGS ACCOUNTS

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The Company has no subscriber savings accounts.

35. MULTIPLE PERIL CROP INSURANCE

The Company has never written this line of business.

36. FINANCIAL GUARANTY INSURANCE

A.

- (1) a. The Company has not recorded unearned premiums related to installment payments.

Premiums charged in connection with the issuance of financial guarantee insurance are received either upfront at the inception of an insurance contract or in installments (usually monthly, quarterly, semi-annually or annually) over the life of the underlying insured obligation. All of the Company's remaining in-force business was written on an upfront basis with the exception of a de minimis amount of business written on an installment basis.

b.+c. The Company has not recorded premiums receivable on installment contracts.

- (2) a. The amount of premium revenue that has been accelerated in 2011 and 2010 was \$1.5 million and \$7.0 million, respectively. The acceleration was due to the prepayment or advance refunding of credits.

b. Schedule of the future expected earned premium revenue on non-installment contracts as of March 31, 2011:

1.		2nd Quarter 2011	\$	1,918,289
		3rd Quarter 2011		2,964,021
		4th Quarter 2011		2,503,329
		Year 2012		9,133,819
		Year 2013		9,056,505
		Year 2014		9,133,481
		Year 2015		8,901,043
2.		2016 through 2020		43,777,658
		2021 through 2025		40,479,415
		2026 through 2030		32,982,937
		2031 through 2035		21,224,507
		2036 through 2040		4,322,068
		2041 through 2045		250,220
		Total	\$	<u>186,647,292</u>

- (3) Claim liability:

a. The Company used a rate of 4.5% to discount the claim liability. This rate approximates the yield on its investment portfolio at March 31, 2011.

b. Significant components of the change in the claim liability for the period:

	Debit (Credit)
Reserves for losses at December 31, 2010	\$ 62,132,634
Change in reserves	
Correction for misstatement (see Note 2)	(15,264,703)
Prior accident years	(228,963) ⁽²⁾
Current accident year	<u>12,238,045</u>
Sub-total change in reserves	(3,255,621) ⁽¹⁾
Reserves for losses at March 31, 2011	<u><u>\$ 58,877,013</u></u>

⁽¹⁾ During the three months ended March 31, 2011 paid losses were \$3,135,096, which when aggregated with the change in reserves during the period equal losses incurred for the three months ended March 31, 2011 of \$(120,525).

⁽²⁾ Includes \$482,379 of discount accretion recorded during the three months ended March 31, 2011.

- (4) The Company's credit quality classifications are:

a. Category 1: Fully Performing

NOTES TO FINANCIAL STATEMENTS

Covenants have been met and there have been no significant negative deviations from expected performance.

Category 2: Watch

Performing below expected levels but current and projected revenues are adequate to service debt.

Category 3: Deteriorating

Performing significantly below expected levels; corrective action is required to avert a longer-term risk of payment default.

Category 4: Paid or Expected Claim

Material decline in creditworthiness and ability to pay debt service; unreimbursed draws on debt service reserves and/or payment defaults have occurred or are probable.

- b. Risk management activities are performed by ACA's portfolio management department. Portfolio analysts monitor all insured transactions in the portfolio to determine whether their financial performance is consistent with underwriting expectations and to identify any deterioration in the obligor's ability or willingness to pay insured debt service. Portfolio management staff are also responsible for recommending and undertaking remedial actions to prevent or mitigate losses.

All transactions in the insured portfolio are assigned one of four internal credit quality classifications that reflect the current and expected performance of the obligor. Credit quality classifications of insured transactions are reviewed and updated on a regular basis as analysts obtain more current financial and market information from the obligor, the trustee, or from public sources such as rating agencies and fixed income analysts. The frequency with which individual obligors are reviewed is based on ACA's judgment of potential performance volatility and varies according to credit classification, sector, geography, size of exposure, and exogenous events.

B. Schedule of insured financial obligations at the end of the period:

	Credit Quality Categories				Total
	1	2	3	4	
Number of policies	353	100	29	37	519
Remaining weighted-average contract period (in years)	13	12	14	13	
Insured contractual payments outstanding:					
Principal	\$ 3,717,368,544	\$ 997,793,462	\$ 494,844,832	\$ 332,859,103	\$ 5,542,865,940
Interest	2,561,397,012	669,913,577	449,908,546	309,023,004	3,990,242,139
Total	<u>\$ 6,278,765,556</u>	<u>\$ 1,667,707,039</u>	<u>\$ 944,753,378</u>	<u>\$ 641,882,107</u>	<u>\$ 9,533,108,080</u>
Gross claim and LAE liability	\$ -	\$ 93,399	\$ 138,086	\$ 96,944,419	\$ 97,175,904
Less:					
Gross potential recoveries	-	-	-	13,635,425	13,635,425
Discount, net	-	-	-	22,227,306	22,227,306
Net claim and LAE liability	<u>\$ -</u>	<u>\$ 93,399</u>	<u>\$ 138,086</u>	<u>\$ 61,081,688</u>	<u>\$ 61,313,173</u>
Unearned premium revenue	\$ 100,971,498	\$ 39,109,880	\$ 32,627,193	\$ 13,938,721	\$ 186,647,292
Claim and LAE liability reported in the balance sheet	\$ -	\$ 93,399	\$ 138,086	\$ 61,081,688	\$ 61,313,173
Reinsurance recoverables	\$ -	\$ -	\$ -	\$ -	\$ -

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes [] No [X]
- 1.2 If yes, has the report been filed with the domiciliary state? Yes [] No []
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No [X]
- 2.2 If yes, date of change:
3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes [] No [X]
If yes, complete the Schedule Y - Part 1 - organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [] No [X]
- 4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes [] No [X] NA []
If yes, attach an explanation.
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2007
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2007
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 05/07/2009
- 6.4 By what department or departments?
Maryland Insurance Administration.....
- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes [X] No [] NA []
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [X] No [] NA []
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [] No [X]
- 7.2 If yes, give full information:
.....
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [] No [X]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
.....
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [] No [X]
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

GENERAL INTERROGATORIES

- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?..... Yes No
- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- (c) Compliance with applicable governmental laws, rules and regulations;
- (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- (e) Accountability for adherence to the code.

9.11 If the response to 9.1 is No, please explain:

- 9.2 Has the code of ethics for senior managers been amended?..... Yes No

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).

- 9.3 Have any provisions of the code of ethics been waived for any of the specified officers?..... Yes No

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

FINANCIAL

- 10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?..... Yes No

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:.....\$0

INVESTMENT

- 11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes No

11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA:\$0

13. Amount of real estate and mortgages held in short-term investments:\$0

- 14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes No

14.2 If yes, please complete the following:

		1 Prior Year-End Book/Adjusted Carrying Value		2 Current Quarter Book/Adjusted Carrying Value
14.21 Bonds	\$	\$
14.22 Preferred Stock	\$	\$
14.23 Common Stock	\$	\$
14.24 Short-Term Investments	\$	\$
14.25 Mortgage Loans on Real Estate	\$	\$
14.26 All Other	\$	\$
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$	\$
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above ..	\$	\$

- 15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes No

- 15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes No
 If no, attach a description with this statement.

GENERAL INTERROGATORIES

16. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?.....

Yes No

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address
US Bank, National Association.....	1025 Connecticut Avenue, Suite 517, Washington, DC 20036.....

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter?

Yes No

16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address
107038.....	JP. Morgan. Asset. Management.....	245. Park. Avenue. New. York. NY. 10167.....

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes No

17.2 If no, list exceptions:

.....

Schedule F
NONE

STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2	3	4	5	6	7
States, etc.	Active Status	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date
1. Alabama	AL	L					
2. Alaska	AK	L					
3. Arizona	AZ	L					
4. Arkansas	AR	L					
5. California	CA	L		423,279			728,545
6. Colorado	CO	L					
7. Connecticut	CT	L					
8. Delaware	DE	L					
9. District of Columbia	DC	L					
10. Florida	FL	L					
11. Georgia	GA	L					
12. Hawaii	HI	L					
13. Idaho	ID	L					
14. Illinois	IL	L					
15. Indiana	IN	L					
16. Iowa	IA	L					
17. Kansas	KS	L					
18. Kentucky	KY	L					
19. Louisiana	LA	L	1,251	4,553		5,530,922	4,136,458
20. Maine	ME	L					
21. Maryland	MD	L					
22. Massachusetts	MA	L					
23. Michigan	MI	L					
24. Minnesota	MN	L	711	752		1,709,152	2,495,205
25. Mississippi	MS	L		261,141	13,780	16,893,961	18,287,019
26. Missouri	MO	L					
27. Montana	MT	L					
28. Nebraska	NE	L					
29. Nevada	NV	L					
30. New Hampshire	NH	L					
31. New Jersey	NJ	L					
32. New Mexico	NM	L					
33. New York	NY	L		853,425		29,704,203	
34. No. Carolina	NC	L					
35. No. Dakota	ND	L					
36. Ohio	OH	L					
37. Oklahoma	OK	L					
38. Oregon	OR	L					
39. Pennsylvania	PA	L					
40. Rhode Island	RI	L					
41. So. Carolina	SC	L		1,597,251	82,556	618,762	17,257,447
42. So. Dakota	SD	L					
43. Tennessee	TN	L					
44. Texas	TX	L			46,644	4,420,013	2,194,524
45. Utah	UT	L					
46. Vermont	VT	L					
47. Virginia	VA	L	89,326				
48. Washington	WA	L					
49. West Virginia	WV	L					
50. Wisconsin	WI	L					
51. Wyoming	WY	L					
52. American Samoa	AS	N					
53. Guam	GU	L					
54. Puerto Rico	PR	L					
55. U.S. Virgin Islands	VI	L					
56. Northern Mariana Islands	MP	N					
57. Canada	CN	N					
58. Aggregate Other Alien	OT	XXX					
59. Totals	(a) 54	91,288	5,304	3,135,096	142,980	58,877,013	45,099,198
DETAILS OF WRITE-INS							
5801. Foreign	XXX						
5802.	XXX						
5803.	XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX						
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX						

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.

(a) Insert the number of L responses except for Canada and Other Alien.

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART**

NONE

PART 1 - LOSS EXPERIENCE

Line of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire				
2. Allied lines				
3. Farmowners multiple peril				
4. Homeowners multiple peril				
5. Commercial multiple peril				
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine				
10. Financial guaranty	3,846,069	(120,525)	(3.1)	438.6
11.1 Medical professional liability - occurrence				
11.2 Medical professional liability – claims made				
12. Earthquake				
13. Group accident and health				
14. Credit accident and health				
15. Other accident and health				
16. Workers' compensation				
17.1 Other liability occurrence				
17.2 Other liability – claims made				
17.3 Excess Workers' Compensation				
18.1 Products liability - occurrence				
18.2 Products liability – claims made				
19.1,19.2 Private passenger auto liability				
19.3,19.4 Commercial auto liability				
21. Auto physical damage				
22. Aircraft (all perils)				
23. Fidelity				
24. Surety				
26. Burglary and theft				
27. Boiler and machinery				
28. Credit				
29. International				
30. Warranty				
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business				
35. TOTALS	3,846,069	(120,525)	(3.1)	438.6
DETAILS OF WRITE-INS				
3401.				
3402.				
3403.				
3498. Sum. of remaining write-ins for Line 34 from overflow page				
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)				

PART 2 - DIRECT PREMIUMS WRITTEN

Line of Business	1	2	3
	Current Quarter	Current Year to Date	Prior Year Year to Date
1. Fire			
2. Allied lines			
3. Farmowners multiple peril			
4. Homeowners multiple peril			
5. Commercial multiple peril			
6. Mortgage guaranty			
8. Ocean marine			
9. Inland marine			
10. Financial guaranty		91,288	91,288
11.1 Medical professional liability - occurrence			5,304
11.2 Medical professional liability – claims made			
12. Earthquake			
13. Group accident and health			
14. Credit accident and health			
15. Other accident and health			
16. Workers' compensation			
17.1 Other liability-occurrence			
17.2 Other liability – claims made			
17.3 Excess Workers' Compensation			
18.1 Products liability - occurrence			
18.2 Products liability – claims made			
19.1,19.2 Private passenger auto liability			
19.3,19.4 Commercial auto liability			
21. Auto physical damage			
22. Aircraft (all perils)			
23. Fidelity			
24. Surety			
26. Burglary and theft			
27. Boiler and machinery			
28. Credit			
29. International			
30. Warranty			
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business			
35. TOTALS	91,288	91,288	5,304
DETAILS OF WRITE-INS			
3401.			
3402.			
3403.			
3498. Sum. of remaining write-ins for Line 34 from overflow page			
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)			

STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2011 Loss and LAE Payments on Claims Reported as of Prior Year-End	2011 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2011 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols.7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/ Deficiency (Cols. 11 + 12)
1. 2008 + Prior	19,743		19,743	802	5	808	19,659			19,659	718	5	724
2. 2009	10,646		10,646	94		94	10,332			10,332	(220)		(220)
3. Subtotals 2009 + prior	30,389		30,389	896	5	901	29,991			29,991	498	5	504
4. 2010	34,619		34,619	1,824		1,824	19,084			19,084	(13,711)		(13,711)
5. Subtotals 2010 + prior	65,008		65,008	2,720	5	2,725	49,075			49,075	(13,213)	5	(13,207)
6. 2011	XXX	XXX	XXX	XXX	855	855	XXX	12,238		12,238	XXX	XXX	XXX
7. Totals	65,008		65,008	2,720	860	3,580	49,075	12,238		61,313	(13,213)	5	(13,207)
8. Prior Year-End Surplus As Regards Policy-holders	107,201										Col. 11, Line 7 As % of Col. 1 Line 7	Col. 12, Line 7 As % of Col. 2 Line 7	Col. 13, Line 7 As % of Col. 3 Line 7
											1. (20.3)	2.	3. (20.3)
													Col. 13, Line 7 As a % of Col. 1 Line 8
													4. (12.3)

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES





The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of **NO** to the specific interrogatory will be accepted in lieu of filing on "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter **SEE EXPLANATION** and provide an explanation following the interrogatory questions.

	<u>RESPONSE</u>
1. Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC with this statement?NO.....
2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?NO.....
3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?NO.....
4. Will the Director and Officer Supplement be filed with the state of domicile and the NAIC with this statement?NO.....

Explanation:

- 1.
- 2.
- 3.
- 4.

Bar Code:

1.	 2 2 8 9 6 2 0 1 1 4 9 0 0 0 0 0 1
2.	 2 2 8 9 6 2 0 1 1 4 5 5 0 0 0 0 1
3.	 2 2 8 9 6 2 0 1 1 3 6 5 0 0 0 0 1
4.	 2 2 8 9 6 2 0 1 1 5 0 5 0 0 0 0 1

OVERFLOW PAGE FOR WRITE-INS

PQ002 Additional Aggregate Lines for Page 02 Line 25.

*ASSETS

	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
2504. Other Assets.....	7,967	338	7,629	22,749
2597. Summary of remaining write-ins for Line 25 from Page 02	7,967	338	7,629	22,749

SCHEDULE A - VERIFICATION

Real Estate

	1 Year to Date	2 Prior Year Ended December 31
NONE		
1. Book/adjusted carrying value, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Current year change in encumbrances		
4. Total gain (loss) on disposals		
5. Deduct amounts received on disposals		
6. Total foreign exchange change in book/adjusted carrying value		
7. Deduct current year's other than temporary impairment recognized		
8. Deduct current year's depreciation		
9. Book/adjusted carrying value at the end of current period (Lines 1+2+3+4-5+6-7-8)		
10. Deduct total nonadmitted amounts		
11. Statement value at end of current period (Line 9 minus Line 10)		

SCHEDULE B – VERIFICATION

Mortgage Loans

	1 Year to Date	2 Prior Year Ended December 31
NONE		
1. Book value/recorded investment excluding accrued interest, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and mortgage interest points and commitment fees		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest		
10. Deduct current year's other than temporary impairment recognized		
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)		
12. Total valuation allowance		
13. Subtotal (Line 11 plus Line 12)		
14. Deduct total nonadmitted amounts		
15. Statement value at end of current period (Line 13 minus Line 14)		

SCHEDULE BA – VERIFICATION

Other Long-Term Invested Assets

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	1,090,454	1,090,255
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		199
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals	57,910	
7. Deduct amounts received on disposals	1,148,356	
8. Deduct amortization of premium and depreciation	8	
9. Total foreign exchange change in book/adjusted carrying value		
10. Deduct current year's other than temporary impairment recognized		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	0	1,090,454
12. Deduct total nonadmitted amounts		
13. Statement value at end of current period (Line 11 minus Line 12)	0	1,090,454

SCHEDULE D – VERIFICATION

Bonds and Stocks

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	434,056,426	370,216,580
2. Cost of bonds and stocks acquired	24,152,907	160,523,521
3. Accrual of discount	395,684	1,082,836
4. Unrealized valuation increase (decrease)	(4,232)	590,953
5. Total gain (loss) on disposals	1,137,694	5,707,690
6. Deduct consideration for bonds and stocks disposed of	35,535,142	100,978,883
7. Deduct amortization of premium	802,792	2,492,354
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized	302,700	593,917
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	423,097,845	434,056,426
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	423,097,845	434,056,426

STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a).....	397,470,831	57,002,223	52,368,002	(3,048,286)	399,056,766			397,470,831
2. Class 2 (a).....	50,228,621	1,992,020	4,618,035	2,100,141	49,702,747			50,228,621
3. Class 3 (a).....	858,500				858,500			858,500
4. Class 4 (a).....				430,000	430,000			
5. Class 5 (a).....	770,747			(429,973)	340,774			770,747
6. Class 6 (a).....	1,787,021	5,854		235,276	2,028,151			1,787,021
7. Total Bonds	451,115,720	59,000,097	56,986,037	(712,842)	452,416,938			451,115,720
PREFERRED STOCK								
8. Class 1.....								
9. Class 2.....								
10. Class 3.....								
11. Class 4.....								
12. Class 5.....								
13. Class 6.....								
14. Total Preferred Stock								
15. Total Bonds & Preferred Stock	451,115,720	59,000,097	56,986,037	(712,842)	452,416,938			451,115,720

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 \$.....; NAIC 2 \$.....; NAIC 3 \$.....; NAIC 4 \$.....; NAIC 5 \$.....; NAIC 6 \$.....

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SCHEDULE DA - PART 1

Short-Term Investments

	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
9199999	29,319,093	XXX	29,319,093	314	

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	17,059,296	35,940,735
2. Cost of short-term investments acquired	34,847,189	337,469,253
3. Accrual of discount	1,198	1,302
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....	22,588,590	356,351,994
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	29,319,093	17,059,296
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11)	29,319,093	17,059,296

Schedule DB - Part A - Verification

NONE

Schedule DB - Part B- Verification

NONE

Schedule DB - Part C - Section 1

NONE

Schedule DB - Part C - Section 2

NONE

Schedule DB - Verification

NONE

Schedule E Verification

NONE

Schedule A - Part 2

NONE

Schedule A - Part 3

NONE

Schedule B - Part 2

NONE

Schedule B - Part 3

NONE

STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

SCHEDULE BA - PART 2

Showing Other Long-Term Invested Assets ACQUIRED AND ADDITIONS MADE During the Current Quarter

1 CUSIP Identification	2 Name or Description	Location		5 Name of Vendor or General Partner	6 NAIC Designation	7 Date Originally Acquired	8 Type and Strategy	9 Actual Cost at Time of Acquisition	10 Additional Investment Made After Acquisition	11 Amount of Encumbrances	12 Commitment for Additional Investment	13 Percentage of Ownership
		3 City	4 State									
NONE												
3999999 – Subtotals Unaffiliated												XXX
4099999 – Subtotals Affiliated												XXX
4199999 TOTALS												XXX

STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

SCHEDULE BA - PART 3

Showing Other Long-Term Invested Assets **DISPOSED, Transferred or Repaid** During the Current Quarter

1 CUSIP Identification	2 Name or Description	Location		5 Name of Purchaser or Nature of Disposal	6 Date Originally Acquired	7 Disposal Date	8 Book/Adjusted Carrying Value Less Encumbrances, Prior Year	Change in Book/Adjusted Carrying Value						15 Book/Adjusted Carrying Value Less Encumbrances on Disposal	16 Consideration	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Investment Income
		3 City	4 State					9 Unrealized Valuation Increase (Decrease)	10 Current Year's (Depreciation) or (Amortization)/ Accretion	11 Current Year's Other Than Temporary Impairment Recognized	12 Capitalized Deferred Interest and Other	13 Total Change in B./A.C.V. (9+10-11+12)	14 Total Foreign Exchange Change in B./A.C.V.						
649526-AE-8	New York Life Insurance Series 144A 5			Jefferies Co - Bond Division	05/05/2003	01/13/2011	1,090,454		(8)			(8)	1,090,445	1,148,356		57,911	57,911	11,489	
2199999	Surplus Debentures, etc. - Unaffiliated						1,090,454		(8)			(8)	1,090,445	1,148,356		57,911	57,911	11,489	
3999999 - Subtotals Unaffiliated							1,090,454		(8)			(8)	1,090,445	1,148,356		57,911	57,911	11,489	
4099999 - Subtotals Affiliated																			
4199999 TOTALS							1,090,454		(8)			(8)	1,090,445	1,148,356		57,911	57,911	11,489	

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STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired During the Current Quarter

1	2	3	4	5	6	7	8	9	10
CUSIP Identification	Description	Foreign	Date Acquired	Name of Vendor	Number of Shares of Stock	Actual Cost	Par Value	Paid for Accrued Interest and Dividends	NAIC Designation or Market Indicator (a)
13033W-A4-5	California Infrastructure & Ec Series A		02/02/2011	Sterling Grace Municipal Secur		1	50,000		1FE
13033W-A6-0	California Infrastructure & Ec Series A		02/02/2011	Sterling Grace Municipal Secur		1	100,000		1FE
13033W-C7-6	California Infrastructure & Ec 4.250%		01/25/2011	Sterling Grace Municipal Secur		1	40,000		1FE
13033W-C8-4	California Infrastructure & Ec 4.250%		01/25/2011	Sterling Grace Municipal Secur		1	50,000		1FE
13033W-C9-2	California Infrastructure & Ec 4.250%		01/25/2011	Sterling Grace Municipal Secur		1	50,000		1FE
13033W-D2-6	California Infrastructure & Ec 4.625%		02/17/2011	Various		2	600,000		1FE
453419-AT-0	Independence Cnty Ark Hydroele 4.875%		01/11/2011	Sterling Grace Municipal Secur		172,500	250,000	2,471	6Z
453419-BX-0	Independence Cnty Ark Hydroele 4.800%		01/20/2011	Carlton & Associates		3,700	10,000	112	6Z
546279-RK-8	Louisiana Loc Govt Envir Facs Ser A 5		03/08/2011	Carlton & Associates		104,518	235,000	1,908	6Z
60535R-AG-3	Mississippi Home Corp Hsg Rev 5.200% 1		01/13/2011	Carlton & Associates		1	75,000		6Z
60535R-AH-1	Mississippi Home Corp Hsg Rev 5.300% 1		03/21/2011	Carlton & Associates		3	375,000		6Z
649717-KZ-7	New York N Y City Tr Cultural 6.000% 0		03/08/2011	Carlton & Associates		14,750	25,000	288	6Z
649717-LA-1	New York N Y City Tr Cultural 6.125% 0		03/08/2011	Carlton & Associates		14,500	25,000	293	6Z
882385-AD-9	Texas Dorm Fin Auth Inc 5.750% 09/01/2		03/24/2011	Various		38,688	65,000	1,097	6Z
882385-AE-7	Texas Dorm Fin Auth Inc 6.000% 09/01/3		03/28/2011	Carlton & Associates		5,850	10,000	50	6Z
3199999 - Total	Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of ...					354,517	1,960,000	6,219	XXX
03523T-BD-9	Anheuser Busch Inbev Wor 7.200% 01/15/		03/14/2011	Tax Free Exchange		1,849,044	1,850,000	22,200	2FE
039483-BB-7	Archer Daniels 4.479% 03/01/21		03/30/2011	Bank of America Securities Llc		2,014,580	2,000,000	8,617	1FE
17307G-CU-0	Credit Based Asset Service CMLTI 2003-HE		01/19/2011	Citigroup Global Markets		2,218,220	2,435,096	1,213	1Z*
32027N-MH-1	First Franklin Mtg Loan Asset FFML 2004-		02/28/2011	Citigroup Global Markets		1,865,291	1,919,270	256	1FE
40414L-AC-3	HCP Inc 3.750% 02/01/16		01/19/2011	UBS Securities Inc		1,992,020	2,000,000		2FE
52521T-AC-1	Lehman Brothers LBFRC 2006-LLFA A2 0.3		02/08/2011	Wells Fargo Securities LLC		399,075	407,219	116	1Z*
61752L-AA-3	Morgan Stanley Capital I MSC 2007-XLFA A		01/21/2011	Amherst Securities Group Ilc		1,493,471	1,531,765	151	1Z*
83611M-GS-1	Soundview Home Equity Loan SVHE 2005-0PT		03/07/2011	Citigroup Global Markets		2,006,749	2,083,582	422	1Z*
05571A-AB-1	Groupe Bpce Series 144A 2.375% 10/04/1	F	02/09/2011	SG Americas Securities Llc		2,965,860	3,000,000	25,333	1FE
404280-AK-5	HSBC Holdings PLC 5.100% 04/05/21	F	03/29/2011	HSBC Securities		1,995,660	2,000,000		1FE
46115H-AC-1	Intesa Sanpaolo SPA Series 144A 2.713%	F	02/14/2011	Goldman Sachs		3,000,000	3,000,000		1FE
539473-AG-3	Lloyds Tsb bank PLC 4.875% 01/21/16	F	01/13/2011	Bank of America Securities Llc		1,998,420	2,000,000		1FE
3899999 - Total	Bonds - Industrial, Misc.					23,798,390	24,226,932	58,308	XXX
8399997 - Total	Bonds - Part 3					24,152,907	26,186,932	64,527	XXX
8399999 - Total	Bonds					24,152,907	26,186,932	64,527	XXX
8999999 - Total	Preferred Stocks						XXX		XXX
9799999 - Total	Common Stocks						XXX		XXX
9899999 - Total	Preferred and Common Stocks						XXX		XXX
9999999 Totals						24,152,907	XXX	64,527	XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues

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STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
31359M-HK-2	FINMA 5.500% 03/15/11 GNMA Pool 595037 6.000%		03/15/2011	Maturity		3,500,000	3,500,000	3,608,469	3,504,364				(4,364)		3,500,000				96,250	03/15/2011	1
36200A-BE-8	GNMA Pool 595085 6.000%		03/01/2011	Paydown		42	42	43	43				(1)		42					10/15/2032	1
36200A-CW-7	GNMA Pool 599167 6.000%		03/01/2011	Paydown		7,274	7,274	7,490	7,478				(204)		7,274				46	10/15/2032	1
36200E-TY-7	GNMA Pool 604018 5.500%		03/01/2011	Paydown		1,419	1,419	1,461	1,454				(34)		1,419				14	12/15/2033	1
36200M-AT-0	GNMA Pool 604141 6.000%		03/01/2011	Paydown		152,185	152,185	156,596	156,255				(4,069)		152,185				1,365	02/15/2033	1
36200M-EN-9	GNMA Pool 569684 6.000%		03/01/2011	Paydown		3,098	3,098	3,190	3,186				(88)		3,098				28	03/15/2033	1
362000-2R-4	GNMA Pool 570142 6.000%		03/01/2011	Paydown		4,558	4,558	4,693	4,685				(127)		4,558				54	02/15/2032	1
36200R-LX-8	GNMA Pool 570490 6.000%		03/01/2011	Paydown		3,134	3,134	3,227	3,222				(88)		3,134				30	12/15/2031	1
36200R-XT-4	GNMA Pool 571293 6.000%		03/01/2011	Paydown		934	934	961	959				(26)		934				10	12/15/2031	1
36200S-US-7	GNMA Pool 577422 6.000%		03/01/2011	Paydown		840	840	865	864				(24)		840				12	11/15/2031	1
36201A-PF-9	GNMA Pool 579722 6.000%		03/01/2011	Paydown		1,204	1,204	1,240	1,238				(34)		1,204				10	01/15/2032	1
36201D-AX-0	GNMA Pool 580607 6.000%		03/01/2011	Paydown		8,953	8,953	9,219	9,199				(246)		8,953				94	08/15/2032	1
36201E-AG-5	GNMA Pool 581506 6.000%		03/01/2011	Paydown		1,564	1,564	1,611	1,608				(43)		1,564				14	02/15/2033	1
36201F-AF-4	GNMA Pool 585371 6.000%		03/01/2011	Paydown		277	277	286	285				(8)		277				2	04/15/2033	1
36201K-JO-0	GNMA Pool 606864 6.000%		03/01/2011	Paydown		259	259	267	267				(7)		259				3	04/15/2032	1
36201Y-FD-3	GNMA II Pool 4771		03/01/2011	Paydown		951	951	979	978				(27)		951				14	10/15/2033	1
36202F-JO-0	4.500% 08/20/40 GNMA II POOL 4801		03/01/2011	Paydown		248,437	248,437	261,752	261,628				(13,190)		248,437				1,783	08/20/2040	1
36202F-KN-5	4.500% 09/20/40 GNMA Pool 429788 6.000%		03/01/2011	Paydown		351,402	351,402	370,619	370,510				(19,109)		351,402				2,703	09/20/2040	1
36207E-ND-2	GNMA POOL 748782 4.500%		03/01/2011	Paydown		5,900	5,900	6,075	6,066				(166)		5,900				45	12/15/2033	1
3620C4-2P-4	GNMA Pool 493545 6.000%		03/01/2011	Paydown		81,272	81,272	86,199	86,170				(4,899)		81,272				662	09/15/2040	1
36210J-HW-1	GNMA Pool 553303 6.000%		03/01/2011	Paydown		24	24	24	24				(1)		24					03/15/2031	1
36213F-U4-3	GNMA Pool 562469 5.000%		03/01/2011	Paydown		12	12	12	12						12					06/15/2033	1
36213R-2A-4	GNMA Pool 562442 5.500%		03/01/2011	Paydown		90,356	90,356	90,819	90,795				(439)		90,356				1,081	02/15/2034	1
36213R-ZF-7	GNMA Pool 563713 6.000%		03/01/2011	Paydown		2,296	2,296	2,359	2,356				(60)		2,296				21	01/15/2034	1
36213T-GW-7	GNMA Pool 564552 6.000%		03/01/2011	Paydown		4,103	4,103	4,225	4,217				(114)		4,103				36	01/15/2033	1
36213U-EZ-9	GNMA Pool 565505 6.000%		03/01/2011	Paydown		61	61	63	63				(2)		61				1	12/15/2031	1
36213V-GN-2	GNMA Pool 782523 5.000%		03/01/2011	Paydown		308	308	318	317				(9)		308				4	09/15/2032	1
36241K-YU-6	GNMA Pool 620628 6.000%		03/01/2011	Paydown		499,496	499,496	537,193	536,873				(37,377)		499,496				3,942	11/15/2035	1
36290X-PM-6	GNMA Pool 620634 6.000%		03/01/2011	Paydown		540	540	556	555				(15)		540				5	09/15/2033	1
36290X-PT-1	GNMA Pool 621657 6.000%		03/01/2011	Paydown		595	595	613	610				(14)		595				6	09/15/2033	1
36290Y-TN-8	GNMA Pool 624236 6.000%		03/01/2011	Paydown		10	10	10	10						10					12/15/2033	1
36291C-PV-1	GNMA Pool 625604 6.000%		03/01/2011	Paydown		80	80	82	82				(2)		80				1	12/15/2033	1
36291E-AD-3	GNMA Pool 625604 6.000%		03/01/2011	Paydown		3,353	3,353	3,453	3,447				(93)		3,353				40	12/15/2033	1

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STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
36291E-AV-3	GNMA Pool 625620 6.000% 12/15/33		03/01/2011	Paydown		142	142	147	146		(4)		(4)		142				2	12/15/2033	1
36296X-H8-0	GNMA POOL 704155 5.500% 01/15/39		03/01/2011	Paydown		683,393	683,393	704,535	704,119		(20,726)		(20,726)		683,393				5,316	01/15/2039	1
0599999 - Bonds - U.S. Governments						5,658,472	5,658,472	5,869,651	5,764,085		(105,610)		(105,610)		5,658,472				113,594	XXX	XXX
13033W-A4-5	California Infrastructure & Ec Series A		03/31/2011	Internal		1	50,000	1						1						12/01/2015	1FE
13033W-A6-0	California Infrastructure & Ec Series A		03/31/2011	Internal		1	100,000	1						1						12/01/2017	1FE
13033W-C7-6	California Infrastructure & Ec 4.250%		03/31/2011	Internal		1	40,000	1						1						12/01/2015	1FE
13033W-C8-4	California Infrastructure & Ec 4.250%		03/31/2011	Internal		1	50,000	1						1						12/01/2016	1FE
13033W-C9-2	California Infrastructure & Ec 4.250%		03/31/2011	Internal		1	50,000	1						1						12/01/2017	1FE
13033W-D2-6	California Infrastructure & Ec 4.625%		03/31/2011	Internal		2	600,000	2						2						12/01/2027	1FE
31359S-2G-4	Fanniemae Whole Loan NW 2001-W1 AF6 6 FNMA Pool No 580078		03/01/2011	Paydown		8,706	8,706	9,039	9,419		(713)		(713)		8,706			128		02/25/2026	1
31387C-M3-2	Fannie Mae 2005-22 KJ 7.000% 09/01/31		03/01/2011	Paydown		113	113	117	116		(3)		(3)		113			1		09/01/2031	1
31394D-EA-4	FNMA Pool 725690 6.000% 08/01/34		03/01/2011	Paydown		439,579	439,579	462,382	458,976		(19,397)		(19,397)		439,579			3,307		06/25/2015	1
31402D-F7-0	FNMA Pool 725934 5.000% 11/01/19		03/01/2011	Paydown		683,836	683,836	726,683	724,605		(40,768)		(40,768)		683,836			5,981		11/01/2019	1
31405R-AR-7	FNMA Pool 840838 5.500% 11/01/35		03/01/2011	Paydown		508,554	508,554	502,039	502,188		6,366		6,366		508,554			5,538		11/01/2035	1
3199999 - Total - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of						3,231,223	4,121,216	3,326,613	3,319,772		(88,554)		(88,554)		3,231,223				29,609	XXX	XXX
03062X-AD-8	AmeriCredit Automobile Rec. Series 2006		03/06/2011	Paydown		254,267	254,267	254,205	254,255		12		12		254,267			2,228		09/06/2013	1FE
03072S-LD-5	Ameriquest Mortgage Securities 2003-IA1		03/01/2011	Paydown		44,253	44,253	44,253	44,253						44,253			386		11/25/2033	12*
03523T-AA-6	Anheuser Busch Inbev Wor 144A 7.200% 0		03/14/2011	Tax Free Exchange		1,849,414	1,850,000	1,849,445	1,849,568		(153)		(153)		1,849,414			88,430		01/15/2014	2FE
039483-AU-6	Archer Daniels 5.375% 09/15/35		01/13/2011	US Bancorp Investment Inc.		997,350	1,000,000	974,020	976,032		33		33		976,065		21,285	21,285		09/15/2035	1FE
06424H-BF-3	Bank of America Large Loan BALL 2005-M1B		03/15/2011	Paydown		20,805	20,805	20,415	20,665		140		140		20,805			13		03/15/2022	12*
09774X-AK-8	Bombardier Capital Mortgage Se 1998-B M1 C-Bass Ltd 1.512%		03/01/2011	Paydown				104,808	100,683		(100,683)		(100,683)					5,442		03/15/2026	6FE
12496B-AB-7	Commercial Mortgage Pass-Thru COMM 2005		02/10/2011	Paydown		602,360	602,360	566,219	587,746		14,614		14,614		602,360			2,287		11/10/2038	1FE
126164-AS-1	Citigroup Inc 0.591% 11/05/14		01/15/2011	Paydown		6,870	6,870	6,526	6,789		80		80		6,870			3		11/15/2017	12*
172967-CS-8	Credit Based Asset Service CMLTI 2003-HE		03/07/2011	Citigroup Global Markets		1,945,210	2,000,000	1,836,380	1,847,478		7,026		7,026		1,854,504		90,706	90,706		11/05/2014	1FE
17307G-CU-0	Citibank Omni Master Trust COMM 2009-A8		03/25/2011	Paydown		87,323	87,323	79,546	79,546		7,777		7,777		87,323			91		12/25/2033	12*
17308B-AH-1	COMMERCIAL MORTGAGE PASS-THRU COMM 2007		02/28/2011	UBS Warburg LLC CMO		1,523,672	1,500,000	1,517,578	1,514,952		(1,806)		(1,806)		1,513,146		10,526	10,526		05/15/2012	1FE
200476-AA-7	Consolidated Edison 5.300% 12/01/16		03/15/2011	Paydown		1,446,671	1,446,671	1,399,654	1,422,426		24,245		24,245		1,446,671			437		06/15/2022	12*
209111-EP-4	Duke Energy Carolinas 6.100% 06/01/37		02/09/2011	Fidelity Capital Markets		1,107,090	1,000,000	997,160	998,095		(4)		(4)		998,091		108,999	108,999		12/01/2016	1FE
26442C-AA-2	First Franklin Mtg Loan Asset FFML 2004		01/13/2011	Pershing & Co		1,305,684	1,200,000	1,199,844	1,199,764		(31)		(31)		1,199,733		105,951	105,951		06/01/2037	1FE
32027N-MH-1	Florida Pwr & Light 5.400% 09/01/35		03/25/2011	Paydown		39,403	39,403	38,295	38,295		1,108		1,108		39,403			25		09/25/2034	1FE
341081-EU-7	HSBC Securities		01/13/2011			1,166,425	1,140,000	1,134,676	1,135,061		23		23		1,135,083		31,342	31,342		09/01/2035	1FE

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STATEMENT AS OF MARCH 31, 2011 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
441812-KD-5	Household Finance Corp 4.750% 07/15/13		03/29/2011	Cortview Capital LLC		2,137,580	2,000,000	1,939,680	1,981,374		1,622		1,622		1,982,995		154,585	154,585	67,556	07/15/2013	1FE
45254N-JG-3	Impac CMB Trust IMM 2004-5 1A1 0.610%		03/25/2011	Paydown		88,539	88,539	80,127	80,205		8,334		8,334		88,539				97	10/25/2034	1Z*
478366-A0-0	Johnson Controls 5.250% 01/15/11		01/15/2011	Maturity		725,000	725,000	724,906	724,963		37		37		725,000				19,031	01/15/2011	2FE
52108H-ZX-5	LB-UBS Commercial Mtg Trust 2004-C2 A3		03/11/2011	Paydown		633,385	633,385	596,372	621,818		11,567		11,567		633,385				5,552	03/15/2029	1Z*
52521T-AC-1	Lehman Brothers LBFRC 2006-LLFA A2 0.3		03/15/2011	Paydown		2,987	2,987	2,869	2,528		81		81		2,987				2	09/15/2021	1Z*
548661-CJ-4	Lowes Companies 5.500% 10/15/35		01/13/2011	First Tennessee		1,501,875	1,500,000	1,487,550	1,488,428		8		8		1,488,435		13,440	13,440	21,542	10/15/2035	1FE
58013M-EC-4	Mcdonalds Corp 6.300% 10/15/37		01/13/2011	Morgan Stanley & Co		1,906,460	1,650,000	1,646,040	1,645,991		(2)		(2)		1,645,989		260,471	260,471	27,143	10/15/2037	1FE
59156R-AW-8	Metlife Inc 2.375% 02/06/14		02/09/2011	Citigroup Global Markets		2,008,020	2,000,000	1,997,340	1,997,613		104		104		1,997,717		10,303	10,303	24,806	02/06/2014	1FE
61746W-MV-9	Morgan Stanley Dean Witter Cap MSDWC 200		03/01/2011	Paydown		412,769	412,769	428,361	425,956		(13,186)		(13,186)		412,769				5,180	02/15/2012	1Z*
61752L-AA-3	Morgan Stanley Capital I NSC 2007-XLFA A		03/15/2011	Paydown		5,740	5,740	5,597			144		144		5,740				2	10/15/2020	1Z*
68383N-AA-1	Opteum Mortgage Acceptance OPMAC 2005-1		03/25/2011	Paydown		291,000	291,000	277,109	277,768		13,231		13,231		291,000				216	02/25/2035	1Z*
81375W-DS-2	Securitized Asset Backed Rec SABR 2005-F		03/25/2011	Paydown		149,052	149,052	145,299	145,402		3,650		3,650		149,052				253	12/25/2034	1Z*
83611M-GS-1	Soundview Home Equity Loan SVHE 2005-OPT		03/25/2011	Paydown		23,281	23,281	22,423			858		858		23,281				10	11/25/2035	1Z*
87612E-AR-7	Target Corp 6.500% 10/15/37		01/13/2011	Wells Fargo Securities LLC		1,143,860	1,000,000	997,220	997,231		(1)		(1)		997,230		146,630	146,630	16,972	10/15/2037	1FE
92976B-HJ-4	Wachovia Bank Commercial Mort. WBCMT 200		02/15/2011	Paydown		140	140	129	133		7		7		140					09/15/2021	1Z*
983024-AL-4	Wyeth 6.000% 02/15/36		01/13/2011	First Tennessee		1,095,120	1,000,000	991,344	991,848		34		34		991,882		103,238	103,238	25,667	02/15/2036	1FE
11102A-AB-7	British Telecom Plc 5.150% 01/15/13	F	03/30/2011	US Bancorp Investment Inc		2,123,840	2,000,000	2,078,600	2,049,808		(6,188)		(6,188)		2,043,620		80,220	80,220	74,103	01/15/2013	2FE
3899999	- Bonds - Industrial and Miscellaneous					26,645,445	25,673,845	25,443,990	25,388,833		(27,319)		(27,319)		25,507,749		1,137,696	1,137,696	461,741		XXX
8399997	- Bonds - Part 4					35,535,140	35,453,533	34,640,254	34,472,690		(221,483)		(221,483)		34,397,444		1,137,696	1,137,696	604,944		XXX
8399999	- Total - Bonds					35,535,140	35,453,533	34,640,254	34,472,690		(221,483)		(221,483)		34,397,444		1,137,696	1,137,696	604,944		XXX
8999999	- Total - Preferred Stocks						XXX														XXX
9799999	- Total - Common Stocks						XXX														XXX
9899999	- Total - Preferred and Common Stocks						XXX														XXX
9999999	Totals					35,535,140	XXX	34,640,254	34,472,690		(221,483)		(221,483)		34,397,444		1,137,696	1,137,696	604,944		XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues

E05.2

Schedule DB - Part A - Section 1

NONE

Sch. DB - Pt. A - Sn. 1 - Footnote (a)

NONE

Schedule DB - Part B - Section 1

NONE

Sch. DB - Pt. B - Sn. 1 - Footnotes

NONE

Schedule DB - Part D

NONE

Schedule DL - Part 1

NONE

Schedule DL - Part 2

NONE

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year
NONE							
8699999 Total Cash Equivalents							

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