ACA Financial Guaranty Corporation

Statutory-Basis Financial Statements as of and
for the Years Ended December 31, 2010 and 2009,
Supplemental Schedules as of December 31, 2010,
and Independent Auditors' Report

ACA FINANCIAL GUARANTY CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ACA Financial Guaranty Corporation:

We have audited the accompanying statutory-basis statements of admitted assets, liabilities and surplus of ACA Financial Guaranty Corporation (the "Company") as of December 31, 2010 and 2009, and the related statutory-basis statements of income and changes in surplus, and of cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Maryland Insurance Administration, and such practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the differences between the statutory-basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of ACA Financial Guaranty Corporation as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the accompanying statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of ACA Financial Guaranty Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Our 2010 audit was conducted for the purpose of forming an opinion on the basic 2010 statutory-basis financial statements taken as a whole. The supplemental schedule of investment risk interrogatories, the supplemental summary investment schedule, and the supplemental schedule of reinsurance interrogatories as of and for the year ended December 31, 2010, are presented for purposes of additional analysis and are not a required part of the basic 2010 statutory-basis financial statements. These schedules are the

responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2010 statutory-basis financial statements. The effects on these schedules of the differences between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. Accordingly, in our opinion, such schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the information shown therein. However, in our opinion, such schedules are fairly stated in all material respects when considered in relation to the basic 2010 statutory-basis financial statements taken as a whole.

Deloitte & Touche LLP

May 23, 2011

ACA FINANCIAL GUARANTY CORPORATION

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS AS OF DECEMBER 31, 2010 AND 2009

(Dollars in thousands)

	2010	2009
ADMITTED ASSETS		
BONDS — At NAIC carrying value	$ 434,056	$ 369,447
CASH AND SHORT-TERM INVESTMENTS	25,999	37,631
OTHER INVESTED ASSETS	1,090	1,090
Total cash and investments	461,145	408,168
ACCRUED INVESTMENT INCOME	3,588	3,793
TAX RECOVERABLE	-	51,373
OTHER ASSETS	63	130
TOTAL ADMITTED ASSETS	$ 464,796	$ 463,464
LIABILITIES AND SURPLUS		
UNEARNED PREMIUMS	$ 190,450	$ 205,168
LOSSES AND LOSS ADJUSTMENT EXPENSES	49,743	31,229
CONTINGENCY RESERVE	96,829	85,639
PAYABLE TO SUBSIDIARIES	-	417
ACCRUED EXPENSES AND OTHER LIABILITIES	5,308	3,555
Total liabilities	342,330	326,008
COMMON STOCK — 1,000,000 shares authorized, issued and outstanding at December 31, 2010 and 2009; par value of $15 per share	15,000	15,000
GROSS PAID-IN AND CONTRIBUTED SURPLUS	363,974	363,974
UNASSIGNED DEFICIT	(256,508)	(241,518)
Surplus as regards policyholders	122,466	137,456
TOTAL LIABILITIES AND SURPLUS	$ 464,796	$ 463,464

See notes to statutory-basis financial statements.

ACA FINANCIAL GUARANTY CORPORATION

STATUTORY-BASIS STATEMENTS OF INCOME AND CHANGES IN SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Dollars in thousands)

	2010	2009
PREMIUM EARNED	$ 15,205	$ 15,446
LOSSES AND LOSS ADJUSTMENT EXPENSES	23,865	15,164
UNDERWRITING EXPENSES INCURRED	18,930	17,291
LEASE TERMINATION COSTS	12,987	-
TOTAL UNDERWRITING DEDUCTIONS	55,782	32,455
NET UNDERWRITING LOSS	(40,577)	(17,009)
NET INVESTMENT INCOME	18,364	16,756
NET REALIZED CAPITAL GAINS (LOSSES)	5,114	(15,009)
NET INVESTMENT GAIN	23,478	1,747
OTHER INCOME	8,336	8,782
LOSS BEFORE FEDERAL INCOME TAX BENEFIT	(8,763)	(6,480)
FEDERAL INCOME TAX BENEFIT	(34)	(55,236)
NET (LOSS) INCOME	$ (8,729)	$ 48,756
SURPLUS AS REGARDS POLICYHOLDERS — Beginning of year	$ 137,456	$ 101,287
Net (loss) income	(8,729)	48,756
Change in net unrealized capital gains	591	599
Change in contingency reserve	(11,190)	(11,191)
Change in deferred income tax	(6,014)	(89,493)
Change in non-admitted assets	10,352	87,498
Change in surplus as regards policyholders	(14,990)	36,169
SURPLUS AS REGARDS POLICYHOLDERS — End of year	$ 122,466	$ 137,456

See notes to statutory-basis financial statements.

ACA FINANCIAL GUARANTY CORPORATION

STATUTORY-BASIS STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Dollars in thousands)

	2010	2009
CASH FLOWS FROM OPERATIONS:		
Premiums collected net of reinsurance	$ 487	$ 864
Net investment income	19,995	17,076
Other income	8,336	8,782
Benefits and loss related payments	(3,282)	(934)
Commissions, expenses paid and aggregate write-ins for deductions	(31,232)	(20,117)
Federal and foreign income taxes collected	51,408	3,863
Net cash provided by operations	45,712	9,534
CASH FLOWS FROM INVESTMENTS:		
Proceeds from investments sold or matured	100,979	90,850
Cost of investments acquired	(160,524)	(127,476)
Net cash used in investments	(59,545)	(36,626)
CASH FLOWS FROM FINANCING AND MISCELLANEOUS SOURCES:		
Other applications	2,201	864
Net cash provided by financing and miscellaneous sources	2,201	864
NET DECREASE IN CASH AND SHORT-TERM INVESTMENTS	(11,632)	(26,228)
CASH AND SHORT-TERM INVESTMENTS — Beginning of year	37,631	63,859
CASH AND SHORT-TERM INVESTMENTS — End of year	$ 25,999	$ 37,631

See notes to statutory-basis financial statements.

1. GENERAL

ACA Financial Guaranty Corporation (the "Company" and "ACA FG") is organized and domiciled in the State of Maryland and is a licensed, authorized and accredited insurance company in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. The Company is authorized to provide financial guaranty insurance on tax-exempt and other debt obligations, as well as on certain obligations related to asset-backed and corporate financings. As further discussed in Note 2, since December 2007, the Company has not issued any new financial guaranty insurance policies and is currently operating as a run-off insurance company.

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.

The Company's common stock is owned 76.6% by ACA Holding, L.L.C. (ACAH), a Delaware limited liability company, and 23.4% by KPR Ltd, (KPR), a company with limited liability organized under the laws of the Cayman Islands. KPR is a wholly owned subsidiary of ACAH and ACAH is a wholly owned subsidiary of Manifold Capital Corp. (ACACH), formerly ACA Capital Holdings, Inc., a Delaware corporation.

The Company through its subsidiaries, ACA Service, L.L.C. and ACA Management L.L.C., was historically engaged in the business of providing asset management services within targeted sectors of the fixed income capital markets. ACA FG's affiliates participated in this market by structuring and managing and investing in collateralized debt obligations (CDO) in collaboration with investment banks which market the corresponding CDO securities to investors worldwide. The Company and its affiliates are no longer engaged in the CDO asset management business, except for a limited number of pre-existing arrangements, and have not originated any CDOs since the third quarter of 2007. The Company's indirect wholly owned subsidiary, ACA Management, L.L.C., continues to receive fees related to these contracts from third parties to whom they assigned rights and obligations to manage these contracts and on a periodic basis pays dividends to ACA Service, L.L.C., its direct parent and direct wholly owned subsidiary of the Company. ACA Service, in turn, passes on these funds to the Company, also in the form of a dividend.

2. 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 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 component 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 Maryland Insurance Administration ("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.

3. DESCRIPTION OF SIGNIFICANT RISKS AND UNCERTAINTIES AND THE COMPANY'S ON-GOING STRATEGIC PLAN

Description of Significant Risks and Uncertainties

- As further discussed in Note 4, ACA FG 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 FG 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 FG 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 Statements of Admitted Assets, Liabilities and Surplus at December 31, 2010 and 2009 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 December 31, 2010, 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 4 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 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 surplus will be in excess of the required minimum surplus over the twelve months succeeding the date of the accompanying Statement of Admitted Assets, Liabilities and Surplus 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 10), 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 19, the Company classifies its insured in-force portfolio in one of four credit quality categories. As noted therein, as of December 31, 2010, the Company had insured obligations with outstanding principal totaling $335.0 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 $503.6 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 10, 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 FG's insured guarantees will not occur resulting in a further migration of exposure to categories 3 and/or 4 or that ACA FG 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 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 Note 16.

- ACA FG 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 FG's surplus notes are considered stock and ACA FG's surplus note holders are considered shareholders.

  If ACA FG undergoes an ownership change for purposes of Section 382 as a result of future transactions involving its surplus notes, ACA FG'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 FG'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 FG'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 16 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The financial statements for the Company are presented in accordance with the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual Statement of Statutory Accounting Principles (SAP) which has been adopted as a component of prescribed or permitted practices by the MIA effective January 1, 2001. The differences between NAIC SAP and MIA SAP are not material to the Company. These practices differ in certain material respects

from accounting principles generally accepted in the United States of America ("GAAP"), as described in Note 5. Set forth below is a description of the SAP accounting policies which are significant to the preparation of the accompanying financial statements.

Estimates and Assumptions — The preparation of financial statements in conformity with statutory-basis accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Short-Term Investments — Cash and short-term investments include cash on hand, demand deposits with banks and short-term investments purchased with an original maturity of one year or less. Short-term investments are carried at amortized cost, which approximates market value.

Investments — Investments are valued in accordance with the valuation procedures of the NAIC. Investment grade bonds are generally carried at amortized cost and the amortization of premium or discount is determined by applying the effective interest method. Non-investment grade bonds, as determined by the Securities Valuation Office (SVO) division of the NAIC or management, are carried at the lower of amortized cost or market.

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 cost of bonds is adjusted for impairments in value deemed to be an other-than-temporary impairment (OTTI). These adjustments are recorded as realized capital losses.

Realized capital gains and losses on dispositions are computed by the specific identification method and are determined on the basis of amortized cost at the date of sale for bonds. Declines in fair values, which are determined to be other than temporary, are taken as realized losses. In 2010 and 2009, the Company recognized $0.1 million and $10.5 million, respectively, in other than temporary impairments for investment in asset-backed securities and $0.5 million and $0.2 million in 2010 and 2009, respectively, for bonds.

The Company continuously monitors securities that have an estimated fair value that is below amortized cost in order to determine if there is any evidence that the decline in estimated fair value is other-than-temporary. Any impairment in value deemed to be other-than-temporary, is recorded as a realized loss and is reported in net income. Factors considered in evaluating whether a decline in value is other-than-temporary include: 1) whether the decline is substantial; 2) the amount of time that the fair value has been less than cost; 3) the financial condition and near-term prospects of the issuer; and 4) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

For loan-backed bonds and structured securities, anticipated prepayments at the date of purchase are considered when determining the amortization of discount or premium. The cash flows of loan-backed and structured securities are reviewed to ensure that any movement in the expected prepayment assumptions of the security is reflected in the adjusted book value of the asset. Bloomberg Professional service is used to determine the average prepayment speed adjustments for the underlying collateral on the security and payment windows on the securities are entered into the investment system, which generates the book values. Significant changes in estimated cash flow from the original purchase assumptions are generally accounted for using the retrospective method. The prospective method is used for interest only securities or securities where the yield becomes negative, if any.

Premium Revenue Recognition — Typically, financial guaranty premium is received either on an upfront or installment basis. In general, premiums from insured tax-exempt obligations are received on an upfront basis. Up-front premiums are earned based on the proportion of principal 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. Unearned premiums represent that portion of premiums which is applicable to coverage of risk to be provided in the future on policies in force. Installment premiums are earned over each installment period, which is generally one year or less. When an insured issue is retired or defeased prior to the end of the expected period of coverage, the remaining unearned premiums, less any amount credited to a refunding issue insured by the Company, are recognized as earned premium. The amounts earned from refundings were $7.0 million and $4.1 million in 2010 and 2009, respectively.

Other Income Revenue Recognition — The Company collects dividends from its subsidiary, ACA Service, L.L.C. related to its prior CDO asset management business. These dividends are recorded as other income. The Company also collects fees in connection with the granting of waivers and consents in connection with insured tax-exempt transactions. These fees are recognized by the Company as other income when the cash is received.

Losses and Loss Adjustment Expenses — 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 Admitted Assets, Liabilities and Surplus (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. At December 31, 2010 and 2009, the weighted average discount factor used by the Company to present value its loss reserves was 4.50%. 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. Loss reserves are discounted at a rate equal to the average rate of return on admitted 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.

See Note 2 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 Admitted Assets, Liabilities and Surplus because a payment default by the issuer of the insured obligation has not yet occurred. In addition, see Note 7 for a reconciliation of the beginning and ending balances of the reserve for losses and loss adjustment expenses as of December 31, 2010 and 2009.

Surplus Notes — As discussed in Note 2, as part of the Restructuring Transaction, surplus notes of $1 billion were issued to former structured credit counterparties, and the existing shareholders. These notes have been recorded in the surplus notes section of the Statements of Admitted Assets, Liabilities and Surplus with an offsetting $1 billion contra account since earnings are not attributable to the surplus notes until approved by the MIA. Upon the MIA's approval of payment, such payment will reduce the Company's unassigned surplus and contra account. The Company requested and received approval from the MIA to treat its recording of the surplus notes as a permitted accounting practice because such treatment deviates from the statutory accounting treatment of notes issued at a discount. Under SAP, the accretion of the discount is recorded in the Company's statement of income. The recording of the approval and payment represents the only deviation from the NAIC prescribed accounting practices and does not have a net impact on the Company's financial statements.

Contingency Reserve —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 Statements of Admitted Assets, Liabilities and Surplus. 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 derecognize, under certain circumstances, 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 request and 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.

Federal Income Taxes — Deferred tax assets and liabilities are provided for the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities. The change in the deferred tax assets and liabilities are charged or credited to surplus. Deferred tax assets are non-admitted to the extent they exceed factors such as taxes paid in prior years and 10% of surplus.

New Accounting Pronouncements —

In December, 2009, the NAIC issued SSAP 100, *Fair Value Measurements* ("SSAP 100"). SSAP 100 defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value. SSAP 100 applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value amendments. The Company adopted SSAP 100 in its financial statements filed in its Annual Statement for the year ended December 31, 2010. The effect of adoption was not material to the Company's financial statements.

In December 2009, the Statutory Accounting Principles Working group adopted the non-substantive exposed revisions to Statement of Statutory Accounting Principles (SSAP) No. 9, *Subsequent Events* ("SSAP 9"). These revisions adopt Financial Accounting Standards 165, Subsequent Events ("FAS 165" or ASC 855) for statutory accounting. The Company has adopted SSAP 9 and evaluated events subsequent to December 31, 2010 and through the financial statement issuance date of May23, 2011. There were no subsequent events that would have an impact on the Company's financial statements.

In December 2009, the NAIC issue SSAP No. 10R, *Admission Guidance for Deferred Tax Assets Revised*. This pronouncement provides revised guidance on the accounting of deferred tax assets. SSAP 10R supersedes SSAP No. 10 *Admission Guidance for Deferred Tax Assets* and is effective for annual statements ending December 31, 2009. The Company adopted SSAP 10R — as discussed in Note 9 (Income Taxes).

In December 2009, the NAIC issue SSAP No. 60 *Financial Guaranty Insurance*. This pronouncement provides disclosure requirements of financial guaranty business. The Company adopted SSAP 60 — as discussed in Note 19 (Financial Guaranty Insurance).

In September 2009, the NAIC issued SSAP No. 43R, *Loan Backed and Structured Securities-Revised* ("SSAP 43R"). This pronouncement provides revised guidance on the accounting and impairment treatment for loan-backed and structured securities. SSAP 43R supersedes SSAP No. 43- Loan-backed and Structured Securities (SSAP No. 43), SSAP No. 98 — Treatments of Cash Flows When Quantifying Changes in Valuations and Impairments, an Amendment of SSAP No. 43 (SSAP No. 98) and paragraph 13 of SSAP No. 99 — Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment (SSAP No. 99). This statement is effective for reporting periods ending on or after September 30, 2009. The Company adopted SSAP 43R — as discussed in Note 6 (Investments).

5. SUMMARY OF SIGNIFICANT DIFFERENCE BETWEEN SAP AND GAAP

The accompanying statutory-basis financial statements have been prepared in conformity with NAIC SAP, which differs in some respects from GAAP. Following is a description of the differences between the Company's significant SAP accounting policies and pertinent GAAP.

- Under SAP, upfront premiums are earned in proportion to the scheduled periodic maturity of principal and payment of interest pursuant to the debt service schedule in the bond indenture to the total principal and scheduled interest insured. Additionally, under SAP, installment premiums are earned on a straight-line basis over each installment period (which periods are generally one year or less). Under GAAP, premium revenue is recognized over the period of the contract in proportion to the amount of insurance protection provided. Upfront and installment premium revenue is earned by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. Additionally, under GAAP, installment premiums receivable are recorded at the present value of the premiums due or expected to be collected over the period of the insurance contract using a discount rate which reflects the risk-free rate at the inception of the contract;

- under SAP, acquisition costs are charged to operations as incurred rather than GAAP's requirement to defer and amortize the costs as the related premiums are earned;

- under SAP, a mandatory contingency reserve is computed and recorded on the basis of statutory requirements, whereas under GAAP such reserves are not permitted;

- under SAP, losses on financial guaranty insurance policies are recognized upon a payment default by the issuer of the insured obligation whereas, under GAAP, losses on financial guaranty insurance policies are recognized based on the weighted average probability of net cash outflows to be paid under the insurance contract. In addition, under SAP, reserves for losses are discounted at a rate equal to the average rate of return on admitted assets, whereas under GAAP loss reserves are

discounted using a risk-free rate as of the measurement date and are reported net of the liability at such date for unearned premium revenue;

- under SAP, certain assets which are determined to be non-admissable under SAP (such as furniture and equipment, leasehold improvements, deferred income taxes in excess of certain limitations, prepaid expenses and any other assets deemed non-admittable) are excluded from the balance sheet and charged directly to unassigned surplus whereas, under GAAP, these amounts are reflected as assets;

- investments in bonds are generally carried at amortized cost under SAP. Accordingly, unrealized changes in fair value are not reflected in the statutory-based statements of income and changes in capital and surplus or the statutory statements of admitted assets, liabilities and surplus. Bonds not qualified to be carried at amortized cost under SAP are carried at fair value as required by the NAIC with the differences between these values recorded directly to unassigned surplus net of an adjustment for deferred federal income taxes. Under GAAP investments in bonds are classified at the time of purchase as “held to maturity” and reported at amortized cost, or “trading” and reported at fair value with unrealized gains and losses included in earnings, or “available for sale” and reported at fair value with unrealized gains and losses reported in a separate component of shareholders’ equity net of an adjustment for deferred federal income taxes;

- under SAP, investment in the Company’s wholly owned subsidiaries are accounted for under the statutory equity method of accounting, whereas under GAAP such subsidiaries are consolidated into the financial statements of the Company;

- under SAP, reserves for unpaid losses and unearned premiums are presented net of reinsurance, whereas under GAAP such amounts are presented gross of reinsurance and corresponding assets for reinsurance recoverable on unpaid losses and prepaid reinsurance premiums;

- under SAP, surplus notes are treated as equity and reported as part of capital and surplus, whereas under GAAP surplus notes are accounted for as liabilities.

Although the net effect of the adjustments required to convert the accompanying statutory-basis financial statements to be in accordance with GAAP is not reasonably determinable, it is presumed that such adjustments would have a material effect on net income and surplus as regards policyholders for the years ended December 31, 2010 and 2009, respectively.

6. INVESTMENTS

Bonds, with an amortized cost of $4.7 million were on deposit with various state regulatory authorities as required by insurance regulations at December 31, 2010 and 2009. Net investment income consisted of the following (dollars in thousands) for the years ended December 31, 2010 and 2009:

	2010	2009
Income from fixed-maturity securities	$ 19,073	$ 18,072
Income from cash equivalents and short-term investments	54	56
Investment expenses	(763)	(1,372)
Investment income	$ 18,364	$ 16,756

The amortized cost and estimated fair value of long-term bonds as of December 31, 2010 and 2009, were as follows (dollars in thousands):

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. — Treasury securities	$ 4,893	$ 287	$ -	$ 5,180
Federal-agency securities	8,127	537	-	8,664
Obligations of states and political subdivisions	3,397	174	(57)	3,514
Corporate securities	182,199	9,705	(603)	191,301
Asset-backed securities	30,812	1,292	(734)	31,370
Mortgaged-backed securities	204,628	7,712	(927)	211,413
	$ 434,056	$ 19,707	$ (2,321)	$ 451,442

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. — Treasury securities	$ 4,895	$ 369	$ -	$ 5,264
Federal-agency securities	48,434	3,649	-	52,083
Obligations of states and political subdivisions	1,789	228	-	2,017
Corporate securities	174,446	5,569	(1,367)	178,648
Asset-backed securities	17,715	1,024	(1,383)	17,356
Mortgaged-backed securities	122,168	3,256	(1,291)	124,133
	$ 369,447	$ 14,095	$ (4,041)	$ 379,501

The amortized costs and estimated fair value of long-term bonds at December 31, 2010, by contractual maturity, are shown below (dollars in thousands). Actual maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations which may or may not include call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 8,856	$ 9,028
Due after one year through five years	134,077	141,224
Due after five years through ten years	30,857	32,938
Due after ten years	24,826	25,469
Sub-totals	198,616	208,659
Asset-backed securities	30,812	31,370
Mortgaged-backed securities	204,628	211,413
Totals	$ 434,056	$ 451,442

Proceeds from sales of long-term bonds during 2010 and 2009 were $58.1 million and $39.1 million, respectively. Gross gains of $5.7 million and $0.2 million and gross losses of $0.6 million and $4.5 million were realized on those sales in 2010 and 2009, respectively.

The following table summarizes, for all securities in an unrealized loss position at December 31, 2010, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position (dollars in thousands):

	Less Than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. — Treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
Federal agency securities	-	-	-	-	-	-
Obligations of states and political subdivisions	1,565	(57)	-	-	1,565	(57)
Corporate securities	18,098	(262)	2,648	(341)	20,746	(603)
Asset-backed securities	13,015	(481)	1,391	(253)	14,406	(734)
Mortgage-backed securities	79,214	(927)	-	-	79,214	(927)
Total	$ 111,892	$(1,727)	$ 4,039	$ (594)	$ 115,931	$(2,321)

The Company, along with its investment manager, JP Morgan Asset Management, has a securities monitoring process that on a quarterly basis, identifies securities in an unrealized loss position that are potentially other-than-temporarily impaired. This process involves monitoring market events that could impact the issuers' credit ratings, business climate, management changes, litigation and government actions and other similar facts. This process also involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections in a severe negative economic outlook.

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table is a reconciliation of the beginning and ending balances of the reserve for losses and loss adjustment expenses as of December 31, 2010 and 2009 (dollars in thousands):

	2010	2009
Balance — January 1	$ 31,229	$ 20,973
Less reinsurance recoverable	-	-
Net balance — January 1	31,229	20,973
Incurred related to:		
Current year	20,607	8,014
Prior years	3,258	7,150
Total incurred	23,865	15,164
Paid related to:		
Current year	1,462	870
Prior years	3,889	4,038
Total paid	5,351	4,908
Net balance — December 31	49,743	31,229
Plus reinsurance recoverables	-	-
Balance — December 31	$ 49,743	$ 31,229

For the year ended December 31, 2010, the Company recorded a provision for losses of $20.8 million, which consisted of $19.1million of incurred losses related to payment defaults that occurred in 2010 ("current accident year claims") and $1.7 million of incurred losses related to adverse development on

reserves established in years prior to 2010 ("prior accident year claims"). As of December 31, 2010, the Company's liability for unpaid losses was $46.9 million, which related to six insured transactions, with a remaining aggregate in-force par outstanding of $90.6 million, excluding the aforementioned case reserves. The Company recorded LAE incurred of $3.0 million in 2010 and unpaid LAE of $2.8 million as of December 31, 2010.

For the year ended December 31, 2009, the Company recorded a provision for losses of $10.4 million, which consisted of $7.4 million of incurred losses related to current accident year claims and $3.0 million of incurred losses related to prior accident year claims. As of December 31, 2009, the Company's liability for unpaid losses was $29.3 million, which related to five insured transactions, with a remaining aggregate par outstanding of $57.5 million, excluding the aforementioned case reserves. The Company recorded LAE incurred of $4.7 million in 2009 and unpaid LAE of $1.9 million as of December 31, 2009.

8. REINSURANCE

As of and for the years ended December 31, 2010 and 2009, amounts reinsured were as follows (dollars in thousands):

	2010	2009
Income and expenses:		
Written premiums ceded	$ -	$ -
Written premiums assumed	-	-
Earned premiums ceded	46	87
Earned premiums assumed	830	256
Loss and loss-adjustment-expense payments ceded	-	-
Loss and loss-adjustment-expense payments assumed	-	-
Assets and liabilities:		
Unearned-premium reserve ceded	375	421
Unearned-premium reserve assumed	5,981	6,811
Loss and loss-adjustment-expense reserves ceded	-	-
Loss and loss-adjustment-expense reserves assumed	-	-
Off balance sheet balances:		
Principal outstanding ceded	16,852	17,941
Principal outstanding assumed	829,873	929,274

The Company ceded a portion of its business to other non-affiliated insurance and reinsurance companies and reduced its estimated liabilities for unpaid losses and loss adjustment expenses and unearned premiums accordingly. A contingent liability exists relating to such reinsurance in the event that the reinsurer becomes unable to meet its obligations under the terms of the reinsurance agreement; in which event the Company would be liable for such defaulted amounts. There were no unpaid losses and loss adjustment expenses ceded to non-affiliated insurance and reinsurance companies at December 31, 2010 and 2009, while unearned premiums ceded were $0.4 million at December 31, 2010 and 2009.

9. INCOME TAXES

The actual tax expense on income from operations differs from tax expense calculated at the U.S. statutory tax rate. A reconciliation of the Company's income tax expense together with the significant book to tax adjustments for the years ended December 31, 2010 and 2009, is set forth below (dollars in thousands):

	2010	2009
Loss before income taxes	$ (8,763)	$ (6,480)
Expected tax expense at 35%	$ (3,067)	$ (2,268)
Change in contingency reserve	(3,917)	(3,917)
Dividends from subsidiaries	(429)	-
Tax exempt interest — net of proration	(45)	(86)
Change in statutory valuation allowance	15,633	35,974
Reduction in a NOL for cancellation of indebtedness	-	17,880
Addition of non-consolidated subsidiaries' DTA's	-	(6,943)
Prior year tax adjustment and other	(2,195)	(6,383)
Total statutory tax expense	$ 5,980	$ 34,257

The Company generated a combined net operating loss of approximately $240 million during 2008 which was available to offset future net income subject to federal income tax. The net operating loss was reduced by $51 million, which was the tax benefit related to the cancellation of indebtedness income excluded by its disregarded subsidiary, ACA Service, L.L.C.

On November 6, 2009 the "Worker, Homeownership, and Business Assistance Act of 2009" was enacted that, in addition to other provisions, extended the carryback period from two years to up to five years for net operating losses (NOL's) incurred in 2008 or 2009.

In January 2010 the Company filed an expedited NOL carryback claim to recoup $51.4 million. The refund was received in February 2010.

At December 31, 2010, the Company had net operating loss carryfowards expiring through the year 2030 of $50.9 million, capital loss carryforwards expiring through the year 2014 of $73.1 million and AMT credit carryforwards, which do not expire, in the amount of $0.6 million.

The Company files its tax return on a standalone basis.

The components of the net deferred tax assets and deferred tax liabilities are as follows (dollars in thousands):

	December 31,	
Description	**2010**	**2009**
Gross deferred tax assets	$ 84,999	$ 75,741
Gross deferred tax liabilities	(140)	(3)
Net deferred tax asset	84,859	75,738
Statutory Valuation Allowance Adjustment	(51,109)	(35,974)
Non-admitted deferred tax asset	33,750	39,764
Net admitted deferred tax asset	-	-
Decrease in non-admitted deferred tax assets	$ 6,014	$ 89,493

The components of federal income tax benefits are as follows (dollars in thousands):

Description	December 31, 2010	December 31, 2009
Current year benefit	$ -	$ (51,373)
Prior year under accrual	(34)	(3,863)
Current income tax benefit	$ (34)	$ (55,236)

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

	December 31, 2010	December 31, 2009	Change
Deferred tax assets:			
Ordinary			
Net operating loss carryforward	$ 17,803	$ 11,664	$ 6,139
Contingency reserve	33,890	29,974	3,916
Unearned premiums reserve	6,666	5,885	781
Loss reserve discounting	55	12	43
Tax credit carryforward	615	-	615
Other temporary differences	374	959	(585)
Gross ordinary deferred tax assets	59,403	48,494	10,909
Statutory valuation adjustment - ordinary	(25,513)	(8,934)	(16,579)
Non-admitted ordinary deferred tax assets	(33,750)	(39,557)	5,807
Gross ordinary admitted deferred tax assets	140	3	137
Capital			
Net capital loss carryforward	25,596	27,040	(1,444)
Unrealized capital losses	-	207	(207)
Gross capital deferred tax assets	25,596	27,247	(1,651)
Statutory valuation adjustment - capital	(25,596)	(27,040)	1,444
Non-admitted capital deferred tax assets	-	207	(207)
Gross capital admitted deferred tax assets	-	-	-
Gross ordinary deferred tax liabilities — fixed assets	(140)	-	(140)
Gross ordinary deferred tax liabilities — investments	-	(3)	3
Net admitted deferred tax assets	$ -	$ -	$ -

The Company has not elected to admit deferred tax assets pursuant to paragraph 10.e. of SSAP 10R for 2010 and 2009.

The change in net deferred income taxes is comprised of the following (exclusive of non-admitted assets, dollars in thousands):

	December 31,	
	2010	2009
Total deferred tax assets — January 1	$ 39,767	$ 129,266
Total deferred tax liabilities — January 1	3	9
Net deferred tax asset — January 1	39,764	129,257
Net deferred tax asset — December 31	33,750	39,764
Change in net deferred asset	(6,014)	(89,493)
Tax effect of unrealized losses	-	-
Change in net deferred income tax	$ (6,014)	$ (89,493)

There were no reserves for tax contingencies as required under SSAP 5, *Liabilities, Contingencies and Impairments of Assets*, as of December 31, 2010 and 2009.

10. OUTSTANDING EXPOSURE UNDER IN-FORCE FINANCIAL GUARANTY INSURANCE CONTRACTS

While the Company establishes reserves for losses and loss adjustment expenses on obligations on which it has received a claim notice (see Note 4), 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 1). The tables below reflect certain information regarding the Company's in-force par exposure at December 31, 2010 and 2009 (dollars in millions):

	2010		2009	
	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
Tax-exempt:				
Healthcare	$ 708	11.9 %	$ 752	11.7 %
Tax backed	663	11.2	836	13.0
Education	1,241	20.9	1,291	20.0
Long-term care	461	7.8	487	7.5
General obligations	1,047	17.6	1,072	16.6
Utilities	118	2.0	199	3.1
Transportation	419	7.1	436	6.8
Not for profit	444	7.5	466	7.2
Housing	283	4.8	305	4.7
Other	238	4.0	300	4.6
Total public finance obligations	5,622	94.8	6,144	95.2
Taxable obligations — other	311	5.2	311	4.8
Total	$ 5,933	100.0 %	$ 6,455	100.0 %

The following table sets forth, by state, those states in which the Company has the largest net par outstanding of insured tax-exempt obligations (dollars in millions):

	December 31, 2010		December 31, 2009	
	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
California	$ 1,036	18.4 %	$ 1,070	17.4 %
New York	827	14.7	853	13.9
Texas	358	6.4	417	6.8
Washington	329	5.9	355	5.8
Massachusetts	301	5.4	328	5.3
Other states	2,771	49.3	3,121	50.8
Total tax-exempt obligations	$ 5,622	100.0 %	$ 6,144	100.0 %

The principal amount of insured obligations as of December 31, 2010, in the insured portfolio, net of amounts ceded, and the terms to maturity were as follows (dollars in millions). Actual maturities could differ from final maturities because borrowers have the right to refund or prepay certain obligations.

Terms to Maturity	
0 to 5 years	$ 963
5 to 10 years	1,087
10 to 15 years	1,310
15 to 20 years	1,521
20 and above	1,052
Total	$ 5,933

Debt service on insured obligations for 2011 is approximately $480 million.

11. RELATED PARTY TRANSACTIONS

The payable (receivable) from subsidiaries at December 31, 2010 and 2009, are as follows (dollars in thousands):

	2010	2009
Payable to ACA Capital Singapore Pte Ltd	$ -	$ 430
Receivable from ACA Service LLC	-	(13)
Net intercompany payables	$ -	$ 417

12. BENEFIT PLANS

The Company sponsors a defined contribution plan, which covers all full time employees as of their start date. Eligible participants may contribute a percentage of their salary, subject to IRS limitations. The Company's contributions are based on a fixed percentage of employees' contributions subject to IRS limitations. The Company's expense for the plan was $0.2 million for the years ended December 31, 2010 and 2009. As of December 31, 2010 and 2009 the fair value of the plan assets was $6.1 million and $6.6 million, respectively.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements—Pursuant to SSAP No. 100, *Fair Value Measurements*, the fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant when valuing increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

The hierarchy defined by SSAP No. 100 gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 — Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 — Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 — Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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 Admitted Assets, Liabilities and Surplus at December 31, 2010 that are measured at fair value. 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 tables below present the estimated fair value of investments carried by the Company at fair value at December 31, 2010 and 2009 by the SSAP No. 100 fair value hierarchy:

December 31, 2010	Level 1	Level 2	Level 3	Total
Assets at fair value on a nonrecurring basis — bonds	$ -	$ 1,547,305	$ -	$ 1,547,305
Total assets at fair value	$ -	$ 1,547,305	$ -	$ 1,547,305

The Company did not hold securities that are Level 3 investments as of December 31, 2010.

December 31, 2009	Level 1	Level 2	Level 3	Total
Assets at fair value on a nonrecurring basis — bonds	$ -	$ 1,499,033	$ 1,120,000	$ 2,619,033
Total assets at fair value	$ -	$ 1,499,033	$ 1,120,000	$ 2,619,033

The Company held two securities that are Level 3 investments as of December 31, 2009.

The following tables set forth certain information regarding other than temporary impairment charges recorded during the years ended December 31, 2010 and 2009, respectively.

		Year Ended December 31, 2010			
CUSIP	Security Name	Amortized Cost Prior to Impairment	Impairment	Fair Value	Amortized Cost After the Impairment
852060-AT-9	Sprint Capital	$ 1,100,307	$ 241,807	$ 858,500	$ 858,500
26156F-AA-1	Dresdner Fndg Trust I	642,782	212,782	430,000	430,000
126671-R4-0	Countrywide Asset-Backed Certs	398,133	139,328	258,805	258,805
	Total	$ 2,141,222	$ 593,917	$ 1,547,305	$ 1,547,305

		Year Ended December 31, 2009			
CUSIP	Security Name	Amortized Cost Prior to Impairment	Impairment	Fair Value	Amortized Cost After the Impairment
1248MBAJ4	Credit-Based Asset Servicing	$ 1,998,807	$ 549,807	$ 874,440	$ 1,449,000
46601WBE4	Ixion	11,055,174	9,935,174	1,120,000	1,120,000
496820AB7	Kingsway America Inc	590,101	253,063	337,038	337,038
	Total	$ 13,644,082	$ 10,738,044	$ 2,331,478	$ 2,906,038

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments. These determinations were based on available market information and valuation methodologies. Considerable judgment is required to interpret market data to develop estimates and therefore, estimates may not necessarily be indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair-value amounts.

Bonds — The carrying amount of bonds represents amortized cost. The estimated fair value of bonds as discussed in Note 4 is generally based on independent market quotations. The estimated fair value approximates the SVO market value

Cash and Short-Term Investments — The carrying amounts of these items are reasonable estimates of their fair value (dollars in thousands).

	As of December 31, 2010		As of December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Bonds	$ 434,056	$ 451,442	$ 369,447	$ 379,501
Short-term investments	17,059	17,059	35,941	35,941
Cash on hand and on deposit	8,940	8,940	1,690	1,690

14. RESTRICTED BALANCES

As mentioned in Note 6, Investments, the Company has assets on deposit with various regulatory authorities. In addition, as of December 31, 2010 and 2009, the Company had on $64 thousand and $2.7 million on deposit with its landlord as collateral under its office lease obligations (see Note 17), which were non-admitted.

15. REGULATORY MATTERS

As disclosed in Note 2, Restructuring Transaction, the Company is currently operating under the Order issued by the MIA. As of December 31, 2010, the Company's policyholders' surplus, as determined in accordance with statutory-basis accounting practices, was $122.5 million. Such amount was in excess of the minimum capital and surplus level required by the MIA.

In addition to the MIA, the insurance departments of certain other states have various requirements relating to the maintenance of certain minimum statutory-basis capital and reserves, single risk limits and limits on non-investment grade obligations. As a runoff company, the Company is reviewing its compliance with each of the state's various requirements and may not be in compliance with all state requirements.

Under Maryland insurance law, the Company may pay a dividend without the prior approval of the Commissioner of the MIA from earned surplus, as defined, subject to the maintenance of a minimum-capital requirement, and the dividend, which, together with all dividends declared or distributed by it during the preceding twelve months, may not exceed the lesser of 10% of policyholders' surplus shown on its last annual statement, or net investment income, as defined, for such twelve-month period. In addition, as part of the Company's restructuring discussed in Note 2, the surplus notes restrict the Company from paying dividends without the prior approval of the surplus note holders. The Company has negative earned surplus and therefore, is not able to pay dividends in 2011 other than extraordinary dividends as allowed by the MIA. No dividends were paid during 2010 or 2009.

The portion of unassigned surplus increased (reduced) by each item below at December 31, 2010 and 2009, is as follows:

	2010	2009
a. Unrealized gains (losses) on bonds	$ -	$ 591
b. Non-admitted asset values	(34,357)	(44,709)

16. CONTINGENCIES

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 FG 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. The Company filed a demurrer on February 8, 2011 responding to the plaintiff's third amended complaint. 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 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. 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 orders striking all portions of the amended complaint inconsistent with the April 28 dismissal and holding the plaintiff could proceed with a claim under New Mexico's Fraud Against Taxpayers Act for conduct after July 1, 2007. The Company intends on renewing its motion to dismiss for lack of jurisdiction.

The Company is a party to a lawsuit in the Supreme Court of the State of New York, County of New York, in connection with certain indemnifications made to the Company by ACACH. The extent of liability to the Company, if any, would be for the fees and expenses of ACACH. 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 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.

17. LEASES

During 2010 ACA FG finalized negotiations with a new tenant for all of its office space at 140 Broadway, New York, New York. Under the terms of the transaction, ACA FG was released from its obligations under the lease, its security deposit of $2.7 million was returned and it made cash payments of $11.7 million. As a result of the lease termination, ACA FG recognized a loss of approximately $13 million during 2010, which includes a charge-off of the carrying value of leasehold improvements

and furniture and fixtures related to the aforementioned leased space. Also, during 2010, ACA FG leased new office space at 600 Fifth Avenue, New York, New York through September 30, 2016.

At December 31, 2010, expected future minimum lease payments under its lease at 600 Fifth Avenue are as follows (dollars in thousands):

2011	$ 548
2012	548
2013	548
2014	594
2015	624
Beyond 5 years	479
	$ 3,341

The Company's rental expense for the years ended December 31, 2010 and 2009 was $1.0 million and $2.4 million, respectively.

18. SURPLUS NOTES

Interests in the Surplus Notes issued in connection with the Restructuring Transaction (see Note 2) are either in the form of voting interests or non-voting interests. Surplus Notes issued to the former insured swap counterparties represent voting and non-voting interests (at each counterparty's individual discretion) while notes issued to ACAH represent non-voting interests. By their terms the Surplus Notes are subordinate to the claims of policyholders, claimant and beneficiary claims, and to all other classes of creditors other than Surplus Note holders. However, claims under the Surplus Notes are superior to claims of preferred and common shareholders of the Company. Payments under the Surplus Notes of either principal or interest can only be paid out of the surplus of the Company after the Company provides for all reserves and other liabilities and only with the prior written approval of the MIA. The Surplus Note holders can request that the Company seek such approval.

Among others, holders of the Surplus Notes with voting interests have rights regarding the appointment of directors and amendments to the Surplus Notes. Each holder with greater than 10% voting rights has disclaimed control over the Company. This disclaimer has been approved by the MIA.

Pursuant to the Surplus Notes, the Company provides certain covenants which generally limit the activities of the Company and its subsidiaries to operating as a run-off business.

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19. FINANCIAL GUARANTY INSURANCE

The Company has not recorded unearned premiums related to installment payments nor has it recorded premiums receivable on installment contracts at December 31, 2010.

The future expected earned premium revenue on non-installment contracts as of December 31, 2010 are as follows:

1st Quarter 2011	$ 2,427,883
2nd Quarter 2011	1,970,065
3rd Quarter 2011	2,952,899
4th Quarter 2011	2,502,557
Year 2011	9,853,404
Year 2012	9,252,565
Year 2013	9,175,056
Year 2014	9,233,643
Year 2015	9,001,256
2016 through 2020	44,151,362
2021 through 2025	40,678,059
2026 through 2030	33,307,896
2031 through 2035	21,224,507
2036 through 2040	4,322,068
2041 through 2045	250,220
Total	$ 190,450,036

Significant components of the change in the claim liability for the period are as follows:

Components	**Amounts**
Losses and LAE reserve prior year	$ 31,229,797
Accretion of the discount	801,846
Change in timing	-
New reserves for defaults of insured contracts	19,353,952
Change in deficiency reserves	(1,642,665)
Change in incurred but not reported claims	-
Losses and LAE reserve current year	$ 49,742,930

The Company’s credit quality classifications are as follows:

Category 1: Fully Performing

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.

Risk management activities are performed by ACA FG'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. Ratings 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 FG's judgment of potential performance volatility and varies according to credit classification, sector, geography, size of exposure, and exogenous events.

Insured financial obligations as of December 31, 2010 are as follows:

	Credit Quality Categories				
	1	**2**	**3**	**4**	**Total**
Number of policies	362	101	32	38	533
Remaining weighted-average contract period (in years)	13	13	14	13	
Insured contractual payments outstanding:					
Principal	$4,046,977,854	$1,047,496,888	$503,589,832	$334,971,735	$ 5,933,036,309
Interest	2,602,878,982	733,211,867	461,358,946	313,818,852	4,111,268,647
Total	$6,649,856,836	$1,780,708,755	$964,948,778	$648,790,587	$10,044,304,956
Gross claim and LAE liability	$ -	$ 175,000	$ 225,000	$ 79,299,159	$ 79,699,159
Less:					
Gross potential recoveries	-	-	-	3,208,481	3,208,481
Discount — net	-	-	-	26,747,747	26,747,747
Net claim and LAE liability	$ -	$ 175,000	$ 225,000	$ 49,342,931	$ 49,742,931
Unearned premium revenue	$ 103,196,017	$ 39,805,279	$ 33,471,069	$ 13,977,671	$ 190,450,036
Claim and LAE liability reported in the balance sheet	$ -	175,000	225,000	49,342,931	49,742,931
Reinsurance recoverables	$ -	-	-	-	-

20. ADJUSTMENTS TO AMOUNTS REFLECTED IN THE ACCOMPANYING FINANCIAL STATEMENTS TO THE FINANCIAL STATEMENTS IN THE COMPANY'S 2010 ANNUAL STATEMENT

The accompanying financial statements as of and for the year ended December 31, 2010 differ from the financial statements as of and for the year ended December 31, 2010 in the 2010 Annual Statement as follows:

(dollars in thousands) Financial Statement Line Item	As Reported in the Annual Statement	Adjustment	As Reported in the Audited Financial Statement
December 31, 2010:			
Total admitted assets	$ 464,796	$ -	$ 464,796
Total liabilities	357,595	(15,265)	342,330
Total surplus	107,201	15,265	122,466
Net loss	(23,994)	15,265	(8,729)

The adjustments indicated above relate to a correction made to the Company's recorded loss reserves subsequent to the filing of the 2010 Annual Statement.

There are no differences between the accompanying 2009 financial statements and the corresponding financial statements included in the Company's 2009 Annual Statement.

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SUPPLEMENTAL SCHEDULES

ACA FINANCIAL GUARANTY CORPORATION

SUPPLEMENTAL SUMMARY OF INVESTMENT SCHEDULE AS OF DECEMBER 31, 2010

Investment Categories	Gross Investment Holdings Under NAIC		Admitted Assets as Reported in the Annual Statement	
Bonds:				
U.S. treasury securities	$ 4,893,267	1.1 %	$ 4,893,267	1.1 %
U.S. government agency and corporate obligations (excluding mortgage-backed securities) — issued by U.S. government sponsored agencies	8,126,590	1.8	8,126,590	1.8
Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
States, territories and possessions general obligations				
Political subdivisions of states, territories and possessions and political subdivisions general obligations				
Revenue and assessment obligations	3,397,009	0.7	3,397,009	0.7
Mortgage-backed securities (includes residential and commercial MBS) pass-through securities:				
Issued or guaranteed by GNMA	77,023,432	16.7	77,023,432	16.7
Issued or guaranteed by FNMA and FHLMC	34,742,117	7.5	34,742,117	7.5
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	19,058,215	4.1	19,058,215	4.1
Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by GNMA, FNMA, FHLMC or VA				
All other	73,999,535	16.0	73,999,535	16.0
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	167,832,642	36.4	167,832,642	36.4
Unaffiliated foreign securities	44,983,619	9.8	44,983,619	9.8
Receivable for securities				
Cash, cash equivalents and short-term investments	25,999,054	5.6	25,999,054	5.6
Other invested assets	1,090,454	0.2	1,090,454	0.2
Total invested assets	$461,145,934	100.0 %	$461,145,934	100.0 %

ACA FINANCIAL GUARANTY CORPORATION

SUPPLEMENTAL SCHEDULE OF INVESTMENT RISK INTERROGATORIES
AS OF DECEMBER 31, 2010

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

Reporting entity's total admitted assets as reported on Page 3 of this annual statement

1. $464,795,669

2. Ten largest exposures to a single issuer/borrower/investment.

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Citigroup Inc.	Other Debt / Unaffiliated Domestic	$21,171,690	4.6 %
2.02	Bank of America	Other Debt / Unaffiliated Domestic	12,693,288	2.7
2.03	Commercial Mortgage Pass-Through	MBS CMO / REMIC / Other Prvt Issued	12,531,602	2.7
2.04	Wells Fargo	Other Debt / Unaffiliated Domestic	11,837,155	2.6
2.05	Goldman Sachs Group Inc.	Other Debt / Unaffiliated Domestic	11,760,635	2.5
2.06	Bear Stearns Commercial Mortgage	MBS CMO / REMIC / Other Prvt Issued	11,012,773	2.4
2.07	Morgan Stanley	Other Debt / Unaffiliated Domestic	9,895,009	2.1
2.08	Wachovia Bank Commercial Mortgage	MBS CMO / REMIC / Other Prvt Issued	7,849,145	1.7
2.09	General Electric Capital Corp.	Other Debt / Unaffiliated Domestic	7,138,907	1.5
2.10	Coca Cola Co	Other Debt / Unaffiliated Domestic	6,898,069	1.5

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds				Preferred Stocks		
3.01	NAIC-1	$397,470,831	85.8 %	0.00	P/RP-1	$ -	- %
3.02	NAIC-2	50,228,621	10.8	0.00	P/RP-2		
3.03	NAIC-3	858,500	0.2	0.00	P/RP-3		
3.04	NAIC-4	-	0.0	0.00	P/RP-4		
3.05	NAIC-5	770,747	0.2	0.00	P/RP-5		
3.06	NAIC-6	1,787,021	0.4	0.00	P/RP-6		

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes ( ) No(X)

4.02 Total admitted assets held in foreign investments: $44,983,619 9.7%

4.03 Foreign-currency-denominated investments: $__________ _____%

4.04 Insurance liabilities denominated in that same foreign currency: $__________ _____%

If response to 4.01 is yes, responses are not required for interrogatories 5–10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

   Countries rated NAIC-1 $44,983,619 9.7%

6. Two largest foreign investment exposures to a single country, categorized by NAIC sovereign rating:

   Country: United Kingdom $19,804,059 4.3%

   Country: Luxembourg $7,101,586 1.5%

7. Aggregate unhedged foreign currency exposure $__________ ___%

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating: N/A

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating: N/A

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

1 Issuer	2 NAIC Rating	3	4
ACA ABS 2007-3	1	5,132,795	1.1 %
Standard Chartered Plc	1	4,257,277	0.9
Telecom Italia Capital	2	4,109,758	0.9
British Telecom Plc	2	4,099,617	0.9
Abbey National Treasury Service	1	3,999,124	0.9
Anglo America Capital	2	3,389,222	0.7
Credit Suisse New York	1	3,183,086	0.7
Macquarie Group Ltd	1	3,130,322	0.7
Barclays Bank Plc	1	3,123,937	0.7
Tyco International Finance	1	2,991,829	0.6

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure.

    11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes (X) No ( )

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

    12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes (X) No ( )

    12.02 If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

    13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes (X) No ( )

    If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13.

14. Amounts and percentages of the reporting entity’s total admitted assets held in nonaffiliated, privately placed equities:

    14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity’s total admitted assets? Yes (X) No ( )

    If response to 14.01 is yes, responses are not required for remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity’s total admitted assets held in general partnership interests:

    15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity’s total admitted assets? Yes (X) No ( )

    If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity’s total admitted assets held in mortgage loans:

    16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity’s total admitted assets? Yes (X) No ( )

    If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date — N/A

18. Amounts and percentages of the reporting entity’s total admitted assets held in each of the five largest investments in real estate:

    18.01 Are assets held in real estate in less than 2.5% of the reporting entity’s total admitted assets? Yes (X) No ()

    If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19 Report aggregate amounts and percentages of the reporting entity’s total admitted assets held in investments held in mezzanine real estate loans:

    19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entities total admitted assets? Yes (X) No ( )

    If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

20 Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At End of Each Quarter			
	At Year-End	1st Qtr	2nd Qtr	3rd Qtr
19.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$ -	$ -	$ -	$ -
19.02 Repurchase agreements				
19.03 Reverse repurchase agreements				
19.04 Dollar repurchase agreements				
19.05 Dollar reverse repurchase agreements				

21 Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		Written	
20.01 Hedging	$ -	- %	$ -	- %
20.02 Income generation				
20.03 Other				

22 Amounts and percentages of the reporting entity's admitted assets of potential exposure for collars, swaps, and forwards:

	At End of Each Quarter				
	At Year-End		1st Qtr	2nd Qtr	3rd Qtr
21.01 Hedging	$ -	- %	$ -	$ -	$ -
21.02 Income generation					
21.03 Replications					
21.04 Other					

23. Amounts and percentages indicated below of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At End of Each Quarter				
	At Year-End		1st Qtr	2nd Qtr	3rd Qtr
21.01 Hedging	$ -	- %	$ -	$ -	$ -
21.02 Income generation					
21.03 Replications					
21.04 Other					

24. State the amounts and percentages of 10 largest investments included in the Write-ins for Invested Assets category included on the Summary Investment Schedule

23.01	Not applicable	$ -	- %
23.02			
23.03			
23.04			
23.05			
23.06			
23.07			
23.08			
23.09			
23.10			

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?
Yes [ ] No [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior yearend surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes [ ] No [X]

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty–five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes [ ] No [X]