2 2 8 9 6 2 0 1 1 2 0 1 0 0 1 0 2

PROPERTY AND CASUALTY COMPANIES —ASSOCIATION EDITION

QUARTERLY STATEMENT

AS OF JUNE 30, 2011

OF THE CONDITION AND AFFAIRS OF THE

ACA Financial Guaranty Corporation

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

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

Country of Domicile United States

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

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

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

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

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

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

Statutory Statement Contact Eugene Thomas Carew (Name) 212-375-2041 (Area Code) (Telephone Number) (Extension)

ecarew@aca.com (E-Mail Address) 212-375-2100 (Fax Number)

OFFICERS

Name	Title	Name	Title
Raymond John Brooks, Jr.	President and CEO	Steven Joseph Berkowitz #	Chief Legal Officer & COO
Arnold Barry Jay Brousell	Treasurer and CFO		

OTHER OFFICERS

DIRECTORS OR TRUSTEES

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

State of ....New York................................

ss

County of ....New York................................

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

Raymond John Brooks, Jr. President and Chief Executive Officer	Steven Joseph Berkowitz Chief Legal Officer & Chief Operating Officer	Arnold Barry Jay Brousell Treasurer & Chief Financial Officer

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

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

Subscribed and sworn to before me this 9th day of August, 2011

Nicolas Kalcanides,

NICOLAS KALCANIDES
Notary Public - State of New York
No. 01KA6227659
Qualified in New York County
My Commission Expires 9/7/14

ASSETS

	Current Statement Date 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 December 31 Prior Year Net Admitted Assets
1. Bonds	420,434,239		420,434,239	434,056,424
2. Stocks:				
2.1 Preferred stocks				
2.2 Common stocks				0
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate:				
4.1 Properties occupied by the company (less $ encumbrances)				
4.2 Properties held for the production of income (less $ encumbrances)				
4.3 Properties held for sale (less $ encumbrances)				
5. Cash ($ 6,585,972), cash equivalents ($) and short-term investments ($ 25,614,436)	32,200,407		32,200,407	25,999,053
6. Contract loans (including $ premium notes)				
7. Derivatives				
8. Other invested assets				1,090,454
9. Receivables for securities				
10. Securities lending reinvested collateral assets				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	452,634,646		452,634,646	461,145,931
13. Title plants less $ charged off (for Title insurers only)				
14. Investment income due and accrued	3,327,268		3,327,268	3,587,675
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection				
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premiums)				
15.3 Accrued retrospective premiums				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers				
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon				
18.2 Net deferred tax asset	37,757,547	37,757,547		
19. Guaranty funds receivable or on deposit				
20. Electronic data processing equipment and software	50,066	52	50,014	39,314
21. Furniture and equipment, including health care delivery assets ($)	240,220	240,220		
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates				
24. Health care ($) and other amounts receivable				
25. Aggregate write-ins for other than invested assets	3,220,684	226,689	2,993,995	22,749
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	497,230,431	38,224,508	459,005,923	464,795,669
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	497,230,431	38,224,508	459,005,923	464,795,669
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)				
2501. Prepaid Expenses	2,148,482	166,184	1,982,298	
2502. Security Deposit	60,167	60,167		
2503. Salvage Recoverable	1,000,000		1,000,000	
2598. Summary of remaining write-ins for Line 25 from overflow page	12,035	338	11,697	22,749
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	3,220,684	226,689	2,993,995	22,749

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year $ 0)	42,972,239	62,132,634
2. Reinsurance payable on paid losses and loss adjustment expenses		
3. Loss adjustment expenses	1,994,922	2,875,000
4. Commissions payable, contingent commissions and other similar charges		
5. Other expenses (excluding taxes, licenses and fees)	4,031,066	4,691,024
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	100,290	105,729
7.1 Current federal and foreign income taxes (including $ on realized capital gains (losses))		
7.2 Net deferred tax liability		
8. Borrowed money $ and interest thereon $		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of $ 357,658 and including warranty reserves of $)	184,819,041	190,450,036
10. Advance premium		
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)		
13. Funds held by company under reinsurance treaties		
14. Amounts withheld or retained by company for account of others		
15. Remittances and items not allocated		
16. Provision for reinsurance		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		
19. Payable to parent, subsidiaries and affiliates		
20. Derivatives		
21. Payable for securities		
22. Payable for securities lending		
23. Liability for amounts held under uninsured plans		
24. Capital notes $ and interest thereon $		
25. Aggregate write-ins for liabilities	103,795,096	97,340,130
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	337,712,654	357,594,553
27. Protected cell liabilities		
28. Total liabilities (Lines 26 and 27)	337,712,654	357,594,553
29. Aggregate write-ins for special surplus funds		
30. Common capital stock	15,000,000	15,000,000
31. Preferred capital stock		
32. Aggregate write-ins for other than special surplus funds		
33. Surplus notes		
34. Gross paid in and contributed surplus	363,974,000	363,974,000
35. Unassigned funds (surplus)	(257,680,731)	(271,772,884)
36. Less treasury stock, at cost:		
36.1 shares common (value included in Line 30 $)		
36.2 shares preferred (value included in Line 31 $)		
37. Surplus as regards policyholders (Lines 29 to 35, less 36)	121,293,269	107,201,116
38. Totals (Page 2, Line 28, Col. 3)	459,005,923	464,795,669
DETAILS OF WRITE-INS		
2501. Contingency Reserve	102,378,425	96,829,169
2502. Collateral Deposit	1,408,573	500,148
2503. Other Payables	8,098	10,813
2598. Summary of remaining write-ins for Line 25 from overflow page		
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	103,795,096	97,340,130
2901.		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page		
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)		
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page		
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)		

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct (written $ 102,187)	5,657,031	6,017,883	15,204,613
1.2 Assumed (written $)	93,853	103,450	
1.3 Ceded (written $)	17,702	17,260	
1.4 Net (written $ 102,187)	5,733,182	6,104,073	15,204,613
DEDUCTIONS:			
2. Losses incurred (current accident year $ 0):			
2.1 Direct	(11,159,166)	16,458,786	36,145,338
2.2 Assumed			
2.3 Ceded			
2.4 Net	(11,159,166)	16,458,786	36,145,338
3. Loss adjustment expenses incurred	643,477	583,992	2,984,849
4. Other underwriting expenses incurred	11,022,275	8,155,284	18,929,944
5. Aggregate write-ins for underwriting deductions		12,986,882	12,986,882
6. Total underwriting deductions (Lines 2 through 5)	506,586	38,184,944	71,047,013
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	5,226,596	(32,080,871)	(55,842,400)
INVESTMENT INCOME			
9. Net investment income earned	9,105,588	8,756,956	18,364,193
10. Net realized capital gains (losses) less capital gains tax of $	2,393,964	1,406,256	5,113,772
11. Net investment gain (loss) (Lines 9 + 10)	11,499,552	10,163,212	23,477,965
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered $ amount charged off $)			
13. Finance and service charges not included in premiums			
14. Aggregate write-ins for miscellaneous income	2,781,561	5,119,206	8,336,095
15. Total other income (Lines 12 through 14)	2,781,561	5,119,206	8,336,095
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	19,507,709	(16,798,453)	(24,028,340)
17. Dividends to policyholders			
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	19,507,709	(16,798,453)	(24,028,340)
19. Federal and foreign income taxes incurred			(34,335)
20. Net income (Line 18 minus Line 19)(to Line 22)	19,507,709	(16,798,453)	(23,994,005)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year	107,201,116	137,456,386	137,456,387
22. Net income (from Line 20)	19,507,709	(16,798,453)	(23,994,005)
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of $	(6,747)	31,679	590,952
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax	4,007,575	7,829,396	(6,013,701)
27. Change in nonadmitted assets	(3,867,128)	(3,771,353)	10,351,973
28. Change in provision for reinsurance			
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders			
36. Change in treasury stock			
37. Aggregate write-ins for gains and losses in surplus	(5,549,256)	(5,549,256)	(11,190,489)
38. Change in surplus as regards policyholders (Lines 22 through 37)	14,092,153	(18,257,986)	(30,255,270)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	121,293,269	119,198,401	107,201,117
DETAILS OF WRITE-INS			
0501. Lease Termination Cost		11,636,032	11,636,032
0502. Fixed Asset Write-off related to Lease Termination		1,350,850	1,350,850
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page			
0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above)		12,986,882	12,986,882
1401. Other Income	561	197,385	194,908
1402. Equity Earnings in Affiliates	2,700,000	4,803,000	7,659,000
1403. Surveillance Consent Fees	81,000	118,821	482,187
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)	2,781,561	5,119,206	8,336,095
3701. Change In Contingency Reserve	(5,549,256)	(5,549,256)	(11,190,489)
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. TOTALS (Lines 3701 through 3703 plus 3798) (Line 37 above)	(5,549,256)	(5,549,256)	(11,190,489)

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance	102,187	260,461	486,855
2. Net investment income	10,098,579	9,653,014	19,995,196
3. Miscellaneous income	2,781,561	5,119,206	8,336,094
4. Total (Lines 1 to 3)	12,982,327	15,032,681	28,818,145
5. Benefit and loss related payments	9,001,229	609,320	3,282,013
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	15,135,253	21,684,074	31,232,239
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of $ .... tax on capital gains (losses)		(51,363,276)	(51,407,611)
10. Total (Lines 5 through 9)	24,136,482	(29,069,883)	(16,893,359)
11. Net cash from operations (Line 4 minus Line 10)	(11,154,155)	44,102,564	45,711,504
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	78,783,254	22,338,722	100,193,931
12.2 Stocks	50,474		784,953
12.3 Mortgage loans			
12.4 Real estate			
12.5 Other invested assets	1,148,356		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments			
12.7 Miscellaneous proceeds			
12.8 Total investment proceeds (Lines 12.1 to 12.7)	79,982,084	22,338,722	100,978,884
13. Cost of investments acquired (long-term only):			
13.1 Bonds	63,620,811	29,000,415	160,523,521
13.2 Stocks			
13.3 Mortgage loans			
13.4 Real estate			
13.5 Other invested assets			
13.6 Miscellaneous applications			
13.7 Total investments acquired (Lines 13.1 to 13.6)	63,620,811	29,000,415	160,523,521
14. Net increase (or decrease) in contract loans and premium notes			
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	16,361,273	(6,661,693)	(59,544,637)
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes			
16.2 Capital and paid in surplus, less treasury stock			
16.3 Borrowed funds			
16.4 Net deposits on deposit-type contracts and other insurance liabilities			
16.5 Dividends to stockholders			
16.6 Other cash provided (applied)	994,236	2,268,340	2,201,602
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	994,236	2,268,340	2,201,602
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	6,201,354	39,709,210	(11,631,531)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	25,999,053	37,630,584	37,630,584
19.2 End of period (Line 18 plus Line 19.1)	32,200,407	77,339,795	25,999,053

NOTES TO FINANCIAL STATEMENTS

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

A. Basis of Accounting

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

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

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

B. Use of Estimates

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

C. Summary of Significant Accounting Policies

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

In addition, when an insured issue is retired early, is called by the issuer or is, in substance, paid in advance through a refunding accomplished by placing U.S. Government securities in escrow (hereafter referred to collectively as "Refundings"), the remaining unearned premium revenue relating to such insured issue is earned at that time since there is no longer risk to the Company. For the six month period ended June 30, 2011 and the year ended December 31, 2010, the Company recorded earned premiums of $1.0 million and $7.0 million, respectively, related to Refundings. Unearned premiums, net of prepaid reinsurance premiums, represent the unearned portion of upfront and installment premiums written.

(2) Short-term investments are stated at amortized cost.

(3) Bonds and loan-backed securities assigned an NAIC Designation of 1 or 2 are valued at cost, adjusted for amortization of any premium, or accretion of any 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 any premium, or accretion of any discount, which is calculated using the constant yield method) or fair value. The prospective method is used to value loan-backed securities. The Company employs State Street Global Services ("State Street") as its third party investment accounting service provider. State Street uses Bloomberg L.P. as the source to determine prepayment assumptions. The following table summarizes the Company's long-term and short-term bonds and loan-backed securities by NAIC Designation at June 30, 2011.

NAIC Designation 1	$ 388,153,161
NAIC Designation 2	53,716,926
NAIC Designation 3	858,500
NAIC Designation 4	430,000
NAIC Designation 5	340,338
NAIC Designation 6	2,549,750
Total	$ 446,048,675

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

NOTES TO FINANCIAL STATEMENTS

Investment income due and accrued that is deemed uncollectible is charged against net investment income in the period such determination is made, while investment income greater than 90 days past due is non-admitted and charged directly to surplus. Net investment income is reduced by investment management expenses.

(4) The Company has no common stock, other than the common stock of subsidiary, controlled or affiliated insurance and non-insurance entities. See (7) below.

(5) The Company has no preferred stocks.

(6) The Company has no mortgage loans.

(7) Investments in the common stocks of its subsidiary, controlled or affiliated insurance or non-insurance entities are accounted and reported under the equity method as prescribed by SSAP No. 97, “Investments in Subsidiary, Controlled and Affiliated Entities”, and valued in accordance with section 3(ii)(D) of the NAIC Valuations Securities manual. Changes in the carrying value of such investments are reflected as unrealized gains or losses in capital and surplus. See Note 6 below.

(8) The Company has no joint ventures.

(9) The Company has no derivatives.

(10) The Company has no premium deficiencies.

(11) The Company records a loss with respect to an insurance guarantee upon a payment default by the issuer of the insured obligation (a payment default is generally considered the incident which gives rise to a claim under the Company’s insurance policies and triggers loss recognition relating to the incident). The loss recorded by the Company represents its best estimate of the present value of its ultimate claim payments under the policy, net of its best estimate of the present value of any recoveries from salvage or subrogation rights under the policy. The Company’s liability for losses reported on the accompanying Statement of Assets, Liabilities, Surplus and Other Funds (and also known as “loss reserves” “reserves for unpaid losses”, “case reserves”, or “case basis reserves”) represents the present value of the Company’s estimated ultimate losses that remain unpaid at the balance sheet date with respect to policies meeting the aforementioned criteria for loss recognition. Loss adjustment expenses (“LAE”) are recorded by the Company in regard to insurance guarantees when costs are incurred or expected to be incurred to remediate losses under its policies. Accordingly, LAE may be recorded on policies for which claims have been paid or losses have been recognized, as well as on policies where no claim payments have been made or losses have been recorded but may be incurred in the future. LAE represents the estimated ultimate cost of remediating losses or potential losses under policies. The Company does not discount LAE.

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

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

(12) A statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in “Aggregate write-ins for liabilities” in the Statement of Assets, Liabilities, Surplus and Other Funds. This reserve is calculated as the greater of a prescribed percentage applied to original insured principal or 50% of premiums written, net of ceded reinsurance. The prescribed percentage varies by the type of business. Once the reserve is calculated, as described above, it is incrementally recognized in the financial statements over a prescribed time period based on type of business. Reductions in the contingency reserve may be recognized under certain stipulated conditions, subject to the approval of the Maryland Insurance Commissioner. On February 17, 2011, the Maryland Insurance Commissioner approved a request by the Company to de-recognize contingency reserves on policies which were terminated or on which case reserves have been established. Such contingency reserves aggregated approximately $42.2 million at December 31, 2010. Pursuant to the approval, the Company may release the aforementioned contingency reserves in amounts equal to future adverse loss development recorded by the Company, but up to no more than the approved aggregate amount. The Company did not release any contingency reserves during the six month period ended June 30, 2011, because it did not record, in the aggregate, adverse loss development during such period. Accordingly, as of June 30, 2011, the Company had the full $42.2 million of approved contingency reserve release available to it to offset future adverse loss development.

(13) There has been no change to the Company’s capitalization policy.

NOTES TO FINANCIAL STATEMENTS

(14) The Company has no pharmaceutical rebate receivables.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

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

3. BUSINESS COMBINATION AND GOODWILL

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

4. DISCONTINUED OPERATIONS

The Company had no discontinued operations.

5. INVESTMENTS

A. Mortgage Loans

The Company had no investments in mortgage loans or mezzanine real estate loans as of June 30, 2011 and December 31, 2010.

B. Debt Restructuring

The Company had no investments in restructured debt as of June 30, 2011 and December 31, 2010.

C. Reverse Mortgages

The Company had no investments in reverse mortgages as of June 30, 2011 and December 31, 2010.

D. Loan-Backed Securities

(1) N/A.

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

(3) N/A

(4) During the six months ended June 30, 2011, the Company recognized an other than temporary impairment charge on the following loan-backed security:

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

The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous unrealized loss position for 12 months or longer at June 30, 2011 is $0 and $0, respectively. The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous unrealized loss position for less than 12 months at June 30, 2011 is $54.9 million and $1.1 million, respectively. All of the securities discussed above are rated investment grade by a nationally recognized security rating organization and have excess credit coverage within each structure and cash flows of the underlying collateral are expected to be sufficient to pay principal and interest.

(5) None

E. Repurchase Agreements and/or Securities Lending Transactions

The Company has not used repurchase agreements and has not engaged in any securities lending transactions as of June 30, 2011 and December 31, 2010.

F. Real Estate

The Company has no real estate investments.

G. Investments in Low-Income Housing Tax Credits

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

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

As of June 30, 2011 and December 31, 2010, the Company held investments in ACA Service L.L.C., ("ACA Service") and ACA Singapore with an aggregate carrying value at such dates of $0 million. Both of the aforementioned investments were non-admitted as of June 30, 2011 and December 31, 2010.

NOTES TO FINANCIAL STATEMENTS

7. INVESTMENT INCOME

See Note 1.C.(3) above.

8. DERIVATIVE INSTRUMENTS

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

9. INCOME TAXES

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as of June 30, 2011:

(1) DTA/DTL Components

		2011			2010			Change		
	Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a)	Gross deferred tax assets	$ 69,063,731	$ 5,094,734	$ 74,158,465	$ 64,746,092	$ 25,595,289	$ 90,341,381	$ 4,317,639	$ (20,500,555)	$ (16,182,916)
(b)	Statutory valuation allowance adjustment (enter as "-")	(31,289,043)	(5,094,734)	(36,383,778)	(30,855,883)	(25,595,289)	(56,451,172)	(433,160)	20,500,555	20,067,394
(c)	Adjusted gross deferred tax assets	37,774,688	-	37,774,688	33,890,209	-	33,890,209	3,884,479	-	3,884,479
(d)	Gross deferred tax liabilities	(17,140)	-	(17,140)	(140,237)	-	(140,237)	123,096	-	123,096
(e)	Net deferred tax asset/(liability) before admissibility test	37,757,548	-	37,757,548	33,749,972	-	33,749,972	4,007,575	-	4,007,575
(f)	Deferred tax assets nonadmitted	(37,757,548)	-	(37,757,548)	(33,749,972)	-	(33,749,972)	(4,007,575)	-	(4,007,575)
(g)	Net admitted deferred tax asset/(liability)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

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

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

(4) Admission calculation components:

		2011			2010			Change		
	Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
	Admission calculation under ¶10.a.-¶10.c.									
(a)	Admitted pursuant to ¶10.a.	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(b)	Admitted pursuant to ¶10.b.(lesser of i. or ii.)	-	-	-	-	-	-	-	-	-
(c)	¶10.b.i.	-	-	-	N/A	N/A	-	N/A	N/A	-
(d)	¶10.b.ii.	N/A	N/A	12,056,891	N/A	N/A	12,056,891	N/A	N/A	-
(e)	Admitted pursuant to ¶10.c.	17,140	-	17,140	140,237	-	140,237	(123,097)	-	(123,097)
(f)	Total admitted under ¶¶10.a.-10.c.	17,140	-	17,140	140,237	-	140,237	(123,097)	-	(123,097)
	Deferred tax liabilities	(17,140)	-	(17,140)	(140,237)	-	(140,237)	123,097	-	123,097
	Net admitted deferred tax asset/liability under ¶10.a.-¶10.c.	**$ 0**	**$ -**	**$ 0**	**$ 0**	**$ -**	**$ 0**	**$ -**	**$ -**	**$ (0)**
	Admission calculation under ¶10.e.i.-10.e.iii.									
(g)	Admitted pursuant to ¶10.e.i.	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(h)	Admitted pursuant to ¶10.e.ii. (lesser of a. or b.)	-	-	-	-	-	-	-	-	-
(i)	¶10.e.ii.a..	-	-	-	N/A	N/A	-	N/A	N/A	-
(j)	¶10.e.ii.b.	N/A	N/A	-	N/A	N/A	-	N/A	N/A	-
(k)	Admitted pursuant to ¶10.e.iii.	-	-	-	-	-	-	-	-	-
(l)	Total admitted under ¶10.e.i.-10.e.iii.	-	-	-	-	-	-	-	-	-
	Deferred tax liabilities	-	-	-	-	-	-	-	-	-
	Net admitted deferred tax asset/liability under ¶10.e.	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
	Used in ¶10.d.									
(m)	Total adjusted capital	N/A	N/A	0	N/A	N/A	0	N/A	N/A	0
(n)	Authorized control level	N/A	N/A	0	N/A	N/A	0	N/A	N/A	0
	Adjusted capital/Authorized control level	N/A	N/A	0.00%	N/A	N/A	0.00%	N/A	N/A	0.00%

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

		2011			2010			Change		
	Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
	Admission calculation under ¶10.a.-¶10.c.									
(a)	Admitted DTAs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(b)	Admitted assets	N/A	N/A	459,176,448	N/A	N/A	464,795,669	N/A	N/A	(5,619,221)
(c)	Adjusted statutory surplus from most recently filed statement	N/A	N/A	109,771,958	N/A	N/A	121,264,693	N/A	N/A	(11,492,735)
(d)	Total adjusted capital from DTAs included above	N/A	N/A	-	N/A	N/A	-	N/A	N/A	-
	Increases due to admission under ¶10.e.i.-10.e.iii.									
(e)	Admitted DTAs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(f)	Admitted assets	N/A	N/A	459,176,448	N/A	N/A	464,795,669	N/A	N/A	(5,619,221)
(g)	Statutory surplus	N/A	N/A	109,771,958	N/A	N/A	121,264,693	N/A	N/A	(11,492,735)

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

		2011		
	Description	Ordinary	Capital	Total
	Adjusted gross DTAs - Amount	-	-	-
(a)	Adjusted gross DTAs - Percentage	0.00%	0.00%	0.00%
	Net admitted DTAs - Amount	-	-	-
(b)	Net admitted DTAs - Percentage	0.00%	0.00%	0.00%

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

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

NOTES TO FINANCIAL STATEMENTS

C. Current tax and change in deferred tax:

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

	Description	6/30/2011	2010
(a)	Current federal income tax expense	$ 0	$ -
(b)	Foreign taxes	-	-
(c)	Subtotal	-	-
(d)	Tax on capital gains/(losses)	943,832	1,789,820
(e)	Utilization of capital loss carryforwards	(943,832)	(1,789,820)
(f)	Other, including prior year underaccrual (overaccrual)	-	(34,335)
(g)	Federal and foreign income taxes incurred	$ -	$ (34,335)

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

(2)	**DTAs Resulting From Book/Tax Differences In**	**June 30, 2011**	**December 31, 2010**	**Change**	
(a)	**Ordinary**				
(1)	Discounting of unpaid losses and LAE	$ 574,975	$ 72,126	$ 502,849	
(2)	Unearned premiums	6,468,667	6,665,751	(197,085)	
(3)	Policyholder reserves	-	-	-	
(4)	Investments	-	-	-	
(5)	Deferred acquisition costs	-	-	-	
(6)	Policyholder dividends accrued	-	-	-	
(7)	Fixed assets	-	-	-	
(8)	Compensation and benefit accruals	-	-	-	
(9)	Pension accruals	-	-	-	
(10)	Nonadmitted assets	-	-	-	
(11)	Net operating loss carryforward	25,032,398	23,128,424	1,903,974	-
(12)	Tax credit carryforward	615,212	615,212	-	
(13)	Contingency Reserve	35,832,449	33,890,209	1,942,239	
(14)	Other (separately disclose items >5%)	540,031	374,369	165,662	
	Gross ordinary DTAs	69,063,731	64,746,091	4,317,640	
(b)	Statutory valuation adjustment adjustment - ordinary (-)	(31,289,043)	(30,855,883)	(433,160)	
(c)	Nonadmitted ordinary DTAs (-)	(37,757,548)	(33,749,972)	(4,007,576)	
(d)	Admitted ordinary DTAs	$ 17,140	$ 140,236	$ (123,096)	
(e)	**Capital**				
(1)	Investments	$ -	$ -	$ -	
(2)	Net capital loss carryforward	5,094,734	25,595,289	(20,500,555)	
(3)	Real estate	-	-	-	
(4)	Other (separately disclose items >5%)	-	-	-	
	Unrealized capital losses	-	-	-	
	Gross capital DTAs	5,094,734	25,595,289	(20,500,555)	
(f)	Statutory valuation adjustment - capital (-)	(5,094,734)	(25,595,289)	20,500,555	
(g)	Nonadmitted capital DTAs (-)	-	-	-	
(h)	Admitted capital DTAs	$ -	$ -	$ 0	
(i)	**Admitted DTAs**	**$ 17,140**	**$ 140,236**	**$ (123,096)**	

(3)	**DTLs Resulting From Book/Tax Differences In**	**June 30, 2011**	**December 31, 2010**	**Change**
(a)	**Ordinary**			
(1)	Investments	$ -	$ -	$ -
(2)	Fixed assets	(17,140)	(140,236)	123,096
(3)	Deferred and uncollected premiums	-	-	-
(4)	Policyholder reserves/salvage and subrogation	-	-	-
(5)	Other (separately disclose items >5%)	-	-	-
	Ordinary DTLs	$ (17,140)	$ (140,236)	$ 123,096
(b)	**Capital**			
(1)	Investments	$ -	$ -	$ -
(2)	Real estate	-	-	-
(3)	Other (separately disclose items >5%)	-	-	-
	Unrealized capital gains	-	-	-
	Capital DTLs	$ -	$ -	$ -
(c)	**DTLs**	**$ (17,140)**	**$ (140,236)**	**$ 123,096**
(4)	**Net deferred tax assets/liabilities**	**$ -**	**$ -**	**$ -**

NOTES TO FINANCIAL STATEMENTS

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

	June 30, 2011	December 31, 2010	Change
Total deferred tax assets	$ 74,158,465	$ 90,341,381	$ (16,182,916)
Total deferred tax liabilities	(17,140)	(140,237)	123,097
Net deferred tax assets/liabilities	74,141,325	90,201,144	(16,059,819)
Statutory valuation allowance adjustment (*see explanation below)	(36,383,778)	(56,451,172)	20,067,394
Net deferred tax assets/liabilities after SVA	37,757,548	33,749,972	4,007,576
Tax effect of unrealized gains/(losses)	-	-	-
Statutory valuation allowance adjustment allocated to unrealized (+)	-	-	-
Change in net deferred income tax benefit	$ 37,757,548	$ 33,749,972	$ 4,007,576

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

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

The Company files its tax return on a standalone basis

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

A. & B. There were no material transactions with parent, affiliates or other related parties in 2011 or 2010.

C. Not applicable.

D. The Company has $0 payable to subsidiaries at June 30, 2011 and at December 31, 2010.

E. The Company has no guarantees or undertakings for the benefit of an affiliate or related party.

F. The Company has no material management or service contract with any related parties.

G. At June 30, 2011, the majority common shareholder, ACA Holding, L.L.C. (“ACAH”), a Delaware holding company, held a 76.6% share in the common shares of the Company. The minority shareholder, KPR Ltd. (“KPR”), a Cayman Island company and a wholly-owned subsidiary of ACAH, held the remaining 23.4% share in the common shares of the Company. Each of ACAH and KPR are wholly-owned by Manifold Capital Corp. (“ACACH”), formerly ACA Capital holdings, Inc., a Delaware corporation. Effective at the closing of the restructuring transaction entered into on August 8, 2008, ACACH and its wholly owned subsidiaries disclaimed control over the Company. This disclaimer of control was approved by the MIA. See Note 21.B. for a discussion of the restructuring transaction.

H. The Company's majority common shareholder and ultimate parent, ACAH and ACACH, respectively, are not owned directly or indirectly via any of the Company's downstream subsidiaries or controlled or affiliated entities. See Note 21.B. for information regarding the ownership structure of the Company following the closing of its restructuring transaction that took place on August 8, 2008.

I. The Company holds no investment in any subsidiary, controlled or affiliated entity that exceeds 10% of its admitted assets.

J. The Company did not impair any subsidiary, controlled or affiliated in 2011 or 2010.

K. Not applicable.

L. The Company does not hold an investment in a downstream noninsurance holding company.

11. DEBT

As of June 30, 2011 and December 31, 2010, the Company had no capital notes or other debt.

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

A. The Company has no Defined Benefit Plan.

B. The Company sponsors a qualified defined contribution plan, which covers all full-time employees of the Company as of their start date with the Company. Eligible participants may contribute a percentage of their salary, subject to IRS limitations. The Company's contributions to the plan are based on a fixed percentage of employees' contributions subject to IRS limitations. At June 30, 2011 and December 31, 2010, the fair values of plan assets were $6.2 million and $6.1 million, respectively. For the periods ended June 30, 2011 and December 31, 2010, the Company recognized expense in the amount of $ 178 thousand and $230 thousand for the defined contribution plan, respectively.

C. The Company has no Multi-employer Plan.

D. The Company has no Consolidated/Holding Company Plan.

E.&F. The Company has no Post-employment Benefits and Compensated Absences.

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

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

NOTES TO FINANCIAL STATEMENTS

(2) The Company has no preferred stock outstanding.

(3) As part of the Company's restructuring discussed in Note 21.B. below, the MIA Order restricts the Company from paying dividends without the prior approval of the Commissioner.

(4) No dividends were paid in 2011 or 2010.

(5) The Company had negative earned surplus at June 30, 2011 and December 31, 2010; therefore no dividends can be paid in 2011.

(6) There are no restrictions on unassigned surplus.

(7) The Company is not a mutual company.

(8) The Company holds no stock for special purpose.

(9) The Company holds no special surplus funds.

(10) The portion of unassigned surplus represented by cumulative unrealized losses is $6,752.

(11) The following table sets forth certain information regarding the Company's surplus notes:

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

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

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

14. CONTINGENCIES

A. Contingency Commitments

The Company has no contingent commitments.

B. Assessments

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

C. Gain Contingencies

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

On January 6, 2011, the Company commenced a lawsuit against Goldman, Sachs & Co. ("Goldman") in the Supreme Court of the State of New York, County of New York (the "Lawsuit"). The lawsuit seeks compensatory damages against Goldman in the amount of at least $30 million and punitive damages in the amount of at least $90 million in connection with the development of a structured finance product, a synthetic collateralized debt obligation called ABACUS 2007-AC1. On April 25, 2011, the Company filed its First Amended Complaint. On June 3, 2011, Goldman moved to dismiss the First Amended Complaint, which the Company has opposed. The Company expects Goldman's motion to dismiss to be fully briefed on or before August 8, 2011.

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

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

NOTES TO FINANCIAL STATEMENTS

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, including the Fraud Against Taxpayers Act ("FATA"). The Company moved to dismiss the complaint for lack of jurisdiction. On April 28, 2010, without ruling on the Company's jurisdictional motion, the Court dismissed the complaint in its entirety on a number of grounds including constitutionality and lack of standing. Just before this dismissal was issued, the plaintiff filed an amended complaint which added a number of additional plaintiffs and legal theories. The Court subsequently entered an order striking all portions of the amended complaint inconsistent with the April 28 dismissal. The only surviving portions of the amended complaint are allegations of FATA violations occurring after July 1, 2007. The Company has renewed its motion to dismiss for lack of personal jurisdiction, and has also joined in a motion by all defendants to dismiss the amended complaint for failure to state a claim and for lack of subject matter jurisdiction. In addition, the New Mexico Attorney General has asked the Court to dismiss portions of the lawsuit in favor of lawsuits filed by the New Mexico Attorney General relating to the underlying "pay to play" scheme (the Company is not named in those lawsuits).

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

The Company was recently named as a defendant in a putative class-action in the United States District Court for the Northern District of Mississippi. The putative class purports to consist of all owners and/or holders of Connector 2000 Association, Inc. Toll Road Revenue Bonds (the "Connector Bonds") insured by the Company. The issuer of the Connector Bonds, Connector 2000 Association, Inc. (the "Issuer"), successfully confirmed a Chapter 9 plan (the "Plan"), and emerged from its bankruptcy proceeding on April 1, 2011. Pursuant to the terms of the Plan and by operation of law, the Connector Bonds were exchanged for new obligations of the Issuer (the "New Obligations") and were effectively cancelled. As a result, the Company asserts that the Connector Bonds are no longer enforceable obligations, and as such, neither is the guaranty obligation originally provided by the Company under its secondary market insurance policies. Because the Connector Bonds are no longer effective or enforceable obligations by virtue of the exchange effected under the Plan, and because the original guaranty issued by the Company in connection with the Connector Bonds under the Policy was not extended under the Plan or otherwise to the New Obligations, the Company asserts that it has no further liability or obligation under its policies. The Company's time to answer or otherwise move against the complaint is mid-August 2011.

The Company is a third-party defendant in a suit filed in the Fourth Judicial Circuit in Duval County, Florida. The Company insured $11.65 million of bonds issued for the construction of a hospital and nursing facility in Macclenny, Florida. The bond documents required the hospital (i.e., the entity responsible for servicing the bonds insured by the Company) to procure and maintain a certain type of professional liability insurance. The hospital failed to comply with the professional liability insurance requirements under the bond documents and has commenced this action against the bond trustee to, among other things, be relieved of such obligation. In response, the bond trustee commenced a third party action against the Company demanding that the Company indemnify it for any liability the bond trustee may have to the hospital. The Company, in turn, brought a third-party action against the hospital and others seeking a declaration, inter alia, that the Company is either excused from its obligation under the bond insurance policy or that the hospital must procure professional liability insurance as required by the bond documents. To date, the Company has successfully moved to strike a number of the hospital's affirmative defenses to the Company's third-party complaint and has successfully defended against the trustee's motion to dismiss certain claims in the Company's third-party complaint. The parties are now engaged in discovery on the remaining claims.

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

15. LEASES

A. In March 2010, ACA finalized negotiations with a new tenant for all of its office space at 140 Broadway. Under the terms of the transaction, ACA was released from its obligations under the lease, its security deposit of $2.7 million was returned and it made cash payments of $11.6 million. ACA recognized a loss of $13.0 million on the lease termination, which included the carrying value of leasehold improvements and furniture and fixtures related to this space. The Company's rental expense for the quarters ended June 30, 2011 and 2010 was $ 183.4 thousand and $598.8 thousand, respectively.

In 2010, ACA finalized a sublease of new office space at 600 Fifth Avenue running through September 30, 2016. Minimum future lease payments under the lease are: 2011-$0.3 million; 2012- $0.5 million; 2013- $0.5 million; 2014- $0.6 million; 2015- $0.6 million; and 2016- $0.5 million. The Company took possession of this space in July 2010.

NOTES TO FINANCIAL STATEMENTS

B. Not applicable.

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

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

While the Company establishes reserves for losses and loss adjustment expenses on obligations on which it has received a claim notice (see Note 1.C.(11) and Note 21. A.), the risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see description of financial guarantee insurance in Note 21.J.). The tables below reflect certain information regarding the Company's in-force par exposure at June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
($ in millions)	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
Tax-exempt obligations:				
Healthcare	653	11.8%	708	12.8%
Tax backed	641	11.6%	663	12.0%
Higher education	1,215	22.0%	1,241	22.5%
Long-term care	487	8.8%	461	8.3%
General obligations	1,045	18.9%	1,047	19.0%
Utilities	113	2.0%	118	2.1%
Transportation	413	7.5%	419	7.6%
Housing	277	5.0%	283	5.1%
Not for Profit	439	8.0%	444	8.0%
Other, net of HCC cover ($50)	232	4.2%	238	4.3%
Total municipal obligation	**5,515**	**99.9%**	**5,622**	**94.8%**
Taxable obligations				
Other	6	0.1%	311	5.2%
Total	$ 5,521	100.0%	$ 5,933	100.0%

PAR EXPOSURE BY STATE	June 30, 2011		December 31, 2010	
($ in millions)	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
California	$ 1,059	19.2%	$ 1,036	18.4%
New York	811	14.7%	827	14.7%
Texas	349	6.3%	358	6.4%
Washington	309	5.6%	329	5.8%
Massachusetts	298	5.4%	301	5.4%
Other states	2,689	48.8%	2,771	49.3%
Total municipal obligations	$ 5,515	100.0%	$ 5,622	100.0%

NET PAR OUTSTANDING BY MATURITY

($ in millions)	June 30, 2011 Net Par
Terms of Maturity	Outstanding
0 to 5 years	$ 876
5 to 10 years	1,078
10 to 15 years	1,310
15 to 20 years	1,201
20 and above	1,050
Total	**$ 5,515**

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

A. The Company had no transfer of receivables reported as sales.

B. The Company had no transfer and servicing of financial assets.

C. The Company had no wash sales.

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

A. The Company has no Administrative Services Only (ASO) plan.

B. The Company has no Administrative Services Contract (ASC) plan.

C. The Company has no Medicare or other similarly structured cost based retirement contract.

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

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

NOTES TO FINANCIAL STATEMENTS

20. FAIR VALUE MEASUREMENT

With the exception of certain investments in bonds and loan-backed securities that are reported at the lower of cost or fair value, or such securities on which an other than temporary impairment has been recognized as of the balance sheet date, the Company has no assets or liabilities reported in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds that are measured at fair value (see Note 1.C.(3). The aforementioned securities which are reported at fair value in the accompanying financial statements represent securities that are reported at fair value on a non-recurring basis. The carrying value of such securities in the Company's financial statements as of June 30, 2011 aggregated $1.3 million and the fair values of such securities were based on "Significant other observable inputs (Level 2), as defined in SSAP No. 100 – Fair Value Measurements.

21. OTHER ITEMS

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

Description of Significant Risks and Uncertainties

- As discussed in Note 1.C. (11), ACA recognizes losses and establishes related loss reserves on bond obligations it has insured only upon the initial payment default by the issuer of such bond obligations (under the Company's accounting policy, the initial payment default is generally considered the incident which gives rise to a claim and triggers loss recognition relating to the incident). The loss recognized by ACA upon a payment default represents the Company's best estimate of its ultimate loss over the life of the policy, discounted to reflect the time value of money (not the amount of the claim under the policy received upon the initial payment default which generally reflects the shortfall by the obligor of the scheduled principal and/or interest payment then due under the terms of the bond indenture). However, ACA has policies in-force upon which it expects that payment defaults will occur in the future resulting in losses that will be incurred by the Company. Such expected future losses are not recorded by the Company in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds at June 30, 2011 because a payment default has not yet occurred. With consideration of the inherent uncertainty of estimating losses discussed further below, the Company's estimate of the ultimate losses that it will incur in the future on such policies (where payment defaults have not yet occurred but are expected) ranged from $125 million to $150 million at June 30, 2011, on a discounted basis. Accordingly, the Company believes it will incur material losses in the future which will materially adversely affect its policyholders' surplus. Notwithstanding the de-recognition of the Company's contingency reserves approved by the Maryland Insurance Commissioner discussed in Note 1.C.(12) and any further de-recognition of contingency reserves that may be approved by the Maryland Insurance Commissioner in the future, no assurance can be given that the recognition of such losses in the future will not cause the Company to fail to comply with its regulatory required minimum policyholders' surplus requirement of $750,000. However, the Company believes that its policyholders' surplus will be in excess of the required minimum policyholders' surplus over the twelve months succeeding the date of the accompanying statement of Assets, Liabilities, Surplus and Other Funds and, that it has sufficient liquidity resources to satisfy its financial obligations as they come due for the foreseeable future.

- The Company is materially exposed to risks associated with deterioration in the tax exempt bond market through its insurance guarantees (see Note 16), as well as to the economy generally. The extent and duration of any future deterioration in the tax exempt bond market is unknown, as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed. As discussed in Note 36, the Company classifies its insured in-force portfolio in one of four credit quality categories. As noted therein, as of June 30, 2011, the Company had insured obligations with outstanding principal totaling $384.2 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 $439.0 million classified in category 3, which means those credits have materially violated financial and operational covenants and require remedial action to avoid further performance deterioration. As discussed in Note 16, the risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed. No assurance can be provided that further deterioration in ACA's insured guarantees will not occur resulting in a further migration of exposure to categories 3 and 4 or that ACA will not incur losses that may be materially in excess of what it currently estimates.

- Establishment of case basis reserves for unpaid losses and loss adjustment expenses on the Company's insured guarantees requires the use and exercise of significant judgment by management, including estimates regarding the probability of default, the severity of loss upon default and the amount and timing of claim payments and recoveries on a guaranteed obligation. Case basis reserves reflect management's best estimate of the present value of the Company's ultimate loss and not the worst possible outcome. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, changes in the value of specific assets supporting guaranteed obligations, and changes in the timing, and level of success of recoveries. Both qualitative and quantitative factors are used in making such estimates. Each quarter, in connection with the preparation of its financial statements, the Company reevaluates all such estimates. Changes in these estimates may be material and may result in material changes in the Company's policyholders' surplus. Any estimate of future costs is subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. The risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see Note 16).

- The Company is involved in a number of legal proceedings, both as plaintiff and defendant, as well as regulatory inquiries and investigations. Management cannot predict the outcomes of these proceedings and other contingencies with certainty. In addition, it is not possible to predict whether additional suits will be filed or whether additional inquiries or investigations will be commenced. The outcome of some of these proceedings and other contingencies could require the Company to take or refrain from taking actions which could have a material adverse effect on its business, financial position or cash flows or could require the Company to pay (or fail to receive) substantial amounts of money. Additionally, prosecuting and defending these lawsuits and proceedings may involve significant expense and diversion of resources from other matters. See Notes 14.C. and 14.D.

- ACA has experienced and likely will continue to experience substantial tax losses in the conduct of its business.

NOTES TO FINANCIAL STATEMENTS

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

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

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

Description of the Company's On-Going Strategic Plan

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

B. Restructuring Transaction

As a result of adverse developments in the credit markets generally and the mortgage market specifically that began in the second half of 2007 and continued to deepen in 2008 and thereafter, the Company experienced material adverse effects on its business, results of operations, and financial condition, which resulted in significant downgrades of the Company's financial strength ratings by Standard & Poor's Ratings Services ("S&P") and, ultimately, a restructuring of the Company to avoid a regulatory proceeding (the "Restructuring Transaction). The Restructuring Transaction, which was consummated on August 8, 2008, was comprised of three main components.

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

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

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

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

C. Extraordinary items

The Company had no extraordinary items during 2011 and 2010.

D. Troubled Debt Restructurings

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

E. Assets on Deposit with States and Other Collateral Deposits

Assets with a carrying value of $4.7 million at June 30, 2011 and December 31, 2010 were on deposit with state authorities or trustees as required by state licensing regulations.

As discussed in Note 15 – Leases. The Company's security deposit was returned as part of the lease termination. The Company currently has $60 thousand in security deposits outstanding for lease obligations. This collateral deposit is

NOTES TO FINANCIAL STATEMENTS

treated as a non-admitted asset as of June 30, 2011 and December 31, 2010.

F. Uncollected Balances

The Company had no uncollectible balances.

G. Business Interruption Insurance Recoveries

Not applicable.

H. State Transferable Tax Credits

The Company had no state transferable credits.

I. Subprime Exposure Related Risk Exposure

(1) The Company no longer has risk in its insured exposures to subprime mortgages, except for one insured securitization of manufactured housing mortgages. Other previously insured subprime mortgage exposure was included in the Global Settlement Agreement described in Note 21.B. The one remaining exposure has a par amount of $5.7 million at June 30, 2011 and the Company has an outstanding loss reserve against this exposure in the amount of $1.7 million.

(2) The Company has no investments consisting of direct exposure to subprime-mortgages.

(3) The Company has the following indirect exposures to sub-prime mortgages included in its investment portfolio at June 30, 2011:

	1 Actual Cost	2 Book/Adjusted Carrying Value (excluding interest)	3 Fair Value	4 Other Than Temporary Impairment Losses Recognized
a. Residential mortgage backed securities	$ 21,635,038	$ 21,802,522	$ 22,564,850	$ 302,700
b. Commercial mortgage backed securities				
c. Collateralized debt obligations	5	-	-	-
d. Structured securities				
e. Equity investment in SCAs				
f. Other assets				
g. Total	$ 21,635,043	$ 21,802,522	$ 22,564,850	$ 302,700

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

J. Description of Financial Guarantee Insurance

Description of Financial Guarantee Insurance

Financial guarantee insurance provides an unconditional and irrevocable guarantee to the holder of a valid debt obligation with an enforceable guaranty of full and timely payment of the guaranteed principal and interest thereon when due. Financial guarantee insurance adds another potential source of repayment of principal and interest for an investor, namely the credit quality of the financial guarantor. Generally, in the event of any default on an insured debt obligation, payments made pursuant to the applicable insurance policy may not be accelerated by the holder of the insured debt obligation without the approval of the insurer. While the holder of such an insured debt obligation continues to receive guaranteed payments of principal and interest on schedule, as if no default had occurred, and each subsequent purchaser of the obligation generally receives the benefit of such guarantee, the insurer normally retains the option to pay the debt obligation in full at any time. Also, the insurer generally has recourse against the issuer of the defaulted obligation and/or any related collateral for amounts paid under the terms of the insurance policy as well as pursuant to general rights of subrogation. The issuer of an insured debt obligation generally pays the premium for financial guarantee insurance, either in full at the inception of the policy, as is the case in most public finance transactions, or in periodic installments funded by the cash flow generated by related pledged collateral, as is the case in most structured finance and international transactions. Typically, premium rates paid by an issuer are stated as a percentage of the total principal (in the case of structured finance and international transactions) or principal and interest (in the case of public finance transactions) of the insured obligation. Premiums are almost always non-refundable and are invested upon receipt. See Note 1for a description of NAIC SAP for premium revenue recognition.

22. EVENTS SUBSEQUENT

The Company has evaluated all subsequent events through August 9, 2011, the date the financial statements were available to be issued. Except for the matter discussed below, there were no events that required adjustment to or disclosure in the financial statements.

During May 2011, an obligor on one of the Company's insured debt obligations announced that it had entered into a transaction that would allow it to retire those debt obligations. This transaction was consummated and the aforementioned debt obligations retired on July 22, 2011. As a result of the consummation of this transaction, the Company de-recognized its reserve for loss relating to the insured debt obligation of approximately $12.2 million. The de-recognition of this reserve was recorded by the Company and reflected in the accompanying financial statements as of June 30, 2011.

In July 2011, the Company made a claim payment on one of nine secondary market policies it issued covering debt obligations with varying debt service schedules issued by an obligor on which no reserves for losses had previously been recorded on any of the related policies. As a result, the Company expects to record approximately $4.2 million of incurred losses and $3.7 million of related reserves relating to the aforementioned one policy during the quarterly

NOTES TO FINANCIAL STATEMENTS

period ended September 30, 2011. The aggregate par insured exposure on the affected policy at June 30, 2011 was $16.5 million. The aggregate par insured exposure on all nine policies in the aggregate was $27.7 million at June 30, 2011.

In July 2011, the Company made a claim payment on an insured debt obligation on which reserves for losses had not previously been established. As a result, the Company expects to record approximately $1.1 million of incurred losses and $0.9 million of related reserves relating thereto during the quarterly period ended September 30, 2011. The aggregate par insured exposure on this debt obligation at June 30, 2011 was $9.0 million.

23. REINSURANCE

A. Unsecured Reinsurance Recoverables

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

B. Reinsurance Recoverable in Dispute

The Company has no reinsurance recoverable in dispute.

C. Reinsurance Assumed and Ceded

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Affiliates	$ -	$ -	$ -	$ -	$ -	$ -
All other	5,887,469	-	357,658	-	5,529,811	-
Total	$ 5,887,469	$ -	$ 357,658	$ -	$ 5,529,811	$ -

Direct Unearned Premium Reserve $179,289,230

There are no contingent commission or profit sharing arrangements.

D. Uncollectible Reinsurance

The Company has no uncollectible reinsurance balances.

E. Commutation of Ceded Reinsurance

The Company had no commutations in 2011.

F. Retroactive Reinsurance

The Company has no retroactive reinsurance contracts.

G. Reinsurance Accounted for as a Deposit

The Company did not account for any reinsurance as deposits.

24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

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

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

For the six month period ended June 30, 2011, the Company recorded net favorable loss development of $ 11.2 million, all of which related to reserves established in years prior to 2011 ("prior accident year claims"). As of June 30, 2011, the Company's liability for unpaid losses was $43.0 million, which related to seven insured transactions, with a remaining aggregate in-force par outstanding of $44.1 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of $44.1 million represents the remaining maximum amount of exposure to loss the Company has in regard to these seven insured transactions. See Note 36(3)b for additional information regarding the Company's reserves for losses and loss adjustment expenses.

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

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

26. INTERCOMPANY POOLING ARRANGEMENTS

The Company has no intercompany pooling arrangements.

27. STRUCTURED SETTLEMENTS

A. The Company has not entered into any structured settlements for reserves no longer being carried.

NOTES TO FINANCIAL STATEMENTS

B. The Company does not hold any annuities under which the Company is the payee and the recorded asset balance due exceeds 1% of surplus.

28. HEALTH CARE RECEIVABLE

A. The Company has no pharmaceutical rebate receivables as of June 30, 2011 and December 31, 2010.

B. The Company has no risk sharing receivables as of June 30, 2011 and December 31, 2010.

29. PARTICIPATING POLICIES

The Company never issued participating policies.

30. PREMIUM DEFICIENCY RESERVE

The Company has no premium deficiency reserves.

31. HIGH DEDUCTIBLES ON UNPAID CLAIMS

The Company has no high deductibles on unpaid claims.

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

The Company's case reserves for unpaid losses are discounted on a non-tabular basis. The discount rate used at June 30, 2011 and December 31, 2010 was 4.5%. The discount rate is based on the weighted average return on the Company's invested assets. The amount of discount associated with the Company’s loss reserves at June 30, 2011 was $ 16.6 million. Loss adjustment expenses are not discounted.

33. ASBESTOS/ENVIRONMENTAL RESERVES

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

34. SUBSCRIBER SAVINGS ACCOUNTS

The Company has no subscriber savings accounts.

35. MULTIPLE PERIL CROP INSURANCE

The Company has never written this line of business.

36. FINANCIAL GUARANTY INSURANCE

A.

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

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

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

(2) a. The amount of premium revenue that has been accelerated in 2011 and 2010 was $1.0 million and $7.0 million, respectively. The acceleration was due to the prepayments or advance refunding of credits.

b. Schedule of the future expected earned premium revenue on contracts written on an upfront basis as of June 30, 2011:

1.

3rd Quarter 2011	$	3,237,868
4th Quarter 2011		2,469,576
Year 2012		9,079,363
Year 2013		9,001,613
Year 2014		9,078,625
Year 2015		8,847,405

2.

2016 through 2020		43,858,461
2021 through 2025		40,550,928
2026 through 2030		32,952,198
2031 through 2035		21,170,719
2036 through 2040		4,322,068
2041 through 2045		250,220
Total	$	184,819,042

(3) Claim liability:

a. The Company used a rate of 4.5% to discount the claim liability.

NOTES TO FINANCIAL STATEMENTS

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

	Debit (Credit)
Reserves for losses at December 31,2010	$ 62,132,634
Change in reserves	
Correction for misstatement (see Note 2)	(15,264,703)
Prior accident years	(3,895,692) [2]
Current accident year	-
Sub-total change in reserves	(19,160,395) [1]
Reserves for losses at June 30, 2011	$ 42,972,239

[1] During the six months ending June 30, 2011 paid losses was $8,001,229 which when aggregated with the change in reserves during the period equal losses incurred for the six months ending June 30, 2011 of $(11,159,166).

[2] Includes $496,009 of discount accretion recorded during the six months ending June 30, 2011.

The Company's credit quality classifications are:

(4) a. 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.

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

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

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

	Credit Quality Categories				
	1	2	3	4	Total
Number of policies	353	99	28	38	518
Remaining weighted-average contract period (in years)	13	12	13	13	
Insured contractual payments outstanding:					
Principal	$ 3,714,773,305	$ 982,756,490	$ 438,974,832	$ 384,175,547	$ 5,520,680,174
Interest	2,529,822,030	650,971,402	393,865,371	357,285,428	3,931,944,231
Total	$ 6,244,595,335	$ 1,633,727,892	$ 832,840,203	$ 741,460,975	$ 9,452,624,405
Gross claim and LAE liability	$ -	$ 200,000	$ 202,161	$ 92,532,516	$ 92,934,677
Less:					
Gross potential recoveries	-	-	-	31,378,586	31,378,586
Discount, net	-	-	-	16,588,930	16,588,930
Net claim and LAE liability	$ -	$ 200,000	$ 202,161	$ 44,565,000	$ 44,967,161
Unearned premium revenue	$ 100,410,642	$ 38,156,027	$ 24,148,484	$ 22,103,889	$ 184,819,042
Claim and LAE liability reported in the balance sheet	$ -	$ 200,000	$ 202,161	$ 44,565,000	$ 44,967,161
Reinsurance recoverables	$ -	$ -	$ -	$ -	$ -

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES
GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? .... Yes [X] No [ ]

1.2 If yes, has the report been filed with the domiciliary state? .... Yes [X] No [ ]

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? .... Yes [ ] No [X]

2.2 If yes, date of change: ....

3. Have there been any substantial changes in the organizational chart since the prior quarter end? .... Yes [X] No [ ]

If yes, complete the Schedule Y - Part 1 - organizational chart.

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? .... Yes [ ] No [X]

4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? .... Yes [ ] No [X] NA [ ]

If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2007

6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2007

6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 05/07/2009

6.4 By what department or departments?

Maryland Insurance Administration........

6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? .... Yes [X] No [ ] NA [ ]

6.6 Have all of the recommendations within the latest financial examination report been complied with?........ Yes [X] No [ ] NA [ ]

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?........ Yes [ ] No [X]

7.2 If yes, give full information:

....

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?........ Yes [ ] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

....

8.3 Is the company affiliated with one or more banks, thrifts or securities firms?........ Yes [ ] No [X]

8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

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

GENERAL INTERROGATORIES

9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [X] No [ ]

(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

(c) Compliance with applicable governmental laws, rules and regulations;

(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

(e) Accountability for adherence to the code.

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

9.2 Has the code of ethics for senior managers been amended? Yes [ ] No [X]

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

9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [X]

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

FINANCIAL

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

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

INVESTMENT

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

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

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

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

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

14.2 If yes, please complete the following:

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

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

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

GENERAL INTERROGATORIES

16. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III – General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No [ ]

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

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

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

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

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? Yes [ ] No [X]

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

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

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

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

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [X] No [ ]

17.2 If no, list exceptions:

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted.)

PART 2
PROPERTY & CASUALTY INTERROGATORIES

1. If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation change? Yes [ ] No [X] NA [ ]

   If yes, attach an explanation.

2. Has the reporting entity reinsured any risk with any other reporting entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes [ ] No [X]

   If yes, attach an explanation.

3.1 Have any of the reporting entity's primary reinsurance contracts been canceled? Yes [ ] No [X]

3.2 If yes, give full and complete information thereto.

4.1 Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves,") discounted at a rate of interest greater than zero? Yes [X] No [ ]

4.2 If yes, complete the following schedule:

			TOTAL DISCOUNT				DISCOUNT TAKEN DURING PERIOD			
1 Line of Business	2 Maximum Interest	3 Discount Rate	4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 TOTAL	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 TOTAL
Financial Guaranty		4.500	16,588,930			16,588,930	17,328,042			17,328,042
		TOTAL	16,588,930			16,588,930	17,328,042			17,328,042

5. Operating Percentages:

   5.1 A&H loss percent %

   5.2 A&H cost containment percent %

   5.3 A&H expense percent excluding cost containment expenses %

6.1 Do you act as a custodian for health savings accounts? Yes [ ] No [X]

6.2 If yes, please provide the amount of custodial funds held as of the reporting date. $

6.3 Do you act as an administrator for health savings accounts? Yes [ ] No [X]

6.4 If yes, please provide the balance of the funds administered as of the reporting date. $

SCHEDULE F—CEDED REINSURANCE

Showing All New Reinsurers - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Name of Reinsurer	4 Domiciliary Jurisdiction	5 Is Insurer Authorized? (Yes or No)
		AFFILIATES		
		US INSURERS		
		POOLS AND ASSOCIATIONS		
		ALL OTHER INSURERS		

NONE

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

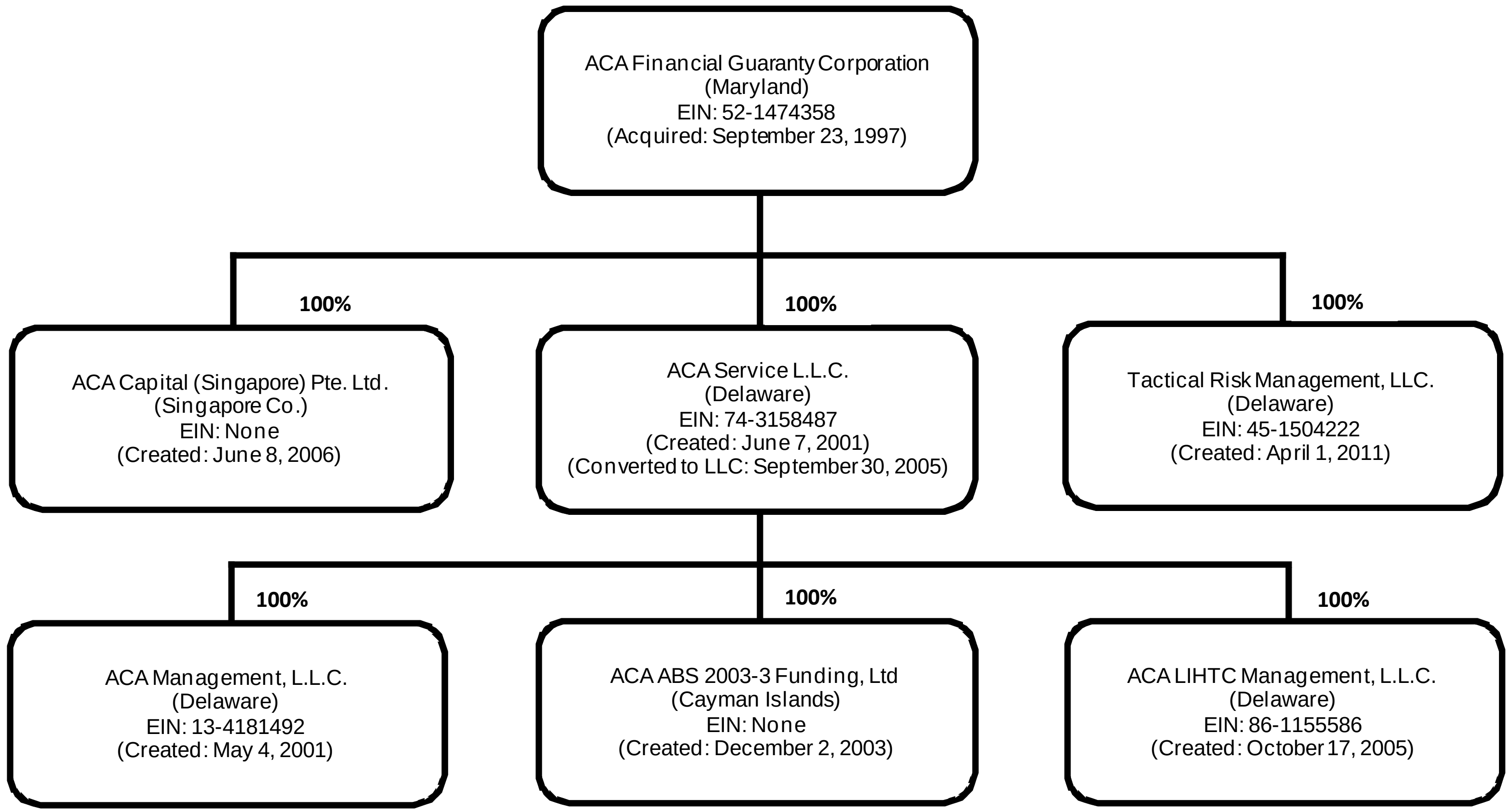
Current Year to Date - Allocated by States and Territories

	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2	3	4	5	6	7
States, etc.	Active Status	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date
1. Alabama AL	L						
2. Alaska AK	L						
3. Arizona AZ	L						
4. Arkansas AR	L						
5. California CA	L			447,043	36,563		699,818
6. Colorado CO	L						
7. Connecticut CT	L						
8. Delaware DE	L						
9. District of Columbia DC	L						
10. Florida FL	L		99,450				
11. Georgia GA	L						
12. Hawaii HI	L						
13. Idaho ID	L						
14. Illinois IL	L						
15. Indiana IN	L						
16. Iowa IA	L						
17. Kansas KS	L						
18. Kentucky KY	L						
19. Louisiana LA	L	2,149	9,188			5,481,845	4,182,102
20. Maine ME	L						
21. Maryland MD	L						
22. Massachusetts MA	L						
23. Michigan MI	L						
24. Minnesota MN	L	1,433	1,446			1,705,571	2,512,717
25. Mississippi MS	L			803,073	443,558	16,483,445	18,057,524
26. Missouri MO	L	9,280	9,590				
27. Montana MT	L						
28. Nebraska NE	L						
29. Nevada NV	L						
30. New Hampshire NH	L						
31. New Jersey NJ	L						
32. New Mexico NM	L						
33. New York NY	L			3,232,941		14,068,721	
34. No. Carolina NC	L						
35. No. Dakota ND	L						
36. Ohio OH	L						
37. Oklahoma OK	L						
38. Oregon OR	L						
39. Pennsylvania PA	L		46,400				
40. Rhode Island RI	L						
41. So. Carolina SC	L			3,518,171	82,556	961,997	17,447,875
42. So. Dakota SD	L						
43. Tennessee TN	L						
44. Texas TX	L				46,644	4,270,660	2,218,739
45. Utah UT	L						
46. Vermont VT	L						
47. Virginia VA	L	89,325	94,388				
48. Washington WA	L						
49. West Virginia WV	L						
50. Wisconsin WI	L						
51. Wyoming WY	L						
52. American Samoa AS	N						
53. Guam GU	L						
54. Puerto Rico PR	L						
55. U.S. Virgin Islands VI	L						
56. Northern Mariana Islands MP	N						
57. Canada CN	N						
58. Aggregate Other Alien OT	XXX						
59. Totals	(a) 54	102,187	260,462	8,001,228	609,321	42,972,239	45,118,775
DETAILS OF WRITE-INS							
5801. Foreign	XXX						
5802.	XXX						
5803.	XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX						
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX						

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

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

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



PART 1 - LOSS EXPERIENCE

	Line of Business	Current Year to Date 1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	4 Prior Year to Date Direct Loss Percentage
1.	Fire				
2.	Allied lines				
3.	Farmowners multiple peril				
4.	Homeowners multiple peril				
5.	Commercial multiple peril				
6.	Mortgage guaranty				
8.	Ocean marine				
9.	Inland marine				
10.	Financial guaranty	5,657,031	(11,159,166)	(197.3)	273.5
11.1	Medical professional liability - occurrence				
11.2	Medical professional liability – claims made				
12.	Earthquake				
13.	Group accident and health				
14.	Credit accident and health				
15.	Other accident and health				
16.	Workers' compensation				
17.1	Other liability occurrence				
17.2	Other liability – claims made				
17.3	Excess Workers' Compensation				
18.1	Products liability - occurrence				
18.2	Products liability – claims made				
19.1,19.2	Private passenger auto liability				
19.3,19.4	Commercial auto liability				
21.	Auto physical damage				
22.	Aircraft (all perils)				
23.	Fidelity				
24.	Surety				
26.	Burglary and theft				
27.	Boiler and machinery				
28.	Credit				
29.	International				
30.	Warranty				
31.	Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32.	Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34.	Aggregate write-ins for other lines of business				
35.	TOTALS	5,657,031	(11,159,166)	(197.3)	273.5
	DETAILS OF WRITE-INS				
3401.					
3402.					
3403.					
3498.	Sum. of remaining write-ins for Line 34 from overflow page				
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34)				

PART 2 - DIRECT PREMIUMS WRITTEN

	Line of Business	1 Current Quarter	2 Current Year to Date	3 Prior Year Year to Date
1.	Fire			
2.	Allied lines			
3.	Farmowners multiple peril			
4.	Homeowners multiple peril			
5.	Commercial multiple peril			
6.	Mortgage guaranty			
8.	Ocean marine			
9.	Inland marine			
10.	Financial guaranty	10,899	102,187	260,461
11.1	Medical professional liability - occurrence			
11.2	Medical professional liability – claims made			
12.	Earthquake			
13.	Group accident and health			
14.	Credit accident and health			
15.	Other accident and health			
16.	Workers' compensation			
17.1	Other liability-occurrence			
17.2	Other liability – claims made			
17.3	Excess Workers' Compensation			
18.1	Products liability - occurrence			
18.2	Products liability – claims made			
19.1,19.2	Private passenger auto liability			
19.3,19.4	Commercial auto liability			
21.	Auto physical damage			
22.	Aircraft (all perils)			
23.	Fidelity			
24.	Surety			
26.	Burglary and theft			
27.	Boiler and machinery			
28.	Credit			
29.	International			
30.	Warranty			
31.	Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX
32.	Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34.	Aggregate write-ins for other lines of business			
35.	TOTALS	10,899	102,187	260,461
	DETAILS OF WRITE-INS			
3401.				
3402.				
3403.				
3498.	Sum. of remaining write-ins for Line 34 from overflow page			
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34)			

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2011 Loss and LAE Payments on Claims Reported as of Prior Year-End	2011 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2011 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols.7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/ Deficiency (Cols. 11 + 12)
1. 2008 + Prior	19,743		19,743	2,851	5	2,856	16,052	1,633		17,685	(840)	1,638	798
2. 2009	10,646		10,646	144	14	158	10,336	0		10,336	(166)	14	(152)
3. Subtotals 2009 + prior	30,389		30,389	2,995	19	3,014	26,388	1,633		28,021	(1,006)	1,652	646
4. 2010	34,619		34,619	6,501	7	6,508	16,878	68		16,946	(11,240)	75	(11,165)
5. Subtotals 2010 + prior	65,008		65,008	9,496	26	9,522	43,266	1,701		44,967	(12,246)	1,727	(10,519)
6. 2011	XXX	XXX	XXX	XXX	1	1	XXX	0		0	XXX	XXX	XXX
7. Totals	65,008		65,008	9,496	27	9,523	43,266	1,701		44,967	(12,246)	1,727	(10,519)
8. Prior Year-End Surplus As Regards Policy-holders	107,201												

Col. 11, Line 7 As % of Col. 1 Line 7	Col. 12, Line 7 As % of Col. 2 Line 7	Col. 13, Line 7 As % of Col. 3 Line 7
1. (18.8)	2.	3. (16.2)

Col. 13, Line 7 As a % of Col. 1 Line 8
4. (9.8)

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

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

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

Explanation:

1.

2.

3.

4.

Bar Code:

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

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

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

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

OVERFLOW PAGE FOR WRITE-INS

PQ002 Additional Aggregate Lines for Page 02 Line 25.
*ASSETS

	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 December 31 Prior Year Net Admitted Assets
2504. Other Assets	12,035	338	11,697	22,749
2597. Summary of remaining write-ins for Line 25 from Page 02	12,035	338	11,697	22,749

SCHEDULE A - VERIFICATION

Real Estate

NONE

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Current year change in encumbrances		
4. Total gain (loss) on disposals		
5. Deduct amounts received on disposals		
6. Total foreign exchange change in book/adjusted carrying value		
7. Deduct current year's other than temporary impairment recognized		
8. Deduct current year's depreciation		
9. Book/adjusted carrying value at the end of current period (Lines 1+2+3+4-5+6-7-8)		
10. Deduct total nonadmitted amounts		
11. Statement value at end of current period (Line 9 minus Line 10)		

SCHEDULE B – VERIFICATION

Mortgage Loans

NONE

	1 Year to Date	2 Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and mortgage interest points and commitment fees		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest		
10. Deduct current year's other than temporary impairment recognized		
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)		
12. Total valuation allowance		
13. Subtotal (Line 11 plus Line 12)		
14. Deduct total nonadmitted amounts		
15. Statement value at end of current period (Line 13 minus Line 14)		

SCHEDULE BA – VERIFICATION

Other Long-Term Invested Assets

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	1,090,454	1,090,255
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		199
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals	57,911	
7. Deduct amounts received on disposals	1,148,356	
8. Deduct amortization of premium and depreciation	8	
9. Total foreign exchange change in book/adjusted carrying value		
10. Deduct current year's other than temporary impairment recognized		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	0	1,090,454
12. Deduct total nonadmitted amounts		
13. Statement value at end of current period (Line 11 minus Line 12)	0	1,090,454

SCHEDULE D – VERIFICATION

Bonds and Stocks

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	434,056,426	370,216,580
2. Cost of bonds and stocks acquired	63,620,811	160,523,521
3. Accrual of discount	724,821	1,082,836
4. Unrealized valuation increase (decrease)	(6,747)	590,953
5. Total gain (loss) on disposals	2,638,754	5,707,690
6. Deduct consideration for bonds and stocks disposed of	78,833,727	100,978,883
7. Deduct amortization of premium	1,463,397	2,492,354
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized	302,700	593,917
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	420,434,241	434,056,426
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	420,434,241	434,056,426

SCHEDULE D - PART 1B

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

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a)	399,056,766	69,761,093	80,518,440	(146,258)	399,056,766	388,153,161		397,470,831
2. Class 2 (a)	49,702,747	7,665,110	3,504,222	(146,709)	49,702,747	53,716,926		50,228,621
3. Class 3 (a)	858,500				858,500	858,500		858,500
4. Class 4 (a)	430,000				430,000	430,000		
5. Class 5 (a)	340,774			(436)	340,774	340,338		770,747
6. Class 6 (a)	2,028,151	562,192	13	(40,580)	2,028,151	2,549,750		1,787,021
7. Total Bonds	452,416,938	77,988,395	84,022,675	(333,983)	452,416,938	446,048,675		451,115,720
PREFERRED STOCK								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock								
15. Total Bonds & Preferred Stock	452,416,938	77,988,395	84,022,675	(333,983)	452,416,938	446,048,675		451,115,720

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 $; NAIC 2 $; NAIC 3 $; NAIC 4 $; NAIC 5 $; NAIC 6 $ 25,753

SCHEDULE DA - PART 1

Short-Term Investments

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999	25,614,436	XXX	25,614,436	1,615	

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	17,059,296	35,940,735
2. Cost of short-term investments acquired	73,367,681	337,469,253
3. Accrual of discount	1,198	1,302
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals		
6. Deduct consideration received on disposals	64,813,738	356,351,994
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	25,614,436	17,059,296
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	25,614,436	17,059,296

Schedule DB - Part A - Verification

NONE

Schedule DB - Part B- Verification

NONE

Schedule DB - Part C - Section 1

NONE

Schedule DB - Part C - Section 2

NONE

Schedule DB - Verification

NONE

Schedule E Verification

NONE

Schedule A - Part 2

NONE

Schedule A - Part 3

NONE

Schedule B - Part 2

NONE

Schedule B - Part 3

NONE

Schedule BA - Part 2

NONE

Schedule BA - Part 3

NONE

SCHEDULE D - PART 3

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

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
13033W-D2-6	California Infrastructure & Ec 4.625%		04/27/2011	Cabrara Capital Markets LC		1	15,000		1FE
13033W-D4-2	California Infrastructure & Ec 4.750%		04/05/2011	Cabrara Capital Markets LC		1	40,000		6Z
20786L-DA-6	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		40,714	45,898		6Z
20786L-DB-4	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		38,821	48,009		6Z
20786L-DC-2	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		37,587	51,912		6Z
20786L-DD-0	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		21,458	57,862		6Z
20786L-DE-8	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		27,257	78,283		6Z
20786L-DF-5	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		27,727	86,513		6Z
20786L-DG-3	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		28,037	94,183		6Z
20786L-DH-1	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		28,786	102,443		6Z
20786L-DJ-7	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		31,505	121,510		6Z
20786L-DK-4	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		31,389	128,496		6Z
20786L-DL-2	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		79,302	647,577		6Z
20786L-DM-0	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		27,955	501,608		6Z
20786L-DN-8	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		6,905	290,007		6Z
20786L-DP-3	Connector 2000 Assn Inc S C To Series B		05/02/2011	Internal		10,352	223,635		6Z
20786L-DQ-1	Connector 2000 Assn Inc S C To Series A		05/02/2011	Internal		838	112,521		6Z
60535R-AA-6	Mississippi Home Corp Hsg Rev 4.200% 1		05/02/2011	Calton & Associates Inc		1	45,000		6Z
60535R-AH-1	Mississippi Home Corp Hsg Rev 5.300% 1		05/05/2011	Various		4	125,000		6Z
60535R-AJ-7	Mississippi Home Corp Hsg Rev 5.500% 1		05/27/2011	Internal		2	55,000		1FE
60535R-AS-7	Mississippi Home Corp Hsg Rev 4.100% 1		04/28/2011	Carlton & Associates		1	10,000		1FE
64971C-F4-1	New York N Y City Indl Dev Ag 5.700% 0		06/21/2011	Cabrara Capital Markets LC		1	2,000,000		6Z
882385-AC-1	Texas Dorm Fin Auth Inc 5.875% 09/01/2		06/02/2011	Various		38,250	70,000	1,000	6Z
882385-AD-9	Texas Dorm Fin Auth Inc 5.750% 09/01/2		04/20/2011	GMS		23,600	40,000	351	6Z
882385-AE-7	Texas Dorm Fin Auth Inc 6.000% 09/01/3		04/29/2011	Various		74,200	130,000	1,257	6Z
3199999 - Total - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of...						574,694	5,120,457	2,608	XXX
00206R-AW-2	AT&T Inc 2.950% 05/15/16		04/26/2011	Bank of America Securities Llc		1,996,360	2,000,000		1FE
03072S-XN-0	Ameriquest Mortgage Securities 2004-R12		04/27/2011	Goldman Sachs		2,620,679	2,713,972	360	1Z*
04650N-AB-0	AT&T Inc 5.350% 09/01/40		05/12/2011	Tax Free Exchange		739,888	739,000	7,797	1FE
06051G-EH-8	Bank Of America Corp Series MTN 5.000%		05/10/2011	Bank of America Securities Llc		3,982,600	4,000,000		1FE
126671-UU-8	Countrywide Asset-Backed Certs 2003-BC1		05/26/2011	Various		1,490,068	1,912,796	1,224	1Z*
17308B-AH-1	Citibank Omni Master Trust COMNI 2009-A8		06/17/2011	Morgan Stanley & Co.		3,037,852	3,000,000	1,334	1FE
302182-AF-7	Express Scripts Inc 3.125% 05/15/16		04/29/2011	Cantor Fitzgerald		3,010,110	3,000,000	521	2FE
30277M-AA-2	Fuel Trust Series 144A 4.207% 04/15/16		04/12/2011	Bank of America Securities Llc		1,655,000	1,655,000		2FE
30277M-AB-0	Fuel Trust Seires 144A 3.984% 06/15/16		06/14/2011	Bank of America Securities Llc		3,000,000	3,000,000		2FE
428236-BM-4	Hewlett-Packard Co 4.300% 06/01/21		05/25/2011	RBS		1,995,980	2,000,000		1FE
759950-BG-2	Renaissance Home Equity Loan 2003-3 M1		05/02/2011	Goldman Sachs		706,762	1,009,659	264	1Z*
C06305-25-1	Bank of Hawaii C.D. 0.300% 06/30/13		06/30/2011	Internal		50,000	50,000		1
03702L-AA-6	Anthracite CDO Ltd 2002-CIBA A 144A 0.	F	04/15/2011	Citigroup Global Markets		1,585,773	1,612,992	849	1FE
055299-AJ-0	BBVA US Senior SA Uniper 3.250% 05/16/	F	05/11/2011	Citigroup Global Markets		3,496,150	3,500,000		1FE
05567L-T3-1	BNP Paribas Series BKNT 5.000% 01/15/2	F	04/06/2011	BNP Paribas/NY		2,002,300	2,000,000	23,056	1FE
226062-AA-5	Crest Clarendon Street CRSTC 2002-1A 144	F	04/01/2011	Citigroup Global Markets		858,753	876,279	173	1FE
83368R-AA-0	Societe Generale Series 144A 5.200% 04	F	04/11/2011	SG Americas Securities llc		1,997,240	2,000,000		1FE
89288T-AA-0	Trainer Wortham First Republic 2004-4A A	F	05/11/2011	CITADEL SECURITIES LLC		2,672,937	2,762,725	629	1FE
980888-AF-8	Woolworths Limited Series 144A 4.550%	F	04/05/2011	Citigroup Global Markets		1,994,760	2,000,000		1FE
3899999 - Total - Bonds - Industrial, Misc.						38,893,211	39,832,423	36,208	XXX
8399997 - Total - Bonds - Part 3						39,467,905	44,952,880	38,815	XXX
8399999 - Total - Bonds						39,467,905	44,952,880	38,815	XXX
8999999 - Total - Preferred Stocks							XXX		XXX
9799999 - Total - Common Stocks							XXX		XXX
9899999 - Total - Preferred and Common Stocks							XXX		XXX
9999999 Totals						39,467,905	XXX	38,815	XXX

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

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value 11	12	13	14	15	16	17	18	19	20	21	22
CUSIP Identi-fication	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Desig-nation or Market Indicator (a)
31359M-UT-8	FNMA 4.125% 04/15/14		04/06/2011	Citigroup Global Markets		5,062,413	4,701,000	4,500,502	4,622,225		6,427		6,427		4,628,653		433,760	433,760	94,804	04/15/2014	1
36200A-BE-8	GNMA Pool 595037 6.000% 10/15/32		06/01/2011	Paydown		557	557	574	572		(15)		(15)		557				12	10/15/2032	1
36200A-CW-7	GNMA Pool 595085 6.000% 10/15/32		06/01/2011	Paydown		18,096	18,096	18,634	18,605		(509)		(509)		18,096				456	10/15/2032	1
36200E-TY-7	GNMA Pool 599167 6.000% 12/15/33		06/01/2011	Paydown		1,442	1,442	1,485	1,477		(35)		(35)		1,442				36	12/15/2033	1
36200M-AT-0	GNMA Pool 604018 5.500% 02/15/33		06/01/2011	Paydown		68,961	68,961	70,959	70,805		(1,844)		(1,844)		68,961				1,825	02/15/2033	1
36200M-EN-9	GNMA Pool 604141 6.000% 03/15/33		06/01/2011	Paydown		4,194	4,194	4,318	4,312		(119)		(119)		4,194				106	03/15/2033	1
36200Q-2R-4	GNMA Pool 569684 6.000% 02/15/32		06/01/2011	Paydown		3,398	3,398	3,498	3,493		(95)		(95)		3,398				72	02/15/2032	1
36200R-LX-8	GNMA Pool 570142 6.000% 12/15/31		06/01/2011	Paydown		1,710	1,710	1,761	1,758		(48)		(48)		1,710				41	12/15/2031	1
36200R-XT-4	GNMA Pool 570490 6.000% 12/15/31		06/01/2011	Paydown		429	429	442	441		(12)		(12)		429				12	12/15/2031	1
36200S-US-7	GNMA Pool 571293 6.000% 11/15/31		06/01/2011	Paydown		51	51	53	53		(1)		(1)		51				1	11/15/2031	1
36201A-PF-9	GNMA Pool 577422 6.000% 01/15/32		06/01/2011	Paydown		1,870	1,870	1,926	1,922		(52)		(52)		1,870				47	01/15/2032	1
36201D-AX-0	GNMA Pool 579722 6.000% 08/15/32		06/01/2011	Paydown		669	669	689	688		(18)		(18)		669				17	08/15/2032	1
36201E-AG-5	GNMA Pool 580607 6.000% 02/15/33		06/01/2011	Paydown		1,053	1,053	1,084	1,082		(29)		(29)		1,053				25	02/15/2033	1
36201F-AF-4	GNMA Pool 581506 6.000% 04/15/33		06/01/2011	Paydown		413	413	425	424		(11)		(11)		413				10	04/15/2033	1
36201K-JQ-0	GNMA Pool 585371 6.000% 04/15/32		06/01/2011	Paydown		263	263	271	271		(7)		(7)		263				7	04/15/2032	1
36201Y-FD-3	GNMA Pool 606864 6.000% 10/15/33		06/01/2011	Paydown		89	89	91	91		(3)		(3)		89				2	10/15/2033	1
36202F-JQ-0	GNMA II Pool 4771 4.500% 08/20/40		06/01/2011	Paydown		192,944	192,944	203,285	203,188		(10,244)		(10,244)		192,944				3,623	08/20/2040	1
36202F-KN-5	GNMA II POOL 4801 4.500% 09/20/40		06/01/2011	Paydown		259,312	259,312	273,493	273,413		(14,101)		(14,101)		259,312				4,850	09/20/2040	1
36207E-ND-2	GNMA Pool 429788 6.000% 12/15/33		06/01/2011	Paydown		5,331	5,331	5,489	5,481		(150)		(150)		5,331				146	12/15/2033	1
3620C4-2P-4	GNMA POOL 748782 4.500% 09/15/40		06/01/2011	Paydown		66,084	66,084	70,090	70,067		(3,983)		(3,983)		66,084				1,235	09/15/2040	1
36210J-HW-1	GNMA Pool 493545 6.000% 03/15/31		06/01/2011	Paydown		24	24	25	25		(1)		(1)		24				1	03/15/2031	1
36213F-U4-3	GNMA Pool 553303 6.000% 06/15/33		06/01/2011	Paydown		10	10	10	10						10					06/15/2033	1
36213R-2A-4	GNMA Pool 562469 5.000% 02/15/34		06/01/2011	Paydown		109,973	109,973	110,535	110,507		(534)		(534)		109,973				1,950	02/15/2034	1
36213R-ZF-7	GNMA Pool 562442 5.500% 01/15/34		06/01/2011	Paydown		142,676	142,676	146,555	146,381		(3,705)		(3,705)		142,676				3,905	01/15/2034	1
36213T-GW-7	GNMA Pool 563713 6.000% 01/15/33		06/01/2011	Paydown		4,183	4,183	4,308	4,300		(117)		(117)		4,183				97	01/15/2033	1
36213U-EZ-9	GNMA Pool 564552 6.000% 12/15/31		06/01/2011	Paydown		63	63	65	65		(2)		(2)		63				2	12/15/2031	1
36213V-GN-2	GNMA Pool 565505 6.000% 09/15/32		06/01/2011	Paydown		36	36	37	37		(1)		(1)		36				1	09/15/2032	1
36241K-YU-6	GNMA Pool 782523 5.000% 11/15/35		06/01/2011	Paydown		318,399	318,399	342,428	342,224		(23,825)		(23,825)		318,399				6,489	11/15/2035	1
36290X-PM-6	GNMA Pool 620628 6.000% 09/15/33		06/01/2011	Paydown		21,839	21,839	22,488	22,461		(621)		(621)		21,839				603	09/15/2033	1
36290X-PT-1	GNMA Pool 620634 6.000% 09/15/33		06/01/2011	Paydown		597	597	615	611		(14)		(14)		597				15	09/15/2033	1
36290Y-TN-8	GNMA Pool 621657 6.000% 12/15/33		06/01/2011	Paydown		10	10	10	10						10					12/15/2033	1
36291C-PV-1	GNMA Pool 624236 6.000% 12/15/33		06/01/2011	Paydown		82	82	84	84		(2)		(2)		82				2	12/15/2033	1
36291E-AD-3	GNMA Pool 625604 6.000% 12/15/33		06/01/2011	Paydown		123	123	127	126		(3)		(3)		123				3	12/15/2033	1

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	11 Unrealized Valuation Increase/ (Decrease)	12 Current Year's (Amortization)/ Accretion	13 Current Year's Other Than Temporary Impairment Recognized	14 Total Change in B./A.C.V. (11 + 12 - 13)	15 Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
36291E-AV-3	GNMA Pool 625620 6.000% 12/15/33		06/01/2011	Paydown		22	22	23	22		(1)		(1)		22				1	12/15/2033	1
36296X-H8-0	GNMA POOL 704155 5.500% 01/15/39		06/01/2011	Paydown		319,427	319,427	329,309	329,114		(9,688)		(9,688)		319,427				6,593	01/15/2039	1
0599999 - Bonds - U.S. Governments						6,606,740	6,245,327	6,115,686	6,236,344		(63,364)		(63,364)		6,172,980		433,760	433,760	126,986	XXX	XXX
13033W-D2-6	California Infrastructure & Ec 4.625%		06/28/2011	Internal		1	15,000	1							1					12/01/2027	1FE
13033W-D4-2	California Infrastructure & Ec 4.750%		04/14/2011	Internal		1	40,000	1							1					12/01/2037	6Z
20786L-AF-8	Connector 2000 Assn Inc S C To Series B		05/02/2011	Internal		1	3,900,000	1							1					01/01/2025	6Z
31359S-2G-4	Fanniemae Whole Loan NW 2001-W1 AF6 6.		06/01/2011	Paydown		7,347	7,347	7,629	7,949		(602)		(602)		7,347				193	10/25/2023	1
31387C-M3-2	FNMA Pool No 580078 7.000% 09/01/31		06/01/2011	Paydown		115	115	118	118		(3)		(3)		115				3	09/01/2031	1
31394D-EA-4	Fannie Mae 2005-22 KJ 5.000% 07/25/33		06/01/2011	Paydown		242,272	242,272	254,840	252,962		(10,691)		(10,691)		242,272				4,951	05/25/2015	1
31402D-F7-0	FNMA Pool 725690 6.000% 08/01/34		06/01/2011	Paydown		572,375	572,375	591,469	590,541		(18,166)		(18,166)		572,375				14,030	08/01/2034	1
31402D-PT-1	FNMA Pool 725934 5.000% 11/01/19		06/01/2011	Paydown		637,528	637,528	677,473	675,536		(38,008)		(38,008)		637,528				12,982	11/01/2019	1
31405R-AR-7	FNMA Pool 796616 5.500% 10/01/34		06/01/2011	Paydown		973,261	973,261	988,240	987,376		(14,115)		(14,115)		973,261				21,470	10/01/2034	1
31407U-EK-9	FNMA Pool 840838 5.500% 11/01/35		06/01/2011	Paydown		457,151	457,151	451,294	451,428		5,723		5,723		457,151				10,752	11/01/2035	1
60535R-AA-6	Mississippi Home Corp Hsg Rev 4.200% 1		05/19/2011	Internal		1	45,000	1							1					12/01/2013	6Z
60535R-AC-2	Mississippi Home Corp Hsg Rev 4.450% 1		04/05/2011	Internal		1	160,000	1	1						1					12/01/2015	6Z
60535R-AG-3	Mississippi Home Corp Hsg Rev 5.200% 1		04/05/2011	Internal		2	215,000	2	1						2					12/01/2023	6Z
60535R-AH-1	Mississippi Home Corp Hsg Rev 5.300% 1		05/19/2011	Internal		7	500,000	7							7					12/01/2028	6Z
60535R-AJ-7	Mississippi Home Corp Hsg Rev 5.500% 1		06/28/2011	Internal		2	55,000	2							2					12/01/2035	1FE
60535R-AS-7	Mississippi Home Corp Hsg Rev 4.100% 1		05/19/2011	Internal		1	10,000	1							1					12/01/2012	1FE
3199999 - Total - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of...						2,890,066	7,830,049	2,971,080	2,965,913		(75,861)		(75,861)		2,890,066				64,382	XXX	XXX
03062X-AD-8	AmeriCredit Automobile Rec. Series 2006-		06/06/2011	Paydown		1,188,468	1,188,468	1,188,178	1,188,412		56		56		1,188,468				29,826	09/06/2013	1FE
03072S-LD-5	Ameriquest Mortgage Securities 2003-IA1		06/01/2011	Paydown		52,393	52,393	52,393	52,393						52,393				1,076	11/25/2033	1Z*
03072S-XN-0	Ameriquest Mortgage Securities 2004-R12		06/27/2011	Paydown		232,038	232,038	224,061			7,976		7,976		232,038				256	01/25/2035	1Z*
03523T-BD-9	Anheuser Busch Inbev Wor 7.200% 01/15/		06/20/2011	Call		2,117,769	1,850,000	1,849,044			177		177		1,849,222		268,547	268,547	57,350	01/15/2014	2FE
04650N-AA-2	AT&T Inc Series 144A 5.350% 09/01/40		05/12/2011	Tax Free Exchange		739,888	739,000	739,961	739,898		(10)		(10)		739,888				27,456	09/01/2040	1FE
06051G-DY-2	Bank Of America Corp 7.375% 05/15/14		05/10/2011	Bank of America Securities Llc		4,559,600	4,000,000	4,433,320	4,374,519		(37,881)		(37,881)		4,336,638		222,962	222,962	145,861	05/15/2014	1FE
06424H-BF-3	Bank of America Large Loan BALL 2005-MIB		06/15/2011	Paydown		1,948,861	1,948,861	1,912,320	1,935,727		13,134		13,134		1,948,861				3,776	03/15/2022	1Z*
09774X-AK-8	Bombardier Capital Mortgage Se 1998-B M1		06/01/2011	Paydown				72,531	69,676		(69,676)		(69,676)						7,897	03/15/2026	6FE
12496B-AB-7	C-Bass Ltd 1.467% 11/10/38		05/10/2011	Paydown		602,093	602,093	565,968	587,486		14,608		14,608		602,093				4,537	11/10/2038	1FE
126671-UU-8	Countrywide Asset-Backed Certs 2003-BC1		06/27/2011	Paydown		37,911	37,911	29,554			8,358		8,358		37,911				52	03/25/2033	1Z*
17305E-DF-9	Citibank Credit Card Issuance 2006-A4 A4		05/10/2011	Paydown		2,950,000	2,950,000	2,946,873	2,949,531		469		469		2,950,000				80,388	05/10/2013	1FE
17307G-CU-0	Credit Based Asset Service CMLTI 2003-HE		06/27/2011	Paydown		86,218	86,218	78,539			7,679		7,679		86,218				220	12/25/2033	1Z*
17308B-AH-1	Citibank Omni Master Trust COMNI 2009-A8		05/02/2011	Various		2,385,234	2,350,000	2,377,539	2,373,424		(5,243)		(5,243)		2,368,181		17,053	17,053	19,986	05/15/2012	1FE

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value 11	12	13	14	15	16	17	18	19	20	21	22
CUSIP Identi-fication	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Desig-nation or Market Indicator (a)
200476-AA-7	COMMERCIAL MORTGAGE PASS-THROU COMM 2007		06/15/2011	Paydown		214,245	214,245	207,282	210,655		3,591		3,591		214,245				360	06/15/2022	1Z*
20047N-AD-4	Commercial Mortgage Pass-Throu Comm 2004		06/01/2011	Paydown		192,033	192,033	192,987	191,948		85		85		192,033				3,272	11/15/2012	1Z*
30277M-AA-2	Fuel Trust Series 144A 4.207% 04/15/16		06/14/2011	Various		1,678,727	1,655,000	1,655,000							1,655,000		23,727	23,727	8,984	04/15/2016	2FE
32027N-MH-1	First Franklin Mtg Loan Asset FFML 2004-		06/27/2011	Paydown		108,101	108,101	105,060			3,040		3,040		108,101				201	09/25/2034	1FE
36962G-2V-5	General Elec Cap Corp SERIES MTN 0.466		04/28/2011	Jefferies Co		1,923,044	2,000,000	1,840,120	1,848,043		8,926		8,926		1,856,970		66,074	66,074	4,731	05/11/2016	1FE
40429C-FR-8	HSBC Finance Corp 0.684% 06/01/16		05/11/2011	HSBC Securities		963,600	1,000,000	898,700	903,575		6,148		6,148		909,723		53,877	53,877	3,378	06/01/2016	1FE
45254N-JG-3	Impac CMB Trust IMM 2004-5 1A1 0.906%		06/27/2011	Paydown		87,169	87,169	78,888	78,964		8,205		8,205		87,169				332	10/25/2034	1Z*
52108H-ZX-5	LB-UBS Commercial Mtg Trust 2004-C2 A3		06/11/2011	Paydown		30,789	30,789	28,990	30,227		562		562		30,789				496	03/15/2029	1Z*
52521T-AC-1	Lehman Brothers LBFRC 2006-LLFA A2 0.3		06/15/2011	Paydown		1,276,222	1,276,222	1,227,284	1,011,469		33,855		33,855		1,276,222				2,125	09/15/2021	1Z*
61746W-MV-9	Morgan Stanley Dean Witter Cap MSDWC 200		06/01/2011	Paydown		114,637	114,637	118,967	118,299		(3,662)		(3,662)		114,637				3,514	02/15/2012	1Z*
61752L-AA-3	Morgan Stanley Capital I MSC 2007-XLFA A		06/15/2011	Paydown		52,539	52,539	51,226			1,313		1,313		52,539				61	10/15/2020	1Z*
68383N-AA-1	Opteum Mortgage Acceptance OPMAC 2005-1		06/27/2011	Paydown		352,310	352,310	335,494	336,291		16,019		16,019		352,310				748	02/25/2035	1Z*
759950-BG-2	Renaissance Home Equity Loan 2003-3 M1		06/27/2011	Paydown		13,873	13,873	9,711			4,162		4,162		13,873				18	12/25/2033	1Z*
78387G-AP-8	SBC Communications 5.100% 09/15/14		04/11/2011	Goldman Sachs		1,417,365	1,295,000	1,293,588	1,294,250		91		91		1,294,341		123,024	123,024	38,343	09/15/2014	1FE
81375W-DS-2	Securitized Asset Backed Rec SABR 2005-F		06/27/2011	Paydown		98,954	98,954	96,462	96,530		2,423		2,423		98,954				390	12/25/2034	1Z*
83611M-GS-1	Soundview Home Equity Loan SVHE 2005-OPT		06/27/2011	Paydown		105,567	105,567	101,675			3,893		3,893		105,567				142	11/25/2035	1Z*
92976B-HJ-4	Wachovia Bank Commercial Mort. WBCMT 200		05/15/2011	Paydown		135	135	125	129		7		7		135					09/15/2021	1Z*
92976G-AF-8	Wachovia Bank NA 0.577% 03/15/16		05/11/2011	Jefferies Co		1,915,142	2,000,000	1,843,540	1,851,488		10,007		10,007		1,861,495		53,647	53,647	5,361	03/15/2016	1FE
C06305-25-1	Bank of Hawaii C.D. 0.800% 06/30/11		06/30/2011	Maturity		50,000	50,000	50,000	50,000						50,000				400	06/30/2011	1
226062-AA-5	Crest Clarendon Street CRSTC 2002-1A 144	F	06/28/2011	Paydown		75,870	75,870	74,353			1,517		1,517		75,870				153	12/28/2017	1FE
46115H-AC-1	Intesa Sanpaolo SPA Series 144A 2.658%	F	06/24/2011	Bank of America Securities Llc		2,973,120	3,000,000	3,000,000							3,000,000		(26,880)	(26,880)	28,090	02/24/2014	1FE
902118-BM-9	Tyco International Finan 4.125% 10/15/	F	04/29/2011	Cantor Fitzgerald		3,207,390	3,000,000	2,989,590	2,991,829		768		768		2,992,597		214,793	214,793	68,406	10/15/2014	1FE
3899999 - Bonds - Industrial and Miscellaneous						33,751,305	32,759,426	32,669,322	25,284,764		40,596		40,596		32,734,480		1,016,825	1,016,825	548,186	XXX	XXX
8399997 - Bonds - Part 4						43,248,112	46,834,803	41,756,087	34,487,020		(98,629)		(98,629)		41,797,526		1,450,585	1,450,585	739,554	XXX	XXX
8399999 - Total - Bonds						43,248,112	46,834,803	41,756,087	34,487,020		(98,629)		(98,629)		41,797,526		1,450,585	1,450,585	739,554	XXX	XXX
8999999 - Total - Preferred Stocks							XXX													XXX	XXX
Y0002#-10-7	ACA CAPITAL (Singapore) Pte. Ltd	D	04/29/2011	Liquidating Distribution		50,474											50,474	50,474			
9199999 - Common Stocks - Parent, Subsidiaries and Affiliates						50,474	XXX										50,474	50,474		XXX	XXX
9799997 - Common Stocks - Part 4						50,474	XXX										50,474	50,474		XXX	XXX
9799999 - Total - Common Stocks						50,474	XXX										50,474	50,474		XXX	XXX
9899999 - Total - Preferred and Common Stocks						50,474	XXX										50,474	50,474		XXX	XXX
9999999 Totals						43,298,586	XXX	41,756,087	34,487,020		(98,629)		(98,629)		41,797,526		1,501,059	1,501,059	739,554	XXX	XXX

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

Schedule DB - Part A - Section 1

NONE

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

NONE

Schedule DB - Part B - Section 1

NONE

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

NONE

Schedule DB - Part D

NONE

Schedule DL - Part 1

NONE

Schedule DL - Part 2

NONE

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1	2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
					6	7	8	
Depository	Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	First Month	Second Month	Third Month	*
J.P. Morgan Chase Bank New York, NY					5,649,758	3,823,169	6,585,665	XXX
U.S. Bank, N.A. Washington, DC					442			XXX
0199998 Deposits in .... depositories that do not exceed the allowable limit in any one depository (see Instructions) - Open Depositories	XXX	XXX						XXX
0199999 Totals - Open Depositories	XXX	XXX			5,650,200	3,823,169	6,585,665	XXX
0399999 Total Cash on Deposit	XXX	XXX			5,649,758	3,823,169	6,585,665	XXX
0499999 Cash in Company's Office	XXX	XXX	XXX	XXX	339	339	307	XXX
0599999 Total	XXX	XXX			5,650,539	3,823,508	6,585,972	XXX

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

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