ACA Financial Guaranty Corporation

Statutory-Basis Financial Statements as of and
for the Years Ended December 31, 2009 and 2008,
Supplemental Schedules as of December 31, 2009,
and Independent Auditors' Report

ACA FINANCIAL GUARANTY CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ACA Financial Guaranty Corporation:

We have audited the accompanying statutory-basis statements of admitted assets, liabilities and surplus of ACA Financial Guaranty Corporation (the "Company") as of December 31, 2009 and 2008, and the related statutory-basis statements of income and changes in surplus, and of for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of ACA Financial Guaranty Corporation as of December 31, 2009 and 2008, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the accompanying statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of ACA Financial Guaranty Corporation as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

As discussed in Note 1 and Note 16 to the financial statements, the Company has ceased writing new business and has restructured its obligations under various insured credit swap transactions. On August 8, 2008, the Company made a $209 million loss payment and issued newly created surplus notes with a total face amount of $1 billion.

Our 2009 audit was conducted for the purpose of forming an opinion on the basic 2009 statutory-basis financial statements taken as a whole. The supplemental schedule of investment risk interrogatories, the supplemental summary investment schedule, and the supplemental schedule of reinsurance interrogatories as of and for the year ended December 31, 2009, are presented for purposes of additional analysis and are not a required part of the basic 2009 statutory-basis financial statements. These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2009 statutory-basis financial statements. The effects on these schedules of the differences between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. Accordingly, in our opinion, such schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the information shown therein. However, in our opinion, such schedules are fairly stated in all material respects when considered in relation to the basic 2009 statutory-basis financial statements taken as a whole.

Deloitte & Touche LLP

May 17, 2010

ACA FINANCIAL GUARANTY CORPORATION

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS AS OF DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
ADMITTED ASSETS		
BONDS — At NAIC carrying value	$ 369,447	$ 368,799
CASH AND SHORT-TERM INVESTMENTS	37,631	63,859
OTHER INVESTED ASSETS	1,090	1,090
Total cash and investments	408,168	433,748
ACCRUED INVESTMENT INCOME	3,793	3,221
NET DEFERRED TAX ASSET	-	3,821
TAX RECOVERABLE	51,373	-
OTHER ASSETS	130	211
TOTAL ADMITTED ASSETS	$ 463,464	$ 441,001
LIABILITIES AND SURPLUS		
UNEARNED PREMIUMS	$ 205,168	$ 219,749
LOSSES AND LOSS ADJUSTMENT EXPENSES	31,229	20,973
CONTINGENCY RESERVE	85,639	74,448
PAYABLE TO SUBSIDIARIES	417	466
PAYABLE FOR SECURITIES	-	20,680
ACCRUED EXPENSES AND OTHER LIABILITIES	3,555	3,398
Total liabilities	326,008	339,714
COMMON STOCK — 1,000,000 shares authorized, issued and outstanding at December 31, 2009 and 2008; par value of $15 per share	15,000	15,000
GROSS PAID-IN AND CONTRIBUTED SURPLUS	363,974	363,974
UNASSIGNED DEFICIT	(241,518)	(277,687)
Surplus as regards policyholders	137,456	101,287
TOTAL LIABILITIES AND SURPLUS	$ 463,464	$ 441,001

See notes to statutory-basis financial statements.

ACA FINANCIAL GUARANTY CORPORATION

STATUTORY-BASIS STATEMENTS OF INCOME AND CHANGES IN SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
PREMIUM EARNED	$ 15,446	$ 26,098
LOSSES AND LOSS ADJUSTMENT EXPENSES	15,164	270,181
UNDERWRITING EXPENSES INCURRED	17,291	30,589
TOTAL UNDERWRITING DEDUCTIONS	32,455	300,770
NET UNDERWRITING LOSS	(17,009)	(274,672)
NET INVESTMENT INCOME	16,756	22,416
NET REALIZED CAPITAL LOSSES	(15,009)	(10,802)
NET INVESTMENT GAIN	1,747	11,614
OTHER INCOME	8,782	25,224
LOSS BEFORE FEDERAL INCOME TAX	(6,480)	(237,834)
FEDERAL INCOME TAX (BENEFIT) EXPENSE	(55,236)	780
NET INCOME (LOSS)	48,756	(238,614)
SURPLUS AS REGARDS POLICYHOLDERS — Beginning of year	101,287	228,377
Net income (loss)	48,756	(238,614)
Change in net unrealized capital gains	599	24,753
Paid in and contributed capital	-	10,000
Change in contingency reserve	(11,191)	111,211
Change in deferred income tax	(89,493)	54,490
Change in surplus note	-	(10,000)
Change in non-admitted assets	87,498	(78,930)
Change in surplus as regards policyholders	36,169	(127,090)
SURPLUS AS REGARDS POLICYHOLDERS — End of year	$ 137,456	$ 101,287

See notes to statutory-basis financial statements.

ACA FINANCIAL GUARANTY CORPORATION

STATUTORY-BASIS STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
CASH FLOWS FROM OPERATIONS:		
Premiums collected net of reinsurance	$ 864	$ (16,930)
Net investment income	17,076	27,143
Other income	8,782	25,224
Benefits and loss related payments	(934)	(238,524)
Commissions, expenses paid and aggregate write-ins for deductions	(20,117)	(51,646)
Federal and foreign income taxes collected	3,863	6,296
Net cash provided by (used in) operations	9,534	(248,437)
CASH FLOWS FROM INVESTMENTS:		
Proceeds from investments sold or matured	90,850	240,886
Proceeds from other invested assets sold or matured	-	18,250
Cost of investments acquired	(127,476)	(9,503)
Net cash (used in) provided by investments	(36,626)	249,633
CASH FLOWS FROM FINANCING AND MISCELLANEOUS SOURCES:		
Surplus notes, capital notes	-	(10,000)
Capital and surplus paid in	-	10,000
Other applications	864	3,780
Net cash provided by financing and miscellaneous sources	864	3,780
NET (DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS	(26,228)	4,976
CASH AND SHORT-TERM INVESTMENTS — Beginning of year	63,859	58,883
CASH AND SHORT-TERM INVESTMENTS — End of year	$ 37,631	$ 63,859
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING — Capitalization of surplus notes into gross paid in and contributed surplus	$ -	$ 10,000

See notes to statutory-basis financial statements.

1. ORGANIZATION AND OWNERSHIP

ACA Financial Guaranty Corporation (the "Company" and "ACA FG") is organized and domiciled in the State of Maryland and is a licensed, authorized and accredited insurance company in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. The Company is authorized to provide financial guaranty insurance on tax-exempt and other debt obligations, as well as on certain obligations related to asset-backed and corporate financings. Since December 2007, the Company has not issued any new financial guaranty insurance policies and is currently operating as a run-off insurance company. The Company's common stock is owned 76.6% by ACA Holding, L.L.C. (ACAH), a Delaware limited liability company, and 23.4% by KPR Ltd, (KPR), a company with limited liability organized under the laws of the Cayman Islands. KPR is a wholly owned subsidiary of ACAH and ACAH is a wholly owned subsidiary of Manifold Capital Corp. (ACACH), formerly ACA Capital Holdings, Inc.), a Delaware corporation.

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

On November 9, 2006, ACACH priced its initial public offering of 6,875,000 shares of newly issued common stock and 23,541 shares of existing common stock (IPO). ACACH realized gross proceeds of $13 per share on the newly issued common stock, or $89.4 million. On November 10, 2006, ACACH's common stock commenced trading on the New York Stock Exchange and trades under the symbol "ACA". In 2008, being unable to continue to satisfy the New York Stock Exchange's listing requirements, ACACH was de-listed from the New York Stock Exchange. In addition, ACACH deregistered its common stock pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended, effective as of April 15, 2008.

On December 19, 2007, S&P downgraded the financial strength and financial enhancement ratings of the Company to "CCC" (Developing Outlook) from "A" (CreditWatch Negative). Under the terms of the Company's insured credit swap transactions, the Company's downgrade to a level below "A-" resulted in an obligation for the Company's insured affiliates to post collateral based on the fair value of the insured credit swaps. Under the terms of the swaps, a failure to post collateral would have represented an event of default under the insured credit swaps, or if collateral was not posted, a mandatory termination payment in an amount approximately equal to the collateral call. This termination payment would give rise to a claim of the counterparties under the related insurance policy. Based on the fair values of the Company's affiliates' insured credit swap transactions, ACACH did not have the ability to post such collateral or make such termination payments. In light of the insured affiliates' inability to post collateral or make these termination payments, and in order to avoid a regulatory proceeding, the Company and its affiliates entered into multiple forbearance agreements in which their counterparties agreed not to exercise remedies and ultimately a restructuring transaction (the "Restructuring Transaction") with its structured credit and other similarly situated counterparties. The Restructuring Transaction was consummated following a period of claim forbearance by the swap counterparties that began on December 19, 2007, culminating in a Restructuring Transaction completed on August 8, 2008, is discussed further in Note 16 — Restructuring Transaction.

In summary, the Restructuring Transaction provided that the Company make an upfront loss settlement payment of $209 million to its swap counterparties and issue surplus notes ("Surplus Notes") with a total face amount of $1 billion for the counterparties' benefit. These actions were in full settlement of any and all claims of the swap counterparties under their insured credit swaps. By the terms of the transaction, all insurance policies on credit swap transactions were terminated. Also, by the terms of the transaction, 95% of the value of the Surplus Notes was issued to the counterparties, with the remaining 5% issued to ACACH. As part of the Restructuring Transaction, a $100 million medium term note obligation due March 2010, guaranteed by the Company, was also restructured and settled. Following the Restructuring Transaction, the Company's insured exposure is substantially comprised of tax-exempt exposures. See Note 16, Restructuring Transaction, for further details on the Restructuring Transaction and a description of the Surplus Notes.

As provided for by the Restructuring Transaction, subsequent to the closing, the Company is required to conduct its ongoing operations on a run-off basis. As such, the Company will not write any new insurance policies unless it is approved by its board of directors and the Maryland Insurance Administration (the "MIA").

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Variances From GAAP — Accounting practices prescribed or permitted by insurance regulatory authorities differ in certain material respects from GAAP in that under GAAP:

- Up-front premiums on tax-exempt business are recognized as earned in proportion to the amount of risk outstanding over the expected period of coverage rather than in proportion to the expiration of risk;
- Acquisition costs are charged to operations as the related premiums are earned rather than as incurred;

- A non-specific loss reserve, which is included in the determination of net income, is calculated representing an estimate of the potential losses in the Company's insured portfolio rather than establishing a contingency reserve;

- Financial guaranty losses are recognized at the time the company determines that payment default is probable and the amount of loss is reasonably estimated. Under SAP, financial guaranty losses are recognized as of the date of payment default.

- Certain assets designated under SAP as "non-admitted" (such as furniture and equipment, leasehold improvements, deferred income taxes in excess of certain limitations, prepaid expenses and any other assets deemed non-admittable) are restored to surplus and are generally reflected as assets. For statutory-basis purposes non-admitted assets are excluded from the balance sheet by direct charges to surplus;

- Investments in bonds are classified at the time of purchase as "held to maturity" and reported at amortized cost, "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported in a separate component of surplus. For statutory-basis purposes, bonds are generally carried at amortized cost. Bonds that do not qualify to be carried at amortized cost are carried at a value required by the NAIC with the difference between these values recorded directly to surplus without adjustment for federal income taxes;

- Certain financial guarantees do not qualify for the financial guarantee scope exception under Accounting Standards Codification 815 ("ASC 815"), *Derivatives and Hedging*, formerly known as Financial Accounting Standard Board's Statement of Financial Accounting Standards (SFAS) 133, *Accounting for Derivatives and Hedging Activities*, and are recorded at fair value rather than accrual accounting under SAP;

- The reserves for unpaid losses and unearned premiums are presented gross of reinsurance and corresponding assets for reinsurance recoverable on unpaid losses and prepaid reinsurance premiums, respectively, are recorded;

- Surplus notes are presented as liabilities. Under SAP, surplus notes are included in capital and surplus.

Although the net effect of the adjustments required to convert the accompanying statutory-basis financial statements to be in accordance with GAAP is not reasonably determinable, it is presumed that such adjustments would have a material impact on net income and surplus as regards policyholders for the years ended December 31, 2009 and 2008, respectively.

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

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

Investments — Investments are valued in accordance with the valuation procedures of the NAIC. Investment grade bonds are generally carried at amortized cost and the amortization of premium or discount is determined by applying the effective interest method. Non-investment grade bonds, as determined by the Securities Valuation Office (SVO) division of the NAIC, are carried at the lower of amortized cost or market. Amortization of bond premium or discount is calculated using the effective yield method taking into consideration specified interest and principal provisions over the life of the bond. The cost of bonds is adjusted for impairments in value deemed to be an other-than-temporary impairment ("OTTI"). These adjustments are recorded as realized capital losses.

The NAIC adopted a revised rating methodology for non-agency residential mortgage-backed securities that became effective December 31, 2009, based on the NAIC's estimate of expected losses from non-agency residential mortgage-backed securities. The revised rating methodology resulted in certain non-agency residential mortgage-backed securities having multiple rating designations-an initial NAIC designation and a final NAIC designation. In such instances in accordance with reporting instructions issued by the NAIC, the initial NAIC designation determined the carrying value of the security and the final NAIC designation was used for the security in reporting in the annual statement and in risk-based capital ("RBC") calculations. Non-agency residential mortgage-backed securities with initial NAIC designations of 1 through 5 were stated at amortized cost as of December 31, 2009 and non-agency residential mortgage-backed securities with an initial NAIC designation of 6 were stated at the lower of amortized cost or estimated fair value as of December 31, 2009, and were subject to the final NAIC ratings as of that date.

Realized capital gains and losses on dispositions are computed by the specific identification method and are determined on the basis of amortized cost at the date of sale for bonds. Declines in fair values, which are determined to be other than temporary, are taken as realized losses. In 2009 and 2008, the Company recognized $10.5 million and $12.1 million in other than temporary impairments for investment in asset-backed securities and $0.2 million in 2009 for bonds.

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

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

Premium Revenue Recognition — Typically, financial guaranty premium is received either on an upfront or installment basis. In general, premiums from insured tax-exempt obligations are received on an upfront basis. Up-front premiums are earned in proportion to the expiration of risk. Unearned premiums represent that portion of premiums which is applicable to coverage of risk to be provided in the future on policies in force. Installment premiums are earned over each installment period, which is generally one year or less. When an insured issue is retired or defeased prior to the end of the expected period of coverage, the remaining unearned premiums, less any amount credited to a refunding issue insured by the Company, are recognized as earned premium. The amounts earned from refundings were $4.1 million and $11.5 million in 2009 and 2008, respectively.

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

Losses and Loss Adjustment Expenses — A case-basis reserve for unpaid losses is recorded at the present value of the estimated loss when a guaranteed obligation defaults in payment and the Company makes a payment to cover debt service obligations. The estimated loss is net of anticipated recoveries under salvage and subrogation rights. Generally, case-basis reserves are present valued using the taxable equivalent yield on a fully invested basis of the Company's investment portfolio. At December 31, 2009 and 2008, the weighted average discount factor used was 4.50% and 4.87%, respectively. Loss adjustment expense reserves are established for obligations that are either in default or in which defaults are probable. The Company does not discount loss adjustment expense reserves.

At December 31, 2009, loss and loss adjustment expense reserves were $31.2 million, net of discount of $18.7 million, compared to $20.9 million, net of a $12.3 million discount, at December 31, 2008.

Management of the Company periodically evaluates its estimates for losses and loss-adjustment expenses and believes that reserves are adequate to cover the ultimate net cost of claims, on financial guaranty obligations that have defaulted. The reserves are necessarily based on estimates and there can be no assurance that the ultimate liability will not differ from such estimates. The Company monitors these reserves and may periodically adjust such reserves based on significant assumptions include the liquidation value of the assets supporting the insured obligations, the volume and timing of collateral cash flows and the behavior of the underlying borrower. Changes in any significant assumptions from time to time will affect the Company's loss reserves and financial results, possibly materially. See Note 4 — Losses and Loss Adjustment Expenses for further description of the Company's loss reserves.

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

Contingency Reserve — A contingency reserve is established by a direct charge to surplus for the protection of all policyholders equal to the greater of 50% of financial guaranty premiums written for each category of insured obligation or designated percent of principal guaranteed for that category. These amounts are provided each quarter as either 1/60th or 1/80th of the total required for each category, less permitted reductions. The Company does not discount its contingency reserves.

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

New Accounting Pronouncements — In December 2009, the Statutory Accounting Principles Working group adopted the nonsubstantive exposed revisions to Statement of Statutory Accounting Principles ("SSAP") No. 9, *Subsequent Events* ("SSAP 9"). These revisions adopt Financial Accounting Standards 165, Subsequent Events ("FAS 165" or ASC 855) for statutory accounting. The Company has adopted SSAP 9 and evaluated events subsequent to December 31, 2009 and through the financial statement issuance date of May 17, 2010. There were no subsequent events that would have an impact on the Company's financial statements.

In December 2009, the NAIC issue SSAP No. 10R, "*Admission Guidance for Deferred Tax Assets Revised*". This pronouncement provides revised guidance on the accounting of deferred tax assets. SSAP 10R supersedes SSAP No. 10 "Admission Guidance for Deferred Tax Assets" and is effective for annual statements ending December 31, 2009. The Company adopted SSAP 10R — as discussed in Note 7 (Income Taxes).

In December 2009, the NAIC issue SSAP No. 60 "*Financial Guaranty Insurance*". This pronouncement provides disclosure requirements of financial guaranty business. The Company adopted SSAP 60 — as discussed in Note 18 (Financial Guaranty Insurance).

In September 2009, the NAIC issued SSAP No. 43R, "*Loan Backed and Structured Securities-Revised*" ("SSAP 43R"). This pronouncement provides revised guidance on the accounting and impairment treatment for loan-backed and structured securities. SSAP 43R supersedes SSAP No. 43- Loan-backed and Structured Securities (SSAP No. 43), SSAP No. 98 — Treatments of Cash Flows When Quantifying Changes in Valuations and Impairments, an Amendment of SSAP No. 43 (SSAP No. 98) and paragraph 13 of SSAP No. 99 — Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment (SSAP No. 99). This statement is effective for reporting periods ending on or after September 30, 2009. The Company adopted SSAP 43R — as discussed in Note 3 (Investments).

In September 2008, the NAIC issued SSAP No. 99, "*Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment*". This pronouncement requires that after writing down a bond or redeemable preferred stock, whereby the cost basis of the security is reduced to its fair value, the difference between the new cost basis and the estimated recovery value (the new premium or discount) should be amortized or accreted over the remaining life of the security. SSAP 99 also clarifies that any bond premium that is written-off upon recognition of impairment shall be recorded as a realized loss versus a reduction to investment income. This statement was effective for reporting periods beginning on or after January 1, 2009. The Company adopted SSAP 99 and it did not have a significant impact on the Company's statutory financial statements.

3. INVESTMENTS

Bonds, with an amortized cost of $4.7 million and $4.8 million were on deposit with various state regulatory authorities as required by insurance regulations at December 31, 2009 and 2008, respectively. Net investment income consisted of the following (dollars in thousands) for the years ended December 31, 2009 and 2008:

	2009	2008
Income from fixed-maturity securities	$ 18,072	$ 21,866
Income from cash equivalents and short-term investments	56	1,915
Investment expenses	(1,372)	(1,365)
Investment income	$ 16,756	$ 22,416

The amortized cost and estimated fair value of long-term bonds as of December 31, 2009 and 2008, were as follows (dollars in thousands):

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

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. — Treasury securities	$ 5,930	$ 623	$ -	$ 6,553
Federal-agency securities	53,093	4,644	-	57,737
Obligations of states and political subdivisions	20,541	314	(563)	20,292
Corporate securities	100,285	1,368	(7,522)	94,131
Asset-backed securities	29,709	2,599	(11,542)	20,766
Mortgaged-backed securities	159,241	2,094	(13,667)	147,668
	$ 368,799	$ 11,642	$ (33,294)	$ 347,147

The amortized costs and estimated fair value of long-term bonds at December 31, 2009, by contractual maturity, are shown below (dollars in thousands). Actual maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations which may or may not include call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 20,822	$ 21,183
Due after one year through five years	172,808	180,447
Due after five years through ten years	21,636	22,932
Due after ten years	154,181	154,939
	$ 369,447	$ 379,501

Proceeds from sales of long-term bonds during 2009 and 2008 were $39.1 million and $216.5 million, respectively. Gross gains of $0.2 million and $4.4 million and gross losses of $4.5 million and $15.2 million were realized on those sales in 2009 and 2008, respectively.

The following table summarizes, for all securities in an unrealized loss position at December 31, 2009, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position (dollars in thousands):

	Less Than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. — Treasury securities	$ -	$ -	$ -	$ -	$ -	$ -
Federal agency securities	-	-	-	-	-	-
Obligations of states and political subdivisions	-	-	-	-	-	-
Corporate securities	16,559	(226)	12,984	(1,141)	29,543	(1,367)
Asset-backed securities	5,206	(1,137)	2,325	(246)	7,531	(1,383)
Mortgage-backed securities	14,250	(288)	29,065	(1,003)	43,315	(1,291)
Total	$ 36,015	$ (1,651)	$ 44,374	$ (2,390)	$ 80,389	$ (4,041)

The Company, along with its investment manager, JP Morgan Asset Management, has a securities monitoring process that on a quarterly basis, identifies securities in an unrealized loss position that are potentially other-than-temporarily impaired. This process also involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements and cash flow projections in a severe negative economic outlook.

During 2009, the Company recognized an other than temporary impairment of loan- backed securities based upon the projected cash flows of the underlying loans being less that the amortized cost basis of the security. The detail is as follows:

CUSIP	Security Name	Amortized Cost Prior to Impairment	Impairment	Fair Value	Amortized Cost After the Impairment
1248MBAJ4	Credit-based asset servicing	$ 1,998,807	$ 549,807	$ 874,440	$ 1,449,000
46601WBE4	Ixion	11,055,174	9,935,174	1,120,000	1,120,000
	Total	$ 13,053,981	$ 10,484,981	$ 1,994,440	$ 2,569,000

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table is a reconciliation of the beginning and ending balances of the reserve for losses and loss adjustment expenses as of December 31, 2009 and 2008 (dollars in thousands):

	2009	2008
Balance — January 1	$ 20,973	$ 7,936
Less reinsurance recoverable		
Net balance — January 1	20,973	7,936
Incurred related to:		
Current year	8,014	273,619
Prior years	7,150	(3,438)
Total incurred	15,164	270,181
Paid related to:		
Current year	870	258,404
Prior years	4,038	(1,260)
Total paid	4,908	257,144
Net balance — December 31	31,229	20,973
Plus reinsurance recoverables		
Balance — December 31	$ 31,229	$ 20,973

During 2009, the Company incurred losses and LAE of $15.2 million consisting of $8.0 million for new claims and $7.2 million relating to prior accident years. More than half of the prior year development resulted from additional tax obligations of a student housing credit which eliminated cash flow available for debt service and resulted in increasing the reserve to $18.0 million compared to par outstanding of $16.5 million. Paid losses in 2009 on this credit were $1.2 million. In addition, the reserve for an insured securitization of installment sales contracts on manufactured housing was increased to $4.5 million compared to par outstanding of $5.7 million. Paid losses in 2009 on this credit were $0.5 million. The Company also received $1.2 million against an anticipated salvage reserve of $0.8 million at

December 31, 2008 on another insured securitization of manufactured housing mortgages. The remaining prior year development of $3.2 million related primarily to LAE, specifically legal costs for the protracted bankruptcy proceedings of COPIA: The American Center For Wine, Food and the Arts (COPIA), as well as other operating expenses of COPIA.

The Company's current accident year incurred losses and LAE of $8.0 million is primarily from three credits. The Company's incurred losses were $4.3 million on a student housing credit with par outstanding of $24.1 million, $2.7 million on another student housing credit with par outstanding of $11.2 million and $0.7 million on a hospital with par outstanding of $1.1 million. Claim payments on these three credits were $0.6 million.

On January 4, 2010, the Company paid a loss of $0.1 million for The Connector 2000 Association ("Connector"), a toll road credit, with par outstanding of $19.8 million. The Company expects to continue paying claims on this credit. However, because SSAP 60 does not allow for establishment of a loss reserve until a default in payment occurs, the Company did not accrue this loss until the first quarter of 2010. In the first quarter 2010 the Company booked a claim reserve of $17.3 million.

COPIA filed for bankruptcy during the fourth quarter of 2008. The Company insures bonds issued by COPIA with an accreted value of approximately $83.8 million and expects to pay claims on this credit. However, because SSAP 60 does not allow for establishment of a loss reserve until a default in payment occurs, the Company has not accrued this loss in its 2008 or 2009 financial statements. COPIA has a debt service reserve of approximately $4.9 million. This cash reserve has been and is expected to continue to make scheduled payments in respect of the insured bonds. Upon the depletion of the debt service reserve, the Company will begin making claim payments and at that time will establish a loss reserve. The Company expects that this will occur in 2012. The bankruptcy process was concluded in January 2010 and legal ownership of the underlying property has been transferred to a trust and will be liquidated under the direction and control of ACAFG. Proceeds from the sale of the property are expected to reimburse the Company for its loss adjustment expenses and then to pay down the outstanding bonds on a pro-rata basis. It is estimated the sale may take some time to consummate given the current real estate environment and local entitlement issues. In the interim, the Company is incurring costs to maintain the property, including employment of essential personnel and property taxes, as well as legal costs in connection with this credit's legal activities. During 2009, the Company paid LAE for COPIA of $2.9 million and as of December 31, 2009, had a reserve for COPIA LAE of $1.2 million. Based on the Company's current estimates, the claim reserve may be in the range of $60 to $70 million on a present value basis.

The Company ultimately expects to pay claims on additional insured bonds classified in credit quality 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. In addition to COPIA, Connector and credits on which a loss has been recognized, credits with par outstanding of $196 million have experienced a material decline in creditworthiness and will probably be unable to make all principal and interest payments on the insured bonds. However, because SSAP 60 does not allow for establishment of loss reserves until a default in payment occurs, the Company has not accrued any losses on these insured bonds. Where possible, the Company has taken action and is attempting to either minimize potential loss payments or eliminate the probability of default.

During 2008, the Company's incurred losses and LAE of $270.2 million. Of that amount, $247.8 million was incurred and paid claims and LAE related to the Restructuring Transaction. No further liability exists with respect to these claims. In addition, the Company incurred a current year loss on an insured student housing credit. Incurred losses were $16.1 million of which paid losses were $1.2 million. As of

December 31, 2008, total par outstanding on this bond was $16.8 million and the loss reserve was $15.1 million. The Company also increased its existing reserve on an insured securitization of manufactured housing mortgages by $4.7 million based on its updated review of the credit. Insured par on this credit amounted to $6.7 million at December 31, 2008 and the total reserve as of that date was $5.5 million. Paid claims in 2008 with respect to this insured credit were $2.0 million. At December 31, 2007, the Company included in its loss reserve anticipated salvage for previously paid claims on another insured securitization of manufactured housing mortgages in the amount of $4.3 million. During 2008, the Company received $3.5 million against this anticipated salvage. At December 31, 2008, the remaining anticipated salvage related to this insured exposure was $0.8 million.

The Company's net reserve balance at December 31, 2009 and 2008, includes $0.0 and $749 thousand, respectively, of anticipated salvage and subrogation recoveries, related to payments made by the Company on two asset-backed security deals.

5. CONTINGENCY RESERVE

Following the completion of the Restructuring Transaction, in September 2008, the Company made a formal request to the MIA to allow the Company to release that portion of the then existing contingency reserve related to insurance contracts that had been terminated as part of the Restructuring Transaction. The Company also included certain non-tax-exempt insurance contracts for which the exposure expired prior to the Restructuring Transaction. On October 15, 2008, the MIA granted approval for the release of the contingency reserve in the amount of $155.1 million. There were no releases of the contingency reserve in 2009.

6. REINSURANCE

As of and for the years ended December 31, 2009 and 2008, amounts reinsured were as follows (dollars in thousands):

	2009	2008
Income and expenses:		
Written premiums ceded	$ -	$ 32
Written premiums assumed	-	87
Earned premiums ceded	87	74
Earned premiums assumed	256	1,811
Loss and loss-adjustment-expense payments ceded	-	-
Loss and loss-adjustment-expense payments assumed	-	98
Assets and liabilities:		
Unearned-premium reserve ceded	421	508
Unearned-premium reserve assumed	6,811	7,067
Loss and loss-adjustment-expense reserves ceded	-	-
Loss and loss-adjustment-expense reserves assumed	-	-
Off balance sheet balances:		
Principal outstanding ceded	17,941	21,276
Principal outstanding assumed	929,274	939,523

As previously mentioned, due to the Restructuring Transaction, the Company is required to conduct its ongoing operations on a run-off basis. As such, the Company did not enter into any new reinsurance agreements in 2009. The previously existing unearned premium reserve continues to be earned.

Effective January 1, 2007, the Company entered into a new reinsurance agreement with HCC Reinsurance whereby the Company had the ability to cede losses, if any, on its insured, non-investment grade tax-exempt portfolio in excess of contractually defined limits. During the first quarter of 2008, this contract was cancelled. Under the terms of the contract, the Company was required to pay an additional minimum premium of $3 million. The Company settled its obligation to pay an additional premium under this contract for $150 thousand as part of the Restructuring Transaction.

The Company ceded a portion of its business to other non-affiliated insurance and reinsurance companies and reduced its estimated liabilities for unpaid losses and loss adjustment expenses and unearned premiums accordingly. A contingent liability exists relating to such reinsurance in the event that the reinsurer becomes unable to meet its obligations under the terms of the reinsurance agreement; in which event the Company would be liable for such defaulted amounts. There were no unpaid losses and loss adjustment expenses ceded to non-affiliated insurance and reinsurance companies at December 31, 2009 and 2008, while unearned premiums ceded were $0.4 million and $0.5 million at December 31, 2009 and 2008, respectively.

7. INCOME TAXES

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

	Ordinary	Capital	2009 Total	2008 Total	Change
Total of all deferred tax assets (admitted and non-admitted)	$48,494	$ 27,247	$ 75,741	$129,260	$ (53,519)
Statutory valuation allowance adjustment	(8,934)	(27,040)	(35,974)	-	(35,974)
Adjusted gross deferred tax assets	39,560	207	39,767	129,260	(89,493)
Total of all deferred tax assets	-	-	-	9	(9)
Net deferred tax assets	39,560	207	39,767	129,251	(89,484)
Deferred tax assets non-admitted	39,767	-	39,767	125,430	(85,663)
Net admitted deferred tax assets	$ (207)	$ 207	$ -	$ 3,821	$ (3,821)

The Company has not elected to admit deferred tax assets pursuant to paragraph 10.e. for the current reporting period.

		2009	2008
10.a.	Federal income taxes recoverable through loss carryback	$ -	$ 3,821
10.b.i	Adjusted gross DTA expected to be realized in one year	-	-
10.b.ii.	10% adjusted statutory capital and surplus limit	9,399	7,217
	Admitted pursuant to 10.b. (lesser of i. or ii.)	-	-
10.c.	Admitted pursuant to 10.c.	-	3,821
10.e.i	Additional admitted pursuant to 10.e.i.	-	-
10.e.ii.a.	Adjusted gross DTA expected to be realized in three years	-	-
10.e.ii.b.	15% adjusted statutory capital and surplus limit	14,098	10,826
	Additional admitted pursuant to 10.e.ii. (lesser of a or b)	-	-
10.e.iii.	Additional admitted pursuant to 10.e.iii.	-	-
	Total admitted adjusted gross deferred tax assets	-	3,821

The following table provides the Company's assets, capital and surplus with the DTA calculated under SSAP No. 10R paragraph 10(a) to (c) and the additional DTA determined under SSAP No. 10R paragraph 10.e. as of December 31, 2009:

	SSAP 10R 10.a.-c.	**SSAP 10R 10.e.**
Admitted deferred tax assets	$ -	$ -
Admitted assets	463,464	463,464
Statutory surplus	137,456	137,456
Total adjusted capital		
Authorized control level used in 10.d.		

B. Deferred tax liabilities are not recognized for the following amounts:

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

C. The components of federal income tax (benefit) expense are as follows (dollars in thousands):

	December 31,	
Description	**2009**	**2008**
Current year benefit	$ (51,373)	$ -
Prior year under accrual	(3,863)	780
Current income tax (benefit) expense	$ (55,236)	$ 780

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

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

In January 2010 the Company filed an expedited NOL carryback claim to recoup $51.5 million. The refund was received in February 2010.

Fifth preceding year (9/15/04–12/31/04)	$ 204,344
Fourth preceding year (1/1/05–12/31/05)	9,327,332
Third preceding year (1/1/06–12/31/06)	25,966,077
Second preceding year (1/1/07–11/21/07)	16,025,523
First preceding year (11/22/07–12/31/07)	-
Total taxes expected to be recouped	$ 51,523,276

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

Deferred tax assets:			
Net operating loss carryforward	$ 11,664	$ 77,975	$ (66,311)
Contingency reserve	29,974	26,057	3,917
Capital loss carryforward	27,040	14,864	12,176
Unrealized on impairments	-	-	-
Unearned premiums reserve	5,885	7,693	(1,808)
Alternative minimum tax credit	500	-	500
Unrealized loss on investments	207	-	207
Discounted loss reserves	12	23	(11)
Unamortized licenses	346	473	(127)
Fixed assets	-	1,642	(1,642)
Other temporary differences	113	533	(420)
Gross deferred tax assets	75,741	129,260	(53,519)
Statutory valuation allowance	(35,974)	-	(35,974)
Gross deferred tax assets net of valuation allowance	39,767	129,260	(89,493)
Non-admitted deferred tax asset	(39,767)	(125,430)	85,663
Gross admitted deferred tax asset	-	3,830	$ (3,830)
Deferred tax liabilities — investments	-	(9)	
Gross deferred tax liabilities	-	(9)	
Net admitted deferred tax asset (liability)	$ -	$ 3,821	

D. The actual tax expense on income from operations differs from tax expense calculated at the U.S. statutory tax rate. A reconciliation of the Company's income tax expense together with the significant book to tax adjustments for the years ended December 31, 2009 and 2008, is set forth below (dollars in thousands):

	2009	**2008**
Income before federal income taxes	$ (6,479)	$ (237,834)
Provision computed at statutory rate	(2,268)	(83,242)
Change in contingency reserve	(3,917)	38,923
Reduction of NOL for cancellation of indebtedness exclusion	17,880	-
Current year alternative minimum tax	650	-
Dividends from subsidiaries	-	(8,818)
Non-deductible expenses	6	-
Non-taxable investment income	(86)	(1,242)
Prior year provision to return adjustment	(8,484)	669
Change in valuation allowances	35,974	-
Addition of non-consolidated subsidiaries DTA's	(6,943)	-
Other	1,445	-
Total statutory income taxes	$ 34,257	$ (53,710)
Federal income tax expense incurred	$ (55,236)	$ 780
(Decrease) Increase decrease in net deferred income taxes	89,493	(54,490)
Total statutory income taxes	$ 34,257	$ (53,710)

E. At December 31, 2009, the Company had the following net operating loss, capital loss and credit carryforwards:

	Gross	**Net of Valuation Allowance**
Net operating loss carryforward	$ 33,325	$ 9,226
Capital loss carryforward	77,257	-
Alternative minimum tax credit	500	-

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

	Ordinary	**Capital**	**Total**
2009	$ -	$ -	$ -
2008	-	-	-
2007	-	-	-
	$ -	$ -	$ -

F. The Company was included in its parent's, Manifold Capital Corp's, formerly known as ACA Capital Holdings Inc.("ACACH"), consolidated income tax return between November 21, 2007 and August 11, 2008, with the following members:

- Manifold Capital Corp. (formerly ACA Capital Holdings, Inc.)
- ACA Holding, L.L.C.
- ACA Financial Products, Inc.
- ACA Assurance, Ltd.

A written tax sharing agreement was executed at the close of the Restructuring Transaction. The agreement sets forth the manner in which total consolidated tax for all entities is allocated to each entity in the consolidation. Generally, the allocation is based upon separate return calculations. The agreement is also subject to approval by the MIA.

There were no reserves for tax contingencies as required under SSAP 5, *Liabilities, Contingencies and Impairments of Assets*, as of December 31, 2009 and 2008.

8. OUTSTANDING EXPOSURE AND COLLATERAL

By the terms of the Restructuring Transaction, all insurance policies on insured credit swaps were settled and canceled. At December 31, 2009 the in force par was $6.4 billion and consisted principally of tax-exempt exposures. The vast majority of the Company's policies insure the scheduled payments of principal of and interest on tax-exempt obligations. The outstanding principal amount of insured obligations in the insured portfolio, net of amounts ceded (as discussed in Note 6 — Reinsurance) at December 31, 2009 and 2008, respectively, included the following types of issues (dollars in millions):

	2009		2008	
	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
Tax-exempt:				
Healthcare	752	11.7 %	795	11.6 %
Tax backed	836	13.0	933	13.6
Education	1,291	20.0	1,344	19.6
Long-term care	487	7.5	507	7.4
General obligations	1,072	16.6	1,089	15.9
Utilities	199	3.1	217	3.2
Transportation	436	6.8	446	6.5
Not for profit	466	7.2	488	7.1
Housing	305	4.7	317	4.6
Other	300	4.6	400	5.9
Total public finance obligations	6,144	95.2	6,535	95.4
Taxable obligations — other	311	4.8	312	4.6
Total	$ 6,455	100.0 %	$ 6,847	100.0 %

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

	December 31, 2009		December 31, 2008	
	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
California	$ 1,070	17.4 %	$ 1,097	16.8 %
New York	853	13.9	898	13.7
Texas	417	6.8	452	6.9
Florida	307	5.0	355	5.4
Washington	344	5.6	355	5.4
Other states	3,153	51.3	3,379	51.8
Total tax-exempt obligations	$ 6,144	100.0 %	$ 6,535	100.0 %

The principal amount of insured obligations as of December 31, 2009, in the insured portfolio, net of amounts ceded, and the terms to maturity were as follows (dollars in millions). Actual maturities could differ from final maturities because borrowers have the right to refund or prepay certain obligations.

Terms to Maturity	
0 to 5 years	$ 1,049
5 to 10 years	1,177
10 to 15 years	1,316
15 to 20 years	1,591
20 and above	1,322
Total	$ 6,455

Debt service on insured obligations for 2010 is approximately $518 million.

9. RELATED PARTY TRANSACTIONS

The Company issued financial guaranty policies guaranteeing to third parties the performance of ACA Assurance, Ltd., a former affiliate, which entered into reinsurance agreements with the third parties. In 2008, ACA Assurance commuted its remaining exposures and the Company no longer retains any related risk.

On December 29, 2004, the Company issued a $10 million, 30-year surplus note to ACACH in exchange for $10 million. This surplus note was cancelled as part of the Restructuring Transaction. As a result, the $10 million was reclassified as paid in capital. This represents the non-cash financing item in the Company's 2008 statement of cash flow.

As part of the Restructuring Transaction, the Company entered into an Intercompany Agreement with ACAH, whereby all intercompany balances between the companies, inclusive of each company's subsidiaries, were cancelled. As a result, in addition to the cancellation of the previously existing surplus note due from the Company to ACAH in the amount of $10 million, expense related to intercompany payable balances between the Company and ACACH and subsidiaries of ACACH of approximately $0.3 million were also cancelled. Additionally, a net payable balance due from ACACH and its subsidiaries to the subsidiaries of the Company in the amount of $14.3 million was also cancelled.

Following the Restructuring Transaction, intercompany balances and cash between the Company and its subsidiaries were settled and transferred resulting in a net dividend to the Company of $25.2 million. This amount was reflected in other income in the Company's 2008 statement of income and changes in surplus.

Effective at the closing of the Restructuring Transaction, ACACH disclaimed control over the Company, which was approved by the MIA.

The payable (receivable) from subsidiaries at December 31, 2009 and 2008, are as follows (dollars in thousands):

	2009	2008
Payable to ACA Capital Singapore Pte Ltd	$ 430	$ 437
Receivable from ACA Service LLC	(13)	
Payable to ACA Management, L.L.C.		29
Net intercompany payables	$ 417	$ 466

10. BENEFIT PLANS

The Company sponsors a defined contribution plan, which covers all full time employees as of their start date. Eligible participants may contribute a percentage of their salary, subject to IRS limitations. The Company's contributions are based on a fixed percentage of employees' contributions subject to IRS limitations. The Company's expense for the plan during 2009 and 2008 was $0.2 million and $0.3 million, respectively. As of December 31, 2009 and December 31, 2008 the fair value of the plan assets was $6.6 million and $7.4 million, respectively. In 2008, the plan had undergone a partial termination as a result of employee terminations. A partial termination is deemed to occur when an employer-initiated action results in a significant decrease in plan participation.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements and Accounting Standards Codification 820 ("ASC 820") formerly known as FAS 157 — Included in the Company's investment portfolio are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds with ratings below investment grade, which are carried at the lower of cost or market. The below investment grade bonds carried at market value include five bonds with unrealized losses of $590,958 at December 31, 2009, and six bonds with unrealized losses of $1,189,306 at December 31, 2008. In addition, the Company impaired three bonds in the aggregate amount of $10.7 million during 2009.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

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

The hierarchy defined by ASC 820, *Fair Value Measurements* gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

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

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

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

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

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

December 31, 2008	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value on a nonrecurring basis — bonds	$ -	$ 5,867,388	$ -	$ 5,867,388
Total assets at fair value	$ -	$ 5,867,388	$ -	$ 5,867,388

The Company did not hold any Level 3 investments as of December 31, 2008.

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

Bonds — The carrying amount of bonds represents amortized cost. The estimated fair value of bonds as discussed in Note 3 is generally based on independent market quotations. The estimated fair value approximates the SVO market value

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

	December 31, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Bonds	$ 369,447	$ 379,501	$ 368,799	$ 347,147
Short-term investments	35,941	35,941	63,058	63,058
Cash on hand and on deposit	1,690	1,690	801	801

12. RESTRICTED BALANCES

As mentioned in Note 3, Investments, the Company has assets on deposit with various regulatory authorities. The Company's landlord also holds cash in the amount of $2.7 million as a security deposit in respect of the Company's operating lease, which was refunded in March 2010 (as discussed in Note 15 —Leases)

13. REGULATORY MATTERS

As disclosed in Note 1, Organization and Ownership,, the Company is currently operating under the Order issued by the MIA. As of December 31, 2009, the Company's policyholders' surplus, as determined in accordance with statutory-basis accounting practices, was $137.5 million. Such amount was in excess of the minimum capital and surplus level required by the MIA.

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

Under Maryland insurance law, the Company may pay a dividend without the prior approval of the Commissioner of the MIA from earned surplus, as defined, subject to the maintenance of a minimum-capital requirement, and the dividend, which, together with all dividends declared or distributed by it during the preceding twelve months, may not exceed the lesser of 10% of policyholders' surplus shown on its last annual statement, or net investment income, as defined, for such twelve-month period In addition, as part of the Company's restructuring discussed in Note 1 Organization and Ownership, the surplus notes restrict the Company from paying dividends without the prior approval of the surplus note holders. The Company has negative earned surplus and therefore, is not able to pay dividends in 2010 other than extraordinary dividends as allowed by the MIA. No dividends were paid during 2009 or 2008.

The portion of unassigned surplus increased (reduced) by each item below at December 31, 2009 and 2008, is as follows:

	2009	2008
a. Unrealized gains (losses) on bonds	$ (591)	$ (1,189)
b. Non-admitted asset values	(44,709)	(153,815)

14. CONTINGENCIES

The Company is one of a number of defendants in a lawsuit in the Superior Court of the State of California (Los Angeles County) brought by Retirement Housing Foundation and several affiliates relating to the plaintiffs' issuance of auction-rate securities insured by the Company. The plaintiffs allege that the Company's insurance of securities backed by sub-prime mortgages was not financially responsible and was contrary to the Company's statement about its investment practices, and that when the Company's credit rating was downgraded from "A" to "CCC" after the collapse of the sub-prime market, the plaintiffs were forced to refinance their securities. While this action is in the preliminary stages, the Company believes it has substantial defenses to the claims against it. Accordingly, on October 22, 2009, the Company filed a demurrer seeking to have the case dismissed. There is no argument date set for the Company's demurrer. Also, plaintiffs have requested permission to file a second amended complaint, but have not yet provided the Company with the proposed amendment.

The Company (specifically, ACA Management, LLC) is one of a large number of defendants in an action currently pending in the First Judicial District Court for the State of New Mexico (Santa Fe) brought by an individual claiming to sue in the name of the State of New Mexico. The complaint generally alleges that Vanderbilt Capital Advisors (and certain of its affiliates) engaged in an unlawful "pay to play" scheme with various New Mexico State officials, causing New Mexico to overpay for certain CDO investments, including some with which the Company was — in an unspecified way — connected. The complaint seeks damages in excess of $90 million and various civil penalties although it is not clearly alleged what relief is sought against the Company. Since no allegations of wrongdoing are specified against the Company in the complaint, the Company intends — at the first appropriate procedural time — to move to dismiss the complaint on the grounds that it fails to state any legally cognizable claim. In the meantime, the Company has moved to dismiss the case on the procedural grounds that it is not subject to jurisdiction in the New Mexico courts. No date has been set for consideration of the Company's motion.

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

In 2006, the Company assumed all of ACA Services' obligations under its lease of office space and subleased additional office space at 140 Broadway, New York, New York. These leases expired in 2009. On December 7, 2006, the Company entered into a renewal lease for all its space at 140 Broadway which expires on April 30, 2020. This lease provides for scheduled periodic rent increases and escalations in real estate taxes and building operating costs. The Company's rental expense for the years ended December 31, 2009 and December 31, 2008 was $2.4 million and $2.3 million, respectively.

At December 31, 2009, expected future minimum lease payments under the renewal lease are as follows (dollars in thousands):

Years Ending December 31	Operating Leases
2010	$ 2,510
2011	2,655
2012	2,655
2013	2,655
2014	2,655
Beyond 5 years	15,502
	$ 28,632

The Company has been pursuing the termination of its office space lease in order to reduce rental costs. The commercial rent market in New York City continues to show softness due to the state of the economy and the impact of job losses in the financial industry and related sectors. Many institutions have more office space than needed and thus a growing inventory of available space continues to put downward pressure on rental rates. 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 will recognize a loss of approximately $13 million on the termination of this lease in the first quarter of 2010, which includes the carrying value of leasehold improvements and furniture and fixtures related to this space.

16. RESTRUCTURING TRANSACTION

On August 8, 2008, the Company completed its Restructuring Transaction in order to settle potential claims arising out of Company's insured credit swap policies and certain medium term note obligations issued by a subsidiary of the Company and guaranteed by the Company. Certain other parties to which the Company had obligations were also settled. The Restructuring Transaction included 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 involved a Medium Term Note (MTN) Restructuring Agreement which 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 medium term noteholders in 2008 and the relinquishment by the Company of investments in CDO equity with an estimated value of $2.5 million, also for the benefit of medium term noteholders. Of the total cash settlement, approximately $32 million was paid out of a cash collateral account supporting the issued note held by the subsidiary 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. 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.

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

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

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

17. ADJUSTMENTS TO AMOUNTS REFLECTED IN THE ACCOMPANYING STATUTORY-BASIS FINANCIAL STATEMENTS TO THE FINANCIAL STATEMENTS FILED WITH THE MIA

There are no differences between the 2009 financial statements and the 2009 annual statement as filed by the Company.

The 2008 financial statements differ from the 2008 annual statement as filed by the Company as follows:

Financial Statement Line Item	As Reported in the Annual Statement	Adjustment	As Reported in the Audited Financial Statement
December 31, 2008:			
Total admitted assets	$ 441,209	$ (208)	$ 441,001
Total liabilities	339,923	(208)	339,715
Total surplus	101,286		101,286
Net income	(268,955)	30,341	(238,614)

The change in admitted assets of $208 thousand relates to a balance sheet reclassification. The increase in net income relates to the reversal of an other than temporary impairment loss on an investment in a subsidiary of $26 million that was recognized in the Company's 2007 Audited Financial Statements. In addition, a decrease in net loss by $4.3 million relates to a reversal of an impairment to the Company's investment in a subsidiary that was previously non-admitted.

18. FINANCIAL GUARANTY INSURANCE

The Company has not recorded unearned premiums related to installment payments nor has it recorded premiums receivable on installment contracts at December 31, 2009.

In 2009, the Company recognized $4.1 million of accelerated premium revenue due to the prepayment or advance refunding of credits.

The future expected earned premium revenue on non-installment contracts as of December 31, 2009 are as follows:

	Amount
1st Quarter 2010	$ 2,734,149
2nd Quarter 2010	2,078,058
3rd Quarter 2010	3,117,395
4th Quarter 2010	2,585,628
Year 2010	10,515,230
Year 2011	10,140,287
Year 2012	9,589,348
Year 2013	9,531,135
Year 2014	9,644,908
2015 through 2019	45,978,971
2020 through 2024	42,804,065
2025 through 2029	35,071,466
2030 through 2034	24,813,677
2035 through 2039	6,751,028
2040 through 2044	277,656
Year 2045	50,023
Total	$ 205,167,794

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

Components	Amounts
Losses and LAE reserve prior year	$ 20,973,145
Accretion of the discount	563,460
Change in timing	
New reserves for defaults of insured contracts	7,252,824
Change in deficiency reserves	2,440,369
Change in incurred but not reported claims	
Losses and LAE reserve current year	$ 31,229,798

The Company's credit quality classifications are as follows:

Category 1 — Fully Performing

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

Category 2 — Watch

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

Category 3 — Deteriorating

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

Category 4 — Paid or Expected Claim

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

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

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

Insured financial obligations as of December 31, 2009 are as follows:

	Credit Quality Categories				
	1	2	3	4	Total
Number of policies	432	92	38	36	598
Remaining weighted-average contract period (in years)	13	13	15	14	
Insured contractual payments outstanding:					
Principal	$4,622,038,360	$1,021,388,513	$460,039,563	$351,920,417	$ 6,455,386,853
Interest	3,050,073,244	793,414,600	391,880,611	336,782,926	4,572,151,381
Total	$7,672,111,604	$1,814,803,113	$851,920,174	$688,703,343	$11,027,538,234
Gross claim liability	$ -	$ -	$ -	$ 49,959,086	$ 49,959,086
Less:					
Gross potential recoveries	-	-	-	-	-
Discount — net	-	-	-	18,729,289	18,729,287
Net claim liability	$ -	$ -	$ -	$ 31,229,797	$ 31,229,799
Unearned premium revenue	$ 118,915,520	$ 42,155,716	$ 26,718,686	$ 17,377,872	$ 205,167,794
Claim liability reported in the balance sheet	-	-	-	31,229,798	31,229,799
Reinsurance recoverables	-	-	-	-	-

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SUPPLEMENTAL SCHEDULES

ACA FINANCIAL GUARANTY CORPORATION

SUPPLEMENTAL SUMMARY OF INVESTMENT SCHEDULE
AS OF DECEMBER 31, 2009

Investment Categories	Gross Investment Holdings Under NAIC		Admitted Assets as Reported in the Annual Statement	
Bonds:				
U.S. Treasury securities	$ 4,894,662	1.2 %	$ 4,894,662	1.2 %
U.S. government agency and corporate obligations (excluding mortgage-backed securities) — issued by U.S. government sponsored agencies	48,434,192	11.9	48,434,192	11.9
Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
States, territories and possessions general obligations				
Political subdivisions of states, territories and possessions and political subdivisions general obligations				
Revenue and assessment obligations	1,788,682	0.4	1,788,682	0.4
Mortgage-backed securities (includes residential and commercial MBS) pass-through securities:				
Issued or guaranteed by GNMA	25,617,438	6.3	25,617,438	6.3
Issued or guaranteed by FNMA and FHLMC	34,486,004	8.4	34,486,004	8.4
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	15,447,375	3.8	15,447,375	3.8
Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by GNMA, FNMA, FHLMC or VA				
All other	46,867,719	11.5	46,867,719	11.5
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	151,096,994	37.0	151,096,994	37.0
Unaffiliated foreign securities	40,813,699	10.0	40,813,699	10.0
Receivable for securities				
Cash, cash equivalents and short-term investments	37,630,585	9.2	37,630,585	9.2
Other invested assets	1,090,255	0.3	1,090,255	0.3
Total invested assets	$ 408,167,605	100.0 %	$ 408,167,605	100.0 %

ACA FINANCIAL GUARANTY CORPORATION

SUPPLEMENTAL SCHEDULE OF INVESTMENT RISK INTERROGATORIES
AS OF DECEMBER 31, 2009

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

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

1. $463,463,937

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

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Bear Stearns Commercial Mortgage	MBS CMO/REMIC/Other Prvt Issued	$ 11,496,609	2.5 %
2.02	Morgan Stanley	Other Debt/Unaffiliated Domestic	6,486,907	1.4
2.03	Citigroup Inc.	Other Debt/Unaffiliated Domestic	6,325,199	1.4
2.04	Commercial Mtg Pass-Through	MBS CMO/REMIC/Other Prvt Issued	6,029,589	1.3
2.05	GS Mortgage Securities Corp.	MBS CMO/REMIC/Other Prvt Issued	5,951,782	1.3
2.06	General Electric Capital Corp.	Other Debt/Unaffiliated Domestic	5,372,634	1.2
2.07	British Telecom PLC	Other Debt/Unaffiliated Domestic	5,172,153	1.1
2.08	Time Warner Cable Inc.	Other Debt/Unaffiliated Domestic	5,071,570	1.1
2.09	Wachovia Bank Commercial Mortgage	MBS CMO/REMIC/Other Prvt Issued	5,013,207	1.1
2.10	ACA ABS 2007-3	MBS CMO/REMIC/Other Prvt Issued	4,894,027	1.1

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

	Bonds				Preferred Stocks		
3.01	NAIC-1	$ 340,126,204	73.4 %	3.07	P/RP-1	$ -	- %
3.02	NAIC-2	59,798,953	12.9	3.08	P/RP-2		
3.03	NAIC-3	1,586,198	0.3	3.09	P/RP-3		
3.04	NAIC-4	1,120,000	0.2	3.10	P/RP-4		
3.05	NAIC-5	701,517	0.2	3.11	P/RP-5		
3.06	NAIC-6	2,054,629	0.4	3.12	P/RP-6		

4. Assets held in foreign investments:

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

4.02 Total admitted assets held in foreign investments: $40,864,409 8.8%

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

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

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

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

Countries rated NAIC 1	$4,086,440	98.8 %

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

Country — United Kingdom	$16,758,429	3.6 %
Country — Luxembourg	7,126,239	1.5

7. Aggregate unhedged foreign currency exposure $__________ ___%

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

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

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

1 **Issuer**	2 **NAIC Rating**	3	4
British Telecom PLC	2	5,172,153	1.1 %
ACA ABS 2007-3	1	4,894,027	1.1
Telecom Italia Capital	2	4,136,364	0.9
Abbey National Treasury Service	1	3,998,953	0.9
Anglo America Capital	2	3,496,332	0.8
Credit Suisse New York	1	3,234,008	0.7
Macquarie Group Ltd	1	3,162,146	0.7
Barclays Bank PLC	1	3,156,116	0.7
Tyco International Finance	2	2,989,875	0.6
Electricite De France	1	1,993,286	0.4

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Aggregate stop loss reinsurance coverage;

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

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

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

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

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

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

Yes [ ] No [X]