



PROPERTY AND CASUALTY COMPANIES —ASSOCIATION EDITION

QUARTERLY STATEMENT

AS OF JUNE 30, 2012
OF THE CONDITION AND AFFAIRS OF THE

ACA Financial Guaranty Corporation

NAIC Group Code	0000	0000	NAIC Company Code	22896	Employer's ID Number	52-1474358
	(Current Period)	(Prior Period)				
Organized under the Laws of	Maryland	State of Domicile or Port of Entry	Maryland			
Country of Domicile	United States					
Incorporated/Organized	06/25/1986	Commenced Business	10/31/1986			
Statutory Home Office	7 Saint Paul Street, Suite 1660	Baltimore, MD 21202				
	(Street and Number)	(City or Town, State and Zip Code)				
Main Administrative Office	600 Fifth Avenue, 2nd Floor	New York, NY 10020	212-375-2000			
	(Street and Number)	(City or Town, State and Zip Code)	(Area Code) (Telephone Number)			
Mail Address	600 Fifth Avenue, 2nd Floor	New York, NY 10020				
	(Street and Number or P.O. Box)	(City or Town, State and Zip Code)				
Primary Location of Books and Records	600 Fifth Avenue, 2nd Floor	New York, NY 10020	212-375-2000			
	(Street and Number)	(City or Town, State and Zip Code)	(Area Code) (Telephone Number)			
Internet Web Site Address	http://www.aca.com					
Statutory Statement Contact	Eugene Thomas Carew	212-375-2041				
	(Name)	(Area Code) (Telephone Number) (Extension)				
	ecarew@aca.com	212-375-2100				
	(E-Mail Address)	(Fax Number)				

OFFICERS

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

OTHER OFFICERS

DIRECTORS OR TRUSTEES

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

State of New York

ss

County of New York

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

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

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

b. If no,

1. State the amendment number

2. Date filed

3. Number of pages attached

Subscribed and sworn to before me this 14th day of August, 2012

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

STATEMENT AS OF JUNE 30, 2012 OF THE ACA Financial Guaranty Corporation

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds	410,371,775		410,371,775	430,358,253
2. Stocks:				
2.1 Preferred stocks			0	0
2.2 Common stocks			0	0
3. Mortgage loans on real estate:				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate:				
4.1 Properties occupied by the company (less \$ encumbrances)			0	0
4.2 Properties held for the production of income (less \$ encumbrances)			0	0
4.3 Properties held for sale (less \$ encumbrances)			0	0
5. Cash (\$7,520,420), cash equivalents (\$0) and short-term investments (\$18,522,274)	26,042,694		26,042,694	12,855,728
6. Contract loans (including \$premium notes)			0	0
7. Derivatives			0	0
8. Other invested assets	74,541	74,541	0	0
9. Receivables for securities			0	20,378
10. Securities lending reinvested collateral assets.....			0	0
11. Aggregate write-ins for invested assets	0	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11)	436,489,010	74,541	436,414,469	443,234,359
13. Title plants less \$charged off (for Title insurers only)			0	0
14. Investment income due and accrued	3,097,965		3,097,965	3,168,929
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection			0	0
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$earned but unbilled premiums).....			0	0
15.3 Accrued retrospective premiums			0	0
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers			0	0
16.2 Funds held by or deposited with reinsured companies			0	0
16.3 Other amounts receivable under reinsurance contracts			0	0
17. Amounts receivable relating to uninsured plans			0	0
18.1 Current federal and foreign income tax recoverable and interest thereon			0	0
18.2 Net deferred tax asset.....	24,948,868	24,948,868	0	0
19. Guaranty funds receivable or on deposit			0	0
20. Electronic data processing equipment and software	33,273		33,273	45,121
21. Furniture and equipment, including health care delivery assets (\$)	221,840	221,840	0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
23. Receivables from parent, subsidiaries and affiliates			0	0
24. Health care (\$) and other amounts receivable.....			0	0
25. Aggregate write-ins for other than invested assets	1,222,469	1,206,871	15,598	1,723,022
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	466,013,425	26,452,120	439,561,305	448,171,431
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
28. Total (Lines 26 and 27)	466,013,425	26,452,120	439,561,305	448,171,431
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	0	0	0	0
2501. Salvage Recoverable.....	1,000,000	1,000,000	0	0
2502. Securities Receivable.....			0	1,384,107
2503. Collateral Deposit.....			0	281,372
2598. Summary of remaining write-ins for Line 25 from overflow page	222,469	206,871	15,598	57,543
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	1,222,469	1,206,871	15,598	1,723,022

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$21,654,382)	82,905,890	64,392,168
2. Reinsurance payable on paid losses and loss adjustment expenses		0
3. Loss adjustment expenses	9,395,000	11,497,000
4. Commissions payable, contingent commissions and other similar charges		0
5. Other expenses (excluding taxes, licenses and fees)	5,152,609	5,304,146
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	99,737	100,290
7.1 Current federal and foreign income taxes (including \$ on realized capital gains (losses))		0
7.2 Net deferred tax liability		0
8. Borrowed money \$ and interest thereon \$		0
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$238,857 and including warranty reserves of \$ and accrued accident and health experience rating refunds including \$ for medical loss ratio rebate per the Public Health Service Act)	161,423,764	174,425,586
10. Advance premium		0
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		0
12. Ceded reinsurance premiums payable (net of ceding commissions)		0
13. Funds held by company under reinsurance treaties		0
14. Amounts withheld or retained by company for account of others		0
15. Remittances and items not allocated		0
16. Provision for reinsurance		0
17. Net adjustments in assets and liabilities due to foreign exchange rates		0
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates	74,541	86,112
20. Derivatives		0
21. Payable for securities	1,874,662	0
22. Payable for securities lending		0
23. Liability for amounts held under uninsured plans		0
24. Capital notes \$and interest thereon \$		0
25. Aggregate write-ins for liabilities	72,408,601	75,051,366
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	333,334,804	330,856,668
27. Protected cell liabilities		0
28. Total liabilities (Lines 26 and 27)	333,334,804	330,856,668
29. Aggregate write-ins for special surplus funds	0	0
30. Common capital stock	15,000,000	15,000,000
31. Preferred capital stock		0
32. Aggregate write-ins for other than special surplus funds	0	0
33. Surplus notes		0
34. Gross paid in and contributed surplus	363,974,000	363,974,000
35. Unassigned funds (surplus)	(272,747,499)	(261,659,237)
36. Less treasury stock, at cost:		
36.1 shares common (value included in Line 30 \$)		0
36.2 shares preferred (value included in Line 31 \$)		0
37. Surplus as regards policyholders (Lines 29 to 35, less 36)	106,226,501	117,314,763
38. Totals (Page 2, Line 28, Col. 3)	439,561,305	448,171,431
DETAILS OF WRITE-INS		
2501. Contingency Reserve.....	71,282,481	73,919,115
2502. Collateral Deposit.....	1,123,272	1,123,372
2503. Other Payables.....	2,848	8,879
2598. Summary of remaining write-ins for Line 25 from overflow page	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	72,408,601	75,051,366
2901.		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	0	0
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page	0	0
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)	0	0

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct (written \$14, 127)	12,995,782	5,657,031	16,180,784
1.2 Assumed (written \$)	93,278	93,853	216,036
1.3 Ceded (written \$)	73,111	17,702	63,392
1.4 Net (written \$14, 127)	13,015,949	5,733,182	16,333,428
DEDUCTIONS:			
2. Losses incurred (current accident year \$27,788,016):			
2.1 Direct	27,312,039	4,105,537	34,002,196
2.2 Assumed		0	
2.3 Ceded		0	
2.4 Net	27,312,039	4,105,537	34,002,196
3. Loss adjustment expenses incurred	276,089	643,477	12,668,457
4. Other underwriting expenses incurred	11,550,301	11,022,275	22,968,905
5. Aggregate write-ins for underwriting deductions	0	0	0
6. Total underwriting deductions (Lines 2 through 5)	39,138,429	15,771,289	69,639,558
7. Net income of protected cells		0	0
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(26,122,480)	(10,038,107)	(53,306,130)
INVESTMENT INCOME			
9. Net investment income earned	8,691,395	9,105,588	17,981,203
10. Net realized capital gains (losses) less capital gains tax of \$ \$	105,493	2,393,964	1,648,600
11. Net investment gain (loss) (Lines 9 + 10)	8,796,888	11,499,552	19,629,803
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ amount charged off \$)		0	0
13. Finance and service charges not included in premiums		0	0
14. Aggregate write-ins for miscellaneous income	2,850,549	2,781,561	7,415,322
15. Total other income (Lines 12 through 14)	2,850,549	2,781,561	7,415,322
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(14,475,043)	4,243,006	(26,261,005)
17. Dividends to policyholders		0	0
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(14,475,043)	4,243,006	(26,261,005)
19. Federal and foreign income taxes incurred		0	0
20. Net income (Line 18 minus Line 19)(to Line 22)	(14,475,043)	4,243,006	(26,261,005)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year	117,314,763	107,201,116	107,201,116
22. Net income (from Line 20)	(14,475,043)	4,243,006	(26,261,005)
23. Net transfers (to) from Protected Cell accounts		0	0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$12,005 \$	43,167	(6,747)	(141,733)
25. Change in net unrealized foreign exchange capital gain (loss)		0	0
26. Change in net deferred income tax	(910,817)	4,007,575	(7,945,832)
27. Change in nonadmitted assets	1,617,797	(3,867,128)	6,287,460
28. Change in provision for reinsurance		0	0
29. Change in surplus notes		0	0
30. Surplus (contributed to) withdrawn from protected cells		0	0
31. Cumulative effect of changes in accounting principles		0	0
32. Capital changes:			
32.1 Paid in		0	0
32.2 Transferred from surplus (Stock Dividend)		0	0
32.3 Transferred to surplus		0	0
33. Surplus adjustments:			
33.1 Paid in		0	0
33.2 Transferred to capital (Stock Dividend)		0	0
33.3 Transferred from capital		0	0
34. Net remittances from or (to) Home Office		0	0
35. Dividends to stockholders		0	0
36. Change in treasury stock		0	0
37. Aggregate write-ins for gains and losses in surplus	2,636,634	9,715,447	38,174,757
38. Change in surplus as regards policyholders (Lines 22 through 37)	(11,088,262)	14,092,153	10,113,646
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	106,226,501	121,293,269	117,314,763
DETAILS OF WRITE-INS			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0
0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above)	0	0	0
1401. Equity Earnings in Affiliates.....	2,785,000	2,700,000	5,427,000
1402. Litigation Settlement.....		0	2,000,000
1403. Surveillance Consent Fees.....	64,779	81,000	163,783
1498. Summary of remaining write-ins for Line 14 from overflow page	770	561	(175,461)
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)	2,850,549	2,781,561	7,415,322
3701. Change in Contingency Reserve.....	2,636,634	(5,549,256)	22,910,054
3702. Correction of Prior Year Loss Reserve.....		15,264,703	15,264,703
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0	0
3799. TOTALS (Lines 3701 through 3703 plus 3798) (Line 37 above)	2,636,634	9,715,447	38,174,757

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance.....	14,127	102,187	308,978
2. Net investment income	9,646,309	10,098,579	19,828,487
3. Miscellaneous income	2,850,549	2,781,561	7,415,321
4. Total (Lines 1 to 3)	12,510,985	12,982,327	27,552,786
5. Benefit and loss related payments	8,798,317	9,001,229	17,477,959
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	14,124,804	15,135,253	26,310,244
8. Dividends paid to policyholders	0	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses).....	0	0	0
10. Total (Lines 5 through 9)	22,923,121	24,136,482	43,788,203
11. Net cash from operations (Line 4 minus Line 10)	(10,412,136)	(11,154,155)	(16,235,417)
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	62,121,586	78,783,254	125,364,717
12.2 Stocks	0	50,474	50,474
12.3 Mortgage loans	0	0	0
12.4 Real estate	0	0	0
12.5 Other invested assets	0	1,148,356	1,148,356
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0	0
12.7 Miscellaneous proceeds	2,344,766	0	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	64,466,352	79,982,084	126,563,547
13. Cost of investments acquired (long-term only):			
13.1 Bonds	41,248,225	63,620,811	121,763,052
13.2 Stocks	0	0	0
13.3 Mortgage loans	0	0	0
13.4 Real estate	0	0	0
13.5 Other invested assets	0	0	100,000
13.6 Miscellaneous applications	0	0	1,849,261
13.7 Total investments acquired (Lines 13.1 to 13.6)	41,248,225	63,620,811	123,712,313
14. Net increase (or decrease) in contract loans and premium notes	0	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	23,218,127	16,361,273	2,851,234
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes	0	0	0
16.2 Capital and paid in surplus, less treasury stock.....	0	0	0
16.3 Borrowed funds	0	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0	0	0
16.5 Dividends to stockholders	0	0	0
16.6 Other cash provided (applied).....	380,975	994,236	240,858
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	380,975	994,236	240,858
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	13,186,966	6,201,354	(13,143,325)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	12,855,728	25,999,053	25,999,053
19.2 End of period (Line 18 plus Line 19.1)	26,042,694	32,200,407	12,855,728

NOTES TO FINANCIAL STATEMENTS

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

A. Basis of Accounting

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

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

In connection with ACA’s restructuring in 2008 (see Note 21.B.), the Company received a permitted accounting practice in regard to its surplus notes. These notes have been recorded in the surplus notes section of the Statements of Assets, Liabilities, Surplus and Other Funds with an offsetting \$1.0 billion contra account since any payment of principal or interest on the surplus notes may not be recognized until approved by the MIA. Upon the MIA’s approval of the payment of principal (which includes accreted discount), the amount of the Company’s surplus notes and the contra account will be reduced by the amount of such payment. In addition, any other distributions (including dividends or interest) relating to the surplus notes will only be recognized upon the approval by the MIA for such payment. As the accounting for interest accretion described above deviates from NAIC SAP, the Company requested and received approval from the MIA to for such accounting. Under NAIC SAP, the accretion of the discount is recorded in the Company’s income statement. This represents the only deviation from NAIC SAP and it does not have a net impact on the Company’s policyholders’ surplus.

B. Use of Estimates

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

C. Summary of Significant Accounting Policies

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

In addition, when an insured issue is retired early, is called by the issuer or is, in substance, paid in advance through a refunding accomplished by placing U.S. Government securities in escrow (hereafter referred to collectively as “Refundings”), the remaining unearned premium revenue relating to such insured issue is earned at that time since there is no longer risk to the Company. For the six month periods ended June 30, 2012 and 2011, the Company recorded earned premiums of \$9.3 million and \$1.0 million, respectively, related to refundings. Unearned premiums, net of prepaid reinsurance premiums, represent the unearned portion of upfront and installment premiums written.

- (2) Short-term investments are stated at amortized cost.
- (3) Bonds and loan-backed securities assigned an NAIC Designation of 1 or 2 are valued at cost, adjusted for amortization of any premium, or accretion of any discount, which is calculated using the constant yield method. Bonds and loan-backed securities assigned an NAIC rating of 3 or lower are valued at the lower of amortized cost (adjusted for amortization of any premium, or accretion of any discount, which is calculated using the constant yield method) or fair value. The prospective method is used to value loan-backed securities. The Company employs State Street Global Services (“State Street”) as its third party investment accounting service provider. State Street uses Bloomberg L.P. as the source to determine prepayment assumptions. The following table summarizes the carrying amount of the Company’s long-term and short-term bonds and loan-backed securities by NAIC Designation at June 30, 2012.

NAIC Designation 1	\$	340,997,458
NAIC Designation 2		81,889,199
NAIC Designation 3		-
NAIC Designation 4		1,167,251
NAIC Designation 5		-
NAIC Designation 6		4,840,140
Total	\$	<u>428,894,048</u>

Realized capital gains and losses on the sale of investments are determined on the basis of specific identification and are included in net income. Decreases in the fair value of bond and stock investments below their carrying value which are determined to be “other than temporary” are reflected as realized capital losses and are recorded in the Statement of Income. Factors considered in evaluating whether a decline in value is other than temporary include: 1) whether the decline is attributable to credit related factors, 2) whether the decline is substantial; 3) the amount of time that the fair value has been continuously less than cost; 4) the financial condition and near-term prospects of the issuer; and 5) the Company’s ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

NOTES TO FINANCIAL STATEMENTS

Net investment income includes interest and dividends received or accrued on investments. It also includes amortization of any purchase premium or discount using the constant yield method, adjusted prospectively for any change in estimated yield to maturity. Investment income is recognized when earned. Investment income due and accrued that is deemed uncollectible is charged against net investment income in the period such determination is made, while investment income greater than 90 days past due is non-admitted and charged directly to surplus. Net investment income is reduced by investment management expenses.

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

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

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

- (12) A statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in "Aggregate write-ins for liabilities" in the Statement of Assets, Liabilities, Surplus and Other Funds. This reserve is calculated as the greater of a prescribed percentage applied to original insured principal or 50% of premiums written, net of ceded reinsurance. The prescribed percentage varies by the type of business. Once the reserve is calculated, as described above, it is incrementally recognized in the financial statements over a prescribed time period based on type of business. Reductions in the contingency reserve may be recognized under certain stipulated conditions, subject to the approval of the Maryland Insurance Commissioner. On February 17, 2011, the Maryland Insurance Commissioner approved a request by the Company to de-recognize contingency reserves on policies which were terminated or on which case reserves have been established. Such contingency reserves aggregated approximately \$42.2 million at December 31, 2010. Pursuant to the approval, the Company may release the aforementioned contingency reserves in amounts equal to future adverse loss development recorded by the Company, but up to no more than the approved aggregate amount. The Company released \$34.0 million of such contingency reserves during the year ended December 31, 2011. The remaining amount of the approved contingency reserve release was de-recognized during the six months ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS

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

(14) The Company has no pharmaceutical rebate receivables.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

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

Certain reclassifications have been made to financial statements as of and for the six month period ended June 30, 2011 to conform to the current year presentation. There was no effect on prior period reported surplus as regards policyholders as a result of these reclassifications.

3. BUSINESS COMBINATION AND GOODWILL

The Company was not party to any business combinations and has not recorded any goodwill.

4. DISCONTINUED OPERATIONS

The Company had no discontinued operations.

5. INVESTMENTS

A. Mortgage Loans

The Company had no investments in mortgage loans or mezzanine real estate loans as of June 30, 2012 and December 31, 2011.

B. Debt Restructuring

As a result of claims paid under certain of its insurance policies guaranteeing debt obligations, the Company has received salvage in the form of investment securities. Such investment securities represent restructured debt issued in place of that originally guaranteed by the Company. The Company has recorded such investment securities at fair value at the date received and recognizes interest at the stated rate on such obligations. The aggregate carrying value of such restructured debt at June 30, 2012 and December 31, 2011 was \$2.5 million and \$2.4 million, respectively. The Company has no other restructured debt and has not been a party to a troubled debt restructuring by virtue of its ownership of its invested assets.

C. Reverse Mortgages

The Company had no investments in reverse mortgages as of June 30, 2012 and December 31, 2011.

D. Loan-Backed Securities

(1) N/A.

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

(3) N/A

(4) During the six months ended June 30, 2012, the Company did not recognize any other than temporary impairment charge on loan-backed securities.

The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous unrealized loss position for 12 months or longer at June 30, 2012 is \$9.7 million and \$0.3 million, respectively. The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous unrealized loss position for less than 12 months at June 30, 2012 is \$9.0 million and \$0.3 million, respectively. All of the securities discussed above are rated investment grade by a nationally recognized security rating organization and have excess credit coverage within each structure and cash flows of the underlying collateral are expected to be sufficient to pay principal and interest.

(5) None

E. Repurchase Agreements and/or Securities Lending Transactions

The Company has not used repurchase agreements and has not engaged in any securities lending transactions as of June 30, 2012 and December 31, 2011.

F. Real Estate

The Company has no real estate investments.

G. Investments in Low-Income Housing Tax Credits

NOTES TO FINANCIAL STATEMENTS

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

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

As of June 30, 2012 and December 31, 2011, the Company held investments in ACA Service L.L.C., (“ACA Service”). The carrying value of ACA Service as of June 30, 2012 and December 31, 2011 was zero.

On April 1, 2011, the Company formed Tactical Risk Management LLC (“TRM”) a wholly owned subsidiary. The Company has committed to capitalize TRM with up to \$100 thousand. The Company’s equity in TRM has been non-admitted as of June 30, 2012 and December 31, 2011.

7. INVESTMENT INCOME

See Note 1.C. (3) above.

8. DERIVATIVE INSTRUMENTS

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

9. INCOME TAXES

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as of June 30, 2012:

(1) DTA/DTL Components			6/30/2012			2011			Change		
Description			Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a)	Gross deferred tax assets		\$ 91,055,102	\$ 3,940,284	\$ 94,995,386	\$ 60,454,453	\$ 3,128,835	\$ 63,583,288	\$ 30,600,650	\$ 811,449	\$ 31,412,098
(b)	Statutory valuation allowance adjustment (enter as "-")		(66,106,234)	(3,940,284)	(70,046,518)	(34,582,763)	(3,128,835)	(37,711,598)	(31,523,471)	(811,449)	(32,334,920)
(c)	Adjusted gross deferred tax assets		24,948,868	-	24,948,868	25,871,690	-	25,871,690	(922,821)	-	(922,821)
(d)	Gross deferred tax liabilities		-	-	-	-	-	-	-	-	-
(e)	Net deferred tax asset/(liability) before admissibility test		24,948,868	-	24,948,868	25,871,690	-	25,871,690	(922,821)	-	(922,821)
(f)	Deferred tax assets nonadmitted		(24,948,868)	-	(24,948,868)	(25,871,690)	-	(25,871,690)	922,822	-	922,822
(g)	Net admitted deferred tax asset/(liability)		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(2) Admission calculation components as of June 30, 2012:			6/30/2012			2011			Change		
Description			Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admission calculation under ¶11.a-¶11.c.											
(a)	Federal income taxes paid in prior years recoverable through loss carrybacks		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(b)	Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from a. above) after application of the threshold limitation. (the lesser of b.i. and b.ii. below)		-	-	-	-	-	-	-	-	-
(i)	Adjusted gross deferred tax assets expected to be realized following the balance sheet date.		-	-	-	N/A	N/A	-	N/A	N/A	-
(ii)	Adjusted gross deferred tax assets allowed per limitation threshold.		N/A	N/A	-	N/A	N/A	-	N/A	N/A	-
(c)	Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. and b. above) offset by gross deferred tax liabilities.		-	-	-	-	-	-	-	-	-
Deferred Tax Assets Admitted as the result of application of SSAP No. 101.Total (a. + b. + c.)			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(3) Impact of tax planning strategies on adjusted gross DTAs and net admitted DTAs:			6/30/2012			2011			Change		
Description			Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Adjusted gross DTAs - Amount			-	-	-						
(a)	Adjusted gross DTAs - Percentage		0.00%	0.00%	0.00%						
Net admitted DTAs - Amount			-	-	-						
(b)	Net admitted DTAs - Percentage		0.00%	0.00%	0.00%						

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

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

C. Current tax and change in deferred tax:

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

Description	June 30, 2012	December 31, 2011
(a) Current federal income tax expense	\$ -	\$ -
(b) Foreign taxes	-	-
(c) Subtotal	-	-
(d) Tax on capital gains/(losses)	36,923	1,073,318
(e) Utilization of capital loss carryforwards	(36,923)	(1,073,318)
(f) Other, including prior year underaccrual (overaccrual)	-	-
(g) Federal and foreign income taxes incurred	\$ -	\$ -

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

(2) DTAs Resulting From Book/Tax Differences (as of June 30, 2012)		June 30, 2012	December 31, 2011	Change
(a) Ordinary				
(1) Discounting of unpaid losses and LAE		\$ -	\$ -	\$ -
(2) Unearned premiums		5,649,832	6,104,895	(455,064)
(3) Policyholder reserves		-	-	-
(4) Investments		-	-	-
(5) Deferred acquisition costs		-	-	-
(6) Policyholder dividends accrued		-	-	-
(7) Fixed assets		200,637	323,375	(122,738)
(8) Compensation and benefit accruals		-	-	-
(9) Pension accruals		-	-	-
(10) Nonadmitted assets		-	-	-
(11) Net operating loss carry forward		58,814,947	26,872,592	31,942,355
(12) Tax credit carryforward		615,212	615,212	-
(13) Contingency Reserve		24,948,868	25,871,691	(922,822)
(14) Other (separately disclose items >5%)		825,606	666,688	158,917
Gross ordinary DTAs		91,055,102	60,454,453	30,600,650
(b) Statutory valuation adjustment adjustment - ordinary (-)		(66,106,234)	(34,582,763)	(31,523,471)
(c) Nonadmitted ordinary DTAs (-)		(24,948,868)	(25,871,690)	922,822
(d) Admitted ordinary DTAs		\$ -	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

(e)	Capital			
(1)	Investments	\$	496,308	\$ 496,308 \$ -
(2)	Net capital loss carry forward		3,388,431	2,564,977 823,454
(3)	Real estate		-	- -
(4)	Other (separately disclose items >5%)		-	- -
(5)	Unrealized capital losses		55,545	67,550 (12,005)
	Gross capital DTAs		3,940,284	3,128,835 811,449
(f)	Statutory valuation adjustment adjustment - capital (-)		(3,940,284)	(3,128,835) (811,449)
(g)	Nonadmitted capital DTAs (-)		-	- -
(h)	Admitted capital DTAs	\$	-	\$ - \$ -
(i)	Admitted DTAs	\$	-	\$ - \$ -
(3)	DTLs Resulting From Book/Tax Differences (as of June 30, 2012)		June 30, 2012	December 31, 2011 Change
(a)	Ordinary			
(1)	Investments	\$	-	\$ - \$ -
(2)	Fixed assets		-	- -
(3)	Deferred and uncollected premiums		-	- -
(4)	Policyholder reserves/salvage and subrogation		-	- -
(5)	Other (separately disclose items >5%)		-	- -
	Ordinary DTLs	\$	-	\$ - \$ -
(b)	Capital			
(1)	Investments		-	- -
(2)	Real estate		-	- -
(3)	Other (separately disclose items >5%)		-	- -
	Unrealized capital gains		-	- -
	Capital DTLs	\$	-	\$ - \$ -
(c)	DTLs	\$	-	\$ - \$ -
(4)	Net deferred tax assets/liabilities	\$	-	\$ - \$ -

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

	June 30, 2012	December 31, 2011	Change
Total deferred tax assets	\$ 94,995,386	\$ 63,583,288	\$ 31,412,098
Total deferred tax liabilities	-	-	-
Net deferred tax assets/liabilities	94,995,386	63,583,288	31,412,098
Statutory valuation allowance adjustment (*see explanation below)	(70,046,518)	(37,711,598)	(32,334,920)
Net deferred tax assets/liabilities after SVA	24,948,868	25,871,690	(922,822)
Tax effect of unrealized gains/(losses)	(55,545)	(67,550)	12,005
Statutory valuation allowance adjustment allocated to unrealized (+)	-	-	-
Change in net deferred income tax [(charge)/benefit]	\$ 24,893,323	\$ 25,804,140	\$ (910,816)

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

Deposits admitted under IRC § 6603
None

In July 2012, the Company amended its 2008 federal tax return which increased the deferred tax asset related to net operating losses by \$28.4 million. Since it is the Company's position that all of its deferred tax assets are not more likely than not to be realized, a full valuation allowance was established against the increase in the net operating loss deferred tax asset.

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

The Company files its tax return on a standalone basis

E. Change in Accounting Principle:

The Company adopted Statement of Statutory Accounting Principles ("SSAP") No. 101, Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10, on January 1, 2012. SSAP No. 101 made certain changes to prescribed statutory accounting for income taxes promulgated under SSAP No. 10 and SSAP No. 10R. The adoption of SSAP No. 101 had no material effect on the Company's financial statements.

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

- A. & B. There were no material transactions with parent, affiliates or other related parties in 2012 or 2011.
- C. Not applicable.
- D. The Company has \$75 thousand and \$86 thousand payable to subsidiaries at June 30, 2012 and December 31, 2011, respectively.
- E. Except as discussed in Note 6, the Company has no guaranties or undertakings for the benefit of an affiliate or related party.
- F. The Company has no material management or service contract with any related parties.
- G. The Company's majority common shareholder, ACA Holding, L.L.C. ("ACAH"), a Delaware holding company, held a 76.6% share in the common shares of the Company. The minority shareholder, KPR Ltd. ("KPR"), a Cayman Island company and a wholly-owned subsidiary of ACAH, held the remaining 23.4% share in the common shares of the Company. Each of ACAH and KPR are wholly-owned by Manifold Capital Corp. ("ACACH"), formerly ACA Capital Holdings, Inc., a Delaware corporation. Effective at the closing of the restructuring transaction entered into on August 8, 2008, ACACH and its wholly owned subsidiaries disclaimed control over the Company. This disclaimer of control was approved by the MIA. See Note 21.B. for a discussion of the restructuring transaction.
- H. The Company's majority common shareholder and ultimate parent, ACAH and ACACH, respectively, are not owned directly or indirectly via any of the Company's downstream subsidiaries or controlled or affiliated entities. See Note

NOTES TO FINANCIAL STATEMENTS

21.B. for information regarding the ownership structure of the Company following the closing of its restructuring transaction that took place on August 8, 2008. See Note 21.B. for a discussion of the restructuring transaction.

- I. The Company holds no investment in any subsidiary, controlled or affiliated entity that exceeds 10% of its admitted assets.
- J. The Company did not impair any subsidiary, controlled or affiliated in 2012 or 2011.
- K. Not applicable.
- L. The Company does not hold an investment in a downstream noninsurance holding company.

11. DEBT

As of June 30, 2012 and December 31, 2011, the Company had no capital notes or other debt.

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

- A. The Company has no Defined Benefit Plan.
- B. The Company sponsors a qualified defined contribution plan, which covers all full-time employees of the Company as of their start date with the Company. Eligible participants may contribute a percentage of their salary, subject to IRS limitations. The Company's contributions to the plan are based on a fixed percentage of employees' contributions subject to IRS limitations. At June 30, 2012 and December 31, 2011, the fair values of plan assets were \$5.9 million and \$5.4 million, respectively. For the six month periods ended June 30, 2012 and 2011, the Company recognized expense in the amount of \$277.8 thousand and \$178.1 thousand for the defined contribution plan, respectively.
- C. The Company has no Multi-employer Plan.
- D. The Company has no Consolidated/Holding Company Plan.
- E. & F. The Company has no Post-employment Benefits and Compensated Absences.

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

- (1) The Company has 1,000,000 shares of common stock authorized, issued and outstanding with a par value of \$15.00 per share. See Note 10.G.
- (2) The Company has no preferred stock outstanding.
- (3) As part of the Company’s restructuring discussed in Note 21.B. below, the MIA Order restricts the Company from paying dividends without the prior approval of the Commissioner.
- (4) No dividends were paid in 2012 or 2011.
- (5) The Company had negative earned surplus at June 30, 2012 and December 31, 2011; therefore no dividends can be paid in 2012 pursuant to Maryland Insurance Law.
- (6) There are no restrictions on unassigned surplus.
- (7) The Company is not a mutual company.
- (8) The Company holds no stock for special purposes.
- (9) The Company holds no special surplus funds.
- (10) The portion of unassigned surplus represented by cumulative unrealized capital losses is \$154,117.
- (11) The following table sets forth certain information regarding the Company’s surplus notes:

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

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

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

14. CONTINGENCIES

- A. Contingency Commitments

The Company has no contingent commitments.

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B. Assessments

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

C. Gain Contingencies

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

On January 6, 2011, the Company commenced a lawsuit against Goldman, Sachs & Co. (“Goldman”) in the Supreme Court of the State of New York, County of New York. The lawsuit seeks compensatory damages against Goldman in the amount of at least \$30 million and punitive damages in the amount of at least \$90 million in connection with the development of a structured finance product, a synthetic collateralized debt obligation called ABACUS 2007-AC1. On April 25, 2011, the Company filed its First Amended Complaint. On June 3, 2011, Goldman moved to dismiss the First Amended Complaint. On April 23, 2012, the Court issued an order denying Goldman’s motion to dismiss ACA’s fraud claims and granting Goldman’s motion to dismiss ACA’s unjust enrichment claim (the “Order”). On May 29, 2012, Goldman served notice of its intent to appeal the Order. Also on May 29, 2012, Goldman served its answer, asserting counterclaims for breach of contract and fraudulent inducement, together with a third-party complaint against ACA Management LLC, asserting claims for breach of contract, unjust enrichment and indemnification. Goldman does not specify the amount of damages it seeks. ACA will move to dismiss the counterclaims and third-party complaint, which it believes has no merit.

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

The Company is one of two defendants in a lawsuit in the Superior Court of the State of California (Los Angeles County) brought by Retirement Housing Foundation and several affiliates relating to the plaintiffs’ issuance of auction-rate securities insured by the Company. The plaintiffs allege that the Company’s insurance of securities backed by sub-prime mortgages was not financially responsible and was contrary to the Company’s statement about its investment practices, and that when the Company’s credit rating was downgraded from “A” to “CCC” after the collapse of the sub-prime market, the plaintiffs were forced to refinance their securities. On October 22, 2009, the Company filed a demurrer seeking to have the case dismissed. In response, plaintiffs filed a second amended complaint. The Company filed a demurrer to dismiss that complaint on June 25, 2010 and argument was held on August 16, 2010. On November 22, 2010, the Court dismissed the contract, implied contract and negligence claims on the theory that the parties’ insurance contract did not contain a requirement that ACA maintain an “A” rating, but did not dismiss the fraud, negligent misrepresentation and unfair competition claims. The plaintiffs filed a third amended complaint on January 12, 2011. On March 29, 2011, the Court again dismissed plaintiffs’ contract and implied contract claims, this time with prejudice. On April 19, 2011, the plaintiffs filed a fourth amended complaint, asserting causes of action for fraud, negligent misrepresentation and violations of California’s unfair competition law. The Company responded on May 10, 2011. Discovery was ongoing until it was stayed by the Court due to plaintiffs filing of the motion to strike a cross-claim asserted by Cain Brothers & Co. LLC (the other defendant in the lawsuit) against plaintiffs. The Court denied that motion on February 8, 2012, but plaintiffs sought to continue the discovery stay while they appealed the denial of their motion to strike. After the Court denied their request, plaintiffs filed a writ of supersedeas asking the California Court of Appeals to stay the case. Plaintiffs’ writ was denied on June 8, 2012 and the stay was lifted effective June 11, 2012. Since then, the parties have engaged in discovery.

The Company (specifically, ACA Management, LLC) is one of many defendants in an action pending in New Mexico state court brought by Frank Foy on behalf of the State of New Mexico. The complaint alleges that Vanderbilt Capital Advisors (and certain affiliates) engaged in an unlawful “pay to play” scheme with various New Mexico state officials, causing two New Mexico state agencies, the State Investment Council and Employee Retirement Board, to purchase certain worthless CDO investments, including some with which the Company was allegedly connected. The complaint seeks compensatory damages in excess of \$90 million, plus interest and civil penalties which Plaintiff asserts raise the claim to several hundred million dollars, under certain New Mexico statutes, including the Fraud Against Taxpayers Act (“FATA”). The Company moved to dismiss the complaint for lack of jurisdiction. On April 28, 2010, without ruling on the Company’s jurisdictional motion, the Court dismissed the complaint in its entirety on a number of grounds including constitutionality and lack of standing. Just before this dismissal was issued, the plaintiff filed an amended complaint which added a number of additional plaintiffs and legal theories. The Court subsequently entered an order striking all portions of the amended complaint inconsistent with the April 28, 2010 dismissal. The only surviving portions of the amended complaint are allegations of FATA violations occurring after July 1, 2007. The merits of the April 28, 2010 ruling were adopted in a companion case filed by Foy, in which the Company is not a party. That companion case is now on appeal to the New Mexico Court of Appeals. The Company’s jurisdictional motion and similar motions by a number of other defendants have been stayed pending jurisdictional discovery, which is currently underway. The Company has responded to Foy’s discovery requests and has served its own discovery requests upon Foy and awaits responses. The group motion to dismiss for failure to state a claim was denied. Independently, the New Mexico Attorney General has asked the Court to dismiss portions of the lawsuit relating to “pay to play” allegations concerning the State Investment Council in favor of lawsuits filed by the Attorney General relating to the underlying “pay to play” scheme (the Company is not named in the Attorney General’s lawsuits). That motion has been granted, narrowing the Foy case to claims for other alleged conduct associated with the State Investment Council’s investment with Vanderbilt. The plaintiffs’ claims as to the Employee Retirement Board’s investment with Vanderbilt were unaffected by the grant of the Attorney General’s motion.

The Company is named as a defendant in a putative class-action in the United States District Court for the Northern District of Mississippi. The putative class purports to consist of all owners and/or holders of Connector 2000 Association, Inc. Toll Road Revenue Bonds (the “Connector Bonds”) insured by the Company. The issuer of the Connector Bonds, Connector 2000 Association, Inc. (the “Issuer”), successfully confirmed a Chapter 9 plan (the “Plan”) and emerged from its bankruptcy proceeding on April 1, 2011. Pursuant to the terms of the Plan and by operation of law, the Connector Bonds were exchanged for new obligations of the Issuer (the “New Obligations”) and were effectively cancelled. As a result, based on the plain language of the relevant insurance policies and other legal theories, the Company asserts that it has no further liability or payment obligations under its secondary market insurance policies. The Company filed a motion to dismiss the complaint in its entirety. The Court granted the plaintiff’s motion to amend on January 5, 2012 to, inter alia, add another plaintiff, and the amended complaint was filed on January 10, 2012. The Company moved to dismiss plaintiffs’ amended complaint in its entirety, which motion was fully briefed on March 21, 2012. No decision has yet been rendered by the Court on the Company’s motion. Plaintiffs have also moved to certify a class, which motion the Company opposed and was fully briefed on June 21, 2012. No

NOTES TO FINANCIAL STATEMENTS

decision has yet been rendered on the plaintiffs’ motion.

Subsequent to the commencement of the above-referenced putative class-action pending in the Northern District of Mississippi, the Company has been named as a defendant in an action filed in the Supreme Court of the State of New York in and for New York County, in which the plaintiffs therein, representing approximately 80% of the relevant outstanding policies, seek a declaration of the Company’s obligations under its secondary market insurance policies the Company issued in connection with the Connector Bonds. The Company’s position on its lack of any continuing obligation under these secondary market insurance policies is essentially the same in both lawsuits. The Company moved for summary judgment seeking, inter alia, an order denying the declaratory relief sought by the plaintiffs in their complaint and declaring that the Company is relieved of liability of any further payment obligations under its secondary market insurance policies. The plaintiffs opposed the Company’s motion for summary judgment and cross-moved for summary judgment on their claims for declaratory relief. The Company’s motion and plaintiffs’ cross-motion were fully briefed and oral argument was held April 18, 2012. No decision has yet been rendered by the Court on the cross motions.

The Company was initially a third-party defendant in a suit filed in the Fourth Judicial Circuit in Duval County, Florida. The Company insured \$11.65 million of bonds issued for the construction of a hospital and nursing facility in Maccleddy, Florida. The bond documents required the hospital (i.e., the entity responsible for servicing the bonds insured by the Company) to procure and maintain a certain type and level of professional liability insurance. The hospital failed to comply with the professional liability insurance requirements under the bond documents and had initially commenced this action against the bond trustee to, among other things, be relieved of such obligation. In response, the bond trustee commenced a third party action against the Company demanding that the Company indemnify it for any liability the bond trustee may have to the hospital. The Company, in turn, brought a third-party action against the hospital and others seeking a declaration, inter alia, that the Company is either excused from its obligation under the bond insurance policy or that the hospital must procure professional liability insurance as required by the bond documents. After the Company successfully moved to strike a number of the hospital’s affirmative defenses to the Company’s third-party complaint and successfully defended against the bond trustee’s motion to dismiss certain claims in the Company’s third-party complaint, the Hospital filed its second amended complaint against the bond trustee and the Company. In its second amended complaint, the hospital asserted breach of contract, tortious interference and negligence claims against the Company. By order dated June 29, 2012, the Court denied, among other things, (x) the Company’s motion to dismiss certain of these claims, and (y) the bond trustee’s motion to dismiss a number of the Company’s claims and affirmative defenses. The parties are currently engaged in discovery regarding the parties’ outstanding claims.

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

15. LEASES

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

The Company’s rental expense for the six months ended June 30, 2012 and 2011 was \$273.3 thousand and \$183.4 thousand, respectively.

- B. Not applicable.

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

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

While the Company establishes reserves for losses and loss adjustment expenses on obligations on which it has received a claim notice (see Note 1.C.(11) and Note 21. A.), the risk of loss under the Company’s guaranties extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see description of financial guaranty insurance in Note 21.J.). The tables below reflect certain information regarding the Company’s in-force par exposure at June 30, 2012 and December 31, 2011:

(\$ in millions)	June 30, 2012		December 31, 2011	
	Net Par	% of Net Par	Net Par	% of Net Par
	<u>Outstanding</u>	<u>Outstanding</u>	<u>Outstanding</u>	<u>Outstanding</u>
Tax-exempt obligations:				
Healthcare	497	10.3%	559	10.8%
Tax backed	580	12.0%	620	11.9%
Higher education	989	20.5%	1,136	21.9%
Long-term care	395	8.2%	474	9.1%
General obligations	1,026	21.3%	1,032	19.9%
Utilities	96	2.0%	106	2.0%
Transportation	373	7.7%	390	7.5%
Housing	255	5.3%	260	5.0%
Not for Profit	402	8.3%	407	7.8%
Other, net of HCC cover (\$50)	205	4.2%	207	4.0%
Total municipal obligation	4,818	99.9%	5,191	99.9%
Taxable obligations				
Other	6	0.1%	6	0.1%
Total	\$ 4,824	100.0%	\$ 5,197	100.0%

NOTES TO FINANCIAL STATEMENTS

(\$ in millions)	PAR EXPOSURE BY STATE	June 30, 2012		December 31, 2011	
		Net Par	% of Net Par	Net Par	% of Net Par
		Outstanding	Outstanding	Outstanding	Outstanding
California		\$ 848	17.6%	\$ 1,029	19.8%
New York		748	15.5%	765	14.7%
Texas		311	6.5%	338	6.5%
Washington		295	6.1%	296	5.7%
Massachusetts		285	5.9%	292	5.6%
Other states		2,331	48.4%	2,471	47.6%
Total municipal obligations		\$ 4,818	100.0%	\$ 5,191	100.0%

NET PAR OUTSTANDING BY MATURITY

(\$ in millions)	Terms of Maturity	June 30, 2012
		Net Par Outstanding
	0 to 5 years	\$ 794
	5 to 10 years	992
	10 to 15 years	1,210
	15 to 20 years	1,059
	20 and above	769
Total		\$ 4,824

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

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

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

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

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

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

20. FAIR VALUE MEASUREMENT

With the exception of certain investments in bonds and loan-backed securities that are reported at the lower of cost or fair value, or such securities on which an other than temporary impairment has been recognized as of the balance sheet date, the Company has no assets or liabilities reported in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds that are measured at fair value (see Note 1.C.(3)). The aforementioned securities which are reported at fair value in the accompanying financial statements represent securities that are reported at fair value on a non-recurring basis. The carrying value of such securities in the Company’s financial statements as of June 30, 2012 and December 31, 2011 aggregated \$3.8 million and \$11.9 million, respectively. The fair values of such securities were based on “Significant other observable inputs (Level 2), as defined in SSAP No. 100 – Fair Value Measurements.

21. OTHER ITEMS

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

Description of Significant Risks and Uncertainties

- As discussed in Note 1.C. (11), ACA recognizes losses and establishes related loss reserves on bond obligations it has insured only upon the initial payment default by the issuer of such bond obligations (under the Company’s accounting policy, the initial payment default is generally considered the incident which gives rise to a claim and triggers loss recognition relating to the incident). The loss recognized by ACA upon a payment default represents the Company’s best estimate of its ultimate loss over the life of the policy, discounted to reflect the time value of money (not the amount of the claim under the policy received upon the initial payment default which generally reflects the shortfall by the obligor of the scheduled principal and/or interest payment then due under the terms of the bond indenture). However, ACA has policies in-force upon which it expects that payment defaults will occur in the future resulting in losses that will be incurred by the Company. Such expected future losses are not recorded by the Company in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds at June 30, 2012 and December 31, 2011 because a payment default has not yet occurred. With consideration of the inherent uncertainty of estimating losses discussed further below, the Company’s estimate of the ultimate losses that it will incur in the future on such policies (where payment defaults have not yet occurred but are expected) ranged from \$80 million to \$100 million at June 30, 2012, on a discounted basis. Accordingly, the Company believes it will incur material losses in the future which will materially adversely affect its policyholders’ surplus. Notwithstanding the de-recognition of the Company’s contingency reserves approved by the Maryland Insurance Commissioner discussed in Note 1.C.(12) and any further de-recognition of contingency reserves that may be approved by the Maryland Insurance Commissioner in the future, no assurance can be given that the recognition of such losses in the future will not cause the Company to fail to comply with its regulatory required minimum policyholders’ surplus requirement of \$750,000. However, the Company believes that its policyholders’ surplus will be in excess of the required minimum policyholders’ surplus over the twelve months

NOTES TO FINANCIAL STATEMENTS

succeeding the date of the accompanying statement of Assets, Liabilities, Surplus and Other Funds and, that it has sufficient liquidity resources to satisfy its financial obligations as they come due for the foreseeable future.

- The Company is materially exposed to risks associated with deterioration in the tax exempt bond market through its insurance guaranties (see Note 16), as well as to the economy generally. The extent and duration of any future deterioration in the tax exempt bond market is unknown, as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed. As discussed in Note 36, the Company classifies its insured in-force portfolio in one of four credit quality categories. As noted therein, as of June 30, 2012, the Company had insured obligations with outstanding principal totaling \$381.8 million classified in category 4, which means that it either has paid claims on such exposures or expects to pay claims on such exposures in the future. In addition, as of such date, the Company had insured obligations with outstanding principal totaling \$361.5 million classified in category 3, which means those credits have materially violated financial and operational covenants and require remedial action to avoid further performance deterioration. As discussed in Note 16, the risk of loss under the Company's guaranties extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed. No assurance can be provided that further deterioration in ACA's insured guaranties will not occur resulting in a further migration of insured exposure to categories 3 and 4 or that ACA will not incur losses that may be materially in excess of what it currently estimates.
- Establishment of case basis reserves for unpaid losses and loss adjustment expenses on the Company's insured guaranties requires the use and exercise of significant judgment by management, including estimates regarding the probability of default, the severity of loss upon default and the amount and timing of claim payments and recoveries on a guaranteed obligation. Case basis reserves reflect management's best estimate of the present value of the Company's ultimate loss and not the worst possible outcome. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, changes in the value of specific assets supporting guaranteed obligations, and changes in the expected timing of claims payments and recoveries, and the amounts of expected claims payments and recoveries. Both qualitative and quantitative factors are used in making such estimates. Each quarter, in connection with the preparation of its financial statements, the Company reevaluates all such estimates. Changes in these estimates may be material and may result in material changes in the Company's policyholders' surplus. Any estimate of future costs is subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. The risk of loss under the Company's guaranties extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see Note 16).
- The Company is involved in a number of legal proceedings, both as plaintiff and defendant, as well as regulatory inquiries and investigations. Management cannot predict the outcomes of these proceedings and other contingencies with certainty. In addition, it is not possible to predict whether additional suits will be filed or whether additional inquiries or investigations will be commenced. The outcome of some of these proceedings and other contingencies could require the Company to take or refrain from taking actions which could have a material adverse effect on its business, financial position or cash flows or could require the Company to pay (or fail to receive) substantial amounts of money. Additionally, prosecuting and defending these lawsuits and proceedings may involve significant expense and diversion of resources from other matters. See Notes 14.C. and 14.D.
- ACA has experienced and likely will continue to experience substantial tax losses in the conduct of its business.

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

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

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

Description of the Company's On-Going Strategic Plan

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

B. Restructuring Transaction

As a result of adverse developments in the credit markets generally and the mortgage market specifically that began in the second half of 2007 and continued to deepen in 2008 and thereafter, the Company experienced material adverse effects on its business, results of operations, and financial condition, which resulted in significant downgrades of the Company's financial strength ratings by Standard & Poor's Ratings Services ("S&P") and, ultimately, a restructuring of the Company to avoid a regulatory proceeding (the "Restructuring Transaction"). The Restructuring Transaction, which was consummated on August 8, 2008, was comprised of three main components (see also Note 10.G.).

NOTES TO FINANCIAL STATEMENTS

The first component of the Restructuring Transaction consisted of a Global Settlement Agreement whereby insured credit swap counterparties' claims were settled in consideration for a cash payment of approximately \$209 million and surplus notes with a face value of approximately \$950 million. In the aggregate \$1 billion face amount of surplus notes were issued in connection with the Restructuring Transaction. Of such amount, the aforementioned insured credit swap counterparties' received \$950 million as previously discussed and the balance of \$50 million was issued to ACACH. While certain of the surplus notes issued to the insured credit swap counterparties were issued to be non-voting at the request of certain of such counterparties, the surplus notes issued to the counterparties, in the aggregate, represent a 100% voting interest in the Company. The surplus notes issued to ACACH are all non-voting.

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

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

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

C. Extraordinary items

The Company had no extraordinary items during 2012 and 2011.

D. Troubled Debt Restructurings

The Company had no troubled debt restructuring during 2012 and 2011. See also Note 5.B.

E. Assets on Deposit with States and Other Collateral Deposits

Assets with a carrying value of \$4.7 million at June 30, 2012 and December 31, 2011 were on deposit with state authorities or trustees as required by state licensing regulations.

As discussed in Note 15 – Leases. The Company's security deposit was returned as part of the lease termination. The Company currently has \$60 thousand in security deposits outstanding for lease obligations. This collateral deposit is treated as a non-admitted asset as of June 30, 2012 and December 31, 2011.

F. Uncollected Balances

The Company had no uncollectible balances.

G. Business Interruption Insurance Recoveries

Not applicable.

H. State Transferable Tax Credits

The Company had no state transferable credits.

I. Subprime Exposure Related Risk

- (1) The Company no longer has risk in its insured exposures to subprime mortgages, except for one insured securitization of manufactured housing mortgages. Other previously insured subprime mortgage exposure was included in the Global Settlement Agreement described in Note 21.B. The one remaining exposure has a par amount of \$4.9 million at June 30, 2012 and the Company has an outstanding loss reserve against this exposure in the amount of \$1.3 million.
- (2) The Company has no investments consisting of direct exposure to subprime-mortgages.
- (3) The Company has the following indirect exposures to sub-prime mortgages included in its investment portfolio at June 30, 2012:

NOTES TO FINANCIAL STATEMENTS

	1 Actual Cost	2 Book/Adjusted Carrying Value (excluding interest)	3 Fair Value	4 Other Than Temporary Impairment Losses Recognized
a. Residential mortgage backed securities	\$ 29,062,180	\$ 29,227,219	\$ 30,271,881	\$ -
b. Commercial mortgage backed securities				
c. Collateralized debt obligations	5	-	-	-
d. Structured securities				
e. Equity investment in SCAs				
f. Other assets				
g. Total	\$ 29,062,185	\$ 29,227,219	\$ 30,271,881	\$ -

(4) As stated in I (1) above, the Company has an outstanding loss reserve in the amount of \$1.3 million.

J. Description of Financial Guaranty Insurance

Description of Financial Guaranty Insurance

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

22. EVENTS SUBSEQUENT

The Company has evaluated all subsequent events through August 14, 2012, the date the financial statements were issued. There were no other events that required adjustment to or disclosure in the financial statements.

23. REINSURANCE

A. Unsecured Reinsurance Recoverables

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

B. Reinsurance Recoverable in Dispute

The Company has no reinsurance recoverable in dispute.

C. Reinsurance Assumed and Ceded

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Affiliates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
All other	5,672,006	-	238,857	-	5,433,149	-
Total	\$ 5,672,006	\$ -	\$ 238,857	\$ -	\$ 5,433,149	\$ -

Direct Unearned Premium Reserve \$155,990,614

There are no contingent commission or profit sharing arrangements.

D. Uncollectible Reinsurance

The Company has no uncollectible reinsurance balances.

E. Commutation of Ceded Reinsurance

The Company had no commutations of ceded reinsurance in 2012.

F. Retroactive Reinsurance

The Company has no retroactive reinsurance contracts.

G. Reinsurance Accounted for as a Deposit

NOTES TO FINANCIAL STATEMENTS

The Company did not account for any reinsurance as deposits.

24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

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

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

For the six months ended June 30, 2012, the Company recorded a provision for losses of \$27.3 million, which consisted of \$0.5 million of favorable loss development related to reserves established in years prior to 2012 (“prior accident year claims”), and \$27.8 million of incurred losses relating to the current accident year. As of June 30, 2012, the Company’s liability for unpaid losses was \$82.9 million, which related to thirteen insured transactions, with a remaining aggregate in-force par outstanding of \$96.4 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of \$96.4 million represents the remaining maximum amount of exposure to loss the Company has in regard to these thirteen insured transactions. See Note 36(3)b for additional information regarding the Company’s reserves for losses and loss adjustment expenses.

For the six months ended June 30, 2011, the Company recorded a provision for losses of \$4.1 million, all of which related to adverse development on reserves established in years prior to 2011 (“prior accident year claims”). As of June 30, 2011, the Company’s liability for unpaid losses was \$43.0 million, which related to seven insured transactions, with a remaining aggregate in-force par outstanding of \$44.1 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of \$44.1 million represents the remaining maximum amount of exposure to loss the Company has in regard to these seven insured transactions.

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

26. INTERCOMPANY POOLING ARRANGEMENTS

The Company has no intercompany pooling arrangements.

27. STRUCTURED SETTLEMENTS

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

28. HEALTH CARE RECEIVABLE

- A. The Company has no pharmaceutical rebate receivables as of June 30, 2012 and December 31, 2011.
- B. The Company has no risk sharing receivables as of June 30, 2012 and December 31, 2011.

29. PARTICIPATING POLICIES

The Company never issued participating policies.

30. PREMIUM DEFICIENCY RESERVE

The Company has no premium deficiency reserves.

31. HIGH DEDUCTIBLES ON UNPAID CLAIMS

The Company has no high deductibles on unpaid claims.

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

The Company's case reserves for unpaid losses are discounted on a non-tabular basis. The discount rate used at June 30, 2012 and December 31, 2011 was 4.15%. The discount rate is based on the average rate of return on the Company’s admitted assets. The amount of discount associated with the Company’s loss reserves at June 30, 2012 was \$18.1 million. Loss adjustment expenses are not discounted.

33. ASBESTOS/ENVIRONMENTAL RESERVES

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

34. SUBSCRIBER SAVINGS ACCOUNTS

The Company has no subscriber savings accounts.

35. MULTIPLE PERIL CROP INSURANCE

The Company has never written this line of business.

36. FINANCIAL GUARANTY INSURANCE

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

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

NOTES TO FINANCIAL STATEMENTS

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

- (2) a. The amount of premium revenue that has been accelerated during the six month periods ended June 30, 2012 and 2011 was \$9.3 million and \$1.0 million, respectively. The acceleration was due to the prepayments or advance refunding of credits.

b. Schedule of the future expected earned premium revenue on contracts written on an upfront basis as of June 30, 2012:

1.		
	3rd Quarter 2012	2,486,054
	4th Quarter 2012	2,174,018
	Year 2013	8,206,747
	Year 2014	8,279,793
	Year 2015	8,023,962
	Year 2016	8,257,999
2.		
	2017 through 2021	40,726,198
	2022 through 2026	35,813,086
	2027 through 2031	28,122,924
	2032 through 2036	17,528,161
	2037 through 2041	1,604,655
	2042 through 2045	200,165
	Total	<u>\$ 161,423,763</u>

- (3) Claim liability:

- a. The Company used a rate of 4.15% to discount the claim liability.
- b. Significant components of the change in the claim liability for the period:

	Debit (Credit)
Reserves for losses at December 31, 2011	\$ 64,392,168
Change in reserves	
Prior accident years	(3,140,660) ⁽²⁾
Current accident year	<u>21,654,382</u>
Sub-total change in reserves	<u>18,513,722</u> ⁽¹⁾
Reserves for losses at June 30, 2012	<u>\$ 82,905,890</u>

⁽¹⁾ During the 6 months ending June 30, 2012 paid losses were \$8,798,317 which when aggregated with the change in reserves during the period equal losses incurred for the 6 months ending June 30, 2012 of \$27,312,039.

⁽²⁾ Includes (\$679,155) of discount accretion recorded during the 6 months ending June 30, 2012.

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

- a. Category 1: Fully Performing
Covenants have been met and there have been no significant negative deviations from expected performance.
- Category 2: Watch
Performing below expected levels but current and projected revenues are adequate to service debt.
- Category 3: Deteriorating
Performing significantly below expected levels; corrective action is required to avert a longer-term risk of payment default.
- Category 4: Paid or Expected Claim
Material decline in creditworthiness and ability to pay debt service; unreimbursed draws on debt service reserves and/or payment defaults have occurred or are probable.
- b. Risk management activities are performed by ACA's portfolio management department. Portfolio analysts monitor all insured transactions in the portfolio to determine whether their financial performance is consistent with underwriting expectations and to identify any deterioration in the obligor's ability or willingness to pay insured debt service. Portfolio management staff are also responsible for recommending and undertaking remedial actions to prevent or mitigate losses.

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

NOTES TO FINANCIAL STATEMENTS

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

	Credit Quality Categories				Total
	1	2	3	4	
Number of policies	301	90	24	31	446
Remaining weighted-average contract period (in years)	12	12	13	13	
Insured contractual payments outstanding:					
Principal	\$ 3,193,959,112	\$ 885,820,214	\$ 361,493,165	\$ 381,846,601	\$ 4,823,119,092
Interest	2,099,860,169	570,275,903	313,646,098	335,781,163	3,319,563,333
Total	<u>\$ 5,293,819,281</u>	<u>\$ 1,456,096,117</u>	<u>\$ 675,139,263</u>	<u>\$ 717,627,764</u>	<u>\$ 8,142,682,425</u>
Gross claim and LAE liability	\$ 533,000	\$ 109,000	\$ 154,000	\$ 174,799,437	\$ 175,595,437
Less:					
Gross potential recoveries	-	-	-	65,242,666	65,242,666
Discount, net	-	-	-	18,051,881	18,051,881
Net claim and LAE liability	<u>\$ 533,000</u>	<u>\$ 109,000</u>	<u>\$ 154,000</u>	<u>\$ 91,504,890</u>	<u>\$ 92,300,890</u>
Unearned premium revenue	\$ 84,321,135	\$ 33,199,890	\$ 19,161,133	\$ 24,741,605	\$ 161,423,763
Claim and LAE liability reported in the balance sheet	\$ 533,000	\$ 109,000	\$ 154,000	\$ 91,504,890	\$ 92,300,890
Reinsurance recoverables	\$ -	\$ -	\$ -	\$ -	\$ -

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES
GENERAL

- 1.1

Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act?

Yes ☐ No ☒
- 1.2

If yes, has the report been filed with the domiciliary state?

Yes ☐ No ☐
- 2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes ☐ No ☒
- 2.2

If yes, date of change:
3.

Have there been any substantial changes in the organizational chart since the prior quarter end?

Yes ☐ No ☒

If yes, complete the Schedule Y - Part 1 - organizational chart.
- 4.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes ☐ No ☒
- 4.2

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

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

5.

If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved?

If yes, attach an explanation.

Yes ☐ No ☒ NA ☐
- 6.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2007
- 6.2

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

12/31/2007
- 6.3

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

05/07/2009
- 6.4

By what department or departments?
Maryland Insurance Administration.....
- 6.5

Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments?

Yes ☐ No ☐ NA ☒
- 6.6

Have all of the recommendations within the latest financial examination report been complied with?.....

Yes ☐ No ☐ NA ☒
- 7.1

Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?.....

Yes ☐ No ☒
- 7.2

If yes, give full information:
.....
- 8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?.....

Yes ☐ No ☒
- 8.2

If response to 8.1 is yes, please identify the name of the bank holding company.
.....
- 8.3

Is the company affiliated with one or more banks, thrifts or securities firms?.....

Yes ☐ No ☒
- 8.4

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

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

GENERAL INTERROGATORIES

- 9.1

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?.....

Yes ☒ No ☐
- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

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

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

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

(e) Accountability for adherence to the code.
- 9.11

If the response to 9.1 is No, please explain:

.....
- 9.2

Has the code of ethics for senior managers been amended?.....

Yes ☐ No ☒
- 9.21

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

.....
- 9.3

Have any provisions of the code of ethics been waived for any of the specified officers?.....

Yes ☐ No ☒
- 9.31

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

.....

FINANCIAL

- 10.1

Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?.....

Yes ☐ No ☒
- 10.2

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

INVESTMENT

- 11.1

Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.)

Yes ☐ No ☒
- 11.2

If yes, give full and complete information relating thereto:

.....
12.

Amount of real estate and mortgages held in other invested assets in Schedule BA: \$
13.

Amount of real estate and mortgages held in short-term investments: \$
- 14.1

Does the reporting entity have any investments in parent, subsidiaries and affiliates?

Yes ☒ No ☐
- 14.2

If yes, please complete the following:

		1		2
		Prior Year-End		Current Quarter
		Book/Adjusted		Book/Adjusted
		Carrying Value		Carrying Value
14.21	Bonds	\$	\$	
14.22	Preferred Stock	\$	\$	
14.23	Common Stock	\$0	\$0	
14.24	Short-Term Investments	\$	\$	
14.25	Mortgage Loans on Real Estate	\$	\$	
14.26	All Other	\$	\$	
14.27	Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$0	\$0	
14.28	Total Investment in Parent included in Lines 14.21 to 14.26 above	\$	\$	
- 15.1

Has the reporting entity entered into any hedging transactions reported on Schedule DB?

Yes ☐ No ☒
- 15.2

If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?

Yes ☐ No ☐

If no, attach a description with this statement.

GENERAL INTERROGATORIES

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

Yes [X] No []

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

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

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

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

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

Yes [] No [X]

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

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

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

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

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

Yes [X] No []

17.2 If no, list exceptions:

.....

GENERAL INTERROGATORIES

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

PART 2

PROPERTY & CASUALTY INTERROGATORIES

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

If yes, attach an explanation.

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

If yes, attach an explanation.

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

3.2 If yes, give full and complete information thereto

.....

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

4.2 If yes, complete the following schedule:

			TOTAL DISCOUNT				DISCOUNT TAKEN DURING PERIOD			
1	2	3	4	5	6	7	8	9	10	11
Line of Business	Maximum Interest	Discount Rate	Unpaid Losses	Unpaid LAE	IBNR	TOTAL	Unpaid Losses	Unpaid LAE	IBNR	TOTAL
Financial Guaranty.....		4.150	18,051,881			18,051,881	3,200,889			3,200,889
.....										
.....										
.....										
		TOTAL	18,051,881	0	0	18,051,881	3,200,889	0	0	3,200,889

5. Operating Percentages:

5.1 A&H loss percent 0.0%

5.2 A&H cost containment percent 0.0%

5.3 A&H expense percent excluding cost containment expenses 0.0%

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

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

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

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

Schedule F
NONE

STATEMENT AS OF JUNE 30, 2012 OF THE ACA Financial Guaranty Corporation

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories							
States, etc.	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2	3	4	5	6	7
	Active Status	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date
1. Alabama	AL L		0		0		0
2. Alaska	AK L		0		0		0
3. Arizona	AZ L		0		0		0
4. Arkansas	AR L		0	695,907	0	13,071,363	0
5. California	CA L		0	809,940	447,043	23,911,041	0
6. Colorado	CO L		0		0		0
7. Connecticut	CT L		0		0		0
8. Delaware	DE L		0		0		0
9. Dist. Columbia	DC L		0		0		0
10. Florida	FL L		0	227,432	0	1,718,524	0
11. Georgia	GA L		0	355,138	0	8,051,521	0
12. Hawaii	HI L		0		0		0
13. Idaho	ID L		0		0		0
14. Illinois	IL L		0		0		0
15. Indiana	IN L		0		0		0
16. Iowa	IA L		0		0		0
17. Kansas	KS L		0		0		0
18. Kentucky	KY L		0		0		0
19. Louisiana	LA L	3,797	2,149		0	8,139,942	5,481,845
20. Maine	ME L		0		0		0
21. Maryland	MD L		0		0		0
22. Massachusetts	MA L		0	5,082,589	0	531,498	0
23. Michigan	MI L		0		0		0
24. Minnesota	MN L	1,455	1,433		0	1,277,408	1,705,571
25. Mississippi	MS L		0	386,308	803,073	16,569,987	16,483,445
26. Missouri	MO L	8,875	9,280		0		0
27. Montana	MT L		0		0		0
28. Nebraska	NE L		0		0		0
29. Nevada	NV L		0		0		0
30. New Hampshire	NH L		0		0		0
31. New Jersey	NJ L		0		0		0
32. New Mexico	NM L		0		0		0
33. New York	NY L		0	1,339,881	3,232,941	3,370,558	14,068,721
34. No. Carolina	NC L		0		0		0
35. No. Dakota	ND L		0		0		0
36. Ohio	OH L		0		0		0
37. Oklahoma	OK L		0		0		0
38. Oregon	OR L		0		0		0
39. Pennsylvania	PA L		0		0		0
40. Rhode Island	RI L		0		0		0
41. So. Carolina	SC L		0	(98,878)	3,518,171	1,330,241	961,997
42. So. Dakota	SD L		0		0		0
43. Tennessee	TN L		0		0		0
44. Texas	TX L		0		0	4,372,805	4,270,660
45. Utah	UT L		0		0		0
46. Vermont	VT L		0		0		0
47. Virginia	VA L		89,325		0	561,002	0
48. Washington	WA L		0		0		0
49. West Virginia	WV L		0		0		0
50. Wisconsin	WI L		0		0		0
51. Wyoming	WY L		0		0		0
52. American Samoa	AS N		0		0		0
53. Guam	GU L		0		0		0
54. Puerto Rico	PR L		0		0		0
55. U.S. Virgin Islands	VI L		0		0		0
56. Northern Mariana Islands	MP N		0		0		0
57. Canada	CN N		0		0		0
58. Aggregate Other Alien	OT XXX	0	0	0	0	0	0
59. Totals	(a) 54	14,127	102,187	8,798,317	8,001,228	82,905,890	42,972,239
DETAILS OF WRITE-INS							
5801. Foreign	XXX		0		0		0
5802.	XXX						
5803.	XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX	0	0	0	0	0	0
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX	0	0	0	0	0	0

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

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

Schedule Y - Part 1

NONE

12

NONE

NONE

PART 1 - LOSS EXPERIENCE

Line of Business		Current Year to Date			4 Prior Year to Date Direct Loss Percentage
		1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1.	Fire .....			.0 0	.0 0
2.	Allied lines .....			.0 0	.0 0
3.	Farmowners multiple peril .....			.0 0	.0 0
4.	Homeowners multiple peril .....			.0 0	.0 0
5.	Commercial multiple peril .....			.0 0	.0 0
6.	Mortgage guaranty .....			.0 0	.0 0
8.	Ocean marine .....			.0 0	.0 0
9.	Inland marine .....			.0 0	.0 0
10.	Financial guaranty	12,995,782	27,312,039	210.2	72.6
11.1	Medical professional liability - occurrence .....			.0 0	.0 0
11.2	Medical professional liability – claims made .....			.0 0	.0 0
12.	Earthquake .....			.0 0	.0 0
13.	Group accident and health .....			.0 0	.0 0
14.	Credit accident and health .....			.0 0	.0 0
15.	Other accident and health .....			.0 0	.0 0
16.	Workers' compensation .....			.0 0	.0 0
17.1	Other liability occurrence .....			.0 0	.0 0
17.2	Other liability – claims made .....			.0 0	.0 0
17.3	Excess Workers' Compensation .....			.0 0	.0 0
18.1	Products liability - occurrence .....			.0 0	.0 0
18.2	Products liability – claims made .....			.0 0	.0 0
19.1,19.2	Private passenger auto liability .....			.0 0	.0 0
19.3,19.4	Commercial auto liability .....			.0 0	.0 0
21.	Auto physical damage .....			.0 0	.0 0
22.	Aircraft (all perils) .....			.0 0	.0 0
23.	Fidelity .....			.0 0	.0 0
24.	Surety .....			.0 0	.0 0
26.	Burglary and theft .....			.0 0	.0 0
27.	Boiler and machinery .....			.0 0	.0 0
28.	Credit .....			.0 0	.0 0
29.	International .....			.0 0	.0 0
30.	Warranty .....			.0 0	.0 0
31.	Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32.	Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34.	Aggregate write-ins for other lines of business	0	0	.0 0	.0 0
35.	TOTALS	12,995,782	27,312,039	210.2	72.6
DETAILS OF WRITE-INS					
3401.	.....			
3402.	.....			
3403.	.....			
3498.	Sum. of remaining write-ins for Line 34 from overflow page	0	0	.0 0	.0 0
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34)	0	0	.0 0	.0 0

PART 2 - DIRECT PREMIUMS WRITTEN

Line of Business		1 Current Quarter	2 Current Year to Date	3 Prior Year Year to Date
1.	Fire	0		0
2.	Allied lines	0		0
3.	Farmowners multiple peril	0		0
4.	Homeowners multiple peril	0		0
5.	Commercial multiple peril	0		0
6.	Mortgage guaranty	0		0
8.	Ocean marine	0		0
9.	Inland marine	0		0
10.	Financial guaranty	11,720	14,127	102,187
11.1	Medical professional liability - occurrence	0		0
11.2	Medical professional liability – claims made	0		0
12.	Earthquake	0		0
13.	Group accident and health	0		0
14.	Credit accident and health	0		0
15.	Other accident and health	0		0
16.	Workers' compensation	0		0
17.1	Other liability-occurrence	0		0
17.2	Other liability – claims made	0		0
17.3	Excess Workers' Compensation	0		0
18.1	Products liability - occurrence	0		0
18.2	Products liability – claims made	0		0
19.1,19.2	Private passenger auto liability	0		0
19.3,19.4	Commercial auto liability	0		0
21.	Auto physical damage	0		0
22.	Aircraft (all perils)	0		0
23.	Fidelity	0		0
24.	Surety	0		0
26.	Burglary and theft	0		0
27.	Boiler and machinery	0		0
28.	Credit	0		0
29.	International	0		0
30.	Warranty	0		0
31.	Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX
32.	Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34.	Aggregate write-ins for other lines of business	0	0	0
35.	TOTALS	11,720	14,127	102,187
DETAILS OF WRITE-INS				
3401.	.....		
3402.	.....		
3403.	.....		
3498.	Sum. of remaining write-ins for Line 34 from overflow page	0	0	0
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34)	0	0	0

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2012 Loss and LAE Payments on Claims Reported as of Prior Year-End	2012 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2012 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols.7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/ Deficiency (Cols. 11 + 12)
1. 2009 + Prior	32,336		32,336	652		652	31,606			31,606	(78)	0	(78)
2. 2010	7,160		7,160	1,740		1,740	5,321			5,321	(99)	0	(99)
3. Subtotals 2010 + prior	39,496	0	39,496	2,392	0	2,392	36,927	0	0	36,927	(177)	0	(177)
4. 2011	36,393		36,393	2,026		2,026	32,878			32,878	(1,490)	0	(1,490)
5. Subtotals 2011 + prior	75,889	0	75,889	4,418	0	4,418	69,805	0	0	69,805	(1,667)	0	(1,667)
6. 2012	XXX	XXX	XXX	XXX	6,759	6,759	XXX	22,496		22,496	XXX	XXX	XXX
7. Totals	75,889	0	75,889	4,418	6,759	11,176	69,805	22,496	0	92,301	(1,667)	0	(1,667)
8. Prior Year-End Surplus As Regards Policy-holders	117,315										Col. 11, Line 7 As % of Col. 1 Line 7	Col. 12, Line 7 As % of Col. 2 Line 7	Col. 13, Line 7 As % of Col. 3 Line 7
											1. (2.2)	2. 0.0	3. (2.2)
											Col. 13, Line 7 As a % of Col. 1 Line 8		
											4. (1.4)		

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

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


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

Explanation:

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


Bar Code:

1.




22896201249000002

2.




22896201245500002

3.



22896201236500002

4.



22896201250500002

OVERFLOW PAGE FOR WRITE-INS

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

	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
2504. Security Deposit.....	60,167	60,167	0	0
2505. Prepaid Expenses.....	146,704	146,704	0	0
2506. Other Assets.....	15,598	0	15,598	0
2507.	0		0	57,543
2597. Summary of remaining write-ins for Line 25 from Page 02	222,469	206,871	15,598	57,543

PQ004 Additional Aggregate Lines for Page 04 Line 14.
*STMTINCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
1404. Other Income.....	770	561	(175,461)
1497. Summary of remaining write-ins for Line 14 from Page 04	770	561	(175,461)

SCHEDULE A - VERIFICATION

Real Estate

	1	2
	Year to Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	0	0
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		0
2.2 Additional investment made after acquisition		0
3. Current year change in encumbrances		0
4. Total gain (loss) on disposals		0
5. Deduct amounts received on disposals		0
6. Total foreign exchange change in book/adjusted carrying value		0
7. Deduct current year's other than temporary impairment recognized		0
8. Deduct current year's depreciation		0
9. Book/adjusted carrying value at the end of current period (Lines 1+2+3+4-5+6-7-8)	0	0
10. Deduct total nonadmitted amounts	0	0
11. Statement value at end of current period (Line 9 minus Line 10)	0	0

SCHEDULE B – VERIFICATION

Mortgage Loans

	1	2
	Year to Date	Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year	0	0
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		0
2.2 Additional investment made after acquisition		0
3. Capitalized deferred interest and other		0
4. Accrual of discount		0
5. Unrealized valuation increase (decrease)		0
6. Total gain (loss) on disposals		0
7. Deduct amounts received on disposals		0
8. Deduct amortization of premium and mortgage interest points and commitment fees		0
9. Total foreign exchange change in book value/recorded investment excluding accrued interest		0
10. Deduct current year's other than temporary impairment recognized		0
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	0	0
12. Total valuation allowance		0
13. Subtotal (Line 11 plus Line 12)	0	0
14. Deduct total nonadmitted amounts	0	0
15. Statement value at end of current period (Line 13 minus Line 14)	0	0

SCHEDULE BA – VERIFICATION

Other Long-Term Invested Assets

	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	78,062	1,090,454
2. Cost of acquired:		
2.1 Actual cost at time of acquisition	0	100,000
2.2 Additional investment made after acquisition	0	0
3. Capitalized deferred interest and other	0	0
4. Accrual of discount	0	0
5. Unrealized valuation increase (decrease)	(3,521)	(21,938)
6. Total gain (loss) on disposals	0	57,911
7. Deduct amounts received on disposals	0	1,148,356
8. Deduct amortization of premium and depreciation	0	9
9. Total foreign exchange change in book/adjusted carrying value	0	0
10. Deduct current year's other than temporary impairment recognized	0	0
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	74,541	78,062
12. Deduct total nonadmitted amounts	74,541	78,062
13. Statement value at end of current period (Line 11 minus Line 12)	0	0

SCHEDULE D – VERIFICATION

Bonds and Stocks

	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	430,358,252	434,056,424
2. Cost of bonds and stocks acquired	42,729,744	121,763,027
3. Accrual of discount	796,500	1,419,809
4. Unrealized valuation increase (decrease)	58,692	(187,345)
5. Total gain (loss) on disposals	103,030	3,008,713
6. Deduct consideration for bonds and stocks disposed of	62,121,589	125,415,168
7. Deduct amortization of premium	1,552,854	2,869,185
8. Total foreign exchange change in book/adjusted carrying value	0	0
9. Deduct current year's other than temporary impairment recognized	0	1,418,023
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	410,371,775	430,358,252
11. Deduct total nonadmitted amounts	0	0
12. Statement value at end of current period (Line 10 minus Line 11)	410,371,775	430,358,252

STATEMENT AS OF JUNE 30, 2012 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 1B

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

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a).....	368,851,397	43,879,083	67,542,072	(4,190,950)	368,851,397	340,997,458	.0	376,627,537
2. Class 2 (a).....	63,556,867	22,760,580	7,880,171	3,451,923	63,556,867	81,889,199	.0	59,465,487
3. Class 3 (a).....	.0	.0	.0	.0	.0	.0	.0	.0
4. Class 4 (a).....	728,876	.0	.0	438,375	728,876	1,167,251	.0	687,438
5. Class 5 (a).....	.0	.0	.0	.0	.0	.0	.0	3,330
6. Class 6 (a).....	3,378,121	1,923,367	441,854	(19,494)	3,378,121	4,840,140	0	3,447,535
7. Total Bonds	436,515,261	68,563,030	75,864,097	(320,146)	436,515,261	428,894,048	0	440,231,327
PREFERRED STOCK								
8. Class 1 .....	.0	.0	.0	.0	.0	.0	.0	.0
9. Class 2 .....	.0	.0	.0	.0	.0	.0	.0	.0
10. Class 3 .....	.0	.0	.0	.0	.0	.0	.0	.0
11. Class 4 .....	.0	.0	.0	.0	.0	.0	.0	.0
12. Class 5 .....	.0	.0	.0	.0	.0	.0	.0	.0
13. Class 6	0	0	0	0	0	0	0	0
14. Total Preferred Stock	0	0	0	0	0	0	0	0
15. Total Bonds & Preferred Stock	436,515,261	68,563,030	75,864,097	(320,146)	436,515,261	428,894,048	0	440,231,327

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 \$.....0 ; NAIC 2 \$.....0 ; NAIC 3 \$.....0 ; NAIC 4 \$.....0 ; NAIC 5 \$.....0 ; NAIC 6 \$.....0

SCHEDULE DA - PART 1

Short-Term Investments					
	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
9199999	18,522,275	XXX	18,522,274	121	0

SCHEDULE DA - VERIFICATION

Short-Term Investments		
	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	9,873,072	17,059,296
2. Cost of short-term investments acquired	66,384,659	116,884,833
3. Accrual of discount.....	0	1,754
4. Unrealized valuation increase (decrease).....	0	0
5. Total gain (loss) on disposals.....	0	0
6. Deduct consideration received on disposals.....	57,735,456	124,072,811
7. Deduct amortization of premium.....	0	0
8. Total foreign exchange change in book/adjusted carrying value.....	0	0
9. Deduct current year's other than temporary impairment recognized.....	0	0
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	18,522,275	9,873,072
11. Deduct total nonadmitted amounts.....	0	0
12. Statement value at end of current period (Line 10 minus Line 11)	18,522,275	9,873,072

Schedule DB - Part A - Verification

NONE

Schedule DB - Part B- Verification

NONE

Schedule DB - Part C - Section 1

NONE

Schedule DB - Part C - Section 2

NONE

Schedule DB - Verification

NONE

Schedule E Verification

NONE

Schedule A - Part 2

NONE

Schedule A - Part 3

NONE

Schedule B - Part 2

NONE

Schedule B - Part 3

NONE

Schedule BA - Part 2

NONE

Schedule BA - Part 3

NONE

STATEMENT AS OF JUNE 30, 2012 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 3

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

1	2	3	4	5	6	7	8	9	10
CUSIP Identification	Description	Foreign	Date Acquired	Name of Vendor	Number of Shares of Stock	Actual Cost	Par Value	Paid for Accrued Interest and Dividends	NAIC Designation or Market Indicator ^(a)
20786L-DS-7.....	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Tax Free Exchange.....		239,736	869,334	0	6Z
20786L-DT-5.....	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Tax Free Exchange.....		87,728	1,459,840	0	6Z
20786L-DU-2.....	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Tax Free Exchange.....		22,248	1,944,561	0	6Z
20786L-DV-0.....	Connector 2000 Assn Inc S C To Series B.....		..06/12/2012..	Tax Free Exchange.....		83,909	430,142	0	6Z
20786L-DW-8.....	Connector 2000 Assn Inc S C To Series B.....		..06/12/2012..	Tax Free Exchange.....		8,233	1,318,935	0	6Z
20786L-DS-7.....	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Obligor.....		458,564	1,522,860	0	6Z
20786L-DT-5.....	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Obligor.....		456,195	2,557,285		6Z
20786L-DU-2.....	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Obligor.....		293,987	3,406,397		6Z
20786L-DV-0.....	Connector 2000 Assn Inc S C To Series B.....		..06/12/2012..	Obligor.....		156,251	753,504		6Z
20786L-DW-8.....	Connector 2000 Assn Inc S C To Series B.....		..06/12/2012..	Obligor.....		116,517	2,310,452		6Z
3199999 - Total -	Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of ...					1,923,368	16,573,310	0	XXX
10112R-AU-8.....	Boston Properties LP 3.850% 02/01/23.....		..05/31/2012..	Bank of America Securities Llc.....		1,995,580	2,000,000	0	2FE
12496B-AB-7.....	C-Bass Ltd CBCL 7A B CDO 1.666% 11/10/.....		..04/11/2012..	Citigroup Global Markets.....		1,076,405	1,091,411	3,428	1FE
21079U-AA-3.....	Contl Airlines 2009-2 SERIES A 7.250%.....		..05/23/2012..	Jefferies Co - Bond Division.....		1,023,481	901,746	3,450	2FE
25179M-AP-8.....	Devon Energy Corporation 3.250% 05/15/.....		..05/07/2012..	Goldman Sachs.....		795,264	800,000	0	2FE
25459H-BF-1.....	Directv Holdings/Fing 3.800% 03/15/22.....		..05/29/2012..	Suntrust Capital Markets Inc.....		1,992,440	2,000,000	17,522	2FE
29273R-AH-2.....	Energy Transfer Partners 6.700% 07/01/.....		..06/05/2012..	RBS.....		2,298,240	2,000,000	58,439	2FE
345397-VZ-3.....	Ford Motor Credit Co Llc Series 144A 3.....		..06/06/2012..	Tax Free Exchange.....		3,000,000	3,000,000	56,772	2FE
460146-CG-6.....	Intl Paper Co 4.750% 02/15/22.....		..05/29/2012..	Morgan Stanley & Co.....		2,116,940	2,000,000	27,972	2FE
50076Q-AF-3.....	Kraft Foods Inc Series 144A 3.500% 06/.....		..05/30/2012..	RBS.....		1,982,000	2,000,000	0	2FE
570535-AK-0.....	Markel Corporation 4.900% 07/01/22.....		..06/27/2012..	Wells Fargo Securities LLC.....		1,997,040	2,000,000	0	2FE
60871R-AC-4.....	Molson Coors Brewing Co 3.500% 05/01/2.....		..04/26/2012..	Morgan Stanley & Co.....		1,992,980	2,000,000	0	2FE
718546-AA-2.....	Phillips 66 Series 144A 4.300% 04/01/2.....		..05/29/2012..	Goldman Sachs.....		2,074,280	2,000,000	18,872	2FE
76112B-PB-0.....	Residential Asset Mortgage RAMP 2005-RS4.....		..06/20/2012..	Auriga USA LLC.....		2,331,250	2,500,000	0	1FM
913017-BV-0.....	United Technologies Corp 3.100% 06/01/.....		..05/24/2012..	Bank of America Securities Llc.....		1,798,614	1,800,000	0	1FE
92276M-AV-1.....	Ventas Realty Lp/Cap Crp 4.000% 04/30/.....		..04/12/2012..	Bank of America Securities Llc.....		1,492,335	1,500,000	0	2FE
3899999 - Total -	Bonds - Industrial, Misc.....					27,966,849	27,593,157	186,455	XXX
8399997 - Total -	Bonds - Part 3.....					29,890,217	44,166,467	186,455	XXX
8399999 - Total -	Bonds.....					29,890,217	44,166,467	186,455	XXX
8999999 - Total -	Preferred Stocks.....					0	XXX	0	XXX
9799999 - Total -	Common Stocks.....					0	XXX	0	XXX
9899999 - Total -	Preferred and Common Stocks.....					0	XXX	0	XXX
9999999 Totals						29,890,217	XXX	186,455	XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues0 .

STATEMENT AS OF JUNE 30, 2012 OF THE ACA Financial Guaranty Corporation

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identi- fication	Description	F o r e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Desig- nation or Market Indicator (a)
36200A-BE-8..	GNMA Pool 595037 6.000% 10/15/32.....		..06/01/2012..	Paydown.....		.....149.....	.....149.....	.....153.....	.....153.....	......0.....	.....(.4).....	......0.....	.....(.4).....	......0.....	.....149.....	......0.....	......0.....	......0.....	......3.....	..10/15/2032..	.....1.....
36200A-CW-7..	GNMA Pool 595085 6.000% 10/15/32.....		..06/01/2012..	Paydown.....		.....6,273.....	.....6,273.....	.....6,460.....	.....6,449.....	......0.....	.....(.175).....	......0.....	.....(.175).....	......0.....	.....6,273.....	......0.....	......0.....	......0.....	.....134.....	..10/15/2032..	.....1.....
36200E-TY-7..	GNMA Pool 599167 6.000% 12/15/33.....		..06/01/2012..	Paydown.....		.....1,620.....	.....1,620.....	.....1,668.....	.....1,657.....	......0.....	.....(38).....	......0.....	.....(38).....	......0.....	.....1,620.....	......0.....	......0.....	......0.....	......40.....	..12/15/2033..	.....1.....
36200M-AT-0..	GNMA Pool 604018 5.500% 02/15/33.....		..06/01/2012..	Paydown.....		.....43,159.....	.....43,159.....	.....44,410.....	.....44,298.....	......0.....	.....(1,139).....	......0.....	.....(1,139).....	......0.....	.....43,159.....	......0.....	......0.....	......0.....	......862.....	..02/15/2033..	.....1.....
36200M-EN-9..	GNMA Pool 604141 6.000% 03/15/33.....		..06/01/2012..	Paydown.....		.....3,728.....	.....3,728.....	.....3,838.....	.....3,829.....	......0.....	.....(102).....	......0.....	.....(102).....	......0.....	.....3,728.....	......0.....	......0.....	......0.....	......97.....	..03/15/2033..	.....1.....
36200Q-ZR-4..	GNMA Pool 569684 6.000% 02/15/32.....		..06/01/2012..	Paydown.....		.....5,066.....	.....5,066.....	.....5,216.....	.....5,204.....	......0.....	.....(138).....	......0.....	.....(138).....	......0.....	.....5,066.....	......0.....	......0.....	......0.....	.....111.....	..02/15/2032..	.....1.....
36200R-LX-8..	GNMA Pool 570142 6.000% 12/15/31.....		..06/01/2012..	Paydown.....		.....2,700.....	.....2,700.....	.....2,780.....	.....2,773.....	......0.....	.....(73).....	......0.....	.....(73).....	......0.....	.....2,700.....	......0.....	......0.....	......0.....	......68.....	..12/15/2031..	.....1.....
36200R-XT-4..	GNMA Pool 570490 6.000% 12/15/31.....		..06/01/2012..	Paydown.....		.....28.....	.....28.....	.....29.....	.....29.....	......0.....	.....(1).....	......0.....	.....(1).....	......0.....	.....28.....	......0.....	......0.....	......0.....	......1.....	..12/15/2031..	.....1.....
36200S-US-7..	GNMA Pool 571293 6.000% 11/15/31.....		..06/01/2012..	Paydown.....		.....1,184.....	.....1,184.....	.....1,219.....	.....1,216.....	......0.....	.....(33).....	......0.....	.....(33).....	......0.....	.....1,184.....	......0.....	......0.....	......0.....	......27.....	..11/15/2031..	.....1.....
36201A-PF-9..	GNMA Pool 577422 6.000% 01/15/32.....		..06/01/2012..	Paydown.....		.....103.....	.....103.....	.....106.....	.....106.....	......0.....	.....(3).....	......0.....	.....(3).....	......0.....	.....103.....	......0.....	......0.....	......0.....	......3.....	..01/15/2032..	.....1.....
36201D-AX-0..	GNMA Pool 579722 6.000% 08/15/32.....		..06/01/2012..	Paydown.....		.....622.....	.....622.....	.....640.....	.....639.....	......0.....	.....(17).....	......0.....	.....(17).....	......0.....	.....622.....	......0.....	......0.....	......0.....	......15.....	..08/15/2032..	.....1.....
36201E-AG-5..	GNMA Pool 580607 6.000% 02/15/33.....		..06/01/2012..	Paydown.....		.....851.....	.....851.....	.....876.....	.....875.....	......0.....	.....(23).....	......0.....	.....(23).....	......0.....	.....851.....	......0.....	......0.....	......0.....	......21.....	..02/15/2033..	.....1.....
36201F-AF-4..	GNMA Pool 581506 6.000% 04/15/33.....		..06/01/2012..	Paydown.....		.....418.....	.....418.....	.....430.....	.....429.....	......0.....	.....(12).....	......0.....	.....(12).....	......0.....	.....418.....	......0.....	......0.....	......0.....	......12.....	..04/15/2033..	.....1.....
36201K-JQ-0..	GNMA Pool 585371 6.000% 04/15/32.....		..06/01/2012..	Paydown.....		.....30,729.....	.....30,729.....	.....31,641.....	.....31,427.....	......0.....	.....(699).....	......0.....	.....(699).....	......0.....	.....30,729.....	......0.....	......0.....	......0.....	......615.....	..04/15/2032..	.....1.....
36201Y-FD-3..	GNMA Pool 606864 6.000% 10/15/33.....		..06/01/2012..	Paydown.....		.....1,460.....	.....1,460.....	.....1,503.....	.....1,496.....	......0.....	.....(37).....	......0.....	.....(37).....	......0.....	.....1,460.....	......0.....	......0.....	......0.....	......43.....	..10/15/2033..	.....1.....
36202F-JQ-0..	GNMA II Pool 4771 4.500% 08/20/40.....		..06/01/2012..	Paydown.....		.....587,600.....	.....587,600.....	.....619,092.....	.....618,412.....	......0.....	.....(30,812).....	......0.....	.....(30,812).....	......0.....	.....587,600.....	......0.....	......0.....	......0.....	.....10,956.....	..08/20/2040..	.....1.....
36202F-KN-5..	GNMA II Pool 4801 4.500% 09/20/40.....		..06/01/2012..	Paydown.....		.....639,190.....	.....639,190.....	.....674,145.....	.....673,485.....	......0.....	.....(34,295).....	......0.....	.....(34,295).....	......0.....	.....639,190.....	......0.....	......0.....	......0.....	.....11,783.....	..09/20/2040..	.....1.....
36202F-LP-9..	GNMA II Pool 4834 4.500% 10/20/40.....		..06/01/2012..	Paydown.....		.....429,296.....	.....429,296.....	.....464,260.....	.....464,227.....	......0.....	.....(34,931).....	......0.....	.....(34,931).....	......0.....	.....429,296.....	......0.....	......0.....	......0.....	.....7,893.....	..10/20/2040..	.....1.....
36207E-ND-2..	GNMA Pool 429788 6.000% 12/15/33.....		..06/01/2012..	Paydown.....		.....383.....	.....383.....	.....394.....	.....393.....	......0.....	.....(11).....	......0.....	.....(11).....	......0.....	.....383.....	......0.....	......0.....	......0.....	......10.....	..12/15/2033..	.....1.....
3620C4-ZP-4..	GNMA Pool 748782 4.500% 09/15/40.....		..06/01/2012..	Paydown.....		.....171,484.....	.....171,484.....	.....181,880.....	.....181,578.....	......0.....	.....(10,094).....	......0.....	.....(10,094).....	......0.....	.....171,484.....	......0.....	......0.....	......0.....	.....3,602.....	..09/15/2040..	.....1.....
36210J-HW-1..	GNMA Pool 493545 6.000% 03/15/31.....		..06/01/2012..	Paydown.....		.....327.....	.....327.....	.....337.....	.....335.....	......0.....	.....(8).....	......0.....	.....(8).....	......0.....	.....327.....	......0.....	......0.....	......0.....	......8.....	..03/15/2031..	.....1.....
36213F-U4-3..	GNMA Pool 553303 6.000% 06/15/33.....		..06/01/2012..	Paydown.....		.....11.....	.....11.....	.....12.....	.....12.....	......0.....	......0.....	......0.....	......0.....	......0.....	.....11.....	......0.....	......0.....	......0.....	......0.....	..06/15/2033..	.....1.....
36213R-2A-4..	GNMA Pool 562469 5.000% 02/15/34.....		..06/01/2012..	Paydown.....		.....13,687.....	.....13,687.....	.....13,757.....	.....13,753.....	......0.....	.....(66).....	......0.....	.....(66).....	......0.....	.....13,687.....	......0.....	......0.....	......0.....	......275.....	..02/15/2034..	.....1.....
36213R-ZF-7..	GNMA Pool 562442 5.500% 01/15/34.....		..06/01/2012..	Paydown.....		.....1,626.....	.....1,626.....	.....1,670.....	.....1,669.....	......0.....	.....(42).....	......0.....	.....(42).....	......0.....	.....1,626.....	......0.....	......0.....	......0.....	......37.....	..01/15/2034..	.....1.....
36213T-GW-7..	GNMA Pool 563713 6.000% 01/15/33.....		..06/01/2012..	Paydown.....		.....1,511.....	.....1,511.....	.....1,556.....	.....1,552.....	......0.....	.....(40).....	......0.....	.....(40).....	......0.....	.....1,511.....	......0.....	......0.....	......0.....	......38.....	..01/15/2033..	.....1.....
36213U-EZ-9..	GNMA Pool 564552 6.000% 12/15/31.....		..06/01/2012..	Paydown.....		.....68.....	.....68.....	.....71.....	.....70.....	......0.....	.....(2).....	......0.....	.....(2).....	......0.....	.....68.....	......0.....	......0.....	......0.....	......2.....	..12/15/2031..	.....1.....
36213V-GN-2..	GNMA Pool 565505 6.000% 09/15/32.....		..06/01/2012..	Paydown.....		.....150.....	.....150.....	.....154.....	.....154.....	......0.....	.....(4).....	......0.....	.....(4).....	......0.....	.....150.....	......0.....	......0.....	......0.....	......3.....	..09/15/2032..	.....1.....
36241K-YU-6..	GNMA Pool 782523 5.000% 11/15/35.....		..06/01/2012..	Paydown.....		.....465,921.....	.....465,921.....	.....501,084.....	.....500,456.....	......0.....	.....(34,535).....	......0.....	.....(34,535).....	......0.....	.....465,921.....	......0.....	......0.....	......0.....	.....9,811.....	..11/15/2035..	.....1.....
36290X-PM-6..	GNMA Pool 620628 6.000% 09/15/33.....		..06/01/2012..	Paydown.....		.....11,414.....	.....11,414.....	.....11,752.....	.....11,734.....	......0.....	.....(320).....	......0.....	.....(320).....	......0.....	.....11,414.....	......0.....	......0.....	......0.....	......230.....	..09/15/2033..	.....1.....
36290X-PT-1..	GNMA Pool 620634 6.000% 09/15/33.....		..06/01/2012..	Paydown.....		.....32,648.....	.....32,648.....	.....33,617.....	.....33,406.....	......0.....	.....(758).....	......0.....	.....(758).....	......0.....	.....32,648.....	......0.....	......0.....	......0.....	......655.....	..09/15/2033..	.....1.....
36290Y-TN-8..	GNMA Pool 621657 6.000% 12/15/33.....		..06/01/2012..	Paydown.....		.....10.....	.....10.....	.....11.....	.....11.....	......0.....	......0.....	......0.....	......0.....	......0.....	.....10.....	......0.....	......0.....	......0.....	......0.....	..12/15/2033..	.....1.....
36291C-PV-1..	GNMA Pool 624236 6.000% 12/15/33.....		..06/01/2012..	Paydown.....		.....97.....	.....97.....	.....100.....	.....99.....	......0.....	.....(2).....	......0.....	.....(2).....	......0.....	.....97.....	......0.....	......0.....	......0.....	......2.....	..12/15/2033..	.....1.....
36291E-AD-3..	GNMA Pool 625604 6.000% 12/15/33.....		..06/01/2012..	Paydown.....	115.....115.....118.....118.....0.....(3).....0.....(3).....0.....115.....0.....0.....0.....3.....	..12/15/2033..1.....

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SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identi- fication	Description	F o r e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Design- ation or Market Indicator (a)
36291E-AV-3..	GNMA Pool 625620 6.000% 12/15/33.....		..06/01/2012..	Paydown.....		.....481	.....481	.....495	.....493	.....0	.....(12)	.....0	.....(12)	.....0	.....481	.....0	.....0	.....0	.....10	..12/15/2033..	..1.....
36296X-H8-0..	GNMA Pool 704155 5.500% 01/15/39.....		..06/01/2012..	Paydown.....		.....553,064	.....553,064	.....570,175	.....569,560	.....0	.....(16,496)	.....0	.....(16,496)	.....0	.....553,064	.....0	.....0	.....0	.....12,730	..01/15/2039..	..1.....
0599999 - Bonds - U.S. Governments						3,007,173	3,007,173	3,175,649	3,172,097	0	(164,925)	0	(164,925)	0	3,007,173	0	0	0	60,100	XXX	XXX
20786L-DL-2..	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Tax Free Exchange.....		.....239,736	.....647,577	.....231,452	.....236,331	.....0	.....3,404	.....0	.....3,404	.....0	.....239,736	.....0	.....0	.....0	.....0	..01/01/2032..	..6Z.....
20786L-DM-0..	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Tax Free Exchange.....		.....87,728	.....501,608	.....85,089	.....86,646	.....0	.....1,082	.....0	.....1,082	.....0	.....87,728	.....0	.....0	.....0	.....0	..01/01/2042..	..6Z.....
20786L-DN-8..	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Tax Free Exchange.....		.....22,248	.....290,007	.....21,679	.....22,015	.....0	.....232	.....0	.....232	.....0	.....22,248	.....0	.....0	.....0	.....0	..07/22/2051..	..6Z.....
20786L-DP-3..	Connector 2000 Assn Inc S C To Series B.....		..06/12/2012..	Tax Free Exchange.....		.....83,909	.....221,389	.....81,049	.....82,734	.....0	.....1,175	.....0	.....1,175	.....0	.....83,909	.....0	.....0	.....0	.....0	..01/01/2032..	..6Z.....
20786L-DQ-1..	Connector 2000 Assn Inc S C To Series A.....		..06/12/2012..	Tax Free Exchange.....		.....8,233	.....112,521	.....8,022	.....8,147	.....0	.....86	.....0	.....86	.....0	.....8,233	.....0	.....0	.....0	.....0	..07/22/2051..	..6Z.....
31359S-2G-4..	FNMA Whole Loan NW 2001- W1 AF6 6.902%.....		..06/01/2012..	Paydown.....		.....1,794	.....1,794	.....1,863	.....1,875	.....0	.....(81)	.....0	.....(81)	.....0	.....1,794	.....0	.....0	.....0	.....52	..07/25/2031..	..1.....
31387C-M3-2..	FNMA Pool 580078 7.000% 09/01/31.....		..06/01/2012..	Paydown.....		.....1,073	.....1,073	.....1,103	.....1,097	.....0	.....(23)	.....0	.....(23)	.....0	.....1,073	.....0	.....0	.....0	.....31	..09/01/2031..	..1.....
31394D-EA-4..	FNMA 2005-22 KJ 5.000% 07/25/33.....		..06/01/2012..	Paydown.....		.....332,605	.....332,605	.....349,859	.....343,986	.....0	.....(11,381)	.....0	.....(11,381)	.....0	.....332,605	.....0	.....0	.....0	.....6,905	..07/25/2033..	..1.....
31402D-F7-0..	FNMA Pool 725690 6.000% 08/01/34.....		..06/01/2012..	Paydown.....		.....551,510	.....551,510	.....569,908	.....568,818	.....0	.....(17,309)	.....0	.....(17,309)	.....0	.....551,510	.....0	.....0	.....0	.....13,941	..08/01/2034..	..1.....
31402D-PT-1..	FNMA Pool 725934 5.000% 11/01/19.....		..06/01/2012..	Paydown.....		.....450,832	.....450,832	.....479,079	.....476,086	.....0	.....(25,254)	.....0	.....(25,254)	.....0	.....450,832	.....0	.....0	.....0	.....9,176	..11/01/2019..	..1.....
31405R-AR-7..	FNMA Pool 796616 5.500% 10/01/34.....		..06/01/2012..	Paydown.....		.....512,297	.....512,297	.....520,182	.....519,764	.....0	.....(7,467)	.....0	.....(7,467)	.....0	.....512,297	.....0	.....0	.....0	.....12,189	..10/01/2034..	..1.....
31407U-EK-9..	FNMA Pool 840838 5.500% 11/01/35.....		..06/01/2012..	Paydown.....		.....166,750	.....166,750	.....164,614	.....164,668	.....0	.....2,082	.....0	.....2,082	.....0	.....166,750	.....0	.....0	.....0	.....4,193	..11/01/2035..	..1.....
3199999 - Total - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of						2,458,715	3,789,963	2,513,899	2,512,167	0	(53,454)	0	(53,454)	0	2,458,715	0	0	0	46,487	XXX	XXX
00206R-AP-7..	AT&T Inc 6.700% 11/15/13.....		..06/29/2012..	Call 108.0839.....		.....1,080,839	.....1,000,000	.....1,090,510	.....1,037,373	.....0	.....(9,580)	.....0	.....(9,580)	.....0	.....1,027,793	.....0	.....53,045	.....53,045	.....41,689	..11/15/2013..	..1FE.....
00764W-FQ-5..	Aegis Asset Backed Securities 2005-3 A3.....		..06/25/2012..	Paydown.....		.....206,637	.....206,637	.....202,827	.....203,622	.....0	.....3,015	.....0	.....3,015	.....0	.....206,637	.....0	.....0	.....0	.....524	..08/25/2035..	..1FM.....
03072S-LD-5..	Ameriquest Mortgage Securities 2003-1A1.....		..06/01/2012..	Paydown.....		.....101,975	.....101,975	.....101,975	.....101,975	.....0	.....0	.....0	.....0	.....0	.....101,975	.....0	.....0	.....0	.....2,128	..11/25/2033..	..1FM.....
03072S-XN-0..	Ameriquest Mortgage Securities 2004-R12.....		..06/25/2012..	Paydown.....		.....132,837	.....132,837	.....128,270	.....129,358	.....0	.....3,479	.....0	.....3,479	.....0	.....132,837	.....0	.....0	.....0	.....374	..01/25/2035..	..1FM.....
09774X-AK-8..	Bombardier Capital Mortgage Se 1998-B M1.....		..06/01/2012..	Paydown.....		.....0	.....0	.....20,376	.....19,090	.....0	.....(19,090)	.....0	.....(19,090)	.....0	.....0	.....0	.....0	.....0	.....2,163	..10/15/2028..	..6FE.....
12496B-AB-7..	C-Bass Ltd CBCL 7A B CDO 1.666% 11/10/.....		..05/10/2012..	Paydown.....		.....1,005,628	.....1,005,628	.....971,452	.....439,066	.....0	.....8,674	.....0	.....8,674	.....0	.....1,005,628	.....0	.....0	.....0	.....6,156	..11/10/2038..	..1FE.....
126164-AS-1..	Commercial Mtg Pass- Through Comm 2005-FL.....		..05/15/2012..	Paydown.....		.....354,366	.....354,366	.....336,647	.....353,195	.....0	.....1,171	.....0	.....1,171	.....0	.....354,366	.....0	.....0	.....0	.....763	..11/15/2017..	..1FM.....
12623D-AA-1..	Commercial Mtg Pass Through Comm 2011-FL.....		..06/17/2012..	Paydown.....		.....6,989	.....6,989	.....6,813	.....6,835	.....0	.....23	.....0	.....23	.....0	.....6,858	.....0	.....131	.....131	.....65	..07/17/2028..	..1FM.....
126671-UU-8..	Countrywide Asset-Backed Certs 2003-BC1.....		..06/25/2012..	Paydown.....		.....66,798	.....66,798	.....52,035	.....52,471	.....0	.....14,328	.....0	.....14,328	.....0	.....66,798	.....0	.....0	.....0	.....288	..03/25/2033..	..1FM.....
17307G-CU-0..	Credit Based Asset Service CMLTI 2003-HE.....		..06/25/2012..	Paydown.....		.....72,594	.....72,594	.....66,129	.....66,614	.....0	.....5,980	.....0	.....5,980	.....0	.....72,594	.....0	.....0	.....0	.....193	..12/25/2033..	..1FM.....
17308B-AH-1..	Citibank Omni Master Trust COMNI 2009-A8.....		..05/15/2012..	Paydown.....		.....3,800,000	.....3,800,000	.....3,832,906	.....3,822,684	.....0	.....(22,684)	.....0	.....(22,684)	.....0	.....3,800,000	.....0	.....0	.....0	.....37,862	..05/16/2016..	..1FE.....
20047N-AD-4..	Commercial Mtg Pass- Through Comm 2004-LB.....		..06/01/2012..	Paydown.....		.....87,276	.....87,276	.....87,709	.....87,170	.....0	.....(15)	.....0	.....(15)	.....0	.....87,155	.....0	.....121	.....121	.....1,669	..10/15/2037..	..1FM.....
30277M-AB-0..	Fuel Trust Seires 144A 3.984% 06/15/16.....		..06/06/2012..	Tax Free Exchange.....		.....3,000,000	.....3,000,000	.....3,000,000	.....3,000,000	.....0	.....0	.....0	.....0	.....0	.....3,000,000	.....0	.....0	.....0	.....56,772	..06/15/2016..	..2FE.....
32027N-MH-1..	First Franklin Mtg Loan Asset FFML 2004.....		..06/25/2012..	Paydown.....		.....185,939	.....185,939	.....180,709	.....181,021	.....0	.....4,918	.....0	.....4,918	.....0	.....185,939	.....0	.....0	.....0	.....614	..09/25/2034..	..1FM.....
45254N-JG-3..	Impac CMB Trust INM 2004-S 1A1 0.965%.....		..06/25/2012..	Paydown.....		.....132,461	.....132,461	.....119,877	.....120,273	.....0	.....12,189	.....0	.....12,189	.....0	.....132,461	.....0	.....0	.....0	.....560	..10/25/2034..	..1FM.....
52108H-ZX-5..	LB-UBS Commercial Mtg Trust 2004-C2 A3.....		..06/11/2012..	Paydown.....		.....37,457	.....37,457	.....35,268	.....37,012	.....0	.....445	.....0	.....445	.....0	.....37,457	.....0	.....0	.....0	.....634	..03/15/2029..	..1FM.....
52521T-AC-1..	Lehman Brothers LBFRC 2006-LLFA A2 0.3.....		..06/15/2012..	Paydown.....		.....20,094	.....20,094	.....19,370	.....19,679	.....0	.....414	.....0	.....414	.....0	.....20,094	.....0	.....0	.....0	.....37	..09/15/2021..	..1FM.....

E05.2

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

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

Schedule DB - Part A - Section 1

NONE

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

NONE

Schedule DB - Part B - Section 1

NONE

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

NONE

Schedule DB - Part D

NONE

Schedule DL - Part 1

NONE

Schedule DL - Part 2

NONE

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year
NONE							
8699999 Total Cash Equivalents					0	0	0