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PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

QUARTERLY STATEMENT

AS OF JUNE 30, 2013

OF THE CONDITION AND AFFAIRS OF THE

ACA Financial Guaranty Corporation

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

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

Country of Domicile United States

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

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

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

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

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

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

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

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

OFFICERS

Name	Title	Name	Title
Steven Joseph Berkowitz	President and CEO	Carl Benedict McCarthy #	Secretary
Arnold Barry Jay Brousell	Treasurer and CFO		

OTHER OFFICERS

DIRECTORS OR TRUSTEES

Steven Joseph Berkowitz #	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

County of New York ss

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.

Steven Joseph Berkowitz	Carl Benedict McCarthy	Arnold Barry Jay Brousell
President and CEO	Secretary	Treasurer and CFO

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 7th day of August, 2013

Nicolas Kalcanides, September 7, 2014

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

ASSETS

	Current Statement Date			4
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
1. Bonds	387,142,063		387,142,063	397,472,162
2. Stocks:				
2.1 Preferred stocks				
2.2 Common stocks				
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate:				
4.1 Properties occupied by the company (less $ 0 encumbrances)				
4.2 Properties held for the production of income (less $ 0 encumbrances)				
4.3 Properties held for sale (less $ 0 encumbrances)				
5. Cash ($ 5,152,278), cash equivalents ($ 0) and short-term investments ($ 17,935,961)	23,088,239		23,088,239	24,241,349
6. Contract loans (including $ 0 premium notes)				
7. Derivatives				
8. Other invested assets	83,774	83,774		
9. Receivables for securities				3,000
10. Securities lending reinvested collateral assets				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	410,314,076	83,774	410,230,302	421,716,511
13. Title plants less $ 0 charged off (for Title insurers only)				
14. Investment income due and accrued	2,880,072		2,880,072	2,836,056
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection				
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ 0 earned but unbilled premiums)				
15.3 Accrued retrospective premiums				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers				
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon				
18.2 Net deferred tax asset	27,404,307	27,404,307		
19. Guaranty funds receivable or on deposit				
20. Electronic data processing equipment and software	97,903		97,903	33,467
21. Furniture and equipment, including health care delivery assets ($ 0)	153,008	153,008		
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates				
24. Health care ($ 0) and other amounts receivable				
25. Aggregate write-ins for other than invested assets	1,188,720	1,183,428	5,292	4,429
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	442,038,086	28,824,517	413,213,569	424,590,463
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	442,038,086	28,824,517	413,213,569	424,590,463
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)				
2501. Salvage Recoverable	1,000,000	1,000,000		
2502. Prepaid Expenses	130,161	130,161		
2503. Security Deposit	53,267	53,267		
2598. Summary of remaining write-ins for Line 25 from overflow page	5,292		5,292	4,429
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	1,188,720	1,183,428	5,292	4,429

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year $ 7,315,672)	85,540,558	78,234,876
2. Reinsurance payable on paid losses and loss adjustment expenses		
3. Loss adjustment expenses	6,862,000	8,345,000
4. Commissions payable, contingent commissions and other similar charges		
5. Other expenses (excluding taxes, licenses and fees)	5,024,572	3,839,829
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	99,184	99,737
7.1 Current federal and foreign income taxes (including $ 0 on realized capital gains (losses))		
7.2 Net deferred tax liability		
8. Borrowed money $ 0 and interest thereon $ 0		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of $ 153,228 and including warranty reserves of $ 0 and accrued accident and health experience rating refunds including $ 0 for medical loss ratio rebate per the Public Health Service Act)	137,512,674	146,732,137
10. Advance premium		
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)		
13. Funds held by company under reinsurance treaties		
14. Amounts withheld or retained by company for account of others		
15. Remittances and items not allocated		
16. Provision for reinsurance (including $ 0 certified)		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		
19. Payable to parent, subsidiaries and affiliates	83,774	82,578
20. Derivatives		
21. Payable for securities		
22. Payable for securities lending		
23. Liability for amounts held under uninsured plans		
24. Capital notes $ 0 and interest thereon $ 0		
25. Aggregate write-ins for liabilities	83,278,972	78,062,386
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	318,401,734	315,396,543
27. Protected cell liabilities		
28. Total liabilities (Lines 26 and 27)	318,401,734	315,396,543
29. Aggregate write-ins for special surplus funds		
30. Common capital stock	15,000,000	15,000,000
31. Preferred capital stock		
32. Aggregate write-ins for other than special surplus funds		
33. Surplus notes		
34. Gross paid in and contributed surplus	363,974,000	363,974,000
35. Unassigned funds (surplus)	(284,162,165)	(269,780,080)
36. Less treasury stock, at cost:		
36.1 0 shares common (value included in Line 30 $ 0)		
36.2 0 shares preferred (value included in Line 31 $ 0)		
37. Surplus as regards policyholders (Lines 29 to 35, less 36)	94,811,835	109,193,920
38. Totals (Page 2, Line 28, Col. 3)	413,213,569	424,590,463
DETAILS OF WRITE-INS		
2501. Contingency Reserve	82,435,607	76,918,825
2502. Collateral Deposit	842,000	1,123,272
2503. Other Payables	1,365	20,289
2598. Summary of remaining write-ins for Line 25 from overflow page		
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	83,278,972	78,062,386
2901.		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page		
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)		
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page		
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)		

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct (written $ 12,268)	8,643,682	12,995,782	27,676,480
1.2 Assumed (written $ 0)	601,031	93,278	224,684
1.3 Ceded (written $ 0)	12,982	73,111	145,758
1.4 Net (written $ 12,268)	9,231,731	13,015,949	27,755,406
DEDUCTIONS:			
2. Losses incurred (current accident year $ 11,585,672):			
2.1 Direct	16,598,101	27,312,039	30,257,267
2.2 Assumed			
2.3 Ceded			
2.4 Net	16,598,101	27,312,039	30,257,267
3. Loss adjustment expenses incurred	1,296,167	276,089	941,624
4. Other underwriting expenses incurred	11,083,192	11,550,301	25,311,540
5. Aggregate write-ins for underwriting deductions			
6. Total underwriting deductions (Lines 2 through 5)	28,977,460	39,138,429	56,510,431
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(19,745,729)	(26,122,480)	(28,755,025)
INVESTMENT INCOME			
9. Net investment income earned	7,706,831	8,691,395	16,594,130
10. Net realized capital gains (losses) less capital gains tax of $ 0	606,504	105,493	1,018,165
11. Net investment gain (loss) (Lines 9 + 10)	8,313,335	8,796,888	17,612,295
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered $ 0 amount charged off $ 0)			
13. Finance and service charges not included in premiums			
14. Aggregate write-ins for miscellaneous income	2,428,000	2,850,549	5,189,605
15. Total other income (Lines 12 through 14)	2,428,000	2,850,549	5,189,605
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(9,004,394)	(14,475,043)	(5,953,125)
17. Dividends to policyholders			
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(9,004,394)	(14,475,043)	(5,953,125)
19. Federal and foreign income taxes incurred			
20. Net income (Line 18 minus Line 19)(to Line 22)	(9,004,394)	(14,475,043)	(5,953,125)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year	109,193,918	117,314,763	117,314,763
22. Net income (from Line 20)	(9,004,394)	(14,475,043)	(5,953,125)
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of $ 0	3,207	43,167	189,856
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax	513,537	(910,817)	1,019,080
27. Change in nonadmitted assets	(377,651)	1,617,797	(376,946)
28. Change in provision for reinsurance			
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders			
36. Change in treasury stock			
37. Aggregate write-ins for gains and losses in surplus	(5,516,782)	2,636,634	(2,999,710)
38. Change in surplus as regards policyholders (Lines 22 through 37)	(14,382,083)	(11,088,262)	(8,120,845)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	94,811,835	106,226,501	109,193,918
DETAILS OF WRITE-INS			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page			
0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above)			
1401. Equity Earnings in Affiliates	2,300,000	2,785,000	4,935,000
1402. Surveillance Consent Fees	128,000	64,779	221,499
1403. Other income (expense)		770	33,106
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)	2,428,000	2,850,549	5,189,605
3701. Change in Contingency Reserve	(5,516,782)	2,636,634	(2,999,710)
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. TOTALS (Lines 3701 through 3703 plus 3798) (Line 37 above)	(5,516,782)	2,636,634	(2,999,710)

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	12,268	14,127	61,957
2. Net investment income	8,621,085	9,646,309	18,616,025
3. Miscellaneous income	2,428,000	2,850,549	5,189,607
4. Total (Lines 1 to 3)	11,061,353	12,510,985	23,867,589
5. Benefit and loss related payments	9,292,419	8,798,317	16,414,559
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	12,609,308	14,124,804	30,873,742
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of $ 0 tax on capital gains (losses)			
10. Total (Lines 5 through 9)	21,901,727	22,923,121	47,288,301
11. Net cash from operations (Line 4 minus Line 10)	(10,840,374)	(10,412,136)	(23,420,712)
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	55,604,969	62,121,586	120,281,295
12.2 Stocks			
12.3 Mortgage loans			
12.4 Real estate			
12.5 Other invested assets			
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments			
12.7 Miscellaneous proceeds	4,196	2,344,766	1,960,168
12.8 Total investment proceeds (Lines 12.1 to 12.7)	55,609,165	64,466,352	122,241,463
13. Cost of investments acquired (long-term only):			
13.1 Bonds	45,630,211	41,248,225	87,751,415
13.2 Stocks			
13.3 Mortgage loans			
13.4 Real estate			
13.5 Other invested assets			
13.6 Miscellaneous applications			3,534
13.7 Total investments acquired (Lines 13.1 to 13.6)	45,630,211	41,248,225	87,754,949
14. Net increase (or decrease) in contract loans and premium notes			
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	9,978,954	23,218,127	34,486,514
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes			
16.2 Capital and paid in surplus, less treasury stock			
16.3 Borrowed funds			
16.4 Net deposits on deposit-type contracts and other insurance liabilities			
16.5 Dividends to stockholders			
16.6 Other cash provided (applied)	(291,690)	380,975	319,819
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	(291,690)	380,975	319,819
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)	(1,153,110)	13,186,966	11,385,621
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	24,241,349	12,855,728	12,855,728
19.2 End of period (Line 18 plus Line 19.1)	23,088,239	26,042,694	24,241,349

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.C.(4) 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.C.(2)), 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 entry to a contra account. 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 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, 2013 and 2012, the Company recorded earned premiums of $6.2 million and $9.3 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 Clearwater Analytics, LLC (“Clearwater”) as its third party investment accounting service provider. Clearwater 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, 2013.

NAIC Designation 1	$	302,685,118
NAIC Designation 2		99,286,322
NAIC Designation 3		-
NAIC Designation 4		-
NAIC Designation 5		-
NAIC Designation 6		3,106,585
Total	$	405,078,025

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 or interest rate 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 a period of time sufficient to allow for an anticipated recovery in value.

Net investment income includes interest and dividends received and 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

NOTES TO FINANCIAL STATEMENTS

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 one preferred stock with a carrying value of zero at June 30, 2013.

(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 for and reported in accordance with 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 net 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.C.(1) 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 year ended December 31, 2012.

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

(14) The Company has no pharmaceutical rebate receivables.

NOTES TO FINANCIAL STATEMENTS

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

Not applicable.

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, 2013 and December 31, 2012.

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, 2013 and December 31, 2012 was $1.1 million and $2.6 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 does not investment in reverse mortgages.

D. Loan-Backed Securities

(1) 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.

(2) During the six month period ended June 30, 2013, the Company recognized an other than temporary impairment charge on the following loan-backed securities:

CUSIP	Security Name	Amortized Cost Prior to Impairment	Impairment	Fair Value	Amortized Cost After the Impairment
17307GCU0	CMLTI 2003-HE3 A	$ 1,452,475	$ 30,433	$ 1,422,043	$ 1,422,043
	Total	$ 1,452,475	$ 30,433	$ 1,422,043	$ 1,422,043

(3) N/A

(4) The company had no 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, 2013. 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, 2013 is $28.6 million and $1.0 million, respectively. All of the securities discussed above are rated investment grade by a nationally recognized statistical ratings organization and have excess credit coverage within each structure and projected cash flows from the underlying collateral that 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.

F. Real Estate

The Company has no real estate investments.

G. Investments in Low-Income Housing Tax Credits

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

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

As of June 30, 2013 and December 31, 2012, the Company held an investment in ACA Service L.L.C., (“ACA Service”). The carrying value of such investment as of June 30, 2013 and December 31, 2012 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, 2013 and December 31, 2012.

7. INVESTMENT INCOME

See Note 1.C. (3) above.

NOTES TO FINANCIAL STATEMENTS

8. DERIVATIVE INSTRUMENTS

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

9. INCOME TAXES

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs):

(1) DTA/DTL Components

	Description	2013 Ordinary	2013 Capital	2013 Total	2012 Ordinary	2012 Capital	2012 Total	Change Ordinary	Change Capital	Change Total
(a)	Gross deferred tax assets	$ 95,869,454	$ 3,419,861	$ 99,289,316	$ 94,238,115	$ 3,801,003	$ 98,039,118	$ 1,631,339	$ (381,142)	$ 1,250,198
(b)	Statutory valuation allowance adjustment	(68,388,320)	(3,419,861)	(71,808,182)	(67,316,528)	(3,801,003)	(71,117,531)	(1,071,792)	381,142	(690,651)
(c)	Adjusted gross deferred tax assets	27,481,134	-	27,481,134	26,921,587	-	26,921,587	559,547	-	559,547
(d)	Adjusted gross deferred tax assets nonadmitted	(27,404,307)	-	(27,404,307)	(26,890,770)	-	(26,890,770)	(513,537)	-	(513,537)
(e)	Subtotal admitted adjusted gross deferred tax asset	76,827	-	76,827	30,817	-	30,817	46,010	-	46,010
(f)	Gross deferred tax liabilities	(76,827)	-	(76,827)	(30,817)	-	(30,817)	(46,010)	-	(46,010)
(g)	Net admitted deferred tax asset/(liability)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(2) Admission calculation components:

	Description	2013 Ordinary	2013 Capital	2013 Total	2012 Ordinary	2012 Capital	2012 Total	Change Ordinary	Change Capital	Change 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.	-	-	-	-	-	-	-	-	-
(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 liabillities.	76,827	-	76,827	30,817	-	30,817	46,010	-	46,010
(d)	**Deferred Tax Assets Admitted as the result of application of SSAP No. 101.Total (a. + b. + c.)**	$ 76,827	$ -	$ 76,827	$ 30,817	$ -	$ 30,817	$ 46,010	$ -	$ 46,010

	(3) Used in ¶11.b.	2013	2012
(a)	Applicable ratio for realization limitation threshold table	101.38%	112.00%

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

	Description	2013 Ordinary	2013 Capital	2013 Total	2012 Ordinary	2012 Capital	2012 Total
(a)	Adjusted gross DTAs - Percentage	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(b)	Admitted adjusted gross DTAs - Percentage	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(c)	**Do TPS include a reinsurance strategy? Yes or No.**		No			No	

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. Significant components of income taxes incurred.

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

	Description	2013	2012
(a)	Current federal income tax expense / (benefit)	$ -	$ -
(b)	Foreign Income tax expense / (benefit)	-	-
(c)	Subtotal	-	-
(d)	Tax expense / (benefit) on realized capital gains / (losses)	381,142	356,358
(e)	Utilization of capital loss carryforwards	(381,142)	(356,358)
(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 In	June 30, 2013	December 31, 2012	Change
(a)	**Ordinary**			
(1)	Discounting of unpaid losses and LAE	$ -	$ -	$ -
(2)	Unearned premiums	4,940,337	5,101,677	(161,340)
(3)	Policyholder reserves	-	-	-
(4)	Investments	-	-	-
(5)	Deferred acquisition costs	-	-	-
(6)	Policyholder dividends accrued	-	-	-
(7)	Fixed assets	-	-	-
(8)	Compensation and benefit accruals	-	-	-
(9)	Pension accruals	-	-	-
(10)	Nonadmitted assets	-	-	-
(11)	Net operating loss carryforward	62,906,047	61,596,086	1,309,961
(12)	Tax credit carryforward	615,212	615,212	-
(13)	Contingency Reserve	27,404,307	26,921,588	482,719
(14)	Other (separately disclose items >5%)	3,552	3,552	(0)
(99)	Substotal - Gross ordinary DTAs	95,869,454	94,238,115	1,631,339
(b)	Statutory valuation adjustment adjustment - ordinary (-)	(68,388,320)	(67,316,528)	(1,071,792)
(c)	Nonadmitted ordinary DTAs (-)	(27,404,307)	(26,890,770)	(513,537)
(d)	Admitted ordinary DTAs	$ 76,827	$ 30,817	$ 46,010

NOTES TO FINANCIAL STATEMENTS

(e)	**Capital**			
(1)	Investments	$ 496,308	$ 496,308	$ 0
(2)	Net capital loss carryforward	2,923,553	3,304,695	(381,142)
(3)	Real estate	-	-	-
(4)	Other (separately disclose items >5%)	-	-	-
	Unrealized capital losses	0	-	0
(99)	Gross capital DTAs	3,419,861	3,801,003	(381,142)
(f)	Statutory valuation adjustment adjustment - capital (-)	(3,419,861)	(3,801,003)	381,142
(g)	Nonadmitted capital DTAs (-)	-	-	-
(h)	Admitted capital DTAs	$ -	$ -	$ (0)
(i)	**Admitted DTAs**	**$ 76,827**	**$ 30,817**	**$ 46,010**

(3)	**DTLs Resulting From Book/Tax Differences In**	**June 30, 2013**	**December 31, 2012**	**Change**
(a)	**Ordinary**			
(1)	Investments	$ -	$ -	$ -
(2)	Fixed assets	(76,827)	(30,817)	(46,010)
(3)	Deferred and uncollected premiums	-	-	-
(4)	Policyholder reserves/salvage and subrogation	-	-	-
(5)	Other (separately disclose items >5%)	-	-	-
(99)	Ordinary DTLs	$ (76,827)	$ (30,817)	$ (46,010)
(b)	**Capital**			
(1)	Investments	-	-	-
(2)	Real estate	-	-	-
(3)	Other (separately disclose items >5%)	-	-	-
	Unrealized capital gains	-	-	-
(99)	Capital DTLs	$ -	$ -	$ -
(c)	**DTLs**	**$ (76,827)**	**$ (30,817)**	**$ (46,010)**
(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, 2013	**December 31, 2012**	**Bal. Sheet Change**
Total deferred tax assets	$ 99,289,316	$ 98,039,118	$ 1,250,198
Total deferred tax liabilities	(76,827)	(30,817)	(46,010)
Net deferred tax assets/liabilities	99,212,489	98,008,301	1,204,188
Statutory valuation allowance adjustment (*see explanation below)	(71,808,182)	(71,117,531)	(690,651)
Net deferred tax assets/liabilities after SVA	$ 27,404,307	$ 26,890,770	513,537
Tax effect of unrealized gains/(losses)			-
Statutory valuation allowance adjustment allocated to unrealized (+)			-
Other intraperiod allocation of deferred tax movement			-
Change in net deferred income tax benefit			$ 513,537

*** Statutory valuation allowance**

Due to a recent history of losses, the Company believes the negative evidence outweighs the positive evidence and that it is more likely than not that the net DTA will expire before it will be utilized. As such, a full valuation allowance has been recorded.

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

The Company files its tax return on a standalone basis.

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

A. & B. There were no material transactions with parent, affiliates or other related parties in 2013 or 2012.

C. Not applicable.

D. The Company has $84 thousand payable to subsidiaries at June 30, 2013 and December 31, 2012.

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.C.(2) for a discussion of the restructuring transaction.

NOTES TO FINANCIAL STATEMENTS

H. The Company's majority common shareholder and ultimate parent, ACAH and ACACH, respectively, are not owned directly or indirectly via any of the Company's downstream subsidiaries or controlled or affiliated entities. See Note 21.C.(2) 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.C.(2) 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 entity in 2013 or 2012.

K. Not applicable.

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

11. DEBT

As of June 30, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, the fair values of plan assets were $6.3 million and $5.7 million, respectively. For the six month periods ended June 30, 2013 and 2012, the Company recognized expense in the amount of $245.4 thousand and $277.8 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.C.(2) below, the MIA Order restricts the Company from paying dividends without the prior approval of the Commissioner.

(4) No dividends were paid in 2013 or 2012.

(5) The Company had negative earned surplus at June 30, 2013 and December 31, 2012; therefore no dividends can be paid in 2013 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 $16,226.

(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
8/8/2008	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.C.(2) for a description of the notes. These notes were recorded in the surplus notes section of the balance sheet along with an offsetting entry to a contra account (see Note 1.A.). All payments made under the surplus notes require advance approval of the MIA.

The Surplus Notes provide that, on or before July 15, 2013 and on every anniversary thereafter, ACA, as obligor, shall seek regulatory approval from the MIA to make a payment on the Surplus Notes to the holders thereof. On July 8, 2013, ACA made the aforementioned request to the MIA. On July 30, 2013, the Company was advised by the MIA that it had denied the Company's request.

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

NOTES TO FINANCIAL STATEMENTS

14. CONTINGENCIES

A. Contingency Commitments

The Company has no contingent commitments.

B. Assessments

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

C. Gain Contingencies

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

On January 6, 2011, the Company commenced a lawsuit against Goldman, Sachs & Co. (“Goldman”) in the Supreme Court of the State of New York, County of New York (the “Lawsuit”). The lawsuit seeks compensatory damages against Goldman in the amount of at least $30 million and punitive damages in the amount of at least $90 million in connection with the development of a structured finance product, a synthetic collateralized debt obligation called ABACUS 2007-AC1 (“ABACUS”). 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 (“ACAM”), asserting claims for breach of contract, unjust enrichment and indemnification. Goldman does not specify the amount of damages it seeks. Oral arguments were heard on Goldman’s appeal of the Order on January 2, 2013. Also on January 2, 2013, the Company filed for leave to amend its First Amended Complaint to add Paulson & Co. (“Paulson”) as an additional defendant, incorporating new allegations of fraud against both parties. On January 30, 2013 the Court granted ACA’s motion for leave to file a second amended complaint. On January 31, 2013 the Company filed its Second Amended Complaint. The Second Amended Complaint adds Paulson as an additional defendant and alleges that Paulson and Goldman conspired to fraudulently induce the Company to provide financial guaranty insurance for ABACUS by deceiving ACA into believing that Paulson was to be the equity investor in the product. On March 18, 2013 Paulson moved to dismiss the Second Amended Complaint. On April 17, 2013 Goldman answered the Second Amended Complaint. On May 14, 2013, the Appellate Division of the Supreme Court of the State of New York ordered the dismissal of ACA’s legal action against Goldman. The decision reversed the lower court’s order of April 23, 2012 denying Goldman’s motion to dismiss. ACA has filed a motion for reargument with the Supreme Court and intends to appeal the Supreme Court’s decision should this motion not be granted. All lower court action has been stayed pending appeal.

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

No losses were paid or incurred on claims related extra-contractual obligations and bad faith contingency losses stemming from lawsuits during the period of this statement.

Set forth below are descriptions of lawsuits where the Company is currently defending itself which could possibly result in loss payments.

The Company is one of several defendants in a lawsuit in the Superior Court of the State of California (Los Angeles County) brought in December 2008 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 in December 2007, the plaintiffs were forced to refinance their securities. In response to various legal motions, as of March 29, 2011, the Court had dismissed with prejudice the plaintiffs’ contract, implied contract and negligence claims, but did not dismiss the fraud, negligent misrepresentation and unfair competition claims.. 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. Since June 2012, following a period of stay, 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 in 2009 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 the plaintiffs assert raise the claim to several hundred million dollars under certain New Mexico statutes, including the Fraud Against Taxpayers Act (“FATA”). As a result of various successful motions and defenses, the only surviving portions of the amended complaint are allegations of FATA violations occurring after July 1, 2007. In a companion case filed by Foy, the New Mexico Court of Appeals affirmed that FATA did not apply retroactively from its July 1, 2007 effective date. The New Mexico Supreme Court accepted Foy's petition for certiorari in the companion case and will review the Court of Appeals Opinion. The trial court otherwise denied a group motion to dismiss the balance of the claim for failure to state a claim. Independently, the New Mexico Attorney General 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 against all defendants 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. In January, Vanderbilt and the State of New Mexico reached a settlement contingent on district court approval. If approved, the settlement funded by Vanderbilt will result in the release and dismissal of claims against most defendants, including claims against the Company. Foy moved to stay the district court proceedings pending the New Mexico Supreme Court's review of the Court of Appeals opinion that FATA did not apply retroactively. The motions by Vanderbilt and the State of New Mexico for approval of the settlement are fully briefed. Specifically with respect to the Company, early in the proceedings, it moved to dismiss the complaint for lack of personal jurisdiction. The trial court deferred ruling on the Company's jurisdictional motion pending jurisdictional discovery. The Company responded to Foy’s discovery requests and, months ago, served its own discovery requests upon

NOTES TO FINANCIAL STATEMENTS

Foy, with no substantive response to date. If the Vanderbilt/New Mexico settlement is not approved, the Company intends renew the 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 moved to dismiss plaintiffs' amended complaint in its entirety, and on August 10, 2012, the District Court, citing the July 23, 2012 decision in New York (see below), dismissed without prejudice the Company's motion to dismiss as well as the plaintiffs' motion for class certification. The Company filed a new motion to dismiss, and the plaintiffs filed a new motion for class certification, in accordance with the deadline of December 3, 2012 set by the Court. Such motions were fully briefed as of the end of January, 2013. The magistrate judge also permitted the plaintiffs to proceed with discovery against the Company consistent with the terms of a June 25, 2012 order, but urged the parties to focus initial discovery on issues related to the propriety of class certification. Plaintiffs agreed to stay discovery effectively until the decision in the New York appeal (see below).

Subsequent to the commencement of the above-referenced putative class-action pending in the Northern District of Mississippi, the Company was 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 84% 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. On July 23, 2012, the Court denied the Company's motion for summary judgment and granted the plaintiffs' cross-motion for summary judgment. Notice of entry of the judgment was entered on September 14, 2012. The Company appealed the decision, and oral arguments were heard on March 19, 2013.

The Company is currently a defendant in an action commenced by Baker County Medical Services, Inc. (the "Hospital") in the Fourth Judicial Circuit in Duval County, Florida (the "Florida Action"). The Florida Action involves the Hospital's failure to purchase and maintain a certain type and level of professional liability insurance required pursuant to the bond documents executed in connection with the issuance of $11.65 million of bonds insured by the Company. In its second amended complaint, the Hospital asserts, among other things, breach of contract, tortious interference and negligence claims against the Company. The Company has answered the second amended complaint and asserted various cross and counter claims against the Hospital and the trustee. The parties are currently engaged in discovery and motion practice related to the scope of such discovery. By order entered on October 15, 2012, the court scheduled the matter for a six (6) day trial beginning September 9, 2013 with a pre-trial conference on August 29, 2013, and referred the parties to mandatory mediation to be held prior to the pre-trial conference. The parties were unable to reach a settlement at the mediation held on June 18, 2013.

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

Also, see Note 14.C discussion of the Goldman Lawsuit for a description of the potential loss related to the counter-claims filed by Goldman.

E. Product Warranties

Not Applicable.

F. All Other Contingencies

Not Applicable.

15. LEASES

A. Lessee Operating Lease

(1) ACA subleases office space at 600 Fifth Avenue running through September 30, 2016. The Company's rental expense for the six month periods ended June 30, 2013 and 2012 was $273.3 thousand.

(2) At July 1, 2013, the minimum future lease payments under the lease are as follows (dollars in thousands):

Year Ending December 31,	Operating Leases
2013	$ 297
2014	594
2015	624
2016	479
2017	-
Total	$ 1,994

B. Lessor Leases

Not applicable.

NOTES TO FINANCIAL STATEMENTS

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.C.(1)), 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.C.(4)). The tables below reflect certain information regarding the Company's in-force par exposure at June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012	
($ in millions)	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
Tax-exempt obligations:				
Healthcare	$ 380	9.4%	$ 407	9.3%
Tax backed	410	10.1%	526	12.1%
Higher education	892	22.1%	904	20.7%
Long-term care	241	6.0%	298	6.8%
General obligations	990	24.5%	1,003	23.0%
Utilities	87	2.2%	93	2.1%
Transportation	298	7.4%	308	7.1%
Housing	208	5.1%	244	5.6%
Not for Profit	366	9.1%	386	8.8%
Other	165	4.1%	187	4.3%
Total municipal obligation	**4,037**	**99.9%**	**4,356**	**99.9%**
Taxable obligations				
Other	6	0.1%	6	0.1%
Total	$ 4,043	100.0%	$ 4,362	100.0%

	June 30, 2013		December 31, 2012	
PAR EXPOSURE BY STATE	Net Par	% of Net Par	Net Par	% of Net Par
($ in millions)	Outstanding	Outstanding	Outstanding	Outstanding
California	$ 780	19.3%	$ 814	18.7%
New York	668	16.5%	678	15.6%
Texas	259	6.4%	300	6.9%
Washington	267	6.6%	277	6.4%
Massachusetts	264	6.5%	267	6.1%
Other states	1,799	44.6%	2,020	46.4%
Total municipal obligations	$ 4,037	100.0%	$ 4,356	100.0%

NET PAR OUTSTANDING BY MATURITY

	June 30, 2013
($ in millions)	Net Par
Terms of Maturity	**Outstanding**
0 to 5 years	$ 707
5 to 10 years	857
10 to 15 years	1,011
15 to 20 years	931
20 and above	537
Total	**$ 4,043**

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.

NOTES TO FINANCIAL STATEMENTS

20. FAIR VALUE MEASUREMENT

With the exception of certain investments in bonds and loan-backed securities that are reported at the lower of cost or fair value, or such securities on which an other than temporary impairment has been recognized as of the balance sheet date, the Company has no assets or liabilities reported in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds that are measured at fair value (see Note 1.C.(3)). The aforementioned securities which are reported at fair value in the accompanying financial statements represent securities that are reported at fair value on a non-recurring basis. The carrying value of such securities in the Company's financial statements as of June 30, 2013 and December 31, 2012 aggregated $2.7 million and $2.7 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. Extraordinary items

The Company had no extraordinary items during 2013 and 2012.

B. Troubled Debt Restructurings: Debtors

The Company had no troubled debt restructurings during 2013 and 2012. See also Note 5.B.

C. Other Disclosures

(1) 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, 2013 and December 31, 2012 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 $85 million to $105 million at June 30, 2013, on a discounted basis. Accordingly, the Company believes it will incur material losses in the future which will materially adversely affect its policyholders' surplus. Notwithstanding the de-recognition of the Company's contingency reserves approved by the Maryland Insurance Commissioner discussed in Note 1.C.(12) and any further de-recognition of contingency reserves that may be approved by the Maryland Insurance Commissioner in the future, no assurance can be given that the recognition of such losses in the future will not cause the Company to fail to comply with its regulatory required minimum policyholders' surplus requirement of $750,000. However, the Company believes that its policyholders' surplus will be in excess of the required minimum policyholders' surplus over the twelve months succeeding the date of the accompanying statement of Assets, Liabilities, Surplus and Other Funds and, that it has sufficient liquidity resources to satisfy its financial obligations as they come due for the foreseeable future.

- The Company is materially exposed to risks associated with deterioration in the tax exempt bond market through its insurance 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, 2013, the Company had insured obligations with outstanding principal totaling $429.0 million classified in category 4, which means that it either has paid claims on such exposures or expects to pay claims on such exposures in the future. In addition, as of such date, the Company had insured obligations with outstanding principal totaling $327.3 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

NOTES TO FINANCIAL STATEMENTS

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 has caused the Company to incur significant expenses. The Company expects to continue to incur significant expenses in this regard in the near term. In addition, such expenses may continue to be significant beyond the near term and may cause 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.

(2) Restructuring Transaction

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

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.

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.

(3) 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.

(4) 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

NOTES TO FINANCIAL STATEMENTS

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.C.(1) for a description of NAIC SAP for premium revenue recognition.

(5) Assets on Deposit with States and Other Collateral Deposits

Assets with a carrying value of $4.7 million at June 30, 2013 and December 31, 2012 were on deposit with state authorities or trustees as required by state licensing regulations. In addition, the Company currently has $53 thousand in security deposits outstanding in connection with certain obligations. These deposits are treated as non-admitted assets as of June 30, 2013 and December 31, 2012.

D. Uncollected Balances

The Company had no uncollectible balances.

E. Business Interruption Insurance Recoveries

Not applicable.

F. State Transferable Tax Credits

The Company had no state transferable credits.

G. 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.C.(2). The one remaining exposure has a par amount of $4.8 million at June 30, 2013 and the Company has an outstanding loss reserve against this exposure in the amount of $1.0 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, 2013:

	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	$ 19,597,185	$ 19,957,865	$ 20,979,843	$ 30,433
b. Commercial mortgage backed securities				
c. Collateralized debt obligations				
d. Structured securities				
e. Equity investment in SCAs				
f. Other assets				
g. Total	$ 19,597,185	$ 19,957,865	$ 20,979,843	$ 30,433

(4) As stated in G. (1) above, the Company has an outstanding loss reserve in the amount of $1.0 million:

	Losses Paid in the Current Year	Losses Incurred in the Current Year	Case Reserves at End of Current Period	IBNR Reserves at End of Current Period
a. Mortgage guaranty coverage	$ -	$ -	$ -	$ -
b. Financial guaranty coverage	-	92,309	984,993	-
c. Other lines	-	-	-	-
d. Total	$ -	$ 92,309	$ 984,993	$ -

22. EVENTS SUBSEQUENT

The Company has evaluated all subsequent events through August 7, 2013, the date the financial statements were issued. There were no 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.

NOTES TO FINANCIAL STATEMENTS

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	4,939,571	-	153,228	-	4,786,343	-
Total	$ 4,939,571	$ -	$ 153,228	$ -	$ 4,786,343	$ -

Direct Unearned Premium Reserve $132,726,332

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 2013.

F. Retroactive Reinsurance

The Company has no retroactive reinsurance contracts.

G. Reinsurance Accounted for as a Deposit

The Company did not account for any reinsurance as deposits.

24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

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

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

For the six month period ended June 30, 2013, the Company recorded a provision for losses of $16.6 million, which consisted of $5.0 million adverse loss development to reserves established in years prior to 2012 ("prior accident year claims") and $11.6 million of incurred losses relating to the current accident year. As of June 30, 2013, the Company's liability for unpaid losses was $85.4 million, which related to eighteen insured transactions, with a remaining aggregate in-force par outstanding of $98.1 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of $98.1 million represents the remaining maximum amount of par exposure to loss the Company has in regard to these eighteen insured transactions. See Note 36A.(3)b for additional information regarding the Company's reserves for losses and loss adjustment expenses.

For the six month period 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 par exposure to loss the Company has in regard to these thirteen insured transactions.

Refer to Note 1.C.(11) and Note 21.C.(1) 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, 2013 and December 31, 2012.

B. The Company has no risk sharing receivables as of June 30, 2013 and December 31, 2012.

29. PARTICIPATING POLICIES

The Company never issued participating policies.

30. PREMIUM DEFICIENCY RESERVE

The Company has no premium deficiency reserves.

NOTES TO FINANCIAL STATEMENTS

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, 2013 and December 31, 2012 was 3.65%. 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, 2013 was $5.0 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.

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, 2013 and 2012 was $6.2 million and $9.3 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, 2013:

1.

3rd Quarter 2013	2,203,764
4th Quarter 2013	1,933,606
Year 2014	7,406,579
Year 2015	7,141,401
Year 2016	7,211,301
Year 2017	7,324,644
Subtotal	$ 33,221,295

2.

2018 through 2022	$ 35,286,104
2023 through 2027	30,822,760
2028 through 2032	23,980,910
2033 through 2037	13,356,316
2038 through 2042	695,185
2043 through 2046	150,106
Total	$ 137,512,675

(3) Claim liability:

a. The Company used a rate of 3.65% to discount the claim liability.

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

Reserves for losses at December 31, 2012	$	78,234,876
Accretion of the discount		2,881,371
New reserves for defaults of insured contracts		7,315,672 [1]
Development on prior accident years reserves		(2,891,361) [2]
Change in deficiency reserves		-
Change in incurred but not reported claims		-
Total change in reserves		7,305,682
Reserves for losses at June 30, 2013	$	85,540,558

[1] Represents 2013 accident year loss development and claim payments of zero.

[2] Represents adverse loss development of $2,131,058 less claim payments of $5,022,419.

NOTES TO FINANCIAL STATEMENTS

(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.

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

	Credit Quality Categories				
	1	2	3	4	Total
Number of policies	228	70	18	32	348
Remaining weighted-average contract period (in years)	12	11	12	13	12
Insured contractual payments outstanding:					
Principal	$ 2,556,329,194	$ 730,257,647	$ 327,271,319	$ 428,987,359	$ 4,042,845,519
Interest	1,634,426,123	436,817,065	276,996,253	358,980,442	2,707,219,883
Total	$ 4,190,755,317	$ 1,167,074,712	$ 604,267,573	$ 787,967,801	$ 6,750,065,402
Gross claim and LAE liability	$ 90,000	$ 302,000	$ 252,000	$ 152,248,002	$ 152,892,002
Less:					
Gross potential recoveries	-	-	-	55,534,641	55,534,641
Discount, net	-	-	-	4,954,803	4,954,803
Net claim and LAE liability	$ 90,000	$ 302,000	$ 252,000	$ 91,758,558	$ 92,402,558
Unearned premium revenue	$ 68,034,782	$ 26,229,117	$ 17,277,638	$ 25,971,138	$ 137,512,675
Claim and LAE liability reported in the balance sheet	$ 90,000	$ 302,000	$ 252,000	$ 91,758,558	$ 92,402,558
Reinsurance recoverables	$ -	$ -	$ -	$ -	$ -

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES
GENERAL

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

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

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

2.2 If yes, date of change:

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

3.2 If the response to 3.1 is yes, provide a brief description of those changes.

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

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

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

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

If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2012

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 [X]

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

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

7.2 If yes, give full information:

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

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

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

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

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

GENERAL INTERROGATORIES

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

(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
(c) Compliance with applicable governmental laws, rules and regulations;
(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
(e) Accountability for adherence to the code.

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

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

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

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

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

FINANCIAL

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

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

INVESTMENT

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

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

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

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 [X] No [ ]

14.2 If yes, please complete the following:

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

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

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ]

If no, attach a description with this statement.

GENERAL INTERROGATORIES

16 For the reporting entity's security lending program, state the amount of the following as of the current statement date:

16.1 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $

16.2 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $

16.3 Total payable for securities lending reported on the liability page $

17. 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 [ ]

17.1 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 Ave, Suite 517, Washington , DC 20036

17.2 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)

17.3 Have there been any changes, including name changes, in the custodian(s) identified in 17.1 during the current quarter? Yes [ ] No [X]

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

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

17.5 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 Ave, New York, NY 10167

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

18.2 If no, list exceptions:

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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

   If yes, attach an explanation.

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

   If yes, attach an explanation.

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

3.2 If yes, give full and complete information thereto.

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

4.2 If yes, complete the following schedule:

			TOTAL DISCOUNT				DISCOUNT TAKEN DURING PERIOD			
1 Line of Business	2 Maximum Interest	3 Discount Rate	4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 TOTAL	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 TOTAL
Financial Guaranty		3.650	4,954,803			4,954,803	(3,015,009)			(3,015,009)
TOTAL			4,954,803			4,954,803	(3,015,009)			(3,015,009)

5. Operating Percentages:

   5.1 A&H loss percent %

   5.2 A&H cost containment percent %

   5.3 A&H expense percent excluding cost containment expenses %

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

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

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

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

SCHEDULE F - CEDED REINSURANCE

Showing All New Reinsurers - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Name of Reinsurer	4 Domiciliary Jurisdiction	5 Is Insurer Authorized? (Yes or No)

NONE

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2	3	4	5	6	7
States, etc.	Active Status	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date
1. Alabama AL	L						
2. Alaska AK	L						
3. Arizona AZ	L						
4. Arkansas AR	L			703,446	695,907	12,013,838	13,071,363
5. California CA	L			710,975	809,940	23,841,832	23,911,041
6. Colorado CO	L						
7. Connecticut CT	L						
8. Delaware DE	L						
9. Dist. Columbia DC	L						
10. Florida FL	L			346,601	227,432	684,418	1,718,524
11. Georgia GA	L			1,275,000	355,138	5,381,271	8,051,521
12. Hawaii HI	L						
13. Idaho ID	L						
14. Illinois IL	L						
15. Indiana IN	L						
16. Iowa IA	L						
17. Kansas KS	L						
18. Kentucky KY	L						
19. Louisiana LA	L	2,882	3,797			8,513,804	8,139,942
20. Maine ME	L						
21. Maryland MD	L						
22. Massachusetts MA	L			4,615	5,082,589	540,924	531,498
23. Michigan MI	L						
24. Minnesota MN	L	1,441	1,455	270,000		8,150,756	1,277,408
25. Mississippi MS	L			390,780	386,308	16,915,117	16,569,987
26. Missouri MO	L	7,945	8,875	80,606		1,123,952	
27. Montana MT	L						
28. Nebraska NE	L						
29. Nevada NV	L						
30. New Hampshire NH	L						
31. New Jersey NJ	L						
32. New Mexico NM	L						
33. New York NY	L			1,394,808	1,339,881	2,029,377	3,370,558
34. No. Carolina NC	L						
35. No. Dakota ND	L						
36. Ohio OH	L						
37. Oklahoma OK	L						
38. Oregon OR	L						
39. Pennsylvania PA	L						
40. Rhode Island RI	L						
41. So. Carolina SC	L				(98,878)	1,579,945	1,330,241
42. So. Dakota SD	L						
43. Tennessee TN	L						
44. Texas TX	L					4,492,712	4,372,805
45. Utah UT	L						
46. Vermont VT	L						
47. Virginia VA	L			115,587		272,612	561,002
48. Washington WA	L			4,000,000			
49. West Virginia WV	L						
50. Wisconsin WI	L						
51. Wyoming WY	L						
52. American Samoa AS	N						
53. Guam GU	L						
54. Puerto Rico PR	L						
55. U.S. Virgin Islands VI	L						
56. Northern Mariana Islands MP	N						
57. Canada CAN	N						
58. Aggregate Other Alien OT	XXX						
59. Totals	(a) 54	12,268	14,127	9,292,418	8,798,317	85,540,558	82,905,890
DETAILS OF WRITE-INS							
58001.	XXX						
58002.	XXX						
58003.	XXX						
58998. Summary of remaining write-ins for Line 58 from overflow page	XXX						
58999. TOTALS (Lines 58001 through 58003 plus 58998) (Line 58 above)	XXX						

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

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

Written premium is allocated to states and other jurisdictions by using the state or jurisdiction of the obligor. In the case of a secondary market deal it is allocated to the state or jurisdiction where the trustee is located.

Schedule Y - Part 1

NONE

Schedule Y - Part 1A

NONE

PART 1 - LOSS EXPERIENCE

	Line of Business	Current Year to Date 1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	4 Prior Year to Date Direct Loss Percentage
1.	Fire				
2.	Allied lines				
3.	Farmowners multiple peril				
4.	Homeowners multiple peril				
5.	Commercial multiple peril				
6.	Mortgage guaranty				
8.	Ocean marine				
9.	Inland marine				
10.	Financial guaranty	8,643,682	16,598,101	192.0	210.2
11.1	Medical professional liability -occurrence				
11.2	Medical professional liability -claims made				
12.	Earthquake				
13.	Group accident and health				
14.	Credit accident and health				
15.	Other accident and health				
16.	Workers' compensation				
17.1	Other liability occurrence				
17.2	Other liability-claims made				
17.3	Excess Workers' Compensation				
18.1	Products liability-occurrence				
18.2	Products liability-claims made				
19.1,19.2	Private passenger auto liability				
19.3,19.4	Commercial auto liability				
21.	Auto physical damage				
22.	Aircraft (all perils)				
23.	Fidelity				
24.	Surety				
26.	Burglary and theft				
27.	Boiler and machinery				
28.	Credit				
29.	International				
30.	Warranty				
31.	Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32.	Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34.	Aggregate write-ins for other lines of business				
35.	TOTALS	8,643,682	16,598,101	192.0	210.2
	DETAILS OF WRITE-INS				
3401.					
3402.					
3403.					
3498.	Sum. of remaining write-ins for Line 34 from overflow page				
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34)				

PART 2 - DIRECT PREMIUMS WRITTEN

	Line of Business	1 Current Quarter	2 Current Year to Date	3 Prior Year Year to Date
1.	Fire			
2.	Allied lines			
3.	Farmowners multiple peril			
4.	Homeowners multiple peril			
5.	Commercial multiple peril			
6.	Mortgage guaranty			
8.	Ocean marine			
9.	Inland marine			
10.	Financial guaranty	10,162	12,268	14,127
11.1	Medical professional liability-occurrence			
11.2	Medical professional liability-claims made			
12.	Earthquake			
13.	Group accident and health			
14.	Credit accident and health			
15.	Other accident and health			
16.	Workers' compensation			
17.1	Other liability occurrence			
17.2	Other liability-claims made			
17.3	Excess Workers' Compensation			
18.1	Products liability-occurrence			
18.2	Products liability-claims made			
19.1,19.2	Private passenger auto liability			
19.3,19.4	Commercial auto liability			
21.	Auto physical damage			
22.	Aircraft (all perils)			
23.	Fidelity			
24.	Surety			
26.	Burglary and theft			
27.	Boiler and machinery			
28.	Credit			
29.	International			
30.	Warranty			
31.	Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX
32.	Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34.	Aggregate write-ins for other lines of business			
35.	TOTALS	10,162	12,268	14,127
	DETAILS OF WRITE-INS			
3401.				
3402.				
3403.				
3498.	Sum. of remaining write-ins for Line 34 from overflow page			
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34)			

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2013 Loss and LAE Payments on Claims Reported as of Prior Year-End	2013 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2013 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. 2010 + Prior	36,634		36,634	3,389	6	3,395	35,463			35,463	2,218	6	2,224
2. 2011	30,612		30,612	1,396	711	2,107	31,248			31,248	2,032	711	2,742
3. Subtotals 2011 + prior	67,246		67,246	4,785	717	5,502	66,711			66,711	4,250	717	4,967
4. 2012	19,334		19,334	2,222	2	2,224	17,887			17,887	775	2	777
5. Subtotals 2012 + prior	86,580		86,580	7,007	719	7,726	84,598			84,598	5,025	719	5,744
6. 2013	XXX	XXX	XXX	XXX	4,346	4,346	XXX	7,805		7,805	XXX	XXX	XXX
7. Totals	86,580		86,580	7,007	5,064	12,072	84,598	7,805		92,403	5,025	719	5,744
8. Prior Year-End Surplus As Regards Policy-holders	109,194										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. 5.8	2.	3. 6.6
													Col. 13, Line 7 Line 8
													4. 5.3

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

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

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

Explanation:

1.

2.

3.

4.

Bar Code:

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

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

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

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

OVERFLOW PAGE FOR WRITE-INS

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

	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 December 31 Prior Year Net Admitted Assets
2504. Other Assets	5,292		5,292	4,429
2597. Summary of remaining write-ins for Line 25 from Page 02	5,292		5,292	4,429

SCHEDULE A – VERIFICATION

Real Estate

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

NONE

SCHEDULE B – VERIFICATION

Mortgage Loans

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

NONE

SCHEDULE BA – VERIFICATION

Other Long-Term Invested Assets

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	84,192	78,062
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)	(418)	6,130
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and depreciation		
9. Total foreign exchange change in book/adjusted carrying value		
10. Deduct current year's other than temporary impairment recognized		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	83,774	84,192
12. Deduct total nonadmitted amounts	83,774	84,192
13. Statement value at end of current period (Line 11 minus Line 12)		

SCHEDULE D – VERIFICATION

Bonds and Stocks

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	397,472,162	430,358,252
2. Cost of bonds and stocks acquired	45,630,207	87,751,415
3. Accrual of discount	674,077	1,637,417
4. Unrealized valuation increase (decrease)	3,625	183,729
5. Total gain (loss) on disposals	2,177,956	1,015,723
6. Deduct consideration for bonds and stocks disposed of	55,604,970	120,281,296
7. Deduct amortization of premium	1,639,546	3,193,078
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized	1,571,449	
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	387,142,061	397,472,162
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	387,142,061	397,472,162

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)	313,674,527	60,844,103	71,291,489	(542,023)	313,674,527	302,685,118		317,249,083
2. Class 2 (a)	97,641,179	4,558,378	2,781,945	(131,290)	97,641,179	99,286,322		90,224,857
3. Class 3 (a)								
4. Class 4 (a)								858,500
5. Class 5 (a)								
6. Class 6 (a)	4,452,069	50,625		(1,396,109)	4,452,069	3,106,585		4,509,182
7. Total Bonds	415,767,775	65,453,106	74,073,435	(2,069,422)	415,767,775	405,078,024		412,841,622
PREFERRED STOCK								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock								
15. Total Bonds & Preferred Stock	415,767,775	65,453,106	74,073,435	(2,069,422)	415,767,775	405,078,024		412,841,622

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

SCHEDULE DA - PART 1

Short-Term Investments

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999	17,935,961	XXX	17,935,961	3	

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	15,369,461	9,873,072
2. Cost of short-term investments acquired	58,783,287	120,468,762
3. Accrual of discount		
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals		
6. Deduct consideration received on disposals	56,216,787	114,972,373
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	17,935,961	15,369,461
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	17,935,961	15,369,461

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

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

1 CUSIP Identification	2 Name or Description	Location 3 City	 4 State	5 Name of Vendor or General Partner	6 NAIC Designation	7 Date Originally Acquired	8 Type and Strategy	9 Actual Cost at Time of Acquisition	10 Additional Investment Made After Acquisition	11 Amount of Encumbrances	12 Commitment for Additional Investment	13 Percentage of Ownership
Fixed or Variable Rate - Bonds - Unaffiliated												
000000-00-0	City of Vancouver Downtown Redevelopment Promissory Note 4.42%	Vancouver	WA	Cty of Vancouver Redevelopment Authority		06/27/2013		0		0		100.000
0799999 - Fixed or Variable Interest Rate Investments that have the Underlying Characteristics - Bonds - Unaffiliated								0	0	0	0	XXX
3999999 – Subtotals Unaffiliated								0	0	0	0	XXX
4099999 – Subtotals Affiliated								0	0	0	0	XXX
4199999 Totals								0	0	0	0	XXX

E03

SCHEDULE BA - PART 3

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

1 CUSIP Identification	2 Name or Description	Location 3 City	 4 State	5 Name of Purchaser or Nature of Disposal	6 Date Originally Acquired	7 Disposal Date	8 Book/ Adjusted Carrying Value Less Encumbrances Prior Year	Change in Book/Adjusted Carrying Value 9 Unrealized Valuation Increase (Decrease)	 10 Current Year's (Depreciation) or (Amortization)/ Accretion	 11 Current Year's Other Than Temporary Impairment Recognized	 12 Capitalized Deferred Interest and Other	 13 Total Change in B./A.C.V. (9+10-11+12)	 14 Total Foreign Exchange Change in B./A.C.V.	15 Book/Adjusted Carrying Value Less Encumbrances on Disposal	16 Consideration	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Investment Income
3999999 – Subtotals Unaffiliated																			
4099999 – Subtotals Affiliated																			
4199999 Totals																			

NONE

SCHEDULE D - PART 3

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

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
912828-VE-7	US TREASURY N/B		06/07/2013	Morgan Stanley		9,965,234	10,000,000	3,279	1
0599999 - Bonds - U.S. Governments						9,965,234	10,000,000	3,279	XXX
524805-F3-7	LEHIGH GEN KIDSPEACE		04/19/2013	Obligor			445,000		
546279-RK-8	LA GOVT BATON RGE-A		04/17/2013	KEYBANC CAPITAL MARKETS INC		50,625	75,000	558	6*
745181-M7-9	PR HWY/TRANS-UNREF-Z	R	04/23/2013	Southwest Securities		864,165	750,000	14,375	1FE
3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Government and Their Political Subdivisions						914,790	1,270,000	14,933	XXX
00083M-AG-6	CDO - ACABS 2007-3A A5L	R	05/07/2013	Obligor			858,256		6FE
00083M-AH-4	CDO - ACABS 2007-3A B1L	R	05/07/2013	Obligor			1,038,609		6
00083M-AJ-0	CDO - ACABS 2007-3A B2L	R	05/07/2013	Obligor			1,095,390		6FE
037833-AK-6	APPLE INC		04/30/2013	Goldman Sachs		1,997,340	2,000,000		1FE
06739G-BP-3	BARCLAYS BANK PLC	R	05/02/2013	BARCLAYS CAPITAL INC FIXED INC		2,172,680	2,000,000	6,568	2FE
49446R-AK-5	KIMCO REALTY CORP		05/14/2013	Morgan Stanley		1,886,073	1,900,000		2FE
628530-AZ-0	MYLAN INC		06/18/2013	Goldman Sachs		499,625	500,000		2FE
6AMCD2-9M-7	BANK OF HAWAII CD		06/30/2013	Direct		50,000	50,000		1FE
81744Y-AA-4	CMO/RMBS - SEMT 2013-4 A1		05/14/2013	Further Lane Securities, L.P.		3,905,734	3,982,903	4,116	1FE
857477-AL-7	STATE STREET CORP		05/08/2013	MLPFS INC FIXED INCOME		1,148,137	1,150,000		1FE
3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated)						11,659,589	14,575,158	10,683	XXX
36962G-3M-4	GENERAL ELEC CAP CORP		05/16/2013	DEUTSCHE BANK SECURITIES, INC.		2,142,500	2,000,000	2,125	1FE
4899999 - Bonds - Hybrid Securities						2,142,500	2,000,000	2,125	XXX
8399997 - Subtotals- Bonds - Part 3						24,682,114	27,845,158	31,020	XXX
8399999 - Subtotals - Bonds						24,682,114	27,845,158	31,020	XXX
9999999 Totals						24,682,114	XXX	31,020	XXX

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

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of 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	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Desig-nation or Market Indicator (a)
36200A-BE-8	RMBS - GN 595037		06/17/2013	Direct		630	630	648	646		(16)		(16)		630				18	10/15/2032	1
36200A-CW-7	RMBS - GN 595085		06/17/2013	Direct		4,794	4,794	4,936	4,915		(121)		(121)		4,794				103	10/15/2032	1
36200E-TY-7	RMBS - GN 599167		06/17/2013	Direct		854	854	879	878		(24)		(24)		854				21	12/15/2033	1
36200M-AT-0	RMBS - GN 604018		06/17/2013	Direct		67,384	67,384	69,337	69,146		(1,761)		(1,761)		67,384				1,430	02/15/2033	1
36200M-EN-9	RMBS - GN 604141		06/17/2013	Direct		7,039	7,039	7,248	7,234		(195)		(195)		7,039				171	03/15/2033	1
36200Q-2R-4	RMBS - GN 569684		06/17/2013	Direct		2,559	2,559	2,635	2,628		(69)		(69)		2,559				67	02/15/2032	1
36200R-LX-8	RMBS - GN 570142		06/17/2013	Direct		3,478	3,478	3,582	3,574		(95)		(95)		3,478				84	12/15/2031	1
36200R-XT-4	RMBS - GN 570490		06/17/2013	Direct		23	23	24	24		(1)		(1)		23				1	12/15/2031	1
36200S-US-7	RMBS - GN 571293		06/17/2013	Direct		1,166	1,166	1,200	1,197		(32)		(32)		1,166				29	11/15/2031	1
36201A-PF-9	RMBS - GN 577422		06/17/2013	Direct		90	90	92	92		(3)		(3)		90				2	01/15/2032	1
36201D-AX-0	RMBS - GN 579722		06/17/2013	Direct		4,204	4,204	4,329	4,315		(111)		(111)		4,204				124	08/15/2032	1
36201E-AG-5	RMBS - GN 580607		06/17/2013	Direct		426	426	439	438		(12)		(12)		426				9	02/15/2033	1
36201F-AF-4	RMBS - GN 581506		06/17/2013	Direct		371	371	382	381		(10)		(10)		371				10	04/15/2033	1
36201K-JQ-0	RMBS - GN 585371		06/17/2013	Direct		95	95	98	97		(3)		(3)		95				2	04/15/2032	1
36201Y-FD-3	RMBS - GN 606864		06/17/2013	Direct		786	786	809	808		(22)		(22)		786				23	10/15/2033	1
36202F-JQ-0	RMBS - G2 4771		06/20/2013	Direct		765,062	765,062	806,064	805,247		(40,186)		(40,186)		765,062				14,379	08/20/2040	1
36202F-KN-5	RMBS - G2 4801		06/20/2013	Direct		810,519	810,519	854,844	853,919		(43,400)		(43,400)		810,519				15,196	09/20/2040	1
36202F-LP-9	RMBS - G2 4834		06/24/2013	VARIOUS		7,597,270	7,227,625	7,816,281	7,812,051		(44,603)		(44,603)		7,767,448		(170,178)	(170,178)	182,261	10/20/2040	1
36207E-ND-2	RMBS - GN 429788		06/17/2013	Direct		5,177	5,177	5,330	5,321		(144)		(144)		5,177				129	12/15/2033	1
3620C4-2P-4	RMBS - GN 748782		06/17/2013	Direct		449,145	449,145	476,375	475,139		(25,993)		(25,993)		449,145				8,812	09/15/2040	1
36210J-HW-1	RMBS - GN 493545		06/17/2013	Direct		483	483	497	496		(13)		(13)		483				10	03/15/2031	1
36213F-U4-3	RMBS - GN 553303		06/17/2013	Direct		379	379	391	388		(9)		(9)		379				8	06/15/2033	1
36213R-2A-4	RMBS - GN 562469		06/17/2013	Direct		75,767	75,767	76,155	76,065		(297)		(297)		75,767				1,578	02/15/2034	1
36213R-ZF-7	RMBS - GN 562442		06/17/2013	Direct		1,726	1,726	1,773	1,762		(35)		(35)		1,726				40	01/15/2034	1
36213T-GW-7	RMBS - GN 563713		06/17/2013	Direct		2,498	2,498	2,572	2,565		(67)		(67)		2,498				66	01/15/2033	1
36213U-EZ-9	RMBS - GN 564552		06/17/2013	Direct		2,571	2,571	2,648	2,629		(58)		(58)		2,571				52	12/15/2031	1
36213V-GN-2	RMBS - GN 565505		06/17/2013	Direct		301	301	310	309		(8)		(8)		301				9	09/15/2032	1
36241K-YU-6	RMBS - GN 782523		06/17/2013	Direct		482,069	482,069	518,450	517,613		(35,544)		(35,544)		482,069				10,078	11/15/2035	1
36290X-PM-6	RMBS - GN 620628		06/17/2013	Direct		2,034	2,034	2,094	2,090		(57)		(57)		2,034				55	09/15/2033	1
36290X-PT-1	RMBS - GN 620634		06/17/2013	Direct		259	259	266	266		(7)		(7)		259				6	09/15/2033	1
36290Y-TN-8	RMBS - GN 621657		06/17/2013	Direct		11	11	11	11						11					12/15/2033	1
36291C-PV-1	RMBS - GN 624236		06/17/2013	Direct		117	117	121	120		(3)		(3)		117				3	12/15/2033	1
36291E-AD-3	RMBS - GN 625604		06/17/2013	Direct		1,881	1,881	1,936	1,931		(50)		(50)		1,881				56	12/15/2033	1
36291E-AV-3	RMBS - GN 625620		06/17/2013	Direct		19	19	20	20		(1)		(1)		19					12/15/2033	1
36296X-H8-0	RMBS - GN 704155		06/17/2013	Direct		643,563	643,563	663,473	662,865		(19,302)		(19,302)		643,563				14,302	01/15/2039	1
912803-CZ-4	STRIP PRINC		06/07/2013	VARIOUS		7,291,258	15,507,000	5,442,591	5,469,435		90,017		90,017		5,559,452		1,731,806	1,731,806		02/15/2037	1
0599999 - Bonds - U.S. Governments						18,226,006	26,072,103	16,768,840	16,786,613		(122,234)		(122,234)		16,664,378		1,561,628	1,561,628	249,133	XXX	XXX
31359S-2G-4	RMBS - FNW 2001-W1 AF6		06/25/2013	VARIOUS		7,472	7,472	7,758	8,080		(608)		(608)		7,472				187	07/25/2031	1
31387C-M3-2	RMBS - FN 580078		06/25/2013	VARIOUS		646	646	664	663		(17)		(17)		646				16	09/01/2031	1
3138MJ-6X-2	RMBS - FN AQ3585		06/25/2013	VARIOUS		3,963,550	3,952,734	4,155,930	4,155,416		(13,970)		(13,970)		4,141,447		(177,896)	(177,896)	62,950	11/01/2042	1
31394D-EA-4	CMO/RMBS - FNR 2005-22 KJ		06/25/2013	Direct		281,317	281,317	295,910	286,374		(5,057)		(5,057)		281,317				5,835	07/25/2033	1
31394Y-KX-1	CMO/RMBS - FHR 2791 UG		06/17/2013	Direct		237,718	237,718	235,638	236,832		886		886		237,718				5,261	05/15/2019	1
31402D-F7-0	RMBS - FN 725690		06/25/2013	Direct		532,993	532,993	550,774	549,698		(16,704)		(16,704)		532,993				13,323	08/01/2034	1
31402D-PT-1	RMBS - FN 725934		06/25/2013	Direct		341,244	341,244	362,625	359,035		(17,791)		(17,791)		341,244				7,003	11/01/2019	1
31405R-AR-7	RMBS - FN 796616		06/25/2013	Direct		638,266	638,266	648,089	647,496		(9,231)		(9,231)		638,266				15,171	10/01/2034	1
31407U-EK-9	RMBS - FN 840838		06/25/2013	Direct		137,157	137,157	135,399	135,458		1,698		1,698		137,157				3,125	11/01/2035	1
31417E-E8-0	RMBS - FN AB7358		06/25/2013	VARIOUS		3,967,048	3,956,055	4,160,657	4,160,141		(11,332)		(11,332)		4,148,809		(181,762)	(181,762)	63,153	12/01/2042	1
3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions						10,107,410	10,085,601	10,553,443	10,539,193		(72,125)		(72,125)		10,467,067		(359,658)	(359,658)	176,023	XXX	XXX
00184A-AC-9	TIME WARNER INC		06/20/2013	Morgan Stanley		1,182,393	930,000	1,127,179	1,095,279		(2,338)		(2,338)		1,092,942		89,451	89,451	49,245	04/15/2031	2FE
00764M-FQ-5	RMBS - AABST 2005-3 A3		06/25/2013	Direct		138,778	138,778	136,219	137,931		847		847		138,778				335	08/25/2035	1FM
03072S-LD-5	RMBS - AMSI 2003-IA1 A4		06/25/2013	Direct		170,144	170,144	170,144	170,144						170,144				3,384	11/25/2033	1FM
03072S-XN-0	RMBS - AMSI 2004-R12 A4		06/25/2013	Direct		348,313	348,313	336,340	343,070		5,243		5,243		348,313				994	01/25/2035	1FM
073879-MC-9	RMBS - BSABS 2004-SD4 A1		06/25/2013	VARIOUS																08/25/2044	1FM
079860-AK-8	BELLSOUTH CORP		06/24/2013	MERRILL LYNCH PROF CLRING CORP		943,256	935,000	950,745	948,745		(79)		(79)		948,666		(5,410)	(5,410)	34,595	11/15/2034	1FE
09774X-AK-8	ABS - BCM 1998-B M1		06/17/2013	Adjustment				25,947	23,717		(23,191)		(23,191)						621	10/15/2028	6FE
12623D-AA-1	CMBS - COMM 2011-FL1 A		06/19/2013	Direct		189,907	189,907	185,125	187,711		2,196		2,196		189,907				1,912	07/17/2028	1FM
126671-R4-0	RMBS - CWL 2003-5 MF1		06/25/2013	Direct		31,107	31,107	20,427	20,427		10,680		10,680		31,107				826	01/25/2034	1FM
17307G-CU-0	RMBS - CMLTI 2003-HE3 A		06/25/2013	VARIOUS		130,849	130,850	119,196	120,889		9,960		9,960		130,850				308	12/25/2033	1FM
20030N-AC-5	COMCAST CORP		06/24/2013	BARCLAYS CAPITAL INC FIXED INC		1,475,221	1,205,000	1,406,991	1,377,935		(2,111)		(2,111)		1,375,824		99,397	99,397	66,546	03/15/2033	1FE
20047N-AD-4	CMBS - COMM 2004-LB4A A4		06/17/2013	Direct		75,281	75,281	75,654	75,149		131		131		75,281				1,437	10/15/2037	1FM
20825R-AB-7	CONOCOPHIL AU		04/15/2013	Maturity		1,500,000	1,500,000	1,488,660	1,499,159		841		841		1,500,000				41,250	04/15/2013	1FE
21079U-AA-3	CONTL AIRLINES 2009-2		05/10/2013	Direct		25,222	25,222	28,627	28,416		(3,194)		(3,194)		25,222				914	11/10/2019	2FE

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
										Change in Book/Adjusted Carrying Value											
CUSIP Identi-fication	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator (a)
25746U-AN-9	DOMINION RESOURCES INC		06/20/2013	U.S. Bank		714,126	600,000	664,908	655,271		(674)		(674)		654,597		59,529	59,529	29,400	03/15/2033	2FE
32027N-MH-1	RMBS - FFML 2004-FF10 A3		06/25/2013	Direct		140,390	140,390	136,442	139,111		1,279		1,279		140,390				571	09/25/2034	1FM
36962G-6S-8	GENERAL ELEC CAP CORP		05/16/2013	CITIGROUP GLOBAL MARKETS INC.		2,002,440	2,000,000	1,976,100			551		551		1,976,651		25,789	25,789	22,906	01/09/2023	1FE
45254N-JG-3	CMO/RMBS - IMM 2004-5 1A1		06/25/2013	Direct		137,798	137,798	124,707	125,723		12,075		12,075		137,798				552	10/25/2034	1FM
52108H-ZX-5	CMBS - LBUBS 2004-C2 A3		06/17/2013	Direct		52,417	52,417	49,354	52,105		312		312		52,417				793	03/15/2029	1FM
52521T-AC-1	CMBS - LBFRC 2006-LLFA A2		06/17/2013	Direct		750	750	723	742		8		8		750				1	09/15/2021	1FM
57643L-BY-1	RMBS - MABS 2003-WMC2 M1		06/25/2013	Direct		295,763	295,763	281,345	282,756		13,008		13,008		295,763				1,434	08/25/2033	1FM
59022H-NC-2	CMBS - MLMT 2005-LC1 A4		06/12/2013	Direct		36,835	36,835	37,036	36,835						36,835				875	01/12/2044	1FM
652482-BJ-8	NEWS AMERICA INC		06/20/2013	Wells Fargo		758,688	700,000	752,697	746,053		(498)		(498)		745,555		13,133	13,133	22,906	12/15/2034	2FE
68383N-AA-1	CMO/RMBS - OPMAC 2005-1 A1A		06/25/2013	Direct		181,763	181,763	173,087	177,020		4,743		4,743		181,763				411	02/25/2035	1FM
6AMCD2-9M-7	BANK OF HAWAII		06/30/2013	Maturity		50,000	50,000	50,000	50,000						50,000					06/30/2013	1FE
759950-BG-2	RMBS - RAMC 2003-3 M1		05/28/2013	Direct																12/25/2033	1FM
76110W-2X-3	RMBS - RASC 2005-KS7 M1		06/25/2013	Direct		289,803	289,803	275,524	282,580		7,223		7,223		289,803				796	08/25/2035	1FM
76110W-W6-9	RMBS - RASC 2005-KS5 M2		06/25/2013	Direct		236,607	236,607	224,185	231,764		4,844		4,844		236,607				653	06/25/2035	1FM
81375W-DS-2	RMBS - SABR 2005-FR1 M1		06/25/2013	Direct		140,329	140,329	131,735	132,425		7,904		7,904		140,329				498	12/25/2034	1FM
81744Y-AA-4	CMO/RMBS - SEMT 2013-4 A1		06/25/2013	Direct		8,178	8,178	8,019			158		158		8,178				16	04/25/2043	1FE
83611M-GS-1	RMBS - SVHE 2005-OPT3 A4		06/25/2013	Direct		113,773	113,773	108,242	110,378		3,395		3,395		113,773				230	11/25/2035	1FM
907818-BY-3	UNION PACIFIC CORP		06/20/2013	MERRILL LYNCH PROF CLRING CORP		297,604	235,000	272,645	264,207		(577)		(577)		263,630		33,974	33,974	15,069	02/01/2028	2FE
92344G-AX-4	VERIZON COMMUNICATIONS		06/24/2013	MLPFS INC FIXED INCOME		1,280,088	1,200,000	1,191,432	1,192,272		204		204		1,192,476		87,612	87,612	54,990	09/15/2035	1FE
980888-AF-8	WOOLWORTHS LIMITED	R	06/01/2013	Adjustment		2,263,380	2,000,000	1,994,760	1,995,374		339		339		1,995,713		267,667	267,667	62,436	04/12/2021	1FE
3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated)						15,211,203	14,099,007	14,524,194	12,503,188		53,278		53,278		14,540,060		671,143	671,143	416,903	XXX	XXX
8399997 - Subtotals - Bonds - Part 4						43,544,619	50,256,711	41,846,478	39,828,993		(141,082)		(141,082)		41,671,506		1,873,113	1,873,113	842,059	XXX	XXX
8399999 - Subtotals - Bonds						43,544,619	50,256,711	41,846,478	39,828,993		(141,082)		(141,082)		41,671,506		1,873,113	1,873,113	842,059	XXX	XXX
9999999 Totals						43,544,619	XXX	41,846,478	39,828,993		(141,082)		(141,082)		41,671,506		1,873,113	1,873,113	842,059	XXX	XXX

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

Schedule DB - Part A - Section 1

NONE

Schedule DB - Part B - Section 1

NONE

Schedule DB - Part D - Section 1

NONE

Schedule DB - Part D - Section 2

NONE

Schedule DL - Part 1

NONE

Schedule DL - Part 2

NONE

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1	2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
					6	7	8	
Depository	Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	First Month	Second Month	Third Month	*
J.P. Morgan Chase Bank ... New York, NY					1,416,063	5,087,494	5,151,234	XXX
U.S. Bank, N.A. ... Washington, DC							516	XXX
0199998 Deposits in ... 0 depositories that do not exceed the allowable limit in any one depository (See Instructions) - Open Depositories	XXX	XXX						XXX
0199999 Total Open Depositories	XXX	XXX			1,416,063	5,087,494	5,151,750	XXX
0399999 Total Cash on Deposit	XXX	XXX			1,416,063	5,087,494	5,151,750	XXX
0499999 Cash in Company's Office	XXX	XXX	XXX	XXX	606	606	528	XXX
0599999 Total	XXX	XXX			1,416,669	5,088,100	5,152,278	XXX

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

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