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PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

# QUARTERLY STATEMENT

## AS OF JUNE 30, 2014

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, USA 21202 (City or Town, State, Country and Zip Code)

Main Administrative Office 600 Fifth Avenue, 2nd Floor (Street and Number) New York, NY, USA 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, USA 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, USA 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 and General Counsel |
| Arnold Barry Jay Brousell | Treasurer and CFO | | |

## OTHER OFFICERS

## DIRECTORS OR TRUSTEES

| | | | |
|---|---|---|---|
| Steven Joseph Berkowitz | Richard Joseph Caplan | Roger Dale Cunningham | Bradley Irving Dietz |
| Eric Michael Friel # | John Patrick Khym # | Andrew Nathan Rothseid | Anne Gram Shean # |
| 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<br>President and CEO | Carl Benedict McCarthy<br>Secretary and General Counsel | Arnold Barry Jay Brousell<br>Treasurer and CFO |

Subscribed and sworn to before me this 13th day of August, 2014

Nicolas Kalcanides,

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

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

# ASSETS

| | Current Statement Date 1 Assets | 2 Nonadmitted Assets | 3 Net Admitted Assets (Cols. 1 - 2) | 4 December 31 Prior Year Net Admitted Assets |
|---|---|---|---|---|
| 1. Bonds | 363,040,907 | | 363,040,907 | 380,299,628 |
| 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 ($ 4,256,581 ), cash equivalents ($ 0 ) and short-term investments ($ 7,383,214 ) | 11,639,795 | | 11,639,795 | 8,150,404 |
| 6. Contract loans (including $ 0 premium notes) | | | | |
| 7. Derivatives | | | | |
| 8. Other invested assets | 83,260 | 83,260 | | |
| 9. Receivables for securities | | | | |
| 10. Securities lending reinvested collateral assets | | | | |
| 11. Aggregate write-ins for invested assets | | | | |
| 12. Subtotals, cash and invested assets (Lines 1 to 11) | 374,763,962 | 83,260 | 374,680,702 | 388,450,032 |
| 13. Title plants less $ 0 charged off (for Title insurers only) | | | | |
| 14. Investment income due and accrued | 2,439,400 | | 2,439,400 | 2,897,660 |
| 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 | 32,030,771 | 32,030,771 | | |
| 19. Guaranty funds receivable or on deposit | | | | |
| 20. Electronic data processing equipment and software | 50,772 | | 50,772 | 74,338 |
| 21. Furniture and equipment, including health care delivery assets ($ 0 ) | 84,176 | 84,176 | | |
| 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 | 1,301,603 | 1,299,868 | 1,735 | 4,667 |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) | 410,670,684 | 33,498,075 | 377,172,609 | 391,426,697 |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts | | | | |
| 28. Total (Lines 26 and 27) | 410,670,684 | 33,498,075 | 377,172,609 | 391,426,697 |
| **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 | 246,601 | 246,601 | | |
| 2503. Security Deposit | 53,267 | 53,267 | | |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | 1,735 | | 1,735 | 4,667 |
| 2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above) | 1,301,603 | 1,299,868 | 1,735 | 4,667 |

# LIABILITIES, SURPLUS AND OTHER FUNDS

| | 1<br>Current<br>Statement Date | 2<br>December 31,<br>Prior Year |
|---|---|---|
| 1. Losses (current accident year $ 2,189,075 ) | 78,588,065 | 83,332,374 |
| 2. Reinsurance payable on paid losses and loss adjustment expenses | | |
| 3. Loss adjustment expenses | 4,387,359 | 5,979,000 |
| 4. Commissions payable, contingent commissions and other similar charges | | |
| 5. Other expenses (excluding taxes, licenses and fees) | 3,322,850 | 4,186,057 |
| 6. Taxes, licenses and fees (excluding federal and foreign income taxes) | 98,293 | 99,083 |
| 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 $ 81,364 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) | 111,149,815 | 119,602,855 |
| 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 | 83,260 | 83,678 |
| 20. Derivatives | | |
| 21. Payable for securities | | 291,831 |
| 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 | 94,167,496 | 88,804,771 |
| 26. Total liabilities excluding protected cell liabilities (Lines 1 through 25) | 291,797,138 | 302,379,649 |
| 27. Protected cell liabilities | | |
| 28. Total liabilities (Lines 26 and 27) | 291,797,138 | 302,379,649 |
| 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) | (293,598,529) | (289,926,952) |
| 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) | 85,375,471 | 89,047,048 |
| 38. Totals (Page 2, Line 28, Col. 3) | 377,172,609 | 391,426,697 |
| **DETAILS OF WRITE-INS** | | |
| 2501. Contingency Reserve | 93,325,084 | 87,961,446 |
| 2502. Collateral Deposit | 842,000 | 842,000 |
| 2503. Other Payables | 412 | 1,325 |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | | |
| 2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above) | 94,167,496 | 88,804,771 |
| 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<br>Current Year<br>to Date | 2<br>Prior Year<br>to Date | 3<br>Prior Year Ended<br>December 31 |
|---|---|---|---|
| **UNDERWRITING INCOME** | | | |
| 1. Premiums earned: | | | |
| 1.1 Direct (written $ 12,064 ) | 8,406,501 | 8,643,682 | 26,599,968 |
| 1.2 Assumed (written $ 0 ) | 71,735 | 601,031 | 747,506 |
| 1.3 Ceded (written $ 0 ) | 13,132 | 12,982 | 71,714 |
| 1.4 Net (written $ 12,064 ) | 8,465,104 | 9,231,731 | 27,275,760 |
| DEDUCTIONS: | | | |
| 2. Losses incurred (current accident year $ 3,570,463 ): | | | |
| 2.1 Direct | 6,128,923 | 16,598,101 | 35,500,098 |
| 2.2 Assumed | | | |
| 2.3 Ceded | | | |
| 2.4 Net | 6,128,923 | 16,598,101 | 35,500,098 |
| 3. Loss adjustment expenses incurred | 337,906 | 1,296,167 | 2,950,382 |
| 4. Other underwriting expenses incurred | 8,904,221 | 11,083,192 | 18,895,331 |
| 5. Aggregate write-ins for underwriting deductions | | | |
| 6. Total underwriting deductions (Lines 2 through 5) | 15,371,050 | 28,977,460 | 57,345,811 |
| 7. Net income of protected cells | | | |
| 8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7) | (6,905,946) | (19,745,729) | (30,070,051) |
| **INVESTMENT INCOME** | | | |
| 9. Net investment income earned | 8,223,269 | 10,006,831 | 19,130,380 |
| 10. Net realized capital gains (losses) less capital gains tax of $ 0 | 199,645 | 606,504 | 1,617,566 |
| 11. Net investment gain (loss) (Lines 9 + 10) | 8,422,914 | 10,613,335 | 20,747,946 |
| **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 | 192,500 | 128,000 | 140,500 |
| 15. Total other income (Lines 12 through 14) | 192,500 | 128,000 | 140,500 |
| 16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15) | 1,709,468 | (9,004,394) | (9,181,605) |
| 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) | 1,709,468 | (9,004,394) | (9,181,605) |
| 19. Federal and foreign income taxes incurred | | | |
| 20. Net income (Line 18 minus Line 19)(to Line 22) | 1,709,468 | (9,004,394) | (9,181,605) |
| **CAPITAL AND SURPLUS ACCOUNT** | | | |
| 21. Surplus as regards policyholders, December 31 prior year | 89,047,048 | 109,193,918 | 109,193,920 |
| 22. Net income (from Line 20) | 1,709,468 | (9,004,394) | (9,181,605) |
| 23. Net transfers (to) from Protected Cell accounts | | | |
| 24. Change in net unrealized capital gains or (losses) less capital gains tax of $ 0 | 8,721 | 3,207 | (37,566) |
| 25. Change in net unrealized foreign exchange capital gain (loss) | | | |
| 26. Change in net deferred income tax | 1,871,536 | 513,537 | 3,268,465 |
| 27. Change in nonadmitted assets | (1,897,664) | (377,651) | (3,153,545) |
| 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 | (5,363,638) | (5,516,782) | (11,042,621) |
| 38. Change in surplus as regards policyholders (Lines 22 through 37) | (3,671,577) | (14,382,083) | (20,146,872) |
| 39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38) | 85,375,471 | 94,811,835 | 89,047,048 |
| **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. Surveillance Consent Fees | 192,500 | 128,000 | 140,500 |
| 1402. | | | |
| 1403. | | | |
| 1498. Summary of remaining write-ins for Line 14 from overflow page | | | |
| 1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above) | 192,500 | 128,000 | 140,500 |
| 3701. Change in Contingency Reserve | (5,363,638) | (5,516,782) | (11,042,621) |
| 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) | (5,363,638) | (5,516,782) | (11,042,621) |

# CASH FLOW

| | 1<br>Current Year<br>To Date | 2<br>Prior Year<br>To Date | 3<br>Prior Year Ended<br>December 31 |
|---|---|---|---|
| **Cash from Operations** | | | |
| 1. Premiums collected net of reinsurance | 12,064 | 12,268 | 146,478 |
| 2. Net investment income | 9,285,100 | 8,621,085 | 20,629,099 |
| 3. Miscellaneous income | 192,500 | 2,428,000 | 140,500 |
| 4. Total (Lines 1 to 3) | 9,489,664 | 11,061,353 | 20,916,077 |
| 5. Benefit and loss related payments | 10,873,232 | 9,292,419 | 30,402,600 |
| 6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts | | | |
| 7. Commissions, expenses paid and aggregate write-ins for deductions | 11,557,457 | 12,609,308 | 23,718,884 |
| 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) | 22,430,689 | 21,901,727 | 54,121,484 |
| 11. Net cash from operations (Line 4 minus Line 10) | (12,941,025) | (10,840,374) | (33,205,407) |
| **Cash from Investments** | | | |
| 12. Proceeds from investments sold, matured or repaid: | | | |
| 12.1 Bonds | 85,015,451 | 55,604,969 | 160,451,556 |
| 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 | 295,931 |
| 12.8 Total investment proceeds (Lines 12.1 to 12.7) | 85,015,451 | 55,609,165 | 160,747,487 |
| 13. Cost of investments acquired (long-term only): | | | |
| 13.1 Bonds | 68,233,842 | 45,630,211 | 143,284,444 |
| 13.2 Stocks | | | |
| 13.3 Mortgage loans | | | |
| 13.4 Real estate | | | |
| 13.5 Other invested assets | | | |
| 13.6 Miscellaneous applications | 292,249 | | |
| 13.7 Total investments acquired (Lines 13.1 to 13.6) | 68,526,091 | 45,630,211 | 143,284,444 |
| 14. Net increase (or decrease) in contract loans and premium notes | | | |
| 15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14) | 16,489,360 | 9,978,954 | 17,463,043 |
| **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) | (58,944) | (291,690) | (348,581) |
| 17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6) | (58,944) | (291,690) | (348,581) |
| **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) | 3,489,391 | (1,153,110) | (16,090,945) |
| 19. Cash, cash equivalents and short-term investments: | | | |
| 19.1 Beginning of year | 8,150,404 | 24,241,349 | 24,241,349 |
| 19.2 End of period (Line 18 plus Line 19.1) | 11,639,795 | 23,088,239 | 8,150,404 |

# 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, 2014 and 2013, the Company recorded earned premiums of $5.9 million and $6.2 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. Commencing January 1, 2013, 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. Prior to January 1, 2013, the Company employed State Street Global Services as its third party investment accounting service provider. 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, 2014.

| | | |
|---|---|---|
| NAIC Designation 1 | $ | 285,987,397 |
| NAIC Designation 2 | | 66,054,507 |
| NAIC Designation 3 | | 84,273 |
| NAIC Designation 4 | | - |
| NAIC Designation 5 | | 14,527,936 |
| NAIC Designation 6 | | 3,770,008 |
| Total | $ | 370,424,121 |

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.

# NOTES TO FINANCIAL STATEMENTS

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 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, 2014.

(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. Dividends received from such investments are reported in investment income. For the six month periods ended June 30, 2014 and 2013, investment income includes dividends received from ACA Service, L.L.C. relating to its share of fees from certain managed CDO's of $1.9 million and $2.3 million, respectively. 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 (also known as "loss reserves" "reserves for unpaid losses", "case reserves", or "case basis reserves"), reported on the accompanying Statement of Assets, Liabilities, Surplus and Other Funds, 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 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.

(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, 2014 and December 31, 2013.

B. Debt Restructuring

As a result of claims paid under certain of its insurance policies, 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. The aggregate carrying value of such restructured debt at June 30, 2014 and December 31, 2013 was $1.4 million and $1.4 million, respectively. The Company has no other restructured debt and has not been a party to a troubled debt restructuring by virtue of its ownership of its invested assets.

C. Reverse Mortgages

The Company does not invest 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, 2014, the Company did not recognize any other than temporary impairment charge on loan-backed securities.

(3) N/A

(4) 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 loss position for 12 months or longer at June 30, 2014 is $14.4 million and $0.4 million, respectively. The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous unrealized loss position for less than 12 months at June 30, 2014 is $2.7 million and $0.0 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.

H. Restricted Assets

The following table summarizes the Company's restricted assets:

| | Gross Restricted | | | | | | | | Percentage | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Current Year | | | | | | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Restricted Asset Category | Total General Account (G/A) | G/A Supporting S/A Activiy (a) | Total Separate Account (S/A) Restricted Assets | S/A Assets Supporting G/A Activity (b) | Total (1 plus 3) | Total From Prior Year | Increase/ (Decrease) (5 minus 6) | Total Current Year Admitted Restricted | Gross Restricted to Total Assets | Admitted Restricted to Total Admitted Assets |
| i. On deposit with states | $ 4,853,583 | $ - | $ - | $ - | $ 4,853,583 | $ 4,834,517 | $ 19,066 | $ 4,853,583 | 1.17% | 1.29% |
| l. Other restricted assets | 53,267 | - | - | - | 53,267 | 53,267 | - | - | 0.00% | 0.00% |
| m. Total restricted assets | $ 4,906,850 | $ - | $ - | $ - | $ 4,906,850 | $ 4,887,784 | $ 19,066 | $ 4,853,583 | 1.17% | 1.29% |

## 6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

As of June 30, 2014 and December 31, 2013, the Company held an investment in ACA Service L.L.C., ("ACA Service"). The carrying value of such investment as of June 30, 2014 and December 31, 2013 was zero.

# NOTES TO FINANCIAL STATEMENTS

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, 2014 and December 31, 2013.

## 7. INVESTMENT INCOME

See Note 1.C. (3) above.

## 8. DERIVATIVE INSTRUMENTS

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

## 9. INCOME TAXES

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

**(1) DTA/DTL Components**

| | Description | 2014 Ordinary | 2014 Capital | 2014 Total | 2013 Ordinary | 2013 Capital | 2013 Total | Change Ordinary | Change Capital | Change Total |
|---|---|---|---|---|---|---|---|---|---|---|
| (a) | Gross deferred tax assets | $ 110,645,289 | $ 5,505,918 | $ 116,151,207 | $ 94,840,004 | $ 4,942,539 | $ 99,782,543 | $ 15,805,284 | $ 563,380 | $ 16,368,664 |
| (b) | Statutory valuation allowance adjustment | (77,981,510) | (5,505,918) | (83,487,428) | (64,053,499) | (4,942,539) | (68,996,038) | (13,928,011) | (563,380) | (14,491,391) |
| (c) | Adjusted gross deferred tax assets | 32,663,779 | - | 32,663,779 | 30,786,505 | - | 30,786,505 | 1,877,273 | - | 1,877,273 |
| (d) | Adjusted gross deferred tax assets nonadmitted | (32,030,771) | - | (32,030,771) | (30,159,235) | - | (30,159,235) | (1,871,536) | - | (1,871,536) |
| (e) | Sub-total admitted adjusted gross deferred tax asset | 633,008 | - | 633,008 | 627,270 | - | 627,270 | 5,737 | - | 5,737 |
| (f) | Gross deferred tax liabilities | (633,008) | - | (633,008) | (627,270) | - | (627,270) | (5,737) | - | (5,737) |
| (g) | Net admitted deferred tax asset | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

**(2) Admission calculation components:**

| | Description | 2014 Ordinary | 2014 Capital | 2014 Total | 2013 Ordinary | 2013 Capital | 2013 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 | - | - | - | - | - | - | - | - | - |
| (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) | 633,008 | - | 633,008 | 627,270 | - | 627,270 | 5,737 | - | 5,737 |
| (d) | Deferred tax assets admitted as the result of application of SSAP No. 101.total (a. + b. + c.) | $ 633,008 | $ - | $ 633,008 | $ 627,270 | $ - | $ 627,270 | $ 5,737 | $ - | $ 5,737 |

| (3) | Used in ¶11.b. | 2014 | 2013 |
|---|---|---|---|
| (a) | Applicable ratio for realization limitation threshold table | 101.36% | 99.85% |

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

| | Description | 2014 Ordinary | 2014 Capital | 2014 Total | 2013 Ordinary | 2013 Capital | 2013 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 | 2014 | 2013 |
|---|---|---|---|
| (a) | Current federal income tax expense | $ - | $ - |
| (b) | Foreign Income tax expense | - | - |
| (c) | Subtotal | - | - |
| (d) | Tax expense on realized capital gains | 139,752 | 1,116,155 |
| (e) | Utilization of capital loss carryforwards | (139,752) | (1,116,155) |
| (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 | December 31, 2014 | December 31, 2013 | Change |
|---|---|---|---|---|
| (a) | **Ordinary** | | | |
| (1) | Salvage and Subrogation | $ 6,192,551 | $ 1,239,365 | $ 4,953,186 |
| (2) | Unearned premiums | 3,525,491 | 4,117,204 | (591,713) |
| (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 | 67,648,256 | 58,081,718 | 9,566,538 |
| (12) | Tax credit carryforward | 615,212 | 615,212 | - |
| (13) | Contingency Reserve | 32,663,779 | 30,786,505 | 1,877,274 |
| (14) | Other (separately disclose items >5%) | - | - | - |
| (99) | Subtotal - Gross ordinary DTAs | 110,645,289 | 94,840,004 | 15,805,285 |
| (b) | Statutory valuation adjustment adjustment - ordinary | (77,981,510) | (64,053,499) | (13,928,011) |
| (c) | Nonadmitted ordinary DTAs | (32,030,771) | (30,159,235) | (1,871,536) |
| (d) | Admitted ordinary DTAs | $ 633,008 | $ 627,270 | $ 5,738 |

# NOTES TO FINANCIAL STATEMENTS

| | | | | |
|---|---|---|---|---|
| **(e)** | **Capital** | | | |
| **(1)** | Investments | $ 1,738,795 | $ 1,035,664 | $ 703,131 |
| **(2)** | Net capital loss carryforward | 3,767,123 | 3,906,875 | (139,752) |
| **(3)** | Real estate | - | - | - |
| **(4)** | Other (separately disclose items >5%) | - | - | - |
| **(5)** | Unrealized capital losses | - | - | - |
| **(99)** | Gross capital DTAs | 5,505,918 | 4,942,539 | 563,379 |
| **(f)** | Statutory valuation adjustment adjustment - capital | (5,505,918) | (4,942,539) | (563,379) |
| **(g)** | Nonadmitted capital DTAs | - | - | - |
| **(h)** | Admitted capital DTAs | $ - | $ - | $ - |
| **(i)** | **Admitted DTAs** | **$ 633,008** | **$ 627,270** | **$ 5,738** |

| | | | | |
|---|---|---|---|---|
| **(3)** | **DTLs Resulting From Book/Tax Differences In** | **December 31, 2014** | **December 31, 2013** | **Change** |
| **(a)** | **Ordinary** | | | |
| **(1)** | Investments | $ - | $ - | $ - |
| **(2)** | Fixed assets | (63,464) | (57,726) | (5,738) |
| **(3)** | Deferred and uncollected premiums | - | - | - |
| **(4)** | Policyholder reserves/salvage and subrogation | - | - | - |
| **(5)** | Other (separately disclose items >5%) | - | - | - |
| **(99)** | Ordinary DTLs | $ (63,464) | $ (57,726) | $ (5,738) |
| **(b)** | **Capital** | | | |
| **(1)** | Investments | $ (569,544) | $ (569,544) | $ - |
| **(2)** | Real estate | - | - | - |
| **(3)** | Other (separately disclose items >5%) | - | - | - |
| **(4)** | Unrealized capital gains | - | - | - |
| **(99)** | Capital DTLs | $ (569,544) | $ (569,544) | $ - |
| **(c)** | **DTLs** | **$ (633,008)** | **$ (627,270)** | **$ (5,738)** |
| **(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):**

| | **December 31, 2014** | **December 31, 2013** | **Bal. Sheet Change** |
|---|---|---|---|
| Total deferred tax assets | $ 116,151,207 | $ 99,782,543 | $ 16,368,664 |
| Total deferred tax liabilities | (633,008) | (627,270) | (5,737) |
| Net deferred tax assets/liabilities | 115,518,199 | 99,155,273 | 16,362,927 |
| Statutory valuation allowance adjustment (*see explanation below) | (83,487,428) | (68,996,038) | (14,491,391) |
| Net deferred tax assets/liabilities after SVA | $ 32,030,771 | $ 30,159,235 | 1,871,536 |
| Tax effect of unrealized gains/(losses) | | | - |
| Statutory valuation allowance adjustment allocated to unrealized (+) | | | - |
| Change in net deferred income tax benefit | | | $ 1,871,536 |

***Statutory valuation allowance**

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

**D. Reconciliation of federal income tax rate to actual effective rate:**

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes including realized capital gains / losses.

The significant items causing this difference are as follows:

| **Description** | **Amount** | **Statutory Rate 35.00% Tax Effect** | **Effective Tax Rate** |
|---|---|---|---|
| Income Before Taxes (including all realized capital gains / (losses)) | $ (19,169,954) | $ (6,709,484) | 35.00% |
| Tax-Exempt Interest | (1,568,558) | (548,995) | 2.86% |
| Equity in Affiliates | (133,031) | (46,561) | 0.24% |
| Proration | 235,284 | 82,349 | -0.43% |
| Meals & Entertainment, Lobbying Expenses, Etc. | 7,863 | 2,752 | -0.01% |
| Statutory Valuation Allowance Adjustment | 41,403,973 | 14,491,391 | -75.59% |
| Change in Contingency Reserve | (5,363,640) | (1,877,274) | 9.79% |
| Prior Year True-up | (20,759,183) | (7,265,714) | 37.90% |
| Total | $ (5,347,246) | $ (1,871,536) | 9.76% |
| | | | |
| Federal income taxed incurred expense | | - | 0.00% |
| Change in net deferred income tax benefit | | (1,871,536) | 9.76% |
| Total statutory income taxes | | $ (1,871,536) | 9.76% |

# NOTES TO FINANCIAL STATEMENTS

E. **Carryforwards, recoverable taxes, and IRC §6603 deposits:**

Company has net operating loss carryforwards of: $ 193,280,731 expiring through the calendar year 2034

The Company had capital loss carryforwards of: $ 10,763,208 expiring through the calendar year 2017

The Company has an AMT credit carryforward of: $ 615,212 which does not expire.

Income taxes, ordinary and capital, available for recoupment in the event of future losses include:

| Available from tax year | Ordinary | Capital | Total |
|---|---|---|---|
| 2012 | $ - | $ - | $ - |
| 2013 | - | - | - |
| 2014 | - | - | - |
| Total | $ - | $ - | $ - |

Deposits admitted under IRC § 6603
None

F. **Income tax loss contingencies**

N/A

G. **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 2014 or 2013.

C. Not applicable.

D. The Company has $84 thousand payable to subsidiaries at June 30, 2014 and December 31, 2013.

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.

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 2014 or 2013.

K. Not applicable.

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

## 11. DEBT

As of June 30, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, the fair values of plan assets were $7.7 million and $7.1 million, respectively. For the six month periods ended June 30, 2014 and 2013, the Company recognized expense in the amount of $249.5 thousand and $245.4 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.

# NOTES TO FINANCIAL STATEMENTS

## 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 2014 or 2013.

(5) The Company had negative earned surplus at June 30, 2014 and December 31, 2013; therefore no dividends can be paid in 2014 pursuant to Maryland Insurance Law. Negative earned surplus represents the amount reported in the Statement of "Assets, Liabilities, Surplus and Other Funds" under the line item entitled, "Unassigned funds (surplus)".

(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 $48,275.

(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 10, 2014, ACA made the aforementioned request to the MIA. On July 21, 2014, 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.

## 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.

# NOTES TO FINANCIAL STATEMENTS

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. Following a motion for reargument with the Supreme Court that was denied December 17, 2013, ACA filed a motion for leave to appeal the decision to the Court of Appeals, which motion was fully briefed as of February 14, 2014. All lower court action has been stayed pending such motion. On May 2, 2014, the Appellate Division granted ACA's motion for leave to appeal. Briefing began in July 2014 and oral arguments are expected by the end of the year.

- As a result of actions taken by the trustee in one particular ACA insured transaction, ACA expects to ultimately recognize salvage and subrogation recoveries in excess of its expected aggregate claim payments on the transaction. As a result, as of June 30, 2014, ACA expects to recognize a gain aggregating approximately $10.6 million on a net present value basis, with recoveries expected to begin decades in the future. Pursuant to ACA's accounting policy, however, this estimated gain must be deferred and recognized only when the actual receipts of such recoveries exceed the cumulative amounts paid out pursuant to claims. Accordingly, no assurance can be given that any or all expected recoveries will be received or that the amount of actual recoveries will not differ materially from that expected.

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, the parties have engaged in discovery. ACA filed a motion for summary judgment on February 25, 2014.

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 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"). The only surviving portions of the amended complaint, at this time, are allegations of FATA violations occurring after July 1, 2007. 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, many months ago, served its own discovery requests upon Foy, seeking the facts he claims support assertion of the New Mexico district court of its jurisdiction over the Company. Foy provided no substantive responses. The Company intends to renew the motion to dismiss when the stay of the litigation is lifted, absent other intervening events.

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 with a lease termination date of September 29, 2016. The Company's rental expense for the six month periods ended June 30, 2014 and 2013 was $373.3 thousand .

(2) At July 1, 2014, the minimum future lease payments under the lease are as follows (dollars in thousands):

| Year Ending December 31, | Operating Leases |
|---|---|
| 2014 | $ 297 |
| 2015 | 624 |
| 2016 | 479 |
| 2017 | - |
| Total | $ 1,400 |

# NOTES TO FINANCIAL STATEMENTS

B. Lessor Leases

Not applicable.

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

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

While the Company establishes reserves for losses on obligations which are in default as to payment (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, 2014 and December 31, 2013:

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Net Par | % of Net Par | Net Par | % of Net Par |
| *($ in millions)* | Outstanding | Outstanding | Outstanding | Outstanding |
| **Tax-exempt obligations:** | | | | |
| Healthcare | $ 279 | 8.4% | $ 304 | 8.7% |
| Tax backed | 302 | 9.1% | 317 | 9.0% |
| Higher education | 671 | 20.3% | 728 | 20.8% |
| Long-term care | 179 | 5.4% | 184 | 5.3% |
| General obligations | 899 | 27.2% | 908 | 25.9% |
| Utilities | 81 | 2.4% | 84 | 2.4% |
| Transportation | 257 | 7.8% | 266 | 7.6% |
| Housing | 124 | 3.7% | 189 | 5.4% |
| Not for Profit | 354 | 10.7% | 359 | 10.2% |
| Other | 157 | 4.7% | 158 | 4.5% |
| Total municipal obligation: | **3,303** | **99.8%** | **3,497** | **99.8%** |
| **Taxable obligations** | | | | |
| Other | 6 | 0.2% | 6 | 0.2% |
| **Total** | $ 3,309 | 100.0% | $ 3,503 | 100.0% |

For the six month period ended June 30, 2014, the Company reported a decrease in insured net par outstanding of $194 million, of which $155 million was attributable to Refundings (See Note 1.C.(1)).

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| PAR EXPOSURE BY STATE | Net Par | % of Net Par | Net Par | % of Net Par |
| *($ in millions)* | Outstanding | Outstanding | Outstanding | Outstanding |
| California | $ 634 | 19.2% | $ 697 | 19.9% |
| New York | 602 | 18.2% | 615 | 17.6% |
| Massachusetts | 194 | 5.9% | 197 | 5.6% |
| Texas | 192 | 5.8% | 194 | 5.5% |
| Florida | 187 | 5.7% | 196 | 5.6% |
| Other states | 1,494 | 45.2% | 1,598 | 45.7% |
| Total municipal obligations | $ 3,303 | 100.0% | $ 3,497 | 100.0% |

NET PAR OUTSTANDING BY MATURITY

| | June 30, 2014 |
|---|---|
| *($ in millions)* | Net Par |
| **Terms of Maturity** | Outstanding |
| 0 to 5 years | $ 582 |
| 5 to 10 years | 757 |
| 10 to 15 years | 848 |
| 15 to 20 years | 772 |
| 20 and above | 350 |
| Total | **$ 3,309** |

**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

A. Inputs used for Assets and Liabilities Measured at Fair Value

(1) Assets measured at fair value on a non-recurring basis:

| 2014 | | | | |
|---|---|---|---|---|
| Security Type | Level 1 | Level 2 | Level 3 | Grand Total |
| Bonds | $ - | $ 193,078 | $ - | $ 193,078 |
| Total | $ - | $ 193,078 | $ - | $ 193,078 |

| 2013 | | | | |
|---|---|---|---|---|
| Security Type | Level 1 | Level 2 | Level 3 | Grand Total |
| Bonds | $ - | $ 258,440 | $ - | $ 258,440 |
| Total | $ - | $ 258,440 | $ - | $ 258,440 |

(2) Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Not applicable

(3) The Company's policy is to recognize transfers in and out at the end of the reporting period, consistent with the date of the determination of fair value.

(4) In accordance with SSAP 100, the valuation techniques used in measuring fair values are based on the following:

Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that the Company has the ability to access for identical assets or liabilities.

Level 2: Fair value measurements, based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable at commonly quoted intervals.

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

(5) Derivative Fair Value

Not applicable

B. Other Fair Value Disclosures

Not applicable

C. Fair Values for All Financial Instruments by Levels 1, 2 and 3

The tables below reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method (subsidiaries). The fair values are also categorized into the three-level fair value hierarchy as described above.

| 2014 | | | | | | |
|---|---|---|---|---|---|---|
| Type of Financial Instrument | Fair Value | Admitted Value | Level 1 | Level 2 | Level 3 | Not Practicable (Carrying Value) |
| Bonds | $ 378,490,436 | $ 363,040,907 | $ - | $ 378,490,436 | $ - | $ - |
| Cash & Short-Term Investments | 11,639,795 | 11,639,795 | 4,256,580 | 7,383,215 | - | - |
| Total | $ 390,130,230 | $ 374,680,702 | $ 4,256,580 | $ 385,873,650 | $ - | $ - |

| 2013 | | | | | | |
|---|---|---|---|---|---|---|
| Type of Financial Instrument | Fair Value | Admitted Value | Level 1 | Level 2 | Level 3 | Not Practicable (Carrying Value) |
| Bonds | $ 391,550,520 | $ 380,299,628 | $ - | $ 391,550,520 | $ - | $ - |
| Cash & Short-Term Investments | 8,150,404 | 8,150,404 | 3,790,289 | 4,360,115 | - | - |
| Total | $ 399,700,924 | $ 388,450,032 | $ 3,790,289 | $ 395,910,635 | $ - | $ - |

D. Financial Instruments for which Not Practicable to Estimate Fair Values

Not applicable

## 21. OTHER ITEMS

A. Extraordinary items

The Company had no extraordinary items during 2014 and 2013.

# NOTES TO FINANCIAL STATEMENTS

B. Troubled Debt Restructurings: Debtors

The Company had no troubled debt restructurings during 2014 and 2013. 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 (hereafter referred to as "Off-Balance Sheet Losses") are not recorded by the Company in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds at June 30, 2014 and December 31, 2013 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 its ultimate Off-Balance Sheet Losses ranged from $120 million to $140 million at June 30, 2014, on a discounted basis (see also Note 25). 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 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, 2014, the Company had insured obligations with outstanding principal totaling $437.8 million classified in category 4, which means that it either has paid claims on such exposures or expects to pay claims on such exposures in the future. In addition, as of such date, the Company had insured obligations with outstanding principal totaling $240.0 million classified in category 3, which means those credits have materially violated financial and operational covenants and require remedial action to avoid further performance deterioration. As discussed in Note 16, the risk of loss under the Company's 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.

- Losses incurred and reserves for losses are reported by the Company net of estimated recoveries from salvage and subrogation. Estimated salvage and subrogation are a material component of the Company's incurred losses and reserves for losses (both on-balance sheet and off-balance sheet). Pursuant to the Company's policies of insurance, should the Company pay a claim under a policy it is subrogated in regard to the rights of the policyholder and by virtue thereof has the ability to pursue the obligor for recovery of all claims paid or losses incurred. In other cases, the Company may be assigned the rights to certain salvage as reimbursement for any claims paid or losses incurred. An important characteristic to recognize with respect to estimated salvage and subrogation recoveries is that such estimates are subject to both timing and credit risk. In many instances the timing of such recoveries is expected to occur significantly later than the associated claim payments the Company is trying to recover. In addition, in regard to subrogation, credit risk exists with respect to the obligor's ability to ultimately honor the insurer's claim for recoveries, and in respect of salvage, risk exists as to whether such salvage will ultimately be sufficient to recover all of the insurer's claims for recoveries. No assurance can be provided that estimated salvage and subrogation recoveries will be fully collected and any uncollected amount may be material to the Company's financial position and results of operations.

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

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

# NOTES TO FINANCIAL STATEMENTS

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 rolling 3-year period. Accordingly, the aggregate ownership change ("Aggregate Ownership Change") at any particular date represents the summation of the amount of ownership change resulting from all transactions in a corporation's stock occurring during the three year period ended on such date. 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.

Under Section 382, the transfer of ACA's surplus notes can cause an ownership change that would limit ACA's ability to utilize its NOLs and recognize certain built-in losses. Depending on the resulting limitation, a significant portion of ACA's NOLs could be deferred or could expire before ACA would be able to use them to offset positive taxable income in current or future tax periods. As of December 31, 2013, ACA's Aggregate Ownership Change was approximately 49%.

Subsequent to December 31, 2013, a certain holder of ACA's surplus notes notified ACA that it had agreed to transfer its notes. This transfer became effective, under the terms of the surplus note, on February 12, 2014. As a result, ACA experienced an ownership change for purposes of Section 382. As a consequence of the ownership change, ACA's ability to use its NOLs will be limited on an annual basis.

*(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

# NOTES TO FINANCIAL STATEMENTS

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

D. Business Interruption Insurance Recoveries

Not applicable.

E. State Transferable Tax Credits

The Company had no state transferable credits.

F. Subprime Exposure Related Risk

(1) Except for one insured securitization of manufactured housing mortgages, as of June 30, 2014 and December 31, 2013, the Company had no exposure to subprime mortgages among its in-force guaranties. With the exception of the aforementioned securitization, all other subprime mortgage exposure of the Company was extinguished in the Global Settlement Agreement described in Note 21.C.(2). The remaining par exposure relating to the manufactured housing mortgage securitization was $4.8 million and $4.8 million at June 30, 2014 and December 31, 2013, respectively. The Company has a loss reserve against this exposure in the amount of $1.1 million and $1.0 million at June 30, 2014 and December 31, 2013, respectively.

(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, 2014:

| | 1<br>Actual Cost | 2<br>Book/Adjusted Carrying Value (excluding interest) | 3<br>Fair Value | 4<br>Other Than Temporary Impairment Losses Recognized |
|---|---|---|---|---|
| a. Residential mortgage backed securities | $ 14,422,310 | $ 14,795,314 | $ 15,639,304 | $ - |
| b. Commercial mortgage backed securities | | | | |
| c. Collateralized debt obligations | | | | |
| d. Structured securities | 5,134,526 | 5,134,722 | 5,166,755 | |
| e. Equity investment in SCAs | | | | |
| f. Other assets | | | | |
| g. Total | $ 19,556,836 | $ 19,930,035 | $ 20,806,059 | $ - |

(4) As stated in F. (1) above, the Company has an outstanding loss reserve in the amount of $1.1 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 | - | 121,174 | 1,140,421 | - |
| c. Other lines | - | - | - | - |
| | | | | |
| | | | | |
| | | | | |
| d. Total | $ - | $ 121,174 | $ 1,140,421 | $ - |

## 22. EVENTS SUBSEQUENT

The Company reviewed all transactions and other matters that have occurred from July 1, 2014 through August 12 , 2014 (the date the financial statements were available to be issued) to assess whether such transactions and matters qualify as "subsequent events" and require adjustment to or disclosure in the financial statements as of and for the six month period ended June 30, 2014. Based on the aforementioned review, no matters came to management's attention that would require 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 | 4,721,360 | - | 81,364 | - | 4,639,996 | - |
| Total | $ 4,721,360 | $ - | $ 81,364 | $ - | $ 4,639,996 | $ - |

Direct Unearned Premium Reserve: $106,509,819

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 2014.

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, 2014, the Company recorded a net provision for losses incurred of $6.1 million, which consisted of $2.5 million of net adverse loss development relating to accident years prior to 2014 ("prior accident year claims") and $3.6 million of losses incurred relating to the current accident year. As of June 30, 2014, the Company's liability for unpaid losses was $78.6 million, which related to twenty insured transactions, with a remaining aggregate in-force par outstanding of $128.5 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of $128.5 million represents the remaining maximum amount of par exposure subject to loss in regard to these twenty insured transactions. See Note 36A.(3)b for additional information regarding the Company's reserves for losses and loss adjustment expenses.

As discussed in Note 21.C.(1), the Company's estimate of its ultimate Off-Balance Sheet Losses at June 30, 2014 ranged from $120 million to $140 million. This range of Off-Balance Sheet Losses related to nineteen insured transactions, with a remaining aggregate in-force par outstanding of approximately $76.0 million, excluding the aforementioned Off-Balance Sheet Losses (at the low end of the range) of $120 million.

For the six month period ended June 30, 2013, the Company recorded a net provision for losses incurred of $16.6 million, which consisted of $5.0 million of net adverse loss development relating to accident years prior to 2013 and $11.6 million of incurred losses relating to the 2013 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.
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, 2014 and December 31, 2013.

B. The Company has no risk sharing receivables as of June 30, 2014 and December 31, 2013.

**29. PARTICIPATING POLICIES**

The Company never issued participating policies.

**30. PREMIUM DEFICIENCY RESERVE**

# NOTES TO FINANCIAL STATEMENTS

The Company has no premium deficiency reserves.

**31. HIGH DEDUCTIBLES ON UNPAID CLAIMS**

The Company has no high deductibles on unpaid claims.

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

The Company's case reserves for unpaid losses are discounted on a non-tabular basis. The discount rate used at June 30, 2014 and December 31, 2013 was 3.55%. The discount rate is based on the average rate of return on the Company's admitted assets. The net amount of discount associated with the Company's loss reserves at June 30, 2014 was $(1.2) 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, 2014 and 2013 was $5.9 million and $6.2 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, 2014:

1.

| | | |
|---|---|---|
| 3rd Quarter 2014 | $ | 1,897,312 |
| 4th Quarter 2014 | | 1,836,122 |
| Year 2015 | | 5,982,516 |
| Year 2016 | | 6,084,341 |
| Year 2017 | | 6,197,099 |
| Year 2018 | | 5,704,673 |
| Subtotal | | 27,702,064 |

2.

| | | |
|---|---|---|
| 2019 through 2023 | | 29,467,538 |
| 2024 through 2028 | | 25,349,504 |
| 2029 through 2033 | | 19,529,914 |
| 2034 through 2038 | | 8,949,056 |
| 2039 through 2043 | | 151,739 |
| 2044 through 2047 | | - |
| Total | $ | 111,149,815 |

(3) Claim liability:

a. The Company used a rate of 3.55% to discount the claim liability.

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

New presentation below

| | | |
|---|---|---|
| Reserves for losses at December 31, 2013 | $ | 83,332,374 |
| Accretion of the discount | | 651,868 |
| New reserves for defaults of insured contracts | | 2,189,075 (1) |
| Development on prior accident years reserves | | (7,585,252) (2) |
| Change in deficiency reserves | | - |
| Change in incurred but not reported claims | | - |
| Total change in reserves | | (4,744,309) |
| Reserves for losses at March 31, 2014 | $ | 78,588,065 |

(1) Represents 2014 accident year loss development of $3,570,463 less claim payments of $1,381,388.

(2) Represents adverse development of $1,906,593 and claim payments of $9,491,844.

# 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 | 166 | 75 | 16 | 39 | 296 |
| Remaining weighted-average contract period (in years) | 12 | 10 | 11 | 12 | 12 |
| Insured contractual payments outstanding: | | | | | |
| Principal | $ 1,961,808,081 | $ 668,996,932 | $ 239,965,403 | $ 437,840,577 | $ 3,308,610,993 |
| Interest | 1,230,916,398 | 378,657,413 | 196,999,913 | 382,001,261 | 2,188,574,985 |
| Total | $ 3,192,724,479 | $ 1,047,654,345 | $ 436,965,316 | $ 819,841,838 | $ 5,497,185,978 |
| Gross claim and LAE liability | $ 1,000 | $ 268,000 | $ 380,000 | $ 133,810,332 | $ 134,459,332 |
| Less: | | | | | |
| Gross potential recoveries | - | - | - | 52,665,292 | 52,665,292 |
| Discount, net | - | - | - | (1,181,384) | (1,181,384) |
| Net claim and LAE liability | $ 1,000 | $ 268,000 | $ 380,000 | $ 82,326,424 | $ 82,975,424 |
| Unearned premium revenue | $ 47,211,583 | $ 26,495,074 | $ 11,597,787 | $ 25,845,371 | $ 111,149,815 |
| Claim and LAE liability reported in the balance sheet | $ 1,000 | $ 268,000 | $ 380,000 | $ 82,326,424 | $ 82,975,424 |
| 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 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [ ] No [X]

If yes, complete Schedule Y, Parts 1 and 1A.

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

3.3 If the response to 3.2 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<br>Name of Entity | 2<br>NAIC Company Code | 3<br>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. 12/31/2012

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). 06/18/2014

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<br>Affiliate Name | 2<br>Location<br>(City, State) | 3<br>FRB | 4<br>OCC | 5<br>FDIC | 6<br>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<br>Prior Year-End<br>Book/Adjusted<br>Carrying Value | 2<br>Current Quarter<br>Book/Adjusted<br>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<br>Name of Custodian(s) | 2<br>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<br>Name(s) | 2<br>Location(s) | 3<br>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<br>Old Custodian | 2<br>New Custodian | 3<br>Date of Change | 4<br>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<br>Central Registration Depository | 2<br>Name(s) | 3<br>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<br>Line of Business | 2<br>Maximum Interest | 3<br>Discount Rate | 4<br>Unpaid Losses | 5<br>Unpaid LAE | 6<br>IBNR | 7<br>TOTAL | 8<br>Unpaid Losses | 9<br>Unpaid LAE | 10<br>IBNR | 11<br>TOTAL |
| Financial Guaranty | | 3.550 | (1,015,637) | | | (1,015,637) | 1,981,365 | | | 1,981,365 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| TOTAL | | | (1,015,637) | | | (1,015,637) | 1,981,365 | | | 1,981,365 |

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 Reinsurance Treaties - Current Year to Date

| 1<br>NAIC Company Code | 2<br>ID Number | 3<br>Name of Reinsurer | 4<br>Domiciliary Jurisdiction | 5<br>Type of Reinsurer | 6<br>Certified Reinsurer Rating (1 through 6) | 7<br>Effective Date of Certified Reinsurer Rating |
|---|---|---|---|---|---|---|

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 | | | 2,092,074 | 703,446 | 13,384,915 | 12,013,838 |
| 5. California CA | L | | | 6,357,472 | 710,975 | 25,952,384 | 23,841,832 |
| 6. Colorado CO | L | | | | | | |
| 7. Connecticut CT | L | | | | | | |
| 8. Delaware DE | L | | | | | | |
| 9. Dist. Columbia DC | L | | | | | | |
| 10. Florida FL | L | | | 401,896 | 346,601 | 50,432 | 684,418 |
| 11. Georgia GA | L | | | | 1,275,000 | 9,460,909 | 5,381,271 |
| 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 | 3,629 | 2,882 | | | 6,064,835 | 8,513,804 |
| 20. Maine ME | L | | | | | | |
| 21. Maryland MD | L | | | | | | |
| 22. Massachusetts MA | L | | | 5,183 | 4,615 | 531,779 | 540,924 |
| 23. Michigan MI | L | | | | | | |
| 24. Minnesota MN | L | 1,405 | 1,441 | 1,386,225 | 270,000 | 4,410,209 | 8,150,756 |
| 25. Mississippi MS | L | | | 252,647 | 390,780 | 10,114,457 | 16,915,117 |
| 26. Missouri MO | L | 7,030 | 7,945 | 27,498 | 80,606 | 1,180,091 | 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 | | | 154,715 | 1,394,808 | 1,933,421 | 2,029,377 |
| 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 | | | 82,556 | | 1,112,006 | 1,579,945 |
| 42. So. Dakota SD | L | | | | | | |
| 43. Tennessee TN | L | | | | | | |
| 44. Texas TX | L | | | | | 4,461,445 | 4,492,712 |
| 45. Utah UT | L | | | | | | |
| 46. Vermont VT | L | | | | | | |
| 47. Virginia VA | L | | | 112,966 | 115,587 | (68,818) | 272,612 |
| 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 | 12,064 | 12,268 | 10,873,232 | 9,292,418 | 78,588,065 | 85,540,558 |
| **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.

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 | 8,406,501 | 6,128,923 | 72.9 | 192.0 |
| 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 | 8,406,501 | 6,128,923 | 72.9 | 192.0 |
| | **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 | 9,948 | 12,064 | 12,268 |
| 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 | 9,948 | 12,064 | 12,268 |
| | **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) | 2014 Loss and LAE Payments on Claims Reported as of Prior Year-End | 2014 Loss and LAE Payments on Claims Unreported as of Prior Year-End | Total 2014 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. 2011 + Prior | 55,757 | | 55,757 | 8,712 | 93 | 8,805 | 50,934 | | | 50,934 | 3,889 | 93 | 3,982 |
| 2. 2012 | 21,941 | | 21,941 | 822 | 1 | 823 | 21,047 | | | 21,047 | (72) | 1 | (71) |
| 3. Subtotals 2012 + prior | 77,699 | | 77,699 | 9,535 | 94 | 9,628 | 71,982 | | | 71,982 | 3,817 | 94 | 3,911 |
| 4. 2013 | 11,613 | | 11,613 | 1,474 | 306 | 1,780 | 8,472 | | | 8,472 | (1,666) | 306 | (1,360) |
| 5. Subtotals 2013 + prior | 89,311 | | 89,311 | 11,008 | 400 | 11,408 | 80,454 | | | 80,454 | 2,151 | 400 | 2,551 |
| 6. 2014 | XXX | XXX | XXX | XXX | 1,394 | 1,394 | XXX | 2,521 | | 2,521 | XXX | XXX | XXX |
| 7. Totals | 89,311 | | 89,311 | 11,008 | 1,794 | 12,803 | 80,454 | 2,521 | | 82,975 | 2,151 | 400 | 2,551 |
| 8. Prior Year-End Surplus As Regards Policy-holders | 89,047 | | | | | | | | | | Col. 11, Line 7 As % of Col. 1, Line 7 | Col. 12, Line 7 As % of Col. 2, Line 7 | Col. 13, Line 7 As % of Col. 3, Line 7 |
| | | | | | | | | | | | 1. 2.4 | 2. | 3. 2.9 |
| | | | | | | | | | | | | | Col. 13, Line 7 Line 8 |
| | | | | | | | | | | | | | 4. 2.9 |

# 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 Insurance Coverage 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 4 4 9 0 0 0 0 2

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

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

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

# OVERFLOW PAGE FOR WRITE-INS

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

| | 1<br>Assets | 2<br>Nonadmitted Assets | 3<br>Net Admitted Assets (Cols. 1 - 2) | 4<br>December 31 Prior Year Net Admitted Assets |
|---|---|---|---|---|
| 2504. Other Assets | 1,735 | | 1,735 | 4,667 |
| 2505. | | | | |
| 2506. | | | | |
| 2597. Summary of remaining write-ins for Line 25 from Page 02 | 1,735 | | 1,735 | 4,667 |

# SCHEDULE A – VERIFICATION

Real Estate

| | 1<br>Year To Date | 2<br>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<br>Year To Date | 2<br>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<br>Year To Date | 2<br>Prior Year Ended December 31 |
|---|---|---|
| 1. Book/adjusted carrying value, December 31 of prior year | 83,678 | 84,192 |
| 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) | (514) |
| 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) | 83,260 | 83,678 |
| 12. Deduct total nonadmitted amounts | 83,260 | 83,678 |
| 13. Statement value at end of current period (Line 11 minus Line 12) | | |

# SCHEDULE D – VERIFICATION

Bonds and Stocks

| | 1<br>Year To Date | 2<br>Prior Year Ended December 31 |
|---|---|---|
| 1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year | 380,299,628 | 397,472,162 |
| 2. Cost of bonds and stocks acquired | 68,233,842 | 143,284,441 |
| 3. Accrual of discount | 561,371 | 1,359,337 |
| 4. Unrealized valuation increase (decrease) | 9,139 | (37,050) |
| 5. Total gain (loss) on disposals | 199,645 | 3,189,017 |
| 6. Deduct consideration for bonds and stocks disposed of | 85,015,451 | 160,451,556 |
| 7. Deduct amortization of premium | 1,247,267 | 2,945,276 |
| 8. Total foreign exchange change in book/adjusted carrying value | | |
| 9. Deduct current year's other-than-temporary impairment recognized | | 1,571,447 |
| 10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9) | 363,040,907 | 380,299,628 |
| 11. Deduct total nonadmitted amounts | | |
| 12. Statement value at end of current period (Line 10 minus Line 11) | 363,040,907 | 380,299,628 |

# SCHEDULE D - PART 1B

**Showing the Acquisitions, Dispositions and Non-Trading Activity During the Current Quarter for all Bonds and Preferred Stock by NAIC Designation**

| NAIC Designation | 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. NAIC 1 (a) | 295,695,416 | 72,189,300 | 75,143,157 | (6,754,162) | 295,695,416 | 285,987,397 | | 290,154,900 |
| 2. NAIC 2 (a) | 74,936,934 | 8,514,011 | 13,917,664 | (3,478,774) | 74,936,934 | 66,054,507 | | 89,303,869 |
| 3. NAIC 3 (a) | 84,151 | | | 122 | 84,151 | 84,273 | | 82,417 |
| 4. NAIC 4 (a) | | | | | | | | |
| 5. NAIC 5 (a) | 1,425,391 | 3,277,266 | | 9,825,280 | 1,425,391 | 14,527,936 | | 1,424,944 |
| 6. NAIC 6 (a) | 3,676,685 | | | 93,323 | 3,676,685 | 3,770,008 | | 3,693,613 |
| 7. Total Bonds | 375,818,577 | 83,980,576 | 89,060,821 | (314,211) | 375,818,577 | 370,424,121 | | 384,659,742 |
| **PREFERRED STOCK** | | | | | | | | |
| 8. NAIC 1 | | | | | | | | |
| 9. NAIC 2 | | | | | | | | |
| 10. NAIC 3 | | | | | | | | |
| 11. NAIC 4 | | | | | | | | |
| 12. NAIC 5 | | | | | | | | |
| 13. NAIC 6 | | | | | | | | |
| 14. Total Preferred Stock | | | | | | | | |
| 15. Total Bonds & Preferred Stock | 375,818,577 | 83,980,576 | 89,060,821 | (314,211) | 375,818,577 | 370,424,121 | | 384,659,742 |

(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<br>Book/Adjusted Carrying Value | 2<br>Par Value | 3<br>Actual Cost | 4<br>Interest Collected Year To Date | 5<br>Paid for Accrued Interest Year To Date |
|---|---|---|---|---|---|
| 9199999 | 7,383,214 | XXX | 7,383,214 | 4 | |

# SCHEDULE DA - VERIFICATION

**Short-Term Investments**

| | 1<br>Year To Date | 2<br>Prior Year Ended December 31 |
|---|---|---|
| 1. Book/adjusted carrying value, December 31 of prior year | 4,360,114 | 15,369,461 |
| 2. Cost of short-term investments acquired | 92,263,844 | 194,268,792 |
| 3. Accrual of discount | | |
| 4. Unrealized valuation increase (decrease) | | |
| 5. Total gain (loss) on disposals | | |
| 6. Deduct consideration received on disposals | 89,240,744 | 205,278,139 |
| 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) | 7,383,214 | 4,360,114 |
| 11. Deduct total nonadmitted amounts | | |
| 12. Statement value at end of current period (Line 10 minus Line 11) | 7,383,214 | 4,360,114 |

Schedule DB - Part A - Verification

NONE

Schedule DB - Part B - Verification

NONE

Schedule DB - Part C - Section 1

NONE

Schedule DB - Part C - Section 2

NONE

Schedule DB - Verification

NONE

Schedule E - Verification

NONE

Schedule A - Part 2

NONE

Schedule A - Part 3

NONE

Schedule B - Part 2

NONE

Schedule B - Part 3

NONE

Schedule BA - Part 2

NONE

## Schedule BA - Part 3

# NONE

# SCHEDULE D - PART 3

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

| 1<br>CUSIP Identification | 2<br>Description | 3<br>Foreign | 4<br>Date Acquired | 5<br>Name of Vendor | 6<br>Number of Shares of Stock | 7<br>Actual Cost | 8<br>Par Value | 9<br>Paid for Accrued Interest and Dividends | 10<br>NAIC Designation or Market Indicator (a) |
|---|---|---|---|---|---|---|---|---|---|
| 912828-WH-9 | US TREASURY N/B |  | 06/20/2014 | VARIOUS |  | 16,524,824 | 16,500,000 | 7,181 | 1 |
| 0599999 - Bonds - U.S. Governments |  |  |  |  |  | 16,524,824 | 16,500,000 | 7,181 | XXX |
| 13033W-B6-9 | CA INFRA CAB-SER A |  | 04/15/2014 | VARIOUS |  |  | 740,000 |  | 6* |
| 546279-XE-5 | NICHOLLS STATE UNIVERSITY |  | 05/16/2014 | NORTHLAND SECS INC |  | 98,663 | 100,000 | 674 | 5Z |
| 60535R-AJ-7 | MS HM CORP-8A-MS VY S |  | 04/03/2014 | BEDROCK SECURITIES LLC |  |  | 35,000 |  | 6* |
| 927676-KV-7 | VIRGIN ISLANDS PUBLIC FINANCE |  | 04/22/2014 | BEDROCK SECURITIES LLC |  | 154,904 | 155,000 | 517 | 2FE |
| 3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions |  |  |  |  |  | 253,567 | 1,030,000 | 1,190 | XXX |
| 07388L-AG-5 | BEAR STEARNS AB 2006-ST1 |  | 04/02/2014 | MLPFS INC FIXED INCOME |  | 3,281,250 | 3,000,000 | 2,791 | 1FE |
| 07388Q-AG-4 | BEAR STEARNS COMM 2007-PW17 |  | 04/02/2014 | Nomura International Trust Co |  | 3,825,000 | 3,400,000 | 3,336 | 1FM |
| 13975E-AF-0 | CAPITAL AUTO REC ASSET TRUST 2013-1 |  | 06/12/2014 | CITIGROUP GLOBAL MARKETS INC. |  | 2,135,658 | 2,130,000 | 2,780 | 1FE |
| 14041N-EP-2 | CAPITAL ONE MULTI-ASSET 2014-A2 |  | 04/03/2014 | Wells Fargo |  | 999,952 | 1,000,000 |  | 1FE |
| 254683-BJ-3 | DISCOVER CARD EXECUTION NT 2014-A3 |  | 04/28/2014 | BARCLAYS CAPITAL INC FIXED INC |  | 1,599,590 | 1,600,000 |  | 1FE |
| 29250N-AK-1 | ENBRIDGE INC |  I | 05/28/2014 | DEUTSCHE BANK SECURITIES, INC. |  | 425,000 | 425,000 |  | 1FE |
| 36159J-DF-5 | GE CAPITAL CREDIT CARD MST NT 2012-5 |  | 04/24/2014 | BAIRD (ROBERT W.) & CO. INC. |  | 482,069 | 479,000 | 281 | 1FE |
| 46629M-AL-9 | JP MORGAN CHASE COMM 2006-LDP8 |  | 04/02/2014 | Nomura International Trust Co |  | 3,277,266 | 3,000,000 | 2,720 | 5AM |
| 500255-AP-9 | KOHL'S CORPORATION |  | 04/15/2014 | Wells Fargo |  | 3,473,520 | 3,000,000 | 65,625 | 2FE |
| 61747Y-DT-9 | MORGAN STANLEY |  | 05/22/2014 | Morgan Stanley |  | 6,551,520 | 6,000,000 | 32,063 | 2FE |
| 80283X-AE-7 | SANTANDER DRIVE AUTO REC TRUST 2014-3 |  | 06/11/2014 | Wells Fargo |  | 999,805 | 1,000,000 |  | 1FE |
| 92343V-CA-0 | VERIZON COMMUNICATIONS |  | 05/14/2014 | HSBC SECURITIES INC. |  | 506,297 | 500,000 | 878 | 2FE |
| 98417E-AB-6 | XSTRATA FINANCE CANADA | R | 04/15/2014 | CREDIT AGRICOLE |  | 1,104,580 | 1,000,000 | 25,133 | 2FE |
| 3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated) |  |  |  |  |  | 28,661,506 | 26,534,000 | 135,607 | XXX |
| 8399997 - Subtotals - Bonds - Part 3 |  |  |  |  |  | 45,439,897 | 44,064,000 | 143,978 | XXX |
| 8399999 - Subtotals - Bonds |  |  |  |  |  | 45,439,897 | 44,064,000 | 143,978 | XXX |
| 9999999 Totals |  |  |  |  |  | 45,439,897 | XXX | 143,978 | 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<br>CUSIP Identi-fication | 2<br>Description | 3<br>Foreign | 4<br>Disposal Date | 5<br>Name of Purchaser | 6<br>Number of Shares of Stock | 7<br>Consideration | 8<br>Par Value | 9<br>Actual Cost | 10<br>Prior Year Book/Adjusted Carrying Value | Change in Book/Adjusted Carrying Value<br>11<br>Unrealized Valuation Increase/ (Decrease) | 12<br>Current Year's (Amortization)/ Accretion | 13<br>Current Year's Other Than Temporary Impairment Recognized | 14<br>Total Change in B./A.C.V. (11+12-13) | 15<br>Total Foreign Exchange Change in B./A.C.V. | 16<br>Book/ Adjusted Carrying Value at Disposal Date | 17<br>Foreign Exchange Gain (Loss) on Disposal | 18<br>Realized Gain (Loss) on Disposal | 19<br>Total Gain (Loss) on Disposal | 20<br>Bond Interest/Stock Dividends Received During Year | 21<br>Stated Contractual Maturity Date | 22<br>NAIC Desig-nation or Market Indicator (a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 36200A-BE-8 | GNMA POOL 595037 | | 06/15/2014 | Direct | | 26 | 26 | 26 | 26 | | (1) | | (1) | | 26 | | | | 1 | 10/15/2032 | 1 |
| 36200A-CW-7 | GNMA POOL 595085 | | 06/15/2014 | Direct | | 6,766 | 6,766 | 6,967 | 6,963 | | (197) | | (197) | | 6,766 | | | | 140 | 10/15/2032 | 1 |
| 36200E-TY-7 | GNMA POOL 599167 | | 06/15/2014 | Direct | | 729 | 729 | 751 | 746 | | (17) | | (17) | | 729 | | | | 18 | 12/15/2033 | 1 |
| 36200M-AT-0 | GNMA POOL 604018 | | 06/15/2014 | Direct | | 135,157 | 135,157 | 139,074 | 138,448 | | (3,291) | | (3,291) | | 135,157 | | | | 2,877 | 02/15/2033 | 1 |
| 36200M-EN-9 | GNMA POOL 604141 | | 06/15/2014 | Direct | | 1,772 | 1,772 | 1,825 | 1,831 | | (59) | | (59) | | 1,772 | | | | 48 | 03/15/2033 | 1 |
| 36200Q-2R-4 | GNMA POOL 569684 | | 06/15/2014 | Direct | | 3,865 | 3,865 | 3,980 | 3,971 | | (106) | | (106) | | 3,865 | | | | 101 | 02/15/2032 | 1 |
| 36200R-LX-8 | GNMA POOL 570142 | | 06/15/2014 | Direct | | 797 | 797 | 821 | 820 | | (23) | | (23) | | 797 | | | | 19 | 12/15/2031 | 1 |
| 36200R-XT-4 | GNMA POOL 570490 | | 06/15/2014 | Direct | | 431 | 431 | 444 | 441 | | (9) | | (9) | | 431 | | | | 10 | 12/15/2031 | 1 |
| 36200S-US-7 | GNMA POOL 571293 | | 06/15/2014 | Direct | | 25 | 25 | 26 | 26 | | (1) | | (1) | | 25 | | | | 1 | 11/15/2031 | 1 |
| 36201A-PF-9 | GNMA POOL 577422 | | 06/15/2014 | Direct | | 95 | 95 | 98 | 98 | | (3) | | (3) | | 95 | | | | 2 | 01/15/2032 | 1 |
| 36201D-AX-0 | GNMA POOL 579722 | | 06/15/2014 | Direct | | 510 | 510 | 525 | 523 | | (14) | | (14) | | 510 | | | | 13 | 08/15/2032 | 1 |
| 36201E-AG-5 | GNMA POOL 580607 | | 06/15/2014 | Direct | | 706 | 706 | 727 | 725 | | (19) | | (19) | | 706 | | | | 16 | 02/15/2033 | 1 |
| 36201F-AF-4 | GNMA POOL 581506 | | 06/15/2014 | Direct | | 259 | 259 | 267 | 269 | | (10) | | (10) | | 259 | | | | 5 | 04/15/2033 | 1 |
| 36201K-JQ-0 | GNMA POOL 585371 | | 06/15/2014 | Direct | | 101 | 101 | 104 | 104 | | (2) | | (2) | | 101 | | | | 3 | 04/15/2032 | 1 |
| 36201Y-FD-3 | GNMA POOL 606864 | | 06/15/2014 | Direct | | 778 | 778 | 801 | 800 | | (22) | | (22) | | 778 | | | | 23 | 10/15/2033 | 1 |
| 36207E-ND-2 | GNMA POOL 429788 | | 06/15/2014 | Direct | | 2,639 | 2,639 | 2,718 | 2,733 | | (94) | | (94) | | 2,639 | | | | 54 | 12/15/2033 | 1 |
| 3620C4-2P-4 | GNMA POOL 748782 | | 06/15/2014 | Direct | | 792,987 | 792,987 | 841,062 | 836,612 | | (43,625) | | (43,625) | | 792,987 | | | | 14,855 | 09/15/2040 | 1 |
| 36210J-HW-1 | GNMA POOL 493545 | | 06/15/2014 | Direct | | 98 | 98 | 101 | 101 | | (2) | | (2) | | 98 | | | | 2 | 03/15/2031 | 1 |
| 36213F-U4-3 | GNMA POOL 553303 | | 06/15/2014 | Direct | | 12 | 12 | 12 | 12 | | | | | | 12 | | | | | 06/15/2033 | 1 |
| 36213R-2A-4 | GNMA POOL 562469 | | 06/15/2014 | Direct | | 3,384 | 3,384 | 3,401 | 3,395 | | (12) | | (12) | | 3,384 | | | | 70 | 02/15/2034 | 1 |
| 36213R-ZF-7 | GNMA POOL 562442 | | 06/15/2014 | Direct | | 1,833 | 1,833 | 1,883 | 1,864 | | (31) | | (31) | | 1,833 | | | | 42 | 01/15/2034 | 1 |
| 36213T-GW-7 | GNMA POOL 563713 | | 06/15/2014 | Direct | | 3,174 | 3,174 | 3,268 | 3,256 | | (83) | | (83) | | 3,174 | | | | 76 | 01/15/2033 | 1 |
| 36213U-EZ-9 | GNMA POOL 564552 | | 06/15/2014 | Direct | | 17 | 17 | 17 | 17 | | (1) | | (1) | | 17 | | | | | 12/15/2031 | 1 |
| 36213V-GN-2 | GNMA POOL 565505 | | 06/15/2014 | Direct | | 17 | 17 | 18 | 18 | | (1) | | (1) | | 17 | | | | | 09/15/2032 | 1 |
| 36241K-YU-6 | GNMA POOL 782523 | | 06/15/2014 | Direct | | 167,636 | 167,636 | 180,287 | 181,623 | | (13,987) | | (13,987) | | 167,636 | | | | 3,460 | 11/15/2035 | 1 |
| 36290X-PM-6 | GNMA POOL 620628 | | 06/15/2014 | Direct | | 274 | 274 | 283 | 285 | | (11) | | (11) | | 274 | | | | 7 | 09/15/2033 | 1 |
| 36290X-PT-1 | GNMA POOL 620634 | | 06/15/2014 | Direct | | 276 | 276 | 284 | 282 | | (7) | | (7) | | 276 | | | | 7 | 09/15/2033 | 1 |
| 36290Y-TN-8 | GNMA POOL 621657 | | 06/15/2014 | Direct | | 12 | 12 | 12 | 12 | | | | | | 12 | | | | | 12/15/2033 | 1 |
| 36291C-PV-1 | GNMA POOL 624236 | | 06/15/2014 | Direct | | 2,337 | 2,337 | 2,406 | 2,390 | | (53) | | (53) | | 2,337 | | | | 70 | 12/15/2033 | 1 |
| 36291E-AD-3 | GNMA POOL 625604 | | 06/15/2014 | Direct | | 2,227 | 2,227 | 2,293 | 2,288 | | (61) | | (61) | | 2,227 | | | | 57 | 12/15/2033 | 1 |
| 36291E-AV-3 | GNMA POOL 625620 | | 06/15/2014 | Direct | | 17 | 17 | 17 | 17 | | | | | | 17 | | | | | 12/15/2033 | 1 |
| 36296X-H8-0 | GNMA POOL 704155 | | 06/15/2014 | Direct | | 846,354 | 846,354 | 872,538 | 872,507 | | (26,153) | | (26,153) | | 846,354 | | | | 18,470 | 01/15/2039 | 1 |
| 383742-UK-7 | GNMA GNR 2008-6 EC | | 06/20/2014 | Direct | | 1,177,532 | 1,177,532 | 1,248,184 | 1,187,977 | | (10,445) | | (10,445) | | 1,177,532 | | | | 19,543 | 08/20/2032 | 1 |
| 38374H-EW-6 | GNMA GNR 2004-58 VB | | 06/16/2014 | Direct | | 388,913 | 388,913 | 436,068 | 401,727 | | (12,815) | | (12,815) | | 388,913 | | | | 8,870 | 04/16/2028 | 1 |
| 38376V-BM-8 | GNMA GNR 2010-20 PU | | 06/16/2014 | Direct | | 893,913 | 893,913 | 984,003 | 932,804 | | (38,892) | | (38,892) | | 893,913 | | | | 16,824 | 10/16/2036 | 1 |
| 38376W-6C-4 | GNMA GNR 2010-33 LN | | 06/20/2014 | Direct | | 53,059 | 53,059 | 56,640 | 56,572 | | (3,514) | | (3,514) | | 53,059 | | | | 1,011 | 02/20/2038 | 1 |
| 0599999 - Bonds - U.S. Governments | | | | | | 4,488,727 | 4,488,727 | 4,791,930 | 4,642,287 | | (153,560) | | (153,560) | | 4,488,727 | | | | 86,696 | XXX | XXX |
| 30711X-AC-8 | CONNECTICUT AVE. SEC. 2014-C01 M1 | | 06/25/2014 | Direct | | 101,235 | 101,235 | 101,235 | | | | | | | 101,235 | | | | 601 | 01/25/2024 | 1 |
| 3128MD-W3-3 | FG G14966 | | 06/15/2014 | Direct | | 98,345 | 98,345 | 100,428 | | | (2,082) | | (2,082) | | 98,345 | | | | 980 | 11/01/2028 | 1 |
| 31359S-2G-4 | FNMA WHOLE LOAN NW 2001-W1 AF6 | | 06/25/2014 | Direct | | 5,909 | 5,909 | 6,135 | 5,946 | | (38) | | (38) | | 5,909 | | | | 169 | 07/25/2031 | 1 |
| 31387C-M3-2 | FNMA POOL 580078 | | 06/25/2014 | Direct | | 102 | 102 | 104 | 104 | | (3) | | (3) | | 102 | | | | 3 | 09/01/2031 | 1 |
| 3138W9-U4-0 | FNMA POOL AS0602 | | 06/25/2014 | Direct | | 110,413 | 110,413 | 109,395 | | | 1,018 | | 1,018 | | 110,413 | | | | 897 | 09/01/2028 | 1 |
| 31394Y-KX-1 | FHLMC 2791 UG | | 06/15/2014 | Direct | | 188,272 | 188,272 | 186,624 | 187,534 | | 738 | | 738 | | 188,272 | | | | 3,922 | 05/15/2019 | 1 |
| 31402D-F7-0 | FNMA POOL 725690 | | 06/25/2014 | Direct | | 234,326 | 234,326 | 242,143 | 242,142 | | (7,816) | | (7,816) | | 234,326 | | | | 5,829 | 08/01/2034 | 1 |
| 31402D-PT-1 | FNMA POOL 725934 | | 06/25/2014 | Direct | | 228,908 | 228,908 | 243,251 | 239,398 | | (10,489) | | (10,489) | | 228,908 | | | | 4,712 | 11/01/2019 | 1 |
| 31405R-AR-7 | FNMA POOL 796616 | | 06/25/2014 | Direct | | 180,739 | 180,739 | 183,520 | 183,803 | | (3,065) | | (3,065) | | 180,739 | | | | 3,695 | 10/01/2034 | 1 |
| 31407U-EK-9 | FNMA POOL 840838 | | 06/25/2014 | Direct | | 1,881 | 1,881 | 1,857 | 1,847 | | 35 | | 35 | | 1,881 | | | | 43 | 11/01/2035 | 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 | | | | | | 1,150,130 | 1,150,130 | 1,174,693 | 860,774 | | (21,703) | | (21,703) | | 1,150,130 | | | | 20,850 | XXX | XXX |
| 03072S-LD-5 | AMERIQUEST MORTGAGE SECURITIES 2003-IA1 | | 06/25/2014 | Direct | | 73,811 | 73,811 | 73,811 | 73,609 | | 202 | | 202 | | 73,811 | | | | 1,531 | 11/25/2033 | 1FM |
| 034863-AA-8 | ANGLO AMERICAN CAPITAL | R | 04/08/2014 | Maturity | | 3,000,000 | 3,000,000 | 3,511,260 | 3,033,980 | | (33,980) | | (33,980) | | 3,000,000 | | | | 140,625 | 04/08/2014 | 2FE |
| 05947U-M2-1 | BANC OF AMERICA COMM MTG BACM 2005-2 A5 | | 06/10/2014 | Direct | | 172,346 | 172,346 | 169,404 | 171,776 | | 571 | | 571 | | 172,346 | | | | 3,078 | 07/10/2043 | 1FM |
| 07383F-7W-2 | BEAR STEARNS COMMERICAL MTG 2005-PWR8 A4 | | 06/11/2014 | Direct | | 351,034 | 351,034 | 344,438 | 349,781 | | 1,253 | | 1,253 | | 351,034 | | | | 8,417 | 06/11/2041 | 1FM |
| 07387B-AH-6 | BEAR STEARNS COMM MTG 2005-PWR9 A4A | | 06/11/2014 | Direct | | 149,690 | 149,690 | 150,512 | 149,674 | | 16 | | 16 | | 149,690 | | | | 3,127 | 09/11/2042 | 1FM |
| 09774X-AK-8 | BOMBARDIER CAPITAL MORTGAGE SE 1998-B M1 | I | 06/01/2014 | | | | | 18,513 | 16,110 | | (15,403) | | (15,403) | | | | | | | 10/15/2028 | 6FE |
| 1248MB-AJ-4 | CREDIT-BASED ASSET SEVICING 2007-CB2 A2C | | 06/25/2014 | Direct | | 48,317 | 48,317 | 27,693 | 27,693 | | 20,624 | | 20,624 | | 48,317 | | | | 920 | 02/25/2037 | 1FM |

# 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) |
| 12513E-AG-9 | CITIGROUP DEUTSCHE BANK 2005-CD1 A4 | | 06/17/2014 | VARIOUS | | 89,392 | 89,392 | 89,468 | 89,362 | | 30 | | 30 | | 89,392 | | | | 2,164 | 07/15/2044 | 1FM |
| 126171-AF-4 | COMMERCIAL MTG PASS-THROUGH COMM 2005-C6 | | 06/10/2014 | Direct | | 191,367 | 191,367 | 192,311 | 191,833 | | (466) | | (466) | | 191,367 | | | | 4,683 | 06/10/2044 | 1FM |
| 126671-UU-8 | COUNTRYWIDE ASSET-BACKED CERTS 2003-BC1 | | 06/25/2014 | Direct | | 106,701 | 106,702 | 83,120 | 87,134 | | 19,567 | | 19,567 | | 106,702 | | | | 433 | 03/25/2033 | 1FM |
| 13056R-AA-4 | CALIFORNIA REP. AUTO REC. 2012-1 A | | 06/15/2014 | Direct | | 32,986 | 32,986 | 33,036 | | | (50) | | (50) | | 32,986 | | | | 96 | 08/15/2017 | 1FE |
| 14040H-AS-4 | CAPITAL ONE FINANCIAL CO | | 05/23/2014 | Maturity | | 3,000,000 | 3,000,000 | 3,367,050 | 3,033,998 | | (33,998) | | (33,998) | | 3,000,000 | | | | 110,625 | 05/23/2014 | 2FE |
| 173067-EE-5 | CITIGROUP COMMERCIAL MTG TRUST CGCMT 200 | | 06/17/2014 | Direct | | 997,220 | 997,220 | 1,002,140 | 995,723 | | 1,497 | | 1,497 | | 997,220 | | | | 20,173 | 10/15/2041 | 1FM |
| 17307G-CU-0 | CREDIT BASED ASSET SERVICE CMLTI 2003-HE | | 06/25/2014 | Direct | | 68,185 | 68,185 | 62,011 | 62,531 | | 5,654 | | 5,654 | | 68,185 | | | | 157 | 12/25/2033 | 1FM |
| 21079U-AA-3 | CONTL AIRLINES 2009-2 | | 05/10/2014 | Direct | | 25,388 | 25,388 | 28,815 | 28,278 | | (2,890) | | (2,890) | | 25,388 | | | | 920 | 05/10/2021 | 2FE |
| 22546Q-AA-5 | CREDIT SUISSE NEW YORK | F | 05/01/2014 | Maturity | | 2,000,000 | 2,000,000 | 2,163,900 | 2,012,761 | | (12,761) | | (12,761) | | 2,000,000 | | | | 55,000 | 05/01/2014 | 1FE |
| 32027N-MH-1 | FIRST FRANKLIN MTG LOAN ASSET FFML 2004- | | 06/25/2014 | Direct | | 78,384 | 78,384 | 76,180 | 78,127 | | 257 | | 257 | | 78,384 | | | | 418 | 09/25/2034 | 1FM |
| 36228C-VU-4 | GS MORTGAGE SECURITIES CORP 2005-GG4 A4A | | 06/12/2014 | Direct | | 74,836 | 74,836 | 73,892 | 74,634 | | 202 | | 202 | | 74,836 | | | | 1,691 | 07/10/2039 | 1FM |
| 36962G-4C-5 | GENERAL ELEC CAP CORP | | 05/13/2014 | Maturity | | 4,000,000 | 4,000,000 | 4,367,880 | 4,031,969 | | (31,969) | | (31,969) | | 4,000,000 | | | | 118,000 | 05/13/2014 | 1FE |
| 45254N-JG-3 | IMPAC CMB TRUST IMM 2004-5 1A1 | | 06/25/2014 | Direct | | 99,203 | 99,203 | 89,778 | 91,307 | | 7,896 | | 7,896 | | 99,203 | | | | 356 | 10/25/2034 | 1FM |
| 57643L-BY-1 | MASTR ASSET BACKED SEC TRUST 2003-WMC2 | | 06/25/2014 | Direct | | 209,556 | 209,556 | 199,340 | 200,925 | | 8,631 | | 8,631 | | 209,556 | | | | 999 | 08/25/2033 | 1FM |
| 59022H-NC-2 | MERRILL LYNCH MORTGAGE TRUST 2005-LC1 A4 | | 06/12/2014 | Direct | | 71,594 | 71,594 | 71,985 | 71,550 | | 45 | | 45 | | 71,594 | | | | 1,617 | 01/12/2044 | 1FM |
| 59217E-BW-3 | MET LIFE GLOB FUNDING I | | 06/10/2014 | Maturity | | 3,000,000 | 3,000,000 | 3,172,680 | 3,017,538 | | (17,538) | | (17,538) | | 3,000,000 | | | | 76,875 | 06/10/2014 | 1FE |
| 617451-FL-8 | MORGAN STANLEY CAPITAL 2006-HQ8 A4 | | 06/13/2014 | Direct | | 122,673 | 122,673 | 131,821 | 130,787 | | (8,114) | | (8,114) | | 122,673 | | | | 3,218 | 03/12/2044 | 1FM |
| 61747Y-CF-0 | MORGAN STANLEY | | 05/13/2014 | Maturity | | 3,000,000 | 3,000,000 | 3,222,330 | 3,019,199 | | (19,199) | | (19,199) | | 3,000,000 | | | | 90,000 | 05/13/2014 | 1FE |
| 61748A-AE-6 | MORGAN STANLEY | | 04/01/2014 | Maturity | | 2,300,000 | 2,300,000 | 2,244,409 | 2,298,175 | | 1,825 | | 1,825 | | 2,300,000 | | | | 54,625 | 04/01/2014 | 2FE |
| 61750W-AX-1 | MORGAN STANLEY CAPTIAL I 2006-IQ12 | | 06/15/2014 | Direct | | 10,792 | 10,792 | 10,851 | 10,792 | | | | | | 10,792 | | | | 214 | 12/15/2043 | 1FM |
| 628530-AW-7 | MYLAN INC | | 04/02/2014 | JEFFERIES & CO. - BONDS DIRECT | | 506,905 | 500,000 | 499,625 | 499,688 | | 34 | | 34 | | 499,722 | | 7,183 | 7,183 | 2,575 | 06/24/2016 | 2FE |
| 68383N-AA-1 | OPTEUM MORTGAGE ACCEPTANCE OPMAC 2005-1 | | 06/25/2014 | Direct | | 221,501 | 221,501 | 210,928 | 219,059 | | 2,442 | | 2,442 | | 221,501 | | | | 381 | 02/25/2035 | 1FM |
| 71085P-BM-4 | PEOPLE'S CHOICE H L SEC T 2005-1 M3 | | 06/25/2014 | Direct | | 197,850 | 197,850 | 194,882 | 195,310 | | 2,540 | | 2,540 | | 197,850 | | | | 863 | 01/25/2035 | 1FE |
| 725906-AH-4 | PLACER DOME INC | I | 05/29/2014 | MILLENNIUM ADVISORS, LLC | | 1,044,850 | 1,000,000 | 1,012,747 | 1,010,609 | | (123) | | (123) | | 1,010,486 | | 34,364 | 34,364 | 48,167 | 03/01/2033 | 2FE |
| 74153W-BY-4 | PRICOA GLOBAL FUNDING 1 | | 06/11/2014 | Maturity | | 3,000,000 | 3,000,000 | 3,178,560 | 3,018,338 | | (18,338) | | (18,338) | | 3,000,000 | | | | 81,750 | 06/11/2014 | 1FE |
| 759950-BG-2 | Renaissance Home Equ. Loan Trust 2003-3 | | 06/25/2014 | Direct | | 70,725 | 70,725 | 49,507 | 52,996 | | 17,729 | | 17,729 | | 70,725 | | | | 247 | 12/25/2033 | 1FM |
| 76110W-2X-3 | RESIDENTIAL ASSET SECURITIES C RASC 2005 | | 06/25/2014 | Direct | | 317,871 | 317,871 | 302,210 | 315,608 | | 2,264 | | 2,264 | | 317,871 | | | | 812 | 08/25/2035 | 1FM |
| 76110W-W6-9 | RESIDENTIAL ASSET SECURITIES C RASC 2005 | | 04/25/2014 | Direct | | 5,622 | 5,622 | 5,327 | 5,600 | | 21 | | 21 | | 5,622 | | | | 11 | 06/25/2035 | 1FM |
| 76112B-PB-0 | RESIDENTIAL ASSET MORTGAGE RAMP 2005-RS4 | | 06/25/2014 | Direct | | 566,072 | 566,072 | 527,862 | 546,715 | | 19,357 | | 19,357 | | 566,072 | | | | 1,342 | 04/25/2035 | 1FM |
| 81375W-DS-2 | SECURITIZED ASSET BACKED REC SABR 2005-F | | 04/25/2014 | Direct | | 50,570 | 50,570 | 47,473 | 48,002 | | 2,568 | | 2,568 | | 50,570 | | | | 140 | 12/25/2034 | 1FM |
| 81744Y-AA-4 | SEQUOIA MORTGAGE TRUST 2013-4 A1 | | 06/25/2014 | Direct | | 44,238 | 44,238 | 43,381 | 43,399 | | 839 | | 839 | | 44,238 | | | | 425 | 04/25/2043 | 1FM |
| 83611M-GS-1 | SOUNDVIEW HOME EQUITY LOAN SVHE 2005-OPT | | 06/25/2014 | Direct | | 134,070 | 134,070 | 127,552 | 132,086 | | 1,984 | | 1,984 | | 134,070 | | | | 262 | 11/25/2035 | 1FM |
| 90521A-PH-5 | UNION BANK NA | R | 04/02/2014 | Goldman Sachs | | 1,115,312 | 1,100,000 | 1,097,206 | 1,097,451 | | 242 | | 242 | | 1,097,693 | | 17,619 | 17,619 | 8,754 | 09/26/2016 | 1FE |
| 92553P-AE-2 | VIACOM INC | | 04/01/2014 | Redemption | | 4,070,918 | 4,000,000 | 4,095,000 | 4,014,872 | | (5,317) | | (5,317) | | 4,009,555 | | 61,363 | 61,363 | 96,250 | 09/15/2014 | 2FE |
| 92978P-AE-9 | WACHOVIA BANK COMMERICAL MTG 2006-C29 | | 06/17/2014 | Direct | | 1,677 | 1,677 | 1,685 | 1,677 | | | | | | 1,677 | | | | 36 | 11/15/2048 | 1FM |
| 3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated) | | | | | | 34,621,654 | 34,483,670 | 36,372,572 | 34,550,655 | | (81,859) | | (81,859) | | 34,501,125 | | 120,529 | 120,529 | 941,977 | XXX | XXX |
| 8399997 - Subtotals - Bonds - Part 4 | | | | | | 40,260,511 | 40,122,526 | 42,339,196 | 40,053,717 | | (257,122) | | (257,122) | | 40,139,982 | | 120,529 | 120,529 | 1,049,523 | XXX | XXX |
| 8399999 - Subtotals - Bonds | | | | | | 40,260,511 | 40,122,526 | 42,339,196 | 40,053,717 | | (257,122) | | (257,122) | | 40,139,982 | | 120,529 | 120,529 | 1,049,523 | XXX | XXX |
| 9999999 Totals | | | | | | 40,260,511 | XXX | 42,339,196 | 40,053,717 | | (257,122) | | (257,122) | | 40,139,982 | | 120,529 | 120,529 | 1,049,523 | 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 |
|---|---|---|---|---|---|---|---|---|
| Depository | Code | Rate of Interest | Amount of Interest Received During Current Quarter | Amount of Interest Accrued at Current Statement Date | 6<br>First Month | 7<br>Second Month | 8<br>Third Month | * |
| J.P. Morgan Chase Bank New York, NY | | | | | 4,678,269 | 5,308,432 | 4,255,942 | XXX |
| U.S. Bank, NA Washington, DC | | | | | | | | 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 | | | 4,678,269 | 5,308,432 | 4,255,942 | XXX |
| 0399999 Total Cash on Deposit | XXX | XXX | | | 4,678,269 | 5,308,432 | 4,255,942 | XXX |
| 0499999 Cash in Company's Office | XXX | XXX | XXX | XXX | 541 | 541 | 638 | XXX |
| 0599999 Total | XXX | XXX | | | 4,678,810 | 5,308,973 | 4,256,580 | XXX |

# SCHEDULE E - PART 2 - CASH EQUIVALENTS

**Show Investments Owned End of Current Quarter**

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