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ACA Financial Guaranty Corporation

Statutory Financial Statements and Supplementary Information

December 31, 2015 and 2014

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Independent Auditors' Report

To the Board of Directors of
ACA Financial Guaranty Corporation

We have audited the accompanying financial statements of the ACA Financial Guaranty Corporation (the "Company") which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2015, and the related statutory statements of operations and changes in capital and surplus and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the accounting practices prescribed or permitted by the Maryland Insurance Administration. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America
As described in Note 4 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by the Company using the accounting practices prescribed or permitted by the Maryland Insurance Administration, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Maryland Insurance Administration.

The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 5 to the statutory-basis financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the statutory-basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2015, or the results of its operations or its cash flows for the year then ended.

Opinion on Statutory-Basis of Accounting

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in accordance with the accounting practices prescribed or permitted by the Maryland Insurance Administration as described in Note 4 to the statutory-basis financial statements.

Prior Period Financial Statements on Accounting Principles Generally Accepted in the United States of America

The financial statements of the Company as of December 31, 2014, were audited by other auditors whose opinion dated May 20, 2015 on those statements was adverse because of the departure from generally accepted accounting principles described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph.

Prior Period Financial Statements on Statutory-Basis of Accounting

The financial statements of the Company as of December 31, 2014 were audited by other auditors whose report dated May 20, 2015, expressed an unmodified opinion on those statements on the basis of accounting as described in Note 4.

Report on Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Summary Investment Schedule, Investment Risk Interrogatories, and Reinsurance Interrogatories are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

WeiserMazars LLP

May 18, 2016

ACA Financial Guaranty Corporation
Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus
December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Admitted Assets:		
Bonds — At NAIC carrying value	$ 320,614	$ 364,588
Cash and short-term investments	6,082	4,040
Receivable for securities	19	-
Total cash and investments	326,715	368,628
Accrued investment income	2,009	2,202
Other assets	1,294	35
Total admitted assets	$ 330,018	$ 370,865
Liabilities and Capital and Surplus:		
Liabilities:		
Loss and loss adjustment expenses	$ 114,831	$ 110,117
Unearned premiums	74,263	92,644
Contingency reserve	95,925	95,925
Payable to subsidiaries	83	83
Accrued expenses and other liabilities	3,750	5,194
Total liabilities	288,852	303,963
Capital and Surplus:		
Common stock — 1,000,000 shares authorized, issued and outstanding at December 31, 2015 and 2014; par value of $15 per share	15,000	15,000
Gross paid-in and contributed surplus	363,974	363,974
Unassigned deficit	(337,808)	(312,072)
Total capital and surplus	41,166	66,902
Total liabilities and capital and surplus	$ 330,018	$ 370,865

The accompanying notes are an integral part of these statutory financial statements.

ACA Financial Guaranty Corporation
Statutory Statements of Operations and Changes in Capital and Surplus
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Underwriting income:		
Premiums earned	$ 18,444	$ 27,021
Underwriting expenses:		
Losses and loss adjustment expenses	49,225	43,919
Underwriting expenses incurred	9,556	16,489
Total underwriting expenses	58,781	60,408
Underwriting loss	(40,337)	(33,387)
Net investment income	12,660	15,314
Net realized capital gains	2,203	495
Other income	-	3,305
Loss before federal income taxes	(25,474)	(14,273)
Federal income taxes	-	-
Net loss	(25,474)	(14,273)
Capital and surplus as regards policyholders — beginning of year	66,902	89,047
Change in net unrealized capital (losses) gains	(95)	31
Change in contingency reserve	-	(7,964)
Change in deferred income tax	(232)	2,316
Change in non-admitted assets	93	(2,255)
Prior period adjustments	(28)	-
Capital and surplus as regards policyholders — end of year	$ 41,166	$ 66,902

The accompanying notes are an integral part of these statutory financial statements.

ACA Financial Guaranty Corporation
Statutory Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Cash from operations:		
Premiums collected net of reinsurance	$ 62	$ 62
Net investment income	14,452	17,269
Other income	-	3,305
Losses and loss related payments	(42,489)	(19,671)
Commissions, expenses paid and aggregate write-ins for deductions	(12,767)	(19,589)
Federal income taxes paid	(196)	-
Net cash from operations	(40,938)	(18,624)
Cash from investments:		
Proceeds from investments sold or matured	179,711	220,243
Cost of investments acquired	(135,238)	(205,431)
Miscellaneous applications	(19)	-
Net cash from investments	44,454	14,812
Cash from financing and miscellaneous sources:		
Other cash (applied) provided, net	(1,474)	(298)
Net cash from financing and miscellaneous sources	(1,474)	(298)
Net change in cash and short-term investments	2,042	(4,110)
Cash and short-term investments — beginning of year	4,040	8,150
Cash and short-term investments — end of year	$ 6,082	$ 4,040

The accompanying notes are an integral part of these statutory financial statements.

1. Business and Organization

ACA Financial Guaranty Corporation (the “Company”, “ACA FG”, or “ACA”) is organized and domiciled in the State of Maryland and is a licensed, authorized and accredited insurance company in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. The Company is authorized to provide financial guaranty insurance on tax-exempt and other debt obligations, as well as on certain obligations related to asset-backed and corporate financings. As further discussed in Note 2, since December 2007, the Company has not issued any new financial guaranty insurance policies and is currently operating as a run-off insurance company.

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

The Company’s common stock is owned 100% by Manifold Capital, LLC (ACACH), a Delaware limited liability company, legal successor to Manifold Capital Corp. (formerly ACA Capital Holdings, Inc.), a Delaware corporation. As of April 7, 2016, ACACH is a wholly owned subsidiary of Broadside Financial Ltd., a British Virgin Island limited company that is also ACACH’s sole member. Effective at the closing of the Restructuring Transaction discussed in Note 2, ACACH and its wholly owned subsidiaries disclaimed control over the Company and voting control of the Company became vested in the surplus notes issued in connection with the restructuring. This disclaimer of control was approved by the Maryland Insurance Administration (“MIA”).

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

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. 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 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 with the noteholders in exchange for a cash payment by the Company of approximately $48 million and the transfer by the Company to the noteholders 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 Significant Risks and Uncertainties and the Company's On-Going Strategic Plan

Description of Significant Risks and Uncertainties

- As further discussed in Note 4, ACA FG recognizes losses and establishes related loss reserves on bond obligations it has insured 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 FG 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. However, ACA FG has policies in-force upon which it believes that it is probable that payment defaults will occur in the future. Such expected future losses (hereafter referred to as "Off-Balance Sheet Losses") are not recorded by the Company in the accompanying Statements of Admitted Assets, Liabilities and Capital and Surplus at December 31, 2015 and December 31, 2014 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 \$40 million to \$60 million at December 31, 2015, on a discounted basis. Accordingly, the Company believes it will incur material losses in the future which will materially and 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 surplus will be in excess of Maryland's required minimum surplus over the twelve months succeeding the date of the accompanying Statement of Admitted Assets, Liabilities and Capital and Surplus 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 10), 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 19, the Company classifies its insured in-force portfolio in one of four credit quality categories. As noted therein, as of December 31, 2015, the Company had insured obligations with outstanding principal totaling \$375.9 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 \$208.1 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 10, 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 FG's insured guaranties will not occur resulting in a further migration of insured exposure to categories 3 and/or 4 or that ACA FG 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, subrogation rights enable the Company 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 severity of loss 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 remaining unpaid 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, willingness of the obligor or sponsor to honor its commitments, changes in the expected timing of claims payments and recoveries, and changes in 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 Company is involved in a number of legal proceedings, both as plaintiff and defendant, as well as regulatory inquiries and investigations. Management cannot predict the outcomes of these proceedings and other contingencies with certainty. In addition, it is not possible to predict whether additional suits will be filed or whether additional inquiries or investigations will be commenced. The outcome of some of these proceedings and other contingencies could require the Company to take or refrain from taking actions which could have a material adverse effect on its business, financial position or cash flows or could require the Company to pay (or fail to receive) substantial amounts of money. Additionally, prosecuting and defending these lawsuits and proceedings may involve significant expense and diversion of resources from other matters. See Note 16.

- ACA FG 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 FG's surplus notes are considered stock and ACA FG's surplus note holders are considered shareholders.

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

ACA FG experienced an ownership change for purposes of Section 382 in 2014. As a consequence of the ownership change, ACA FG's ability to use its NOLs will be limited to approximately $5.3 million on an annual basis.

Since the ownership change mentioned above, the Company has generated significant net operating losses in 2014 and 2015. As a result of continuing transfers of surplus notes since the previous ownership change, ACA FG's current aggregate percentage is again approaching a significant amount which may result in a subsequent ownership change. Another ownership change may further limit the initial NOL limitation and could impact the ability to fully utilize NOLs generated in 2014 and 2015.

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 losses, (ii) increase the Company's capital, surplus, liquidity and claims paying resources, (iii) realize maximum value from various legal proceedings described in Note 16 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. The Company has taken steps to reduce operating expenses and expects to take further steps in the future as the insured portfolio and remediation activities decrease. ACA's Board conducted a strategic review of the Company's finances and operations in 2014, including exploration of a sale or reinsurance assumption and outsourcing management of the Company's operations. The sale and reinsurance assumption efforts were not successful and there are no present efforts to sell the Company. Although competitive outsourcing proposals were received from other financial guaranty companies and other third parties, the Company ultimately decided that the expense reduction plan developed in late 2014 was the most optimal path forward. 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. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying financial statements of the Company are presented in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual Statement of Statutory Accounting Principles (" NAIC SAP") which has been adopted as a component of

prescribed or permitted practices by the MIA effective January 1, 2001 ("MIA SAP"). The differences between NAIC SAP and MIA SAP are not applicable to the Company. These practices differ in certain material respects from accounting principles generally accepted in the United States of America ("GAAP"), as described in Note 5. Set forth below is a description of the NAIC SAP accounting policies which are significant to the preparation of the accompanying financial statements. The Company's financial statements are presented in U.S. dollars (USD) and all values are rounded to the nearest USD thousands except where stated otherwise. Percentages are rounded up to the nearest first decimal.

Estimates and Assumptions

The preparation of financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include those used in determining reserves for losses and loss adjustment expenses, contingent liabilities, and the valuation of bonds.

Cash, Cash Equivalents and Short-term Investments

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

Investments

Investments are valued in accordance with the valuation procedures of the NAIC. Investment grade bonds are generally carried at amortized cost and the amortization of premium or accretion of discount is determined using the constant yield method. Non-investment grade bonds, as determined by the Securities Valuation Office ("SVO") division of the NAIC or management, are carried at the lower of amortized cost or fair value.

Bonds and loan-backed securities assigned an NAIC Designation of 1 or 2 are valued at amortized cost, adjusted for amortization of premium and accretion of 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 premium and accretion of discount which is calculated using the constant yield method, or fair value. The prospective method is used to adjust amortization or accretion of loan-backed securities.

Realized capital gains and losses on dispositions of investments are determined on the basis of specific identification and are included in net income. Declines in fair values, which are determined to be other than temporary ("OTTI"), are recorded as realized capital losses. In 2015 and 2014, the Company recognized $0 million and $1.7 million, respectively, in other than temporary impairments on certain of its bonds.

The Company continuously monitors securities that have an estimated fair value that is below amortized cost in order to determine if there is any evidence that the decline in estimated fair value is other-than-temporary. For securities expected to be sold, an OTTI charge is recognized if the Company does not expect the fair value of a security to recover its cost or amortized cost basis prior to the expected date of sale. 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.

For loan-backed bonds and structured securities, anticipated prepayments at the date of purchase are considered when determining the amortization of discount or premium. The cash flows of loan-backed and structured securities are reviewed to ensure that any movement in the expected prepayment assumptions of a security are reflected in the adjusted book value of the asset. If management determines that its best estimate of expected future cash flows discounted at the security's effective yield prior to the impairment are less than its amortized cost, then an OTTI charge is recognized equal to the difference between the amortized cost and the Company's best estimate of expected future cash flows discounted at the security's effective yield prior to the impairment. An external service is used to determine the average prepayment speed adjustments. Significant changes in estimated cash flow from the original purchase assumptions are generally accounted for using the retrospective method. The prospective method is used for interest only securities or securities where the yield becomes negative, if any.

The Company receives dividends from its subsidiary, ACA Service, L.L.C. related to its prior CDO asset management business. These dividends are recorded as net investment income (see Note 6).

Premium Revenue Recognition
Typically, financial guaranty premiums 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. When a full loss on a guaranteed obligation is reflected in the financial statements and no further variability exists as to the measurement of the loss, the remaining unearned premiums are recognized as earned since the Company is no longer exposed to insurance risk. Unearned premiums, net of prepaid reinsurance premiums, represent the unearned portion of upfront and installment premiums written.

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 years ended December 31, 2015 and 2014, the Company recorded earned premiums of \$15.4 million and \$20.9 million, respectively, related to Refundings.

Other Income Revenue Recognition
The Company collects fees in connection with the granting of waivers and consents in connection with insured tax-exempt transactions. These fees are recognized by the Company as other income when the cash is received. In 2014, the Company recorded other income of \$3.3 million which primarily consisted of a settlement agreement received from one of the Company's former insurance carriers with respect to claims for coverage for certain investigations and lawsuits in the amount of \$3.1 million.

Loss and LAE Reserves
The Company records a loss with respect to an insurance guaranty upon a payment default by the issuer of the insured obligation (a payment default is generally considered the incident which gives rise to a claim under the Company's insurance policies and triggers loss recognition relating to the incident). The

loss recorded by the Company represents its best estimate of the present value of its ultimate claim payments under the policy, net of its best estimate of the present value of any recoveries from salvage or subrogation rights under the policy. The Company's liability for losses reported on the accompanying Statements of Admitted Assets, Liabilities and Surplus (and also known as "loss reserves" "reserves for unpaid losses", "case reserves", or "case basis reserves") represents the present value of the Company's estimated ultimate losses that remain unpaid at the balance sheet date with respect to policies meeting the aforementioned criteria for loss recognition. Loss adjustment expenses ("LAE") are recorded by the Company in regard to insurance guaranties when costs are incurred or expected to be incurred to remediate probable 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. At December 31, 2015 and 2014, the discount rate used by the Company to present value its loss reserves was 3.07% and 3.12%, respectively. 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. Loss reserves are discounted at a rate equal to the average rate of return on 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 differ from estimates and such difference may be material, due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred. Examples of these events include changes in the level of interest rates, credit deterioration of 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.

The Company purchases its own insured bonds in the marketplace for the purposes of loss remediation. These purchases are recorded as loss payments when made. A corresponding reduction of modeled losses is also recorded in the financial statements for those credits with a reserve or to the Off-Balance Sheet amount disclosed in Note 3.

See Note 3 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 Statements of Admitted Assets, Liabilities and Capital and Surplus because a payment default by the issuer of the insured obligation has not yet occurred. In addition, see Note 7 for a reconciliation of the beginning and ending balances of the reserve for losses and loss adjustment expenses as of December 31, 2015 and 2014.

Surplus Notes
As discussed in Note 2, as part of the Restructuring Transaction, the Company made a cash payment and issued non-interest bearing surplus notes with a principal amount of $1 billion to settle counterparty claims. Due to the unique nature of the transaction, and in consultation with the MIA, the Company recorded the issuance of surplus notes with a fully offsetting contra account. This accounting treatment has resulted in a net balance of $0 reported as surplus notes. Payment of principal, or any other distributions, on the surplus notes may not be recognized until approved by the MIA. Upon the MIA's approval, unassigned funds (surplus) and the contra account will be adjusted to reflect the amount approved. Upon payment, the principal amount of the surplus notes would be reduced by the amount of such payment. No payments have been made under the surplus notes.

Contingency Reserve
A statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in "Contingency Reserve" in the Statements of Admitted Assets, Liabilities and Capital and Surplus. 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. Under Statutory Statement of Accounting Principles ("SSAP") 60, contributions to the contingency reserve may be discontinued if the total contingency reserve already recorded exceeds a calculated amount based upon unpaid principal guaranteed and prescribed percentages by bond category. The Company's established contingency reserve is in excess of this calculated amount. The Company has discontinued its contributions in the fourth quarter of 2014. Reductions in the contingency reserve may be recognized under certain stipulated conditions, subject to the approval of the MIA. In May 2015, the Company requested the MIA's approval to release contingency reserves equal to the amount in excess of the calculated maximum amount at December 31, 2014. The MIA denied the request in November 2015.

Income Taxes
Deferred tax assets and liabilities are provided for the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities. The change in the deferred tax assets and liabilities are charged or credited to surplus. Deferred tax assets that exceed statutory limits are designated as a non-admitted asset and charged directly to surplus. Deferred taxes are also subject to a valuation allowance.

5. Summary of Significant Differences between NAIC SAP and GAAP

The accompanying statutory-basis financial statements have been prepared in conformity with NAIC SAP, which differs in some respects from GAAP. The following is a description of the differences between the Company's significant NAIC SAP accounting policies and pertinent GAAP.

- Under NAIC SAP, upfront premiums are earned in proportion to current scheduled principal and interest payments due pursuant to the debt service schedule in the bond indenture to the total principal and interest payments scheduled to be paid over the life of the debt obligation. Additionally, under NAIC SAP, installment premiums are earned on a straight-line basis over each installment period (which periods are generally one year or less). Under GAAP, premium revenue is recognized over the period of the contract in proportion to the amount of insurance protection provided. Upfront and installment premium revenue is earned by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guaranty insurance contract. Additionally, under GAAP, installment premiums receivable are recorded at the present value of the premiums due or expected to be collected over the period of the insurance contract using a discount rate which reflects the risk-free rate at the inception of the contract, whereas under NAIC SAP no receivable is recorded unless the amounts are due pursuant to the insurance contract;

- Under NAIC SAP, acquisition costs are charged to operations as incurred rather than GAAP's requirement to defer and amortize the costs as the related premiums are earned;

- Under NAIC SAP, a mandatory contingency reserve is computed and recorded on the basis of statutory requirements, whereas under GAAP such reserves are not permitted;

- Under NAIC SAP, losses on financial guaranty insurance policies are recognized upon a payment default by the issuer of the insured obligation whereas, under GAAP, losses on financial guaranty insurance policies are recognized when the weighted average probability of net cash outflows to be paid under the insurance contract exceed unearned premium reserves. In addition, under NAIC SAP, reserves for losses are discounted at a rate equal to the average rate of return on admitted assets, whereas under GAAP loss reserves are discounted using a risk-free rate as of the measurement date and are reported net of the liability at such date for unearned premium revenue;

- Under NAIC SAP, certain assets which are determined to be non-admissible under NAIC SAP (such as furniture and equipment, leasehold improvements, deferred income taxes in excess of certain limitations, prepaid expenses and any other assets deemed non-admittable) are excluded from the statements of admitted assets, liabilities and surplus and charged directly to unassigned surplus whereas, under GAAP, these amounts are reflected as assets;

- Investments in bonds are generally carried at amortized cost under NAIC SAP. Accordingly, unrealized changes in fair value are not reflected in the statutory-based statements of income and changes in capital and surplus or the statutory statements of admitted assets, liabilities and surplus. Bonds not qualified to be carried at amortized cost under NAIC SAP are carried at the lower of amortized cost or fair value as required by the NAIC with the differences between these values recorded directly to unassigned surplus net of an adjustment for deferred federal income taxes. Under GAAP, investments in bonds are classified at the time of purchase as "held to maturity" and reported at amortized cost, or "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported in a separate component of shareholders' equity net of an adjustment for deferred federal income taxes;

- Under NAIC SAP, investment in the Company's wholly owned subsidiaries are accounted for under the statutory equity method of accounting, whereas under GAAP such subsidiaries are consolidated into the financial statements of the Company;

- Under NAIC SAP, reserves for unpaid losses and unearned premiums are presented net of reinsurance, whereas under GAAP such amounts are presented gross of reinsurance and corresponding assets for reinsurance recoverable on unpaid losses and prepaid reinsurance premiums are recorded;

- Under NAIC SAP, surplus notes are treated as equity and reported as part of capital and surplus, whereas under GAAP surplus notes may be recorded either as liabilities or equity depending upon whether the characteristics, or economic substance, of such securities are deemed to be more like debt or equity, respectively.

(dollars in thousands)

Although the net effect of the adjustments required to convert the accompanying statutory-basis financial statements to be in accordance with GAAP is not reasonably determinable, it is presumed that such adjustments would have a material effect on net income and surplus as regards policyholders for the years ended December 31, 2015 and 2014, respectively.

6. Investments

Bonds, with an NAIC carrying value of $4.8 million and $4.8 million were on deposit with various state regulatory authorities at December 31, 2015 and 2014, respectively, as required by insurance regulations.

The amortized cost and estimated fair value of bonds as of December 31, 2015 and 2014, were as follows:

	2015			
Investment Categories	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. — Treasury securities	$ 5,799	$ -	$ (66)	$ 5,733
Federal-agency securities	85	15	-	100
Obligations of states and political subdivisions	18,586	1,260	(367)	19,479
Corporate securities	131,294	2,028	(2,214)	131,108
Asset-backed securities	47,035	489	(207)	47,318
Mortgaged-backed securities	117,917	2,636	(776)	119,777
Total	$ 320,717	$ 6,428	$ (3,630)	$ 323,515

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. — Treasury securities	$ 5,806	$ -	$ (71)	$ 5,735
Federal-agency securities	97	17	-	114
Obligations of states and political subdivisions	18,118	4,278	(48)	22,348
Corporate securities	140,452	4,033	(563)	143,922
Asset-backed securities	32,589	2,426	(33)	34,982
Mortgaged-backed securities	167,536	4,113	(314)	171,335
Total	$ 364,598	$ 14,867	$ (1,029)	$ 378,436

(dollars in thousands)

The NAIC carrying value and estimated fair value of bonds at December 31, 2015, by contractual maturity, are shown below. Actual maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations which may or may not include call or prepayment penalties.

	NAIC Carrying Value	Estimated Fair Value
Due in one year or less	$ 22,445	$ 22,514
Due after one year through five years	49,367	49,621
Due after five years through ten years	52,529	52,120
Due after ten years	31,321	32,166
Subtotal	155,662	156,420
Asset-backed securities	47,035	47,318
Mortgaged-backed securities	117,917	119,777
Total	$ 320,614	$ 323,515

Proceeds from sales of bonds during 2015 and 2014 were $111.4 million and $133.2 million, respectively. Gross gains of $2.5 million and $2.1 million and gross losses of $0.3 million and $0.1 million were realized on those sales in 2015 and 2014, respectively.

Net investment income consisted of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Income from fixed-maturity securities	$ 10,912	$ 12,634
Dividends from affiliate	2,245	3,300
Income from cash equivalents and short-term investments	-	13
Investment expenses	(497)	(633)
Net investment income	$ 12,660	$ 15,314

(dollars in thousands)

The following table summarizes, for all securities in an unrealized loss position at December 31, 2015 and 2014, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position:

	2015		2014	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Less than 12 months:				
U.S. — Treasury securities	$ -	$ -	$ 20	$ -
Federal-agency securities	-	-	-	-
Obligations of states and political subdivisions	97	(1)	742	(12)
Corporate securities	22,417	(100)	46,558	(342)
Asset-backed securities	-	-	11,345	(33)
Mortgaged-backed securities	-	-	47,926	(111)
Total less than 12 months	22,514	(101)	106,591	(498)

	2015		2014	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Greater than 12 months:				
U.S. — Treasury securities	$ 5,733	$ (66)	$ 1,966	$ (71)
Federal-agency securities	100	-	-	-
Obligations of states and political subdivisions	19,382	(366)	793	(36)
Corporate securities	108,691	(2,114)	10,249	(221)
Asset-backed securities	47,317	(207)	-	-
Mortgaged-backed securities	119,777	(776)	7,892	(203)
Total greater than 12 months	301,000	(3,529)	20,900	(531)
Total	$ 323,514	$ (3,630)	$ 127,491	$ (1,029)

For the years ended December 31, 2015 and 2014, the Company recorded "other than temporary" adjustments of $0 million and $1.7 million, respectively.

(dollars in thousands)

7. Loss and Loss Adjustment Expenses

The following table is a reconciliation of the beginning and ending balances of the reserve for losses and loss adjustment expenses as of December 31, 2015 and 2014:

	2015	2014
Balance — January 1	$ 110,117	$ 89,311
Less reinsurance recoverable	-	-
Net balance — January 1	110,117	89,311
Incurred related to:		
Current year	43,823	31,056
Prior years	5,402	12,863
Total incurred	49,225	43,919
Paid related to:		
Current year	14,916	5,257
Prior years	29,595	17,856
Total paid	44,511	23,113
Net balance — December 31	114,831	110,117
Plus reinsurance recoverables	-	-
Balance — December 31	$ 114,831	$ 110,117

For the year ended December 31, 2015, the Company recorded a provision for losses of $47.9 million, which consisted of $42.9 million of incurred losses related to payment defaults that occurred in 2015 ("current accident year claims") and $5.0 million of incurred losses related to adverse development on reserves established in years prior to 2015 ("prior accident year claims"). As of December 31, 2015, the Company's liability for unpaid losses was $111.0 million, which related to twenty-six insured transactions, with a remaining aggregate in-force par outstanding of $144.6 million, excluding the aforementioned case reserves. The Company recorded LAE incurred of $1.3 million in 2015 and unpaid LAE of $3.8 million as of December 31, 2015.

For the year ended December 31, 2014, the Company recorded a provision for losses of $41.9 million, which consisted of $30.6 million of incurred losses related to payment defaults that occurred in 2014 and $11.3 million of incurred losses related to adverse development on reserves established in years prior to 2014. As of December 31, 2014, the Company's liability for unpaid losses was $105.6 million, which related to twenty-four insured transactions, with a remaining aggregate in-force par outstanding of $135.3 million, excluding the aforementioned case reserves. The Company recorded LAE incurred of $2.0 million in 2014 and unpaid LAE of $4.5 million as of December 31, 2014.

(dollars in thousands)

8. Reinsurance

The Company assumed and ceded a portion of its business with other non-affiliated insurance and reinsurance companies and adjusted its estimated or potential liabilities for unpaid losses and loss adjustment expenses and unearned premiums accordingly. A contingent liability exists relating to such reinsurance in the event that the reinsurer becomes unable to meet its obligations under the terms of the reinsurance agreement; in which event the Company would be liable for any amount of losses or LAE ceded to such reinsurer. There were no unpaid losses, loss adjustment expenses and unearned premiums ceded to non-affiliated insurance and reinsurance companies at December 31, 2015 and 2014.

As of and for the years ended December 31, 2015 and 2014, amounts reinsured were as follows:

	2015	2014
Income and expenses:		
Earned premiums ceded	$ -	$ 94
Earned premiums assumed	354	357
Assets and liabilities:		
Unearned-premium reserve assumed	4,082	4,436
Outstanding exposure assumed:		
Principal outstanding assumed	576,843	637,265

9. Income Taxes

The actual tax expense on income from operations differs from tax expense calculated at the U.S. statutory tax rate. A reconciliation of the Company's income tax expense together with the significant book to tax adjustments for the years ended December 31, 2015 and 2014, is set forth below:

	2015	2014
Loss before income taxes	$ (25,474)	$ (14,273)
Expected tax benefit at 35%	$ (8,916)	$ (4,995)
Change in contingency reserve	-	(2,787)
Dividends from subsidiaries	(4)	1
Tax exempt interest — net of proration	(352)	(416)
Change in statutory valuation allowance	9,352	(713)
Capital loss carryforward	-	3,718
Prior year tax adjustment and other	317	2,876
Total statutory income tax (benefit)	$ 397	$ (2,316)

(dollars in thousands)

At December 31, 2015, the Company had net operating loss carryfowards expiring through the year 2035 of $216.6 million and AMT credit carryforwards, which do not expire, in the amount of $0.8 million.

In November 2015, the Internal Revenue Service ("IRS") concluded its examination of income tax returns for ACA through 2008 tax year. No material adjustments arose as a result of the audit in relation to the financial position or results of operations of the Company for the tax years that were examined. As of December 31, 2015, no material adjustments are expected for tax years for which the statute of limitations remains open.

The components of the net deferred tax assets and deferred tax liabilities are as follows:

	2015	2014
Gross deferred tax assets	$ 118,247	$ 109,123
Gross deferred tax liabilities	(1,331)	(1,099)
Net deferred tax asset	116,916	108,024
Statutory valuation allowance adjustment	(84,673)	(75,549)
Non-admitted deferred tax asset	(32,243)	(32,475)
Net admitted deferred tax asset	$ -	$ -
Decrease in non-admitted deferred tax assets	$ (232)	$ 2,316

(dollars in thousands)

Pursuant to paragraphs 11.a.–11. c. of SSAP 101, the admission calculation components at December 31, 2015 and 2014 are as follows:

	2015	2014	Change
Ordinary:			
(a) Admitted pursuant to 11.a.	$ -	$ -	$ -
(b) Admitted pursuant to 11.b. (lesser of 11.b.i. or 11.b.ii.)	-	-	-
(c) 11.b.i.	-	-	-
(d) 11.b.ii.	N/A	N/A	-
(e) Admitted pursuant to 11.c.	1,331	1,099	232
(f) Total ordinary admitted under 11.a. - 11.c.	1,331	1,099	232
(g) Ordinary deferred tax liabilities	(1,331)	(1,099)	(232)
Net ordinary admitted deferred tax assets	-	-	-
Capital:			
(a) Admitted pursuant to 11.a.	$ -	$ -	$ -
(b) Admitted pursuant to 11.b. (lesser of 11.b.i. or 11.b.ii.)	-	-	-
(c) 11.b.i.	-	-	-
(d) 11.b.ii.	N/A	N/A	-
(e) Admitted pursuant to 11.c.	-	-	-
(f) Total capital admitted under 11.a. - 11.c.	-	-	-
(g) Capital deferred tax liabilities	-	-	-
Net capital admitted deferred tax assets	-	-	-
Net admitted deferred tax assets	$ -	$ -	$ -

(dollars in thousands)

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

	2015	2014	Change
Deferred tax assets:			
Ordinary:	$ -	$ -	$ -
Net operating loss carryforward	75,826	64,947	10,879
Contingency reserve	33,574	33,574	-
Unearned premium reserve	2,530	3,174	(644)
Tax credit carryforward	780	615	165
Discounting of unpaid losses and LAE	5,537	5,408	129
Gross ordinary deferred tax assets	118,247	107,718	10,529
Statutory valuation adjustment - ordinary	(84,673)	(74,144)	(10,529)
Non-admitted ordinary deferred tax assets	(32,243)	(32,475)	232
Gross ordinary admitted deferred tax assets	1,331	1,099	232
Capital:			
Net capital loss carryforward	-	524	(524)
Investments	-	881	(881)
Gross capital deferred tax assets	-	1,405	(1,405)
Statutory valuation adjustment - capital	-	(1,405)	1,405
Non-admitted capital deferred tax assets	-	-	-
Gross capital admitted deferred tax assets	-	-	-
Deferred tax liabilities:			
Ordinary:			
Investments	(1,174)	(1,045)	(129)
Fixed assets	(157)	(54)	(103)
Gross ordinary deferred tax liabilities	(1,331)	(1,099)	(232)
Net admitted deferred tax assets	$ -	$ -	$ -

(dollars in thousands)

The change in net deferred income taxes is comprised of the following (exclusive of non-admitted assets):

	2015	2014
Total deferred tax assets, net of valuation allowance — January 1	$ 33,574	$ 30,786
Total deferred tax liabilities — January 1	(1,099)	(627)
Net deferred tax asset — January 1	32,475	30,159
Net deferred tax asset — December 31	32,243	32,475
Change in net deferred asset	(232)	2,316
Tax effect of unrealized losses	-	-
Change in net deferred income tax	$ (232)	$ 2,316

There were no reserves for tax contingencies as required under SSAP 5 as of December 31, 2015 and 2014.

10. Outstanding Exposure Under In-Force Financial Guaranty Insurance Contracts

While the Company establishes reserves for losses and loss adjustment expenses on obligations in accordance with its accounting policies (see Note 4), 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 1). The tables below reflect certain information regarding the in-force par exposure guaranteed by the Company at December 31, 2015 and 2014 (dollars in millions):

	2015		2014	
	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
Tax-exempt:				
Healthcare	$ 172	7.7 %	$ 203	7.5 %
Tax backed	210	9.4	276	10.2
Education	468	20.9	575	21.2
Long-term care	116	5.2	139	5.1
General obligations	624	27.9	732	27.0
Utilities	55	2.5	63	2.3
Transportation	185	8.3	191	7.0
Housing	64	2.9	118	4.3
Not for Profit	194	8.7	260	9.6
Other	146	6.5	152	5.6
Total public finance obligations	2,234	99.7	2,709	99.8
Taxable obligations — other	6	0.3	6	0.2
Total	$ 2,240	100.0 %	$ 2,715	100.0 %

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

	2015		2014	
	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
New York	$ 510	22.8 %	$ 548	20.2 %
California	403	18.0	490	18.1
Massachusetts	109	4.9	190	7.0
Florida	123	5.5	175	6.5
Washington	92	4.1	100	3.7
Other states	997	44.6	1,206	44.5
Total tax-exempt obligations	$ 2,234	100.0 %	$ 2,709	100.0 %

The outstanding principal amount of obligations insured by the Company as of December 31, 2015, net of amounts ceded, and the terms to maturity of such insured obligations were as follows (dollars in millions):

Terms to Maturity	
0 to 5 years	$ 456
5 to 10 years	634
10 to 15 years	562
15 to 20 years	469
20 and above	119
Total	$ 2,240

Actual maturities could differ from final maturities because borrowers have the right to refund or prepay certain obligations. Debt service on insured obligations for 2016 is approximately $224.2 million.

11. Related Party Transactions

The payable to subsidiaries at December 31, 2015 and 2014, are as follows:

	2015	2014
Payable to Tactical Risk Management, LLC	$ 83	$ 83
Payable to subsidiaries	$ 83	$ 83

In 2013, ACA's board of directors approved the economic terms by which BedRok Securities LLC, a broker dealer controlled by a board member, was authorized to purchase ACA-insured bonds on behalf of ACA. Such approved compensation earned by BedRok was in the range of spreads paid by ACA since its restructuring to non-affiliated brokers for similar transactions. In 2015, BedRok earned approximately $146,000 in connection with two significant purchases of ACA-insured bonds in the amount of $29.3 million from a Surplus Note Holder. The transaction and its terms were approved prior to execution by ACA's board of directors absent the related party member.

12. Benefit Plans

The Company sponsors a defined contribution plan, which covers all full time employees as of their start date. Eligible participants may contribute a percentage of their salary, subject to IRS limitations. The Company's contributions are based on a fixed percentage of employees' contributions subject to IRS limitations. The Company's expense for the plan years ended December 31, 2015 and 2014 was $0.2 million and $0.3 million, respectively.

13. Fair Value of Financial Instruments

Pursuant to SSAP No. 100, Fair Value Measurements, the fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

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

The hierarchy defined by SSAP No. 100 gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

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

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

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

With the exception of certain investments in bonds and loan-backed securities that are reported at the lower of cost or fair value, or such securities on which an other than temporary impairment has been recognized as of the balance sheet date, the Company has no assets or liabilities reported in the accompanying Statement of Admitted Assets, Liabilities and Capital and Surplus at December 31, 2015, that are measured at fair value. The aforementioned securities which are reported at fair value in the accompanying financial statements represent securities that are reported at fair value on a non-recurring basis.

(dollars in thousands)

The tables below present the investments carried by the Company at fair value at December 31, 2015 and 2014:

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets at fair value on a nonrecurring basis — bonds	$ -	$ 3,288	$ -	$ 3,288
Total assets at fair value	$ -	$ 3,288	$ -	$ 3,288

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets at fair value on a nonrecurring basis — bonds	$ -	$ 433	$ -	$ 433
Total assets at fair value	$ -	$ 433	$ -	$ 433

The Company had no transfers of securities between levels during 2015 or 2014.

When available, the estimated fair value for bonds, including loan-backed and structured securities, and short-term investments are based on quoted prices in active markets that are readily and regularly obtainable. Generally, these investments are classified in Level 2.

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs. The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Generally, these investments are classified in Level 2.

When observable inputs are not available, the market standard valuation methodologies for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management's judgment or estimation, and cannot be supported by reference to market activity. Even though these inputs are unobservable, management believes they are consistent with what other market participants would use when pricing such securities and are considered appropriate given the circumstances. Generally, these investments are classified in Level 3.

The estimated fair value for cash approximates carrying value and is classified as Level 1 given the nature of cash.

(dollars in thousands)

The tables below present the aggregate estimated fair value and admitted value of the Company's total investment portfolio and cash and short-term investments at December 31, 2015 and 2014 along with how much of the aggregate estimated fair value represents level 1, 2, and 3 estimates under the fair value hierarchy prescribed under SSAP No. 100:

	2015				
	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3
Assets:					
Bonds	$ 323,514	$ 320,614	$ -	$ 323,514	$ -
Cash and short- term investments	6,082	6,082	2,168	3,914	-
Total	$ 329,596	$ 326,696	$ 2,168	$ 327,428	$ -

	2014				
	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3
Assets:					
Bonds	$ 378,436	$ 364,588	$ -	$ 378,436	$ -
Cash and short- term investments	4,040	4,040	2,409	1,631	-
Total	$ 382,476	$ 368,628	$ 2,409	$ 380,067	$ -

14. Restricted Balances

As mentioned in Note 6, Investments, the Company has assets on deposit with various regulatory authorities. As of December 31, 2015 and 2014, the Company holds $842 thousand of cash collateral relating to an insured transaction. In addition, as of December 31, 2015 and 2014, the Company had approximately $53 thousand on deposit with its landlord as collateral under its office lease obligations (see Note 17), which was non-admitted.

15. Regulatory Matters

As of December 31, 2015, the Company's policyholders' surplus, as determined in accordance with statutory-basis accounting practices, was $41.2 million. Such amount was in excess of the minimum capital and surplus level required by the MIA.

In addition to the MIA, the insurance departments of certain other states have various requirements relating to the maintenance of certain minimum statutory-basis capital and reserves, single risk limits and limits on non-investment grade obligations. The Company does not meet certain of these requirements. As a runoff company, the Company reviews its compliance with each of the state's various requirements, and to the extent that it is not compliant, the Company has not received any material adverse action from any state in the time since restructuring. The Company believes that the other states have declined to take action because remedies availability, such as the ability to write new business, are already addressed in the Order and by ongoing regulatory oversight of the MIA.

(dollars in thousands)

As disclosed in Note 2, Restructuring Transaction, the Company is currently operating under the Order issued by the MIA. Pursuant to this Order, the Company is restricted from paying dividends without the prior approval of the Commissioner of the MIA. In addition, under Maryland insurance law, the Company may pay a dividend without the prior approval of the Commissioner of the MIA from earned surplus, as defined, subject to the maintenance of a minimum-capital requirement, and the dividend, which, together with all dividends declared or distributed by it during the preceding twelve months, may not exceed the lesser of 10% of policyholders' surplus shown on its last annual statement, or net investment income, as defined, for such twelve-month period. In addition, as part of the Company's restructuring discussed in Note 2, the surplus notes restrict the Company from paying dividends without the prior approval of the surplus note holders. The Company has negative earned surplus and therefore, is not able to pay dividends in 2015 other than extraordinary dividends as allowed by the MIA. No dividends were paid during 2015 or 2014.

The portion of unassigned surplus reduced by each item below at December 31, 2015 and 2014, is as follows:

	2015	2014
a. Unrealized losses, net of deferred tax benefit of $0 for 2015 and 2014	$ (121)	$ (26)
b. Non-admitted asset values	$ (33,762)	$ (33,856)

16. Contingencies

The Company was 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. On December 18, 2014, the court granted summary judgment in favor of the Company. Plaintiffs filed notice of appeal on March 19, 2015 and filed their opening appellate brief on October 6, 2015. The appeal was fully briefed as of February 2016 and oral arguments are expected by the end of 2016. The other defendants reached confidential settlements with Retirement Housing Foundation. The Company believes that the issues raised in Plaintiffs' appeal are without merit and intends to defend itself vigorously.

The Company (specifically, ACA Management, LLC) is one of many defendants in an action pending in New Mexico First Judicial District Court, in Santa Fe, filed in 2008 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"). Further, the complaint seeks to impose joint and several liability on all defendants. In April 2010, the then-presiding judge ruled that the retroactive nature of FATA was unconstitutional. The ruling was affirmed by the New Mexico Court of Appeals. However, on June 25, 2015, the Supreme Court of the State of New Mexico reversed and held that FATA is constitutional. The New Mexico Supreme Court also consolidated multiple related cases and reassigned the consolidated proceeding to a new district judge. Briefing by the various parties currently is focused on the New Mexico Attorney General's motion to dismiss and Vanderbilt's motion to confirm its settlement with the Attorney General. If either motion is granted, it is likely the Company will be dismissed from the suit. Early in the proceeding, ACA moved to dismiss the complaint for lack of personal jurisdiction and the then-presiding judge deferred ruling on the Company's jurisdictional motion pending jurisdictional discovery. The Company's jurisdictional motion remains pending while the other motions are adjudicated. To the extent activity directly involving the Company resumes in the case, the Company intends to continue to defend itself vigorously.

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

On January 6, 2011, the Company commenced a lawsuit against Goldman, Sachs & Co. ("Goldman") in the Supreme Court of the State of New York, County of New York (the "Lawsuit"). The Lawsuit seeks compensatory damages against Goldman in the amount of at least $30 million and punitive damages in the amount of at least $90 million in connection with the development of a structured finance product, a synthetic collateralized debt obligation called ABACUS 2007-AC1 ("ABACUS"). On April 25, 2011, the Company filed its First Amended Complaint. On June 3, 2011, Goldman moved to dismiss the First Amended Complaint. On April 23, 2012, the Court issued an order denying Goldman's motion to dismiss ACA's fraud claims and granting Goldman's motion to dismiss ACA's unjust enrichment claim (the "Order"). On May 29, 2012, Goldman served notice of its intent to appeal the Order. Also on May 29, 2012, Goldman served its answer, asserting counterclaims for breach of contract and fraudulent inducement, together with a third-party complaint against ACA Management LLC ("ACAM"), asserting claims for breach of contract, unjust enrichment and indemnification. Goldman does not specify the amount of damages it seeks. Oral arguments were heard on Goldman's appeal of the Order on January 2, 2013. Also on January 2, 2013, the Company filed for leave to amend its First Amended Complaint to add Paulson & Co. ("Paulson") as an additional defendant, incorporating new allegations of fraud against both parties. On January 30, 2013 the Court granted ACA's motion for leave to file a second amended complaint. On January 31, 2013 the Company filed its Second Amended Complaint. The Second Amended Complaint adds Paulson as an additional defendant and alleges that Paulson and Goldman conspired to fraudulently induce the Company to provide financial guaranty insurance for ABACUS by deceiving ACA into believing that Paulson was to be the equity investor in the product. On March 18, 2013 Paulson moved to dismiss the Second Amended Complaint. On April 17, 2013 Goldman answered the Second Amended Complaint. On May 14, 2013, the Appellate Division of the Supreme Court of the State of New York ordered the dismissal of ACA's legal action against Goldman. The decision reversed the lower court's order of April 23, 2012 denying Goldman's motion to dismiss. 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 was stayed pending that motion. On May 2, 2014, the Appellate Division granted ACA's motion for leave to appeal. Briefing began in July 2014 and oral arguments took place on March 26, 2015. On May 7, 2015, the Court of Appeals issued its decision reversing the dismissal by the Appellate Division. On August 18, 2015 the Appellate Division remanded the case to the Supreme Court. ACA's motion to dismiss Goldman's counterclaims against it and its third-party complaint against ACAM has been briefed, as has Paulson's motion to dismiss the ACA's claims against it. Oral argument on such motions was scheduled for March 2016 and had been postponed until late May 2016. The various parties continue to seek discovery to the extent not yet obtained. The Company intends to vigorously pursue its claims, and defend those asserted against it, in this case.

17. Leases

ACA FG subleases office space at 600 Fifth Avenue, New York, New York through September 29, 2016.

At December 31, 2015, the expected future minimum lease payments under its lease at 600 Fifth Avenue total $479 thousand for 2016.

The Company's rental expense for the years ended December 31, 2015 and 2014, was $547 thousand.

The Company is currently negotiating a lease for office space beyond September 2016. The lease term and annual amounts are anticipated to be approximately 5 years and $123,000 per year, respectively.

18. Surplus Notes

Interests in the surplus notes issued in connection with the Restructuring Transaction (see Note 2) are either in the form of voting interests or non-voting interests. Surplus notes issued to the former insured swap counterparties represent voting and non-voting interests (at each counterparty's individual discretion) while notes issued to ACAH represent non-voting interests. By their terms the surplus notes are subordinate to the claims of policyholders, claimant and beneficiary claims, and to all other classes of creditors other than surplus note holders. However, claims under the surplus notes are superior to claims of preferred and common shareholders of the Company. Payments under the surplus notes of either principal or interest can only be paid out of the surplus of the Company after the Company provides for all reserves and other liabilities and only with the prior written approval of the MIA. The surplus note holders can request that the Company seek such approval.

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

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

19. Financial Guaranty Insurance

As discussed in Note 4, the Company does not record premiums receivable on installment premium paying contracts unless such amounts are due, nor is any corresponding unearned premium recorded until such amounts are due.

(dollars in thousands)

The future expected earned premium revenue on upfront premium paying contracts as of December 31, 2015, assuming no refundings, are as follows:

Period	
1st Quarter 2016	$ 979
2nd Quarter 2016	963
3rd Quarter 2016	1,259
4th Quarter 2016	1,273
Year 2016	4,474
Year 2017	4,524
Year 2018	4,096
Year 2019	4,195
Year 2020	4,551
2021 through 2025	20,782
2026 through 2030	16,515
2031 through 2035	12,069
2036 through 2039	3,057
Total	$ 74,263

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

Components	
Reserves for losses and LAE at December 31, 2014	$ 110,117
Change in reserves:	
Prior accident years	(23,248)
Current accident year	27,962
Subtotal change in reserves	4,714
Reserves for losses and LAE at December 31, 2015	$ 114,831

The Company's credit quality classifications are as follows:

Category 1: Fully Performing

Credits are fully performing. Covenants have been met, financial reporting is timely and complete, and there have been no significant negative deviations from expected performance.

Category 2: Watch

Credits are performing below expected levels. Some covenants have been violated, projected budget and/or cash flow has not been achieved, operating performance or financial position is weakened. Although operating results are below underwriting expectations, current and projected revenues are adequate to service debt.

Category 3: Deteriorating

Credits show significant performance declines. Covenant violations are recurring and material; cashflow is significantly below projections, operating results are materially impaired. Corrective action is required to arrest credit deterioration and avert a longer-term risk of payment default.

Category 4: Paid or Expected Claim

Credits show material decline in creditworthiness and ability to pay. Operating results are increasingly negative, unreimbursed draws on debt service reserves have been made; payment defaults have occurred or are expected, and loss reserves have been established or are expected to be established in the financial statements.

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

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

(dollars in thousands)

Insured financial obligations as of December 31, 2015, are as follows:

	Credit Quality Categories				
	1	2	3	4	Total
Number of policies	116	42	16	36	210
Remaining weighted-average contract period (in years)	11	9	9	11	
Insured contractual payments outstanding:					
Principal	$1,309,507	$ 346,076	$ 208,073	$ 375,923	$2,239,579
Interest	783,775	182,016	165,897	335,887	1,467,575
Total	$2,093,282	$ 528,092	$ 373,970	$ 711,810	$3,707,154
Gross claim and LAE liability	$ -	$ 56	$ 323	$ 171,559	$ 171,938
Less:					
Gross potential recoveries	-	-	-	57,419	57,419
Discount — net	-	-	-	(312)	(312)
Net claim and LAE liability	$ -	$ 56	$ 323	$ 114,452	$ 114,831
Unearned premium revenue	$ 27,354	$ 14,134	$ 9,483	$ 23,292	$ 74,263
Claim and LAE liability reported in the balance sheet	$ -	$ 56	$ 323	$ 114,452	$ 114,831
Reinsurance recoverables	$ -	$ -	$ -	$ -	$ -

The Company purchases ACA insured bonds periodically in the marketplace when available and the price meets internal prescribed limits for category 4 rated credits. For accounting purposes, the Company reflects the purchase as a loss payment and carries the bond at a zero value. Unless the bond is cancelled with the trustee, the par value remains outstanding. At December 31, 2015, the par value outstanding of category 4 bonds purchased and not cancelled is $31.5 million.

20. Subsequent Events

The Company has evaluated all subsequent events through May 18, 2016, the date the statutory-basis financial statements were available to be issued. There were no events that required adjustment to or disclosure in the statutory-basis financial statements.

ACA Financial Guaranty Corporation

Summary Investment Schedule
December 31, 2015
(dollars in thousands)

Investment Categories	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Asset As Reported in the Annual Statement Value	Admitted Asset As Reported in the Annual Statement Percentage
U.S. Treasury securities	$ 5,799	1.8%	$ 5,799	1.8%
U.S. government agency and corporate obligations (excluding mortgage-backed securities) — issued by U.S. government sponsored agencies	85	0.0%	85	0.0%
Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
States, territories and possessions general obligations	-	0.0%	-	0.0%
Political subdivisions of states, territories and possessions and political subdivisions general obligations	45	0.0%	45	0.0%
Revenue and assessment obligations	17,877	5.5%	17,877	5.5%
Industrial development and similar obligations	561	0.2%	561	0.2%
Mortgage-backed securities (includes residential and commercial MBS) pass-through securities:				
Issued or guaranteed by GNMA	40,330	12.3%	40,330	12.3%
Issued or guaranteed by FNMA and FHLMC	32,354	9.9%	32,354	9.9%
All other	-	0.0%	-	0.0%
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	13,488	4.1%	13,488	4.1%
Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by GNMA, FNMA, FHLMC or VA	-	0.0%	-	0.0%
All other	31,745	9.7%	31,745	9.7%
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant	146,482	44.8%	146,482	44.8%
loans rated by the SVO)	-	0.0%	-	0.0%
Unaffiliated foreign securities	31,848	9.7%	31,848	9.7%
Receivable for securities	19	0.0%	19	0.0%
Cash, cash equivalents and short-term investments	6,082	1.9%	6,082	1.9%
Total cash and invested assets	$ 326,715	100.0%	$ 326,715	100.0%

(dollars in thousands)

Provided below are management's responses to the Investment Risk Interrogatories and Summary Investment Schedule required by NAIC SAP. Questions/Categories not applicable to the Company have not been included below.

The Company's total admitted assets as of December 31, 2015 are: $ 330,018

The Company's ten largest exposures to a single issuer based upon statement value listed by investment category are as follows:

Description of Exposure	Issuer	Amount	Percentage of Total Admitted Assets
ABS, CMO, MBS	Federal National Mortgage Association	$ 34,033	10.3%
Bonds, MBS	Morgan Stanley	11,753	3.6%
CMO, MBS	Federal Home Loan Mortgage Corp	11,459	3.5%
Bonds	The Goldman Sachs Group, Inc.	6,272	1.9%
ABS	Synchrony Credit Card Master Note Tru:	5,999	1.8%
Bonds	Citigroup Inc.	5,496	1.7%
Municipal	California Statewide Communities Deve	4,835	1.5%
Bonds	Bank of America Corporation	4,462	1.4%
Bonds	General Electric Capital Corporation	4,177	1.3%
Bonds	DIRECTV Holdings, LLC.	4,037	1.2%

The Company's amounts and percentages of total admitted assets held in bonds by NAIC rating categories are as follows:

NAIC Rating Category	Amount	Percentage of Total Admitted Assets
NAIC-1	$ 232,550	70.5%
NAIC-2	77,952	23.6%
NAIC-3	2,610	0.8%
NAIC-4	-	0.0%
NAIC-5	9,715	2.9%
NAIC-6	1,701	0.5%

(dollars in thousands)

	Amount	Percentage of Total Admitted Assets
Total admitted assets held in foreign investments	$ 21,879	6.6%

Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1	$ 21,879	6.6%
Countries rated NAIC-2	-	0.0%

The Company's largest foreign investment exposures by country, by the country's NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1:		
United Kingdom	$ 9,544	2.9%
Australia	5,156	1.6%

The Company's ten largest non-sovereign (i.e. non-governmental) foreign issues are as follows:

Issuer Description	NAIC Rating	Amount	Percentage of Total Admitted Assets
HSBC Holdings, PLC	1	$ 3,486	1.1%
BHP Billiton, Ltd	1	3,000	0.9%
Nordea Bank, AB	1	2,993	0.9%
British Telecommunications, PLC	1	2,067	0.6%
Vodafone Group, PLC	1	1,993	0.6%
Electricite De France, SA	1	1,686	0.5%
BP Capital Markets, PLC	1	1,500	0.5%
Commonwealth Bank of Australia	1	1,497	0.5%
Rabobank Nederland	1	1,000	0.3%
Daimler Finance North America, Ll	1	1,000	0.3%

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?

Yes [ ] No [X]

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

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

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

(c) Aggregate stop loss reinsurance coverage;

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

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

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

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

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

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

Yes [ ] No [X]

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