2 2 8 9 6 2 0 1 6 2 0 1 0 0 1 0 2

PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

QUARTERLY STATEMENT

AS OF JUNE 30, 2016

OF THE CONDITION AND AFFAIRS OF THE

ACA Financial Guaranty Corporation

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

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

Country of Domicile United States

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

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

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

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

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

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

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

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

OFFICERS

Name	Title	Name	Title
Steven Joseph Berkowitz	President and CEO	Carl Benedict McCarthy	Secretary and General Counsel
Sean Thomas Leonard	Treasurer and CFO		

OTHER OFFICERS

DIRECTORS OR TRUSTEES

Steven Joseph Berkowitz	John Raymond Brecker	Richard Joseph Caplan	Roger Dale Cunningham
Bradley Irving Dietz	Thomas Joseph Gandolfo #	Sharon Faybelle Manewitz	Charles Richard Schuler
Anne Gram Shean			

State of New York

County of New York ss

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

Steven Joseph Berkowitz President and CEO	Carl Benedict McCarthy Secretary and General Counsel	Sean Thomas Leonard Treasurer and CFO

Subscribed and sworn to before me this 11th day of August, 2016

Luis Lozada, Notary Public
1/14/2017

LUIS LOZADA
Notary Public - State of New York
No. 01LO6274617
Qualified in Rockland County
My Commission Expires 1/14/17

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

b. If no:
1. State the amendment number
2. Date filed
3. Number of pages attached

ASSETS

	Current Statement Date 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 December 31 Prior Year Net Admitted Assets
1. Bonds	304,043,210		304,043,210	320,613,543
2. Stocks:				
2.1 Preferred stocks			0	0
2.2 Common stocks			0	0
3. Mortgage loans on real estate:				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate:				
4.1 Properties occupied by the company (less $ .... encumbrances)			0	0
4.2 Properties held for the production of income (less $ .... encumbrances)			0	0
4.3 Properties held for sale (less $ .... encumbrances)			0	0
5. Cash ($ 6,325,857), cash equivalents ($ 0) and short-term investments ($ 2,414,881)	8,740,738		8,740,738	6,082,166
6. Contract loans (including $ .... premium notes)			0	0
7. Derivatives			0	0
8. Other invested assets	82,304	82,304	0	0
9. Receivables for securities			0	19,156
10. Securities lending reinvested collateral assets			0	0
11. Aggregate write-ins for invested assets	0	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11)	312,866,252	82,304	312,783,948	326,714,864
13. Title plants less $ .... charged off (for Title insurers only)			0	0
14. Investment income due and accrued	1,824,894		1,824,894	2,008,643
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection			0	0
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ .... earned but unbilled premiums)			0	0
15.3 Accrued retrospective premiums ($ ....) and contracts subject to redetermination ($ ....)			0	0
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers			0	0
16.2 Funds held by or deposited with reinsured companies			0	0
16.3 Other amounts receivable under reinsurance contracts			0	0
17. Amounts receivable relating to uninsured plans			0	0
18.1 Current federal and foreign income tax recoverable and interest thereon			0	0
18.2 Net deferred tax asset	32,242,985	32,242,985	0	0
19. Guaranty funds receivable or on deposit			0	0
20. Electronic data processing equipment and software			0	0
21. Furniture and equipment, including health care delivery assets ($ ....)	1,640	1,640	0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
23. Receivables from parent, subsidiaries and affiliates			0	0
24. Health care ($ ....) and other amounts receivable			0	0
25. Aggregate write-ins for other-than-invested assets	3,007,273	1,260,163	1,747,110	1,294,123
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	349,943,044	33,587,092	316,355,952	330,017,630
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
28. Total (Lines 26 and 27)	349,943,044	33,587,092	316,355,952	330,017,630
DETAILS OF WRITE-INS				
1101.			0	0
1102.			0	0
1103.			0	0
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)	0	0	0	0
2501. Salvage Recoverable	1,000,000	1,000,000	0	0
2502. Prepaid Expenses	206,896	206,896	0	1,292,754
2503. Security Deposit	53,267	53,267	0	0
2598. Summary of remaining write-ins for Line 25 from overflow page	1,747,110	0	1,747,110	1,369
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	3,007,273	1,260,163	1,747,110	1,294,123

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year $ 19,935,913)	125,729,180	110,964,787
2. Reinsurance payable on paid losses and loss adjustment expenses		0
3. Loss adjustment expenses	5,941,123	3,866,000
4. Commissions payable, contingent commissions and other similar charges		0
5. Other expenses (excluding taxes, licenses and fees)	1,388,436	2,806,354
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	99,733	100,287
7.1 Current federal and foreign income taxes (including $ .... on realized capital gains (losses))		0
7.2 Net deferred tax liability		0
8. Borrowed money $ .... and interest thereon $		0
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of $ .... and including warranty reserves of $ .... and accrued accident and health experience rating refunds including $ .... for medical loss ratio rebate per the Public Health Service Act)	64,548,876	74,262,678
10. Advance premium		0
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		0
12. Ceded reinsurance premiums payable (net of ceding commissions)		0
13. Funds held by company under reinsurance treaties		0
14. Amounts withheld or retained by company for account of others		0
15. Remittances and items not allocated		0
16. Provision for reinsurance (including $ .... certified)		0
17. Net adjustments in assets and liabilities due to foreign exchange rates		0
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates	82,304	82,783
20. Derivatives	0	0
21. Payable for securities		0
22. Payable for securities lending		0
23. Liability for amounts held under uninsured plans		0
24. Capital notes $ .... and interest thereon $		0
25. Aggregate write-ins for liabilities	96,769,712	96,769,092
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	294,559,364	288,851,981
27. Protected cell liabilities		0
28. Total liabilities (Lines 26 and 27)	294,559,364	288,851,981
29. Aggregate write-ins for special surplus funds	0	0
30. Common capital stock	15,000,000	15,000,000
31. Preferred capital stock		0
32. Aggregate write-ins for other than special surplus funds	0	0
33. Surplus notes		0
34. Gross paid in and contributed surplus	363,974,000	363,974,000
35. Unassigned funds (surplus)	(357,177,412)	(337,808,351)
36. Less treasury stock, at cost:		
36.1 .... shares common (value included in Line 30 $ ....)		0
36.2 .... shares preferred (value included in Line 31 $ ....)		0
37. Surplus as regards policyholders (Lines 29 to 35, less 36)	21,796,588	41,165,649
38. Totals (Page 2, Line 28, Col. 3)	316,355,952	330,017,630
DETAILS OF WRITE-INS		
2501. Contingency Reserve	95,925,559	95,925,559
2502. Collateral Deposit	842,000	842,000
2503. Other Payables	2,153	1,533
2598. Summary of remaining write-ins for Line 25 from overflow page	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	96,769,712	96,769,092
2901.		0
2902.		0
2903.		0
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	0	0
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page	0	0
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)	0	0

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct (written $ 11,494)	9,517,495	10,584,050	18,089,546
1.2 Assumed (written $)	207,800	80,548	353,959
1.3 Ceded (written $)		0	0
1.4 Net (written $ 11,494)	9,725,295	10,664,598	18,443,505
DEDUCTIONS:			
2. Losses incurred (current accident year $ 25,393,854):			
2.1 Direct	28,484,347	13,616,291	47,901,939
2.2 Assumed		0	0
2.3 Ceded		0	0
2.4 Net	28,484,347	13,616,291	47,901,939
3. Loss adjustment expenses incurred	2,670,654	282,669	1,322,956
4. Other underwriting expenses incurred	4,178,514	4,842,440	9,556,264
5. Aggregate write-ins for underwriting deductions	0	0	0
6. Total underwriting deductions (Lines 2 through 5)	35,333,515	18,741,400	58,781,159
7. Net income of protected cells		0	0
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(25,608,220)	(8,076,802)	(40,337,654)
INVESTMENT INCOME			
9. Net investment income earned	5,402,366	6,710,762	12,659,628
10. Net realized capital gains (losses) less capital gains tax of $	634,229	734,607	2,203,449
11. Net investment gain (loss) (Lines 9 + 10)	6,036,595	7,445,369	14,863,077
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered $ amount charged off $)		0	0
13. Finance and service charges not included in premiums		0	0
14. Aggregate write-ins for miscellaneous income	0	0	0
15. Total other income (Lines 12 through 14)	0	0	0
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(19,571,625)	(631,433)	(25,474,577)
17. Dividends to policyholders		0	0
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(19,571,625)	(631,433)	(25,474,577)
19. Federal and foreign income taxes incurred		0	0
20. Net income (Line 18 minus Line 19)(to Line 22)	(19,571,625)	(631,433)	(25,474,577)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year	41,165,649	66,902,127	66,902,126
22. Net income (from Line 20)	(19,571,625)	(631,433)	(25,474,577)
23. Net transfers (to) from Protected Cell accounts		0	0
24. Change in net unrealized capital gains or (losses) less capital gains tax of $	27,667	(695,994)	(94,685)
25. Change in net unrealized foreign exchange capital gain (loss)		0	0
26. Change in net deferred income tax		(5,117)	(232,170)
27. Change in nonadmitted assets	174,897	(3,321)	93,351
28. Change in provision for reinsurance		0	0
29. Change in surplus notes		0	0
30. Surplus (contributed to) withdrawn from protected cells		0	0
31. Cumulative effect of changes in accounting principles		0	0
32. Capital changes:			
32.1 Paid in		0	0
32.2 Transferred from surplus (Stock Dividend)		0	0
32.3 Transferred to surplus		0	0
33. Surplus adjustments:			
33.1 Paid in		0	0
33.2 Transferred to capital (Stock Dividend)		0	0
33.3 Transferred from capital		0	0
34. Net remittances from or (to) Home Office		0	0
35. Dividends to stockholders		0	0
36. Change in treasury stock		0	0
37. Aggregate write-ins for gains and losses in surplus	0	(28,396)	(28,396)
38. Change in surplus as regards policyholders (Lines 22 through 37)	(19,369,061)	(1,364,261)	(25,736,477)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	21,796,588	65,537,866	41,165,649
DETAILS OF WRITE-INS			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0
0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above)	0	0	0
1401.		0	0
1402.		0	0
1403.		0	0
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)	0	0	0
3701. Prior Period Adjustment		(28,396)	(28,396)
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0	0
3799. TOTALS (Lines 3701 through 3703 plus 3798) (Line 37 above)	0	(28,396)	(28,396)

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance	11,494	7,248	62,440
2. Net investment income	6,305,361	7,734,465	14,452,140
3. Miscellaneous income	0	0	0
4. Total (Lines 1 to 3)	6,316,855	7,741,713	14,514,580
5. Benefit and loss related payments	13,719,954	19,693,989	42,488,693
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	6,186,697	8,126,690	12,767,383
8. Dividends paid to policyholders	0	0	0
9. Federal and foreign income taxes paid (recovered) net of $ .... tax on capital gains (losses)	0	0	196,144
10. Total (Lines 5 through 9)	19,906,651	27,820,679	55,452,220
11. Net cash from operations (Line 4 minus Line 10)	(13,589,796)	(20,078,966)	(40,937,640)
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	83,086,831	97,349,439	179,711,116
12.2 Stocks	0	0	0
12.3 Mortgage loans	0	0	0
12.4 Real estate	0	0	0
12.5 Other invested assets	0	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0	0
12.7 Miscellaneous proceeds	18,678	2,661,223	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	83,105,509	100,010,662	179,711,116
13. Cost of investments acquired (long-term only):			
13.1 Bonds	66,574,622	72,292,578	135,237,954
13.2 Stocks	0	0	0
13.3 Mortgage loans	0	0	0
13.4 Real estate	0	0	0
13.5 Other invested assets	0	0	0
13.6 Miscellaneous applications	0	0	19,634
13.7 Total investments acquired (Lines 13.1 to 13.6)	66,574,622	72,292,578	135,257,588
14. Net increase (or decrease) in contract loans and premium notes	0	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	16,530,887	27,718,084	44,453,528
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes	0	0	0
16.2 Capital and paid in surplus, less treasury stock	0	0	0
16.3 Borrowed funds	0	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities		0	0
16.5 Dividends to stockholders	0	0	0
16.6 Other cash provided (applied)	(282,521)	(44,292)	(1,473,739)
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	(282,521)	(44,292)	(1,473,739)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	2,658,570	7,594,826	2,042,149
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	6,082,166	4,040,017	4,040,017
19.2 End of period (Line 18 plus Line 19.1)	8,740,736	11,634,843	6,082,166

NOTES TO FINANCIAL STATEMENTS

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

A. Basis of Accounting

ACA Financial Guaranty Corporation ("ACA" or the "Company", a Maryland domiciled financial guaranty insurance company – see Note 21.C.(4) for a description of financial guaranty insurance) prepares its statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Maryland Insurance Administration (the "MIA"). The MIA recognizes only statutory accounting practices prescribed or permitted by the State of Maryland for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under insurance law. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Maryland. The state has adopted certain prescribed accounting practices that differ with those found in NAIC SAP. The Maryland Insurance Commissioner has the right to permit other specific practices which deviate from prescribed practices.

There are no differences between amounts reported in the accompanying financial statements, which are prepared as prescribed or permitted by the MIA, and NAIC SAP.

In connection with ACA's Restructuring Transactions and Global Settlement Agreement in 2008 (see Note 21.C.(2)), 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.

B. Use of Estimates

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

C. Summary of Significant Accounting Policies

(1) Premiums charged in connection with the issuance of the Company's guaranties are received either upfront or in installments. Such premiums are recognized as written when due. Installment premiums written are earned ratably over the installment period, generally one year or less, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest scheduled to be paid on the underlying insured obligation during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation. 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 six month periods ended June 30, 2016 and 2015, the Company recorded earned premiums of $7.9 million and $9.2 million, respectively, related to Refundings.

(2) Short-term investments are stated at amortized cost.

(3) Bonds and loan-backed securities assigned an NAIC Designation of 1 or 2 are valued at cost, adjusted for amortization of any premium, or accretion of any discount, which is calculated using the constant yield method. Bonds and loan-backed securities assigned an NAIC rating of 3 or lower are valued at the lower of amortized cost (adjusted for amortization of any premium, or accretion of any discount, which is calculated using the constant yield method) or fair value. The prospective method is used to value loan-backed securities. Commencing January 1, 2013, the Company employs Clearwater Analytics, LLC ("Clearwater") as its third party investment accounting service provider. Clearwater uses Bloomberg L.P. as the source to determine prepayment assumptions. Prior to January 1, 2013, the Company employed State Street Global Services as its third party investment accounting service provider. The following table summarizes the carrying amount of the Company's long-term and short-term bonds and loan-backed securities by NAIC Designation at June 30, 2016.

NAIC Designation 1	$ 237,493,836
NAIC Designation 2	58,441,438
NAIC Designation 3	736,875
NAIC Designation 4	-
NAIC Designation 5	8,152,538
NAIC Designation 6	1,633,404
Total	$ 306,458,091

Realized capital gains and losses on the sale of investments are determined on the basis of specific identification and are included in net income. Decreases in the fair value of bond and stock investments below their carrying value which are determined to be "other than temporary" are reflected as realized capital losses and are recorded in the Statement of Income. Factors considered in evaluating whether a decline in value is other than temporary include: 1) whether the decline is attributable to credit related or interest rate related factors, 2) whether the decline is substantial; 3) the amount of time that the fair value has been continuously less than cost; 4) the financial condition and near-term prospects of the issuer; and 5) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value. For the six month periods ended June 30, 2016 and 2015, the Company recorded "other than temporary" adjustments of $0 million and $0 million, respectively.

NOTES TO FINANCIAL STATEMENTS

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

(4) The Company has no investments in common stock or other similar equity interests, other than the common stock or other similar equity interests of subsidiary, controlled or affiliated insurance and non-insurance entities. See (7) below.

(5) The Company has two preferred stock holdings with a carrying value of zero at June 30, 2016.

(6) The Company has no investments in mortgage loans.

(7) Investments in the common stocks or other similar equity interests of its subsidiary, controlled or affiliated insurance or non-insurance entities are accounted for and reported in accordance with the equity method as prescribed by SSAP No. 97, "Investments in Subsidiary, Controlled and Affiliated Entities", and valued in accordance with section 3(ii)(D) of the NAIC Valuations Securities manual. Changes in the carrying value of such investments are reflected as unrealized capital gains or losses in capital and surplus. Dividends received from such investments are reported in investment income. ACA Services derives its earnings from its wholly owned subsidiary, ACA Management. ACA Management receives management fees on asset management contracts which were sold on a forward revenue sharing basis in connection with the termination of the company's prior CDO/CLO asset management business. Management fees have declined substantially and will continue to decrease as the assets underlying managed deals run-off or are called and terminated. For the six month periods ended June 30, 2016 and 2015, investment income includes dividends received from ACA Service, L.L.C. relating to its share of fees from certain managed CDO's of $0.7 million and $1.3 million, respectively. See Note 6 below.

(8) The Company has no investments in joint ventures.

(9) The Company has no investments in derivatives.

(10) The Company has no premium deficiencies.

(11) The Company records a loss with respect to an insurance guaranty upon a payment default by the issuer of the insured obligation (a payment default is generally considered the incident which gives rise to a claim under the Company's insurance policies and triggers loss recognition relating to the incident). The Company's liability for losses (also known as "loss reserves" "reserves for unpaid losses", "case reserves", or "case basis reserves"), reported on the accompanying Statement of Assets, Liabilities, Surplus and Other Funds, represents the best estimate of the present value of the Company's ultimate claim payments under the policy, net of its best estimate of the present value of any recoveries from salvage and subrogation rights under the policy, remaining unpaid at the balance sheet date. 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. 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, willingness of the obligor or sponsor to honor its commitments and the salvage values of specific collateral. Such factors and management's assessment thereof will be subject to the specific facts and circumstances associated with the specific insured transaction being considered for loss recognition. Losses and related case reserves are discounted at a rate reflecting the average rate of return on the Company's admitted assets. Recognition of losses and related case reserves requires the use and exercise of significant judgment by management, including estimates regarding the amount and timing of a loss on an insured obligation. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred, are difficult to predict, and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, changes in the value of specific assets supporting guaranteed obligations, and changes in the expected timing of claims payments and recoveries, and the amounts of expected claims payments and recoveries. Any estimate of future costs is subject to the inherent limitation on the Company's ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and LAE will vary, perhaps materially, from any estimate.

Reference should be made to Note 21.C.(1) for further information regarding the Company's accounting policy for loss recognition on its in-force insurance guaranties, as well as in regard to losses expected to be incurred by the Company on its insurance guaranties which have not yet been recorded in the accompanying Statement of Assets, Liabilities, Surplus and Other Funds because a payment default by the issuer of the insured obligation has not yet occurred.

(12) A statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in "Aggregate write-ins for liabilities" in the Statement of Assets, Liabilities, Surplus and Other Funds. This reserve is calculated as the greater of a prescribed percentage applied to original insured principal or 50% of premiums written, net of ceded reinsurance. The prescribed percentage varies by the type of business. Once the reserve is calculated, as described above, it is incrementally recognized in the financial statements over a prescribed time period based on type of business. Under 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

NOTES TO FINANCIAL STATEMENTS

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 reserve equal to the amount in excess of the calculated maximum amount at December 31, 2014. The MIA denied the request in November 2015.

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

(14) The Company has no pharmaceutical rebate receivables.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

Not applicable.

3. BUSINESS COMBINATION AND GOODWILL

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

4. DISCONTINUED OPERATIONS

The Company had no discontinued operations.

5. INVESTMENTS

A. Mortgage Loans

The Company had no investments in mortgage loans or mezzanine real estate loans as of June 30, 2016 and December 31, 2015.

B. Debt Restructuring

As a result of claims paid under certain of its insurance policies, the Company has received salvage in the form of investment securities. Such investment securities represent restructured debt issued in place of that originally guaranteed by the Company. The Company has recorded such investment securities at fair value at the date received. The aggregate carrying value of such restructured debt at June 30, 2016 and December 31, 2015 was $1.6 million and $1.6 million, respectively. The Company has no other restructured debt and has not been a party to a troubled debt restructuring by virtue of its ownership of its invested assets.

C. Reverse Mortgages

The Company does not invest in reverse mortgages.

D. Loan-Backed Securities

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

(2) During the six month period ended June 30, 2016, the Company did not recognize any other than temporary impairment charges on loan-backed securities.

(3) N/A

(4) The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous loss position for 12 months or longer at June 30, 2016 is $8.1 million and $0.1 million, respectively. The fair value and gross unrealized losses related to loan-backed and structured securities, where impairments have not been recognized, that have been in a continuous unrealized loss position for less than 12 months at June 30, 2016 is $15.4 million and $0.1 million, respectively. All of the securities discussed above are rated investment grade by at least one nationally recognized statistical ratings organization and have excess credit coverage within each structure and projected cash flows from the underlying collateral that are expected to be sufficient to pay principal and interest.

(5) None

E. Repurchase Agreements and/or Securities Lending Transactions

The Company has not used repurchase agreements and has not engaged in any securities lending transactions.

F. Real Estate

The Company has no real estate investments.

G. Investments in Low-Income Housing Tax Credits

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

H. Restricted Assets

The following table summarizes the Company's restricted assets:

	Gross Restricted								Percentage	
	Current Year									
	1	2	3	4	5	6	7	8	9	10
Restricted Asset Category	Total General Account (G/A)	G/A Supporting S/A Activiy (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
j. On deposit with states	$ 4,805,591	$ -	$ -	$ -	$ 4,805,591	$ 4,817,907	$ (12,316)	$ 4,805,591	1.37%	1.52%
n. Other restricted assets	53,267	-	-	-	53,267	53,267	(0)	-	0.00%	0.00%
o. Total restricted assets	$ 4,858,858	$ -	$ -	$ -	$ 4,858,858	$ 4,871,174	$ (12,316)	$ 4,805,591	1.37%	1.52%

NOTES TO FINANCIAL STATEMENTS

I. Working Capital Finance Investments

The Company has no working capital investments.

J. Offsetting and Netting of Assets and Liabilities

The Company has no offsetting or netting of assets and liabilities related to derivatives, repurchases, reverse repurchases, and securities borrowing or securities lending.

K. Structured Notes

The following table summarizes the Company's structured notes:

CUSIP Identification	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage-Referenced Security (YES/NO)
30711XAC8	1,697,790	1,696,720	1,697,790	YES
Total	$ 1,697,790	$ 1,696,720	$ 1,697,790	

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

As of June 30, 2016 and December 31, 2015, the Company held an investment in ACA Service L.L.C., ("ACA Service"). The carrying value of such investment as of June 30, 2016 and December 31, 2015 was zero.

On April 1, 2011, the Company formed Tactical Risk Management LLC ("TRM") a wholly owned subsidiary. The Company has committed to capitalize TRM with up to $100 thousand. The Company's equity in TRM has been non-admitted as of June 30, 2016 and December 31, 2015.

7. INVESTMENT INCOME

See Note 1.C. (3) above.

8. DERIVATIVE INSTRUMENTS

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

9. INCOME TAXES

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

(1) **DTA/DTL Components**

	Description	2016 Ordinary	2016 Capital	2016 Total	2015 Ordinary	2015 Capital	2015 Total	Change Ordinary	Change Capital	Change Total
(a)	Gross deferred tax assets	$ 124,385,575	$ -	$ 124,385,575	$ 118,247,501	$ -	$ 118,247,502	$ 6,138,074	$ -	$ 6,138,074
(b)	Statutory valuation allowance adjustment	(90,811,630)	-	(90,811,630)	(84,673,557)	-	(84,673,557)	(6,138,073)	-	(6,138,073)
(c)	Adjusted gross deferred tax assets	33,573,945	-	33,573,945	33,573,944	-	33,573,945	1	-	1
(d)	Adjusted gross deferred tax assets nonadmitted	(32,242,985)	-	(32,242,985)	(32,242,985)	-	(32,242,985)	-	-	-
(e)	Sub-total admitted adjusted gross deferred tax asset	1,330,960	-	1,330,960	1,330,959	-	1,330,960	1	-	1
(f)	Gross deferred tax liabilities	(157,148)	(1,173,812)	(1,330,960)	(1,330,959)	-	(1,330,959)	1,173,811	(1,173,812)	(1)
(g)	Net admitted deferred tax asset	$ 1,173,812	$ (1,173,812)	$ -	$ 0	$ -	$ 0	$ 1,173,812	$ (1,173,812)	$ -

(2) **Admission calculation components:**

	Description	2016 Ordinary	2016 Capital	2016 Total	2015 Ordinary	2015 Capital	2015 Total	Change Ordinary	Change Capital	Change Total
	Admission calculation under ¶11.a.-¶11.c.									
(a)	Federal income taxes paid in prior years recoverable through loss carrybacks.	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(b)	Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from a, above) after application of the threshold limitation. (the lesser of b.i. and b.ii. below.)	-	-	-	-	-	-	-	-	-
(i)	Adjusted gross deferred tax assets expected to be realized following the balance sheet date.	-	-	-	-	-	-	-	-	-
(ii)	Adjusted gross deferred tax assets allowed per limitation threshold.	N/A	N/A	-	N/A	N/A	-	N/A	N/A	-
(c)	Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. and b. above) offset by gross deferred tax liabilities.	1,330,960	-	1,330,960	1,330,959	-	1,330,959	1	-	1
(d)	Deferred tax assets admitted as the result of application of SSAP No. 101.total (a. + b. + c.)	$ 1,330,960	$ -	$ 1,330,960	$ 1,330,959	$ -	$ 1,330,959	$ 1	$ -	$ 1

(3) **Used in ¶11.b.** (Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From a, above) After Application of the Threshold Limitation. (The Lesser of b.i. and b.ii.) b.i. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date. b.ii. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.)

		2016	2015
(a)	Applicable ratio for realization limitation threshold table	22.03%	65.05%

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

	Description	2016 Ordinary	2016 Capital	2016 Total	2015 Ordinary	2015 Capital	2015 Total
(a)	Adjusted gross DTAs - Percentage	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(b)	Admitted adjusted gross DTAs - Percentage	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(c)	**Do TPS include a reinsurance strategy? Yes or No.**		No			No	

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

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

C. **Significant components of income taxes incurred.**

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

	Description	2016	2015
(a)	Current federal income tax expense	$ -	$ -
(b)	Foreign Income tax expense	-	-
(c)	Subtotal	-	-
(d)	Tax expense on realized capital gains	-	524,452
(e)	Utilization of capital loss carryforwards	-	(524,452)
(f)	Other, including prior year underaccrual	-	164,748
(g)	Federal and foreign income taxes incurred	$ -	$ 164,748

NOTES TO FINANCIAL STATEMENTS

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

		December 31, 2016	December 31, 2015	Change
(2)	**DTAs Resulting From Book/Tax Differences In**			
(a)	**Ordinary**			
(1)	Loss Reserve Discounting	$ 6,161,075	$ 5,537,510	$ 623,565
(2)	Unearned premiums	1,911,164	2,530,298	(619,134)
(3)	Policyholder reserves	-	-	-
(4)	Investments	-	-	-
(5)	Deferred acquisition costs	-	-	-
(6)	Policyholder dividends accrued	-	-	-
(7)	Fixed assets	-	-	-
(8)	Compensation and benefit accruals	225,374	1	225,373
(9)	Pension accruals	-	-	-
(10)	Nonadmitted assets	-	-	-
(11)	Net operating loss carryforward	81,734,057	75,825,788	5,908,269
(12)	Tax credit carryforward	779,960	779,960	-
(13)	Contingency Reserve	33,573,946	33,573,945	1
(14)	Other (separately disclose items >5%)	-	-	-
(99)	Subtotal - Gross ordinary DTAs	124,385,575	118,247,502	6,138,074
(b)	Statutory valuation adjustment adjustment - ordinary	(90,811,630)	(84,673,557)	(6,138,074)
(c)	Nonadmitted ordinary DTAs	(32,242,985)	(32,242,985)	-
(d)	Admitted ordinary DTAs	$ 1,330,960	$ 1,330,960	$ -
(e)	**Capital**			
(1)	Investments	$ -	$ -	$ -
(2)	Net capital loss carryforward	-	-	-
(3)	Real estate	-	-	-
(4)	Other (separately disclose items >5%)	-	-	-
(5)	Unrealized capital losses	-	-	-
(99)	Gross capital DTAs	-	-	-
(f)	Statutory valuation adjustment adjustment - capital	-	-	-
(g)	Nonadmitted capital DTAs	-	-	-
(h)	Admitted capital DTAs	$ -	$ -	$ -
(i)	**Admitted DTAs**	**$ 1,330,960**	**$ 1,330,960**	**$ -**

		December 31, 2016	December 31, 2015	Change
(3)	**DTLs Resulting From Book/Tax Differences In**			
(a)	**Ordinary**			
(1)	Investments	$ -	$ -	$ -
(2)	Fixed assets	(157,148)	(157,148)	-
(3)	Deferred and uncollected premiums	-	-	-
(4)	Policyholder reserves/salvage and subrogation	-	-	-
(5)	Other (separately disclose items >5%)	-	-	-
(99)	Ordinary DTLs	$ (157,148)	$ (157,148)	$ -
(b)	**Capital**			
(1)	Investments	$ (1,173,812)	$ (1,173,812)	$ -
(2)	Real estate	-	-	-
(3)	Other (separately disclose items >5%)	-	-	-
(4)	Unrealized capital gains	-	-	-
(99)	Capital DTLs	$ (1,173,812)	$ (1,173,812)	$ -
(c)	**DTLs**	**$ (1,330,960)**	**$ (1,330,960)**	**$ -**
(4)	**Net deferred tax assets/liabilities**	**$ -**	**$ -**	**$ -**

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

	December 31, 2016	December 31, 2015	Bal. Sheet Change
Total deferred tax assets	$ 124,385,575	$ 118,247,502	$ 6,138,073
Total deferred tax liabilities	(1,330,960)	(1,330,959)	(1)
Net deferred tax assets/liabilities	123,054,615	116,916,542	6,138,073
Statutory valuation allowance adjustment (*see explanation below)	(90,811,630)	(84,673,557)	(6,138,073)
Net deferred tax assets/liabilities after SVA	$ 32,242,985	$ 32,242,985	-
Tax effect of unrealized gains/(losses)			-
Statutory valuation allowance adjustment allocated to unrealized (+)			-
Change in net deferred income tax charge			$ -

***Statutory valuation allowance**

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

NOTES TO FINANCIAL STATEMENTS

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

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

The significant items causing this difference are as follows:

Description	Amount	Statutory Rate 35.00% Tax Effect	Effective Tax Rate
Income Before Taxes (including all realized capital losses)	$ (16,756,000)	$ (5,864,600)	35.00%
Tax-Exempt Interest	(1,027,272)	(359,545)	2.15%
Equity in Affiliates	(19,810)	(6,933)	0.04%
Proration	154,091	53,932	-0.32%
Meals & Entertainment, Lobbying Expenses, Etc.	-	-	0.00%
Statutory Valuation Allowance Adjustment	17,537,351	6,138,074	-36.63%
Change in Contingency Reserve	(2)	(1)	0.00%
Prior Year True-up	111,642	39,075	-0.23%
Total	$ -	$ 2	0.00%
Federal income taxed incurred expense		-	0.00%
Change in net deferred income tax benefit		-	0.00%
Total statutory income taxes		$ -	0.00%

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

The Company has net operating loss carryforwards of: $ 233,525,876 expiring through the calendar year 2036

The Company had capital loss carryforwards of: $ -

The Company has an AMT credit carryforward of: $ 779,960 which does not expire.

The Company's net operating and capital loss carryforwards are limited in its aggregate under Section 382 of the Internal Revenue Code. See Note 21C. This limitation is reflected in the statutory valuation allowance determination.

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

Available from tax year	Ordinary	Capital	Total
2014	$ -	$ -	$ -
2015	-	-	-
2016	-	-	-
Total	$ -	$ -	$ -

Deposits admitted under IRC § 6603
None

The Company's Net operating and capital loss carryforwards are limited in its aggregate under Section 382 of the Internal Revenue Code. See Notes 21C. This limitation is reflected in the statutory valuation allowance determination.

F. Income tax loss contingencies

N/A

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

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 June 30, 2016, no material adjustments are expected for tax years for which the statute of limitations remains open.

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

A. & B. There were no material transactions with parent, affiliates or other related parties in 2016 or 2015. The Company purchased ACA insured bonds from a surplus note holder. See Footnote 25.

C. Not applicable.

D. The Company has $82 thousand and $83 thousand net payable to subsidiaries at June 30, 2016 and December 31, 2015, respectively.

E. Except as discussed in Note 6, the Company has no guaranties or undertakings for the benefit of an affiliate or related party.

F. The Company has no material management or service contract with any related parties.

G. The Company’s 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 entered into on August 8, 2008, ACACH and its wholly owned subsidiaries disclaimed control over the Company. This disclaimer of control was approved by the MIA. See Note 21.C.(2) for a discussion of the restructuring transaction.

H. The Company's majority common shareholder and ultimate parent, ACACH, is not owned directly or indirectly via any of the Company's downstream subsidiaries or controlled or affiliated entities. See Note 21.C.(2) for information regarding the ownership structure of the Company following the closing of its restructuring transaction that took place on August 8, 2008. See Note 21.C.(2) for a discussion of the restructuring transaction.

I. The Company holds no investment in any subsidiary, controlled or affiliated entity that exceeds 10% of its admitted assets.

J. The Company did not impair any subsidiary, controlled or affiliated entity in 2016 or 2015.

K. Not applicable.

NOTES TO FINANCIAL STATEMENTS

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

M. Not applicable.

N. Not applicable.

11. DEBT

A. As of June 30, 2016 and December 31, 2015, the Company had no capital notes or other debt.

B. As of June 30, 2016 and December 31, 2015, the Company had no Federal Home Loan Bank (FHLB) Agreements.

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

A. The Company has no Defined Benefit Plan.

B. The Company sponsors a qualified defined contribution plan, which covers all full-time employees of the Company as of their start date with the Company. Eligible participants may contribute a percentage of their salary, subject to IRS limitations. The Company's contributions to the plan are based on a fixed percentage of employees' contributions subject to IRS limitations. For the six month periods ended June 30, 2016 and 2015, the Company recognized expense in the amount of $108.6 thousand and $145.5 thousand for the defined contribution plan, respectively.

C. The Company has no Multi-employer Plan.

D. The Company has no Consolidated/Holding Company Plan.

E. & F. The Company provides postemployment benefits to its employees. The benefits include severance and continuation of benefits, such as healthcare, for terminated employees. Amounts are reflected in the financial statements, as Employee Relations and Welfare expenses, when it is probable that the employee will be entitled to the benefit and the amount can be reasonably estimated.

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

(1) The Company has 1,000,000 shares of common stock authorized, issued and outstanding with a par value of $15.00 per share. See Note 10.G.

(2) The Company has no preferred stock outstanding.

(3) As part of the Company's restructuring discussed in Note 21.C.(2) below, the MIA Order restricts the Company from paying dividends without the prior approval of the Commissioner.

(4) No dividends were paid in 2016 or 2015.

(5) The Company had negative earned surplus at June 30, 2016 and December 31, 2015; therefore no dividends can be paid in 2016 pursuant to Maryland Insurance Law. Negative earned surplus represents the amount reported in the Statement of "Assets, Liabilities, Surplus and Other Funds" under the line item entitled, "Unassigned funds (surplus)".

(6) There are no restrictions on unassigned surplus.

(7) The Company is not a mutual company.

(8) The Company holds no stock for special purposes.

(9) The Company holds no special surplus funds.

(10) The portion of unassigned surplus represented by cumulative unrealized capital losses is $93,109.

(11) The following table sets forth certain information regarding the Company's surplus notes:

Date Issued	Interest Rate	Par Value (Face Value of Notes)	Carrying Value of Note	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
8/8/2008	no stated rate	$1,000,000,000	-	-	-	-	Within 30 days after the expiration, commutation or bulk reinsurance of the last insurance policy issued by the Company

As part of the restructuring transaction which took place on August 8, 2008, surplus notes with a face amount of $1 billion were issued. See Note 21.C.(2) for a description of the notes. These notes were recorded in the surplus notes section of the balance sheet along with an offsetting entry to a contra account (see Note 1.A.). All payments made under the surplus notes require advance approval of the MIA.

The Surplus Notes provide that, on or before July 15, 2013 and on every anniversary thereafter, ACA, as obligor, shall seek regulatory approval from the MIA to make a payment on the Surplus Notes to the holders thereof. On July 10, 2014, ACA made the aforementioned request to the MIA. On July 21, 2014, the Company was advised by the MIA that it had denied the Company's request.

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

NOTES TO FINANCIAL STATEMENTS

14. CONTINGENCIES

A. Contingency Commitments

The Company has no contingent commitments.

B. Assessments

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

C. Gain Contingencies

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

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

- As a result of actions taken by the trustee in one particular ACA insured transaction, ACA expects to ultimately recognize salvage and subrogation recoveries in excess of its expected aggregate claim payments on the transaction. As a result, as of June 30, 2016, ACA expects to recognize a gain aggregating approximately $9.9 million on a net present value basis, with recoveries expected to begin decades in the future. Pursuant to ACA's accounting policy, any estimated gains must be deferred and recognized only when the actual receipts of such recoveries occur, or in the case of losses related to ACA's own insurance policies, they exceed the cumulative amounts paid out pursuant to claims. Accordingly, no assurance can be given that any or all expected recoveries will be received or that the amount of actual recoveries will not differ materially from that expected.

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

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

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

The Company 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

NOTES TO FINANCIAL STATEMENTS

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 litigation, income taxes and other matters are not considered material in relation to the financial position or the results of operations of the Company.

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

E. Product Warranties

Not applicable.

F. Joint and Several Liabilities

Not applicable.

G. All Other Contingencies

Not applicable.

15. LEASES

A. Lessee Operating Lease

(1) ACA subleases office space at 600 Fifth Avenue with a lease termination date of September 29, 2016. The Company's rental expense for the six month periods ended June 30, 2016 and 2015 was $273.3 thousand. The Company has signed a new lease for office space at 555 Theodore Fremd Avenue in Rye, NY with a commencement date of September 1, 2016 and a termination date of November 30, 2021.

(2) At July 1, 2016, the minimum future lease payments under the leases are as follows (dollars in thousands):

Year Ending December 31,	Operating Leases
2016	173
2017	124
2018	126
2019	128
2020	130
Beyond 5 Years	121
Total	$ 802

B. Lessor Leases

Not applicable.

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

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

While the Company establishes reserves for losses on obligations which are in default as to payment (see Note 1.C.(11) and Note 21.C.(1)), the risk of loss under the Company's guaranties extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see description of financial guaranty insurance in Note 21.C.(4)). The tables below reflect certain information regarding the Company's in-force par exposure at March 31, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
($ in millions)	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
Tax-exempt obligations:				
Healthcare	$ 170	8.9%	$ 172	7.7%
Tax backed	201	10.5%	210	9.4%
Higher education	372	19.4%	468	20.9%
Long-term care	95	5.0%	116	5.2%
General obligations	514	26.8%	624	27.9%
Utilities	51	2.7%	55	2.5%
Transportation	185	9.7%	185	8.3%
Housing	58	3.0%	64	2.9%
Not for Profit	120	6.3%	194	8.7%
Other	145	7.6%	146	6.5%
Total municipal obligations	**1,911**	**99.7%**	**2,234**	**99.7%**
Taxable obligations				
Other	6	0.3%	6	0.3%
Total	$ 1,917	100.0%	$ 2,240	100.0%

NOTES TO FINANCIAL STATEMENTS

For the six month period ended June 30, 2016, the Company reported a decrease in insured net par outstanding of $323 million, of which $270 million was attributable to Refundings, including early retirement due to cancellation (See Note 1.C.(1)).

PAR EXPOSURE BY STATE	June 30, 2016 Net Par Outstanding	June 30, 2016 % of Net Par Outstanding	December 31, 2015 Net Par Outstanding	December 31, 2015 % of Net Par Outstanding
($ in millions)				
New York	$ 501	26.2%	$ 510	22.8%
California	378	19.8%	403	18.0%
Washington	92	4.8%	92	4.1%
Florida	90	4.7%	109	4.9%
Georgia	77	4.0%	77	3.4%
Other states	773	40.5%	1,044	46.7%
Total municipal obligations	$ 1,911	100.0%	$ 2,234	100.0%

NET PAR OUTSTANDING BY MATURITY

($ in millions) Terms of Maturity	June 30, 2016 Net Par Outstanding
0 to 5 years	$ 380
5 to 10 years	579
10 to 15 years	448
15 to 20 years	400
20 and above	110
Total	**$ 1,917**

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

A. The Company had no transfer of receivables reported as sales.

B. The Company had no transfer and servicing of financial assets.

C. The Company had no wash sales.

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

A. The Company has no Administrative Services Only (ASO) plan.

B. The Company has no Administrative Services Contract (ASC) plan.

C. The Company has no Medicare or other similarly structured cost based retirement contract.

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

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

20. FAIR VALUE MEASUREMENT

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

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

June 30, 2016				
Security Type	**Level 1**	**Level 2**	**Level 3**	**Grand Total**
Bonds	$ -	$ 1,200,749	$ -	$ 1,200,749
Total	$ -	$ 1,200,749	$ -	$ 1,200,749
December 31, 2015				
Security Type	**Level 1**	**Level 2**	**Level 3**	**Grand Total**
Bonds	$ -	$ 3,287,902	$ -	$ 3,287,902
Total	$ -	$ 3,287,902	$ -	$ 3,287,902

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

Not applicable

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

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

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

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

Level 3: Fair value measurements, based on certain inputs which are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best

NOTES TO FINANCIAL STATEMENTS

estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

(5) Derivative Fair Value

Not applicable

B. Other Fair Value Disclosures

Not applicable

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

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

June 30, 2016						
Type of Financial Instrument	Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds	$ 313,682,199	$ 304,043,212	$ -	$ 313,682,199	$ -	$ -
Cash & Short-Term Investments	8,740,737	8,740,737	6,325,856	2,414,881	-	-
Total	$ 322,422,936	$ 312,783,949	$ 6,325,856	$ 316,097,080	$ -	$ -

December 31, 2015						
Type of Financial Instrument	Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds	$ 323,515,344	$ 320,613,543	$ -	$ 323,515,344	$ -	$ -
Cash & Short-Term Investments	6,082,166	6,082,166	2,167,843	3,914,323	-	-
Total	$ 329,597,510	$ 326,695,708	$ 2,167,843	$ 327,429,667	$ -	$ -

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

Not applicable

21. OTHER ITEMS

A. Extraordinary items

The Company had no extraordinary items during 2016 and 2015.

B. Troubled Debt Restructurings: Debtors

The Company had no troubled debt restructurings during 2016 and 2015. See also Note 5.B.

C. Other Disclosures

(1) Description of Significant Risks and Uncertainties

- As discussed in Note 1.C. (11), ACA recognizes losses and establishes related loss reserves on bond obligations it has insured upon the initial payment default by the issuer of such bond obligations (under the Company's accounting policy, the initial payment default is generally considered the incident which gives rise to a claim and triggers loss recognition relating to the incident). The loss recognized by ACA upon a payment default represents the Company's best estimate of its ultimate loss over the life of the policy, discounted to reflect the time value of money. However, ACA 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 Statement of Assets, Liabilities, Surplus and Other Funds at March 31, 2016 and December 31, 2015 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 $35 million to $55 million at June 30, 2016, on a discounted basis (see also Note 25). Accordingly, the Company believes it will incur material losses in the future which will materially adversely affect its policyholders' surplus. Notwithstanding the de-recognition of contingency reserves that may be approved by the Maryland Insurance Commissioner in the future, no assurance can be given that the recognition of such losses in the future will not cause the Company to fail to comply with its regulatory required minimum policyholders' surplus requirement of $750,000. However, the Company believes that its policyholders' surplus will be in excess of Maryland's required minimum policyholders' surplus over the twelve months succeeding the date of the accompanying statement of Assets, Liabilities, Surplus and Other Funds and, that it has sufficient liquidity resources to satisfy its financial obligations as they come due for the foreseeable future.

- The Company is materially exposed to risks associated with deterioration in the tax exempt bond market through its insurance guaranties (see Note 16), as well as to the economy generally. The extent and duration of any future deterioration in the tax exempt bond market is unknown, as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed. As discussed in Note 36, the Company classifies its insured in-force portfolio in one of four credit quality categories. As noted therein, as of June 30, 2016, the Company had insured obligations with outstanding principal totaling $375.1 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 $184.7 million classified in Category 3, which means those credits have materially violated financial and operational covenants and require remedial action to avoid

NOTES TO FINANCIAL STATEMENTS

further performance deterioration. As discussed in Note 16, the risk of loss under the Company's guaranties extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed. No assurance can be provided that further deterioration in ACA's insured guaranties will not occur resulting in a further migration of insured exposure to categories 3 and 4 or that ACA will not incur losses that may be materially in excess of what it currently estimates.

- Losses incurred and reserves for losses are reported by the Company net of estimated recoveries from salvage and subrogation. Estimated salvage and subrogation are a material component of the Company's incurred losses and reserves for losses (both on-balance sheet and off-balance sheet). Pursuant to the Company's policies of insurance, should the Company pay a claim under a policy, 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 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 risk of loss under the Company's guaranties extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see Note 16).

- The Company is involved in a number of legal proceedings, both as plaintiff and defendant, as well as regulatory inquiries and investigations. Management cannot predict the outcomes of these proceedings and other contingencies with certainty. In addition, it is not possible to predict whether additional suits will be filed or whether additional inquiries or investigations will be commenced. The outcome of some of these proceedings and other contingencies could require the Company to take or refrain from taking actions which could have a material adverse effect on its business, financial position or cash flows or could require the Company to pay (or fail to receive) substantial amounts of money. Additionally, prosecuting and defending these lawsuits and proceedings has caused the Company to incur significant expenses. The Company expects to continue to incur significant expenses in this regard in the near term. In addition, such expenses may continue to be significant beyond the near term and may cause diversion of resources from other matters. See Notes 14.C. and 14.D.

- ACA has experienced and likely will continue to experience substantial tax losses in the conduct of its business.

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

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

  ACA experienced an ownership change for purposes of Section 382 in 2014. As a consequence of the ownership change, ACA'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'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.

(2) Restructuring Transaction

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

(3) Description of the Company's On-Going Strategic Plan

Management is actively seeking to (i) remediate deteriorated insured exposures to minimize claim payments, maximize recoveries and mitigate ultimate losses, (ii) increase the Company's capital, surplus, liquidity and claims paying resources, (iii) realize maximum value from various legal proceedings described in Note 14.C. and from any other rights and remedies the Company may have, and (iv) take other actions to enhance its financial position (hereafter collectively referred to as "Strategic Actions"). In regard to the Strategic Actions, the Company is actively pursuing or exploring a number of options available to it to enhance the Company's policyholders' surplus or liquidity position or address other challenges that the Company faces. 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) Description of Financial Guaranty Insurance

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

D. Business Interruption Insurance Recoveries

Not applicable.

E. State Transferable Tax Credits

The Company had no state transferable credits.

F. Subprime Exposure Related Risk

(1) Except for one insured securitization of manufactured housing mortgages, as of June 30, 2016 and December 31, 2015, the Company had no exposure to subprime mortgages among its in-force guaranties. With the exception of the aforementioned securitization, all other subprime mortgage exposure of the Company was extinguished in the Global Settlement Agreement described in Note 21.C.(2). The remaining par exposure relating to the manufactured housing

NOTES TO FINANCIAL STATEMENTS

mortgage securitization was $4.3 million and $4.4 million at June 30, 2016 and December 31, 2015, respectively. The Company has a loss reserve against this exposure in the amount of $1.6 million and $1.5 million at June 30, 2016 and December 31, 2015, respectively.

(2) The Company has no investments consisting of direct exposure to subprime-mortgages.

(3) The Company has the following indirect exposures to sub-prime mortgages included in its investment portfolio at June 30, 2016:

	1 Actual Cost	2 Book/Adjusted Carrying Value (excluding interest)	3 Fair Value	4 Other Than Temporary Impairment Losses Recognized
a. Residential mortgage backed securities	$ 13,932,852	$ 14,264,759	$ 14,413,747	$ -
b. Commercial mortgage backed securities				
c. Collateralized debt obligations				
d. Structured securities	21,798,535	21,781,473	21,916,010	-
e. Equity investment in SCAs				
f. Other assets				
g. Total	$ 35,731,387	$ 36,046,232	$ 36,329,756	$ -

(4) As stated in F. (1) above, the Company has an outstanding loss reserve in the amount of $1.6 million:

	Losses Paid in the Current Year	Losses Incurred in the Current Year	Case Reserves at End of Current Period	IBNR Reserves at End of Current Period
a. Mortgage guaranty coverage	$ -	$ -	$ -	$ -
b. Financial guaranty coverage	-	132,882	1,621,745	-
c. Other lines	-	-	-	-
d. Total	$ -	$ 132,882	$ 1,621,745	$ -

G. Insurance-linked Securities

Not applicable.

22. EVENTS SUBSEQUENT

The Company reviewed all transactions and other matters that have occurred from July 1, 2016 through August 10, 2016 (the date the financial statements were available to be issued) to assess whether such transactions and matters qualify as "subsequent events" and require adjustment to or disclosure in the financial statements as of and for the period ended June 30, 2016. Based on the aforementioned review, no matters came to management's attention that would require adjustment to or disclosure in the financial statements.

23. REINSURANCE

A. Unsecured Reinsurance Recoverables

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

B. Reinsurance Recoverable in Dispute

The Company has no reinsurance recoverable in dispute.

C. Reinsurance Assumed and Ceded

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Affiliates	$ -	$ -	$ -	$ -	$ -	$ -
All other	$ 3,874,099	$ -	$ -	$ -	$ 3,874,099	$ -
Total	$ 3,874,099	$ -	$ -	$ -	$ 3,874,099	$ -

Direct Unearned Premium Reserve: $60,674,777

There are no contingent commission or profit sharing arrangements.

D. Uncollectible Reinsurance

The Company has no uncollectible reinsurance balances.

E. Commutation of Ceded Reinsurance

The Company had no commutations of ceded reinsurance in 2016.

F. Retroactive Reinsurance

The Company has no retroactive reinsurance contracts.

G. Reinsurance Accounted for as a Deposit

NOTES TO FINANCIAL STATEMENTS

The Company did not account for any reinsurance as deposits.

H. Not applicable.

I. Not applicable.

J. Not applicable.

24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

The Company has not entered into any retrospectively rated contracts or contracts subject to redetermination, including any provisions of the Affordable Care Act

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

For the six month period ended June 30, 2016, the Company recorded a net provision for losses incurred of $28.5 million, which consisted of $3.1 million of net adverse loss development on accident years prior to 2016 ("prior accident year claims") and $25.4 million losses incurred relating to the current accident year. The Company reflects loss remediation bond buybacks as loss payments and reflects a corresponding modeled reduction to estimated future losses. Loss remediation bond purchases may relate to policies where case basis reserves have already been established in the statutory financial statements or for policies related to Off-Balance Sheet Losses. See footnote 21C(1). During the six month period ended June 30, 2016, the Company purchased bonds for loss remediation purposes in the amount of $4.5 million. As of June 30, 2016, the Company's liability for unpaid losses was $125.7 million, which related to twenty-seven insured transactions, with a remaining aggregate in-force par outstanding of $158.2 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of $158.2 million represents the remaining maximum amount of par exposure subject to loss in regard to these twenty-seven insured transactions. See Note 36A.(3) b for additional information regarding the Company's reserves for losses and loss adjustment expenses.

As discussed in Note 21.C.(1), the Company's estimate of its ultimate Off-Balance Sheet Losses at June 30, 2016 ranged from $35 million to $55 million. This range of Off-Balance Sheet Losses related to thirteen insured transactions, with a remaining aggregate in-force par outstanding of approximately $54.9 million, excluding the aforementioned Off-Balance Sheet Losses.

For the six month period ended June 30, 2015, the Company recorded a net provision for losses incurred of $13.6 million, which was all related to net adverse loss development on accident years prior to 2015. In the second quarter 2015, the Company purchased bonds for loss remediation purposes in the amount of $13.2 million. In addition, in the third quarter the Company purchased bonds in the amount of $16.7 million, as of July 31, 2015. Substantially all of the bond purchases made in the second quarter and in July 2015 were sold to the Company by a Surplus Note Holder. As of June 30, 2015, the Company's liability for unpaid losses was $99.5 million, which related to twenty-four insured transactions, with a remaining aggregate in-force par outstanding of $138.0 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of $138.0 million represents the remaining maximum amount of par exposure subject to loss in regard to these twenty-four insured transactions.

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

26. INTERCOMPANY POOLING ARRANGEMENTS

The Company has no intercompany pooling arrangements.

27. STRUCTURED SETTLEMENTS

A. The Company has not entered into any structured settlements for reserves no longer being carried.

B. The Company does not hold any annuities under which the Company is the payee and the recorded asset balance due exceeds 1% of surplus.

28. HEALTH CARE RECEIVABLE

A. The Company has no pharmaceutical rebate receivables as of June 30, 2016 and December 31, 2015.

B. The Company has no risk sharing receivables as of June 30, 2016 and December 31, 2015.

29. PARTICIPATING POLICIES

The Company never issued participating policies.

30. PREMIUM DEFICIENCY RESERVE

The Company has no premium deficiency reserves. The Company includes anticipated investment income as a factor in the premium deficiency calculation.

31. HIGH DEDUCTIBLES ON UNPAID CLAIMS

The Company has no high deductibles on unpaid claims.

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

The Company's case reserves for unpaid losses are discounted on a non-tabular basis. The discount rate used at June 30, 2016 and December 31, 2015 was 3.07%. The discount rate is based on the average rate of return on the Company's admitted assets determined at the end of each year. The net amount of discount associated with the Company's loss reserves at June 30, 2016 was $13.1 million. Loss adjustment expenses are not discounted.

33. ASBESTOS/ENVIRONMENTAL RESERVES

NOTES TO FINANCIAL STATEMENTS

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

34. SUBSCRIBER SAVINGS ACCOUNTS

The Company has no subscriber savings accounts.

35. MULTIPLE PERIL CROP INSURANCE

The Company has never written this line of business.

36. FINANCIAL GUARANTY INSURANCE

A.

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

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

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

(2) a. The amount of premium revenue that has been accelerated during the six month periods ended June 30, 2016 and 2015 was $7.9 million and $9.2 million, respectively.

b. Schedule of the future expected earned premium revenue on contracts written on an upfront basis as of June 30, 2016:

1.

3rd Quarter 2016		1,172,474
4th Quarter 2016		1,176,176
Year 2017		4,131,656
Year 2018		3,705,417
Year 2019		3,802,060
Year 2020		4,157,682
Subtotal		18,145,466

2.

2021 through 2025		18,804,393
2026 through 2030		14,313,452
2031 through 2035		10,424,764
2036 through 2039		2,860,801
Total	$	64,548,876

(3) Claim liability:

a. The Company used a rate of 3.07% to discount the claim liability.

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

Reserves for losses at December 31, 2015	$	110,964,788
Accretion of the discount		2,001,091
New reserves for defaults of insured contracts		19,935,913 (1)
Development on prior accident years reserves		(7,172,611) (2)
Change in deficiency reserves		-
Change in incurred but not reported claims		-
Total change in reserves		14,764,393
Reserves for losses at June 30, 2016	$	125,729,181

(1) Represents 2016 accident year loss development of $25,393,854, less claim payments of $5,457,941.
(2) Represents favorable loss development of $1,089,402, and claim payments of $8,262,013.

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

a. 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.

NOTES TO FINANCIAL STATEMENTS

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.

b. Risk management activities are performed by ACA's portfolio management department. Portfolio analysts monitor all insured transactions in the portfolio to determine whether their financial performance is consistent with underwriting expectations and to identify any deterioration in the obligor's ability or willingness to pay insured debt service. Portfolio management staff are also responsible for recommending and undertaking remedial actions to prevent or mitigate losses.
All transactions in the insured portfolio are assigned one of four internal credit quality classifications that reflect the current and expected performance of the obligor. Credit quality classifications of insured transactions are reviewed and updated on a regular basis as analysts obtain more current financial and market information from the obligor, the trustee, or from public sources such as rating agencies and fixed income analysts. The frequency with which individual obligors are reviewed is based on ACA's judgment of potential performance volatility and varies according to credit classification, sector, geography, size of exposure, and exogenous events.

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

	Credit Quality Categories				
	1	2	3	4	Total
Number of policies	111	26	14	38	189
Remaining weighted-average contract period (in years)	10	9	8	11	10
Insured contractual payments outstanding:					
Principal	$ 1,199,666,260	$ 157,310,933	$ 184,684,735	$ 375,083,163	$ 1,916,745,091
Interest	688,581,847	83,844,805	140,807,602	332,025,646	1,245,259,900
Total	$ 1,888,248,107	$ 241,155,738	$ 325,492,337	$ 707,108,808	$ 3,162,004,990
Gross claim and LAE liability	$ -	$ 27,000	$ 281,000	$ 191,903,542	$ 192,211,542
Less:					
Gross potential recoveries	-	-	-	47,407,428	47,407,428
Discount, net	-	-	-	13,133,810	13,133,810
Net claim and LAE liability	$ -	$ 27,000	$ 281,000	$ 131,362,304	$ 131,670,304
Unearned premium revenue	$ 25,258,943	$ 8,604,797	$ 7,199,892	$ 23,485,245	$ 64,548,876
Claim and LAE liability reported in the balance sheet	$ -	$ 27,000	$ 281,000	$ 131,362,304	$ 131,670,304
Reinsurance recoverables	$ -	$ -	$ -	$ -	$ -

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES
GENERAL

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

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

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

2.2 If yes, date of change:

3.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [ ] No [X]

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

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

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

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

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

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

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

If yes, attach an explanation.

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

6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2012

6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 06/18/2014

6.4 By what department or departments?

Maryland Insurance Administration

6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes [ ] No [ ] NA [X]

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

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

7.2 If yes, give full information:

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

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

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

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

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

GENERAL INTERROGATORIES

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

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

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

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

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

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

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

FINANCIAL

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

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

INVESTMENT

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

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

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

13. Amount of real estate and mortgages held in short-term investments: $

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes [X] No [ ]

14.2 If yes, please complete the following:

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

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

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

If no, attach a description with this statement.

GENERAL INTERROGATORIES

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

16.1 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $ 0

16.2 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $ 0

16.3 Total payable for securities lending reported on the liability page $ 0

17. Excluding items in Schedule E – Part 3 – Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III – General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC *Financial Condition Examiners Handbook*? Yes [X] No [ ]

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

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

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

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

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

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

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

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

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

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

18.2 If no, list exceptions:

GENERAL INTERROGATORIES
PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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

   If yes, attach an explanation.

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

   If yes, attach an explanation.

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

3.2 If yes, give full and complete information thereto.

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

4.2 If yes, complete the following schedule:

			TOTAL DISCOUNT				DISCOUNT TAKEN DURING PERIOD			
1 Line of Business	2 Maximum Interest	3 Discount Rate	4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 TOTAL	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 TOTAL
Financial Guaranty		3.070	13,133,810			13,133,810	(13,446,184)			(13,446,184)
TOTAL			13,133,810	0	0	13,133,810	(13,446,184)	0	0	(13,446,184)

5. Operating Percentages:

   5.1 A&H loss percent 0.0 %

   5.2 A&H cost containment percent 0.0 %

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

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

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

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

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

SCHEDULE F - CEDED REINSURANCE

Showing All New Reinsurers - Current Year to Date

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

NONE

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2	3	4	5	6	7
States, etc.	Active Status	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date	Current Year To Date	Prior Year To Date
1. Alabama AL	L		0		0		0
2. Alaska AK	L		0		0		0
3. Arizona AZ	L		0		0		0
4. Arkansas AR	L		0	2,398,397	2,113,916	15,343,542	17,035,767
5. California CA	L		0	482,540	13,843,743	38,593,549	18,947,343
6. Colorado CO	L		0		0		0
7. Connecticut CT	L		0		0		0
8. Delaware DE	L		0		0		0
9. Dist. Columbia DC	L		0		0		0
10. Florida FL	L		0	317,041	366,802	(4,370,625)	(2,943,541)
11. Georgia GA	L		0	531,927	697,675	8,546,814	9,709,434
12. Hawaii HI	L		0		0		0
13. Idaho ID	L		0		0		0
14. Illinois IL	L		0	954,111	1,008,159	12,174,205	17,322,046
15. Indiana IN	L		0		0		0
16. Iowa IA	L		0		0		0
17. Kansas KS	L		0		0		0
18. Kentucky KY	L		0		0		0
19. Louisiana LA	L	6,079	5,913	1,933,307	292,559	5,613,462	5,879,169
20. Maine ME	L		0		0		0
21. Maryland MD	L		0		0		0
22. Massachusetts MA	L		0	55,781	13,438	462,161	533,401
23. Michigan MI	L		0		0		0
24. Minnesota MN	L		1,335	28,003	60,332	5,260,546	5,642,128
25. Mississippi MS	L		0	830,920	219,007	7,694,752	9,932,099
26. Missouri MO	L	5,415	0	25,269	29,126	997,619	1,178,417
27. Montana MT	L		0		0		0
28. Nebraska NE	L		0		0		0
29. Nevada NV	L		0		0		0
30. New Hampshire NH	L		0		0		0
31. New Jersey NJ	L		0		0		0
32. New Mexico NM	L		0		0		0
33. New York NY	L		0	2,252,357	317,878	21,643,102	1,815,440
34. No. Carolina NC	L		0		0		0
35. No. Dakota ND	L		0		0		0
36. Ohio OH	L		0		0		0
37. Oklahoma OK	L		0		0		0
38. Oregon OR	L		0		0		0
39. Pennsylvania PA	L		0	3,364,625	0		0
40. Rhode Island RI	L		0		0		0
41. So. Carolina SC	L		0	17,487	520,063	918,686	1,056,391
42. So. Dakota SD	L		0		0		0
43. Tennessee TN	L		0		0		0
44. Texas TX	L		0	50,554	(9,128)	4,784,253	4,625,604
45. Utah UT	L		0		0		0
46. Vermont VT	L		0		0		0
47. Virginia VA	L		0	477,635	220,419	8,067,114	8,740,146
48. Washington WA	L		0		0		0
49. West Virginia WV	L		0		0		0
50. Wisconsin WI	L		0		0		0
51. Wyoming WY	L		0		0		0
52. American Samoa AS	N		0		0		0
53. Guam GU	L		0		0		0
54. Puerto Rico PR	L		0		0		0
55. U.S. Virgin Islands VI	L		0		0		0
56. Northern Mariana Islands MP	N		0		0		0
57. Canada CAN	N		0		0		0
58. Aggregate Other Alien OT	XXX	0	0	0	0	0	0
59. Totals	(a) 54	11,494	7,248	13,719,954	19,693,989	125,729,180	99,473,844
DETAILS OF WRITE-INS							
58001.	XXX						
58002.	XXX						
58003.	XXX						
58998. Summary of remaining write-ins for Line 58 from overflow page	XXX	0	0	0	0	0	0
58999. TOTALS (Lines 58001 through 58003 plus 58998) (Line 58 above)	XXX	0	0	0	0	0	0

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

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

Schedule Y - Part 1

NONE

Schedule Y - Part 1A

NONE

PART 1 - LOSS EXPERIENCE

Line of Business	Current Year to Date 1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	4 Prior Year to Date Direct Loss Percentage
1. Fire			0.0	0.0
2. Allied lines			0.0	0.0
3. Farmowners multiple peril			0.0	0.0
4. Homeowners multiple peril			0.0	0.0
5. Commercial multiple peril			0.0	0.0
6. Mortgage guaranty			0.0	0.0
8. Ocean marine			0.0	0.0
9. Inland marine			0.0	0.0
10. Financial guaranty	9,517,495	28,484,347	299.3	128.6
11.1 Medical professional liability -occurrence			0.0	0.0
11.2 Medical professional liability -claims made			0.0	0.0
12. Earthquake			0.0	0.0
13. Group accident and health			0.0	0.0
14. Credit accident and health			0.0	0.0
15. Other accident and health			0.0	0.0
16. Workers' compensation			0.0	0.0
17.1 Other liability occurrence			0.0	0.0
17.2 Other liability-claims made			0.0	0.0
17.3 Excess Workers' Compensation			0.0	0.0
18.1 Products liability-occurrence			0.0	0.0
18.2 Products liability-claims made			0.0	0.0
19.1,19.2 Private passenger auto liability			0.0	0.0
19.3,19.4 Commercial auto liability			0.0	0.0
21. Auto physical damage			0.0	0.0
22. Aircraft (all perils)			0.0	0.0
23. Fidelity			0.0	0.0
24. Surety			0.0	0.0
26. Burglary and theft			0.0	0.0
27. Boiler and machinery			0.0	0.0
28. Credit			0.0	0.0
29. International			0.0	0.0
30. Warranty			0.0	0.0
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0.0	0.0
35. TOTALS	9,517,495	28,484,347	299.3	128.6
DETAILS OF WRITE-INS				
3401.				
3402.				
3403.				
3498. Sum. of remaining write-ins for Line 34 from overflow page	0	0	0.0	0.0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)	0	0	0.0	0.0

PART 2 - DIRECT PREMIUMS WRITTEN

Line of Business	1 Current Quarter	2 Current Year to Date	3 Prior Year Year to Date
1. Fire	0		0
2. Allied lines	0		0
3. Farmowners multiple peril	0		0
4. Homeowners multiple peril	0		0
5. Commercial multiple peril	0		0
6. Mortgage guaranty	0		0
8. Ocean marine	0		0
9. Inland marine	0		0
10. Financial guaranty	7,525	11,494	7,248
11.1 Medical professional liability-occurrence	0		0
11.2 Medical professional liability-claims made	0		0
12. Earthquake	0		0
13. Group accident and health	0		0
14. Credit accident and health	0		0
15. Other accident and health	0		0
16. Workers' compensation	0		0
17.1 Other liability occurrence	0		0
17.2 Other liability-claims made	0		0
17.3 Excess Workers' Compensation	0		0
18.1 Products liability-occurrence	0		0
18.2 Products liability-claims made	0		0
19.1,19.2 Private passenger auto liability	0		0
19.3,19.4 Commercial auto liability	0		0
21. Auto physical damage	0		0
22. Aircraft (all perils)	0		0
23. Fidelity	0		0
24. Surety	0		0
26. Burglary and theft	0		0
27. Boiler and machinery	0		0
28. Credit	0		0
29. International	0		0
30. Warranty	0		0
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0
35. TOTALS	7,525	11,494	7,248
DETAILS OF WRITE-INS			
3401.			
3402.			
3403.			
3498. Sum. of remaining write-ins for Line 34 from overflow page	0	0	0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)	0	0	0

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

Years in Which Losses Occurred	1 Prior Year-End Known Case Loss and LAE Reserves	2 Prior Year-End IBNR Loss and LAE Reserves	3 Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	4 2016 Loss and LAE Payments on Claims Reported as of Prior Year-End	5 2016 Loss and LAE Payments on Claims Unreported as of Prior Year-End	6 Total 2016 Loss and LAE Payments (Cols. 4 + 5)	7 Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year End	8 Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year End	9 Q.S. Date IBNR Loss and LAE Reserves	10 Total Q.S. Loss and LAE Reserves (Cols.7 + 8 + 9)	11 Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 4 + 7 minus Col. 1)	12 Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	13 Prior Year-End Total Loss and LAE Reserve Developed (Savings)/ Deficiency (Cols. 11 + 12)
1. 2013 + Prior	77,010		77,010	5,821	(8)	5,813	72,783			72,783	1,594	(8)	1,586
2. 2014	8,443		8,443	2,192	2	2,194	8,117			8,117	1,866	2	1,868
3. Subtotals 2014 + prior	85,453	0	85,453	8,013	(6)	8,007	80,900	0	0	80,900	3,460	(6)	3,454
4. 2015	29,377		29,377	697		697	26,470			26,470	(2,210)	0	(2,210)
5. Subtotals 2015 + prior	114,830	0	114,830	8,710	(6)	8,704	107,370	0	0	107,370	1,250	(6)	1,244
6. 2016	XXX	XXX	XXX	XXX	5,610	5,610	XXX	24,300		24,300	XXX	XXX	XXX
7. Totals	114,830	0	114,830	8,710	5,604	14,314	107,370	24,300	0	131,670	1,250	(6)	1,244
8. Prior Year-End Surplus As Regards Policy-holders	41,166										Col. 11, Line 7 As % of Col. 1, Line 7	Col. 12, Line 7 As % of Col. 2, Line 7	Col. 13, Line 7 As % of Col. 3, Line 7
											1. 1.1	2. 0.0	3. 1.1
													Col. 13, Line 7 Line 8
													4. 3.0

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

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

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

Explanation:

1.

2.

3.

4.

Bar Code:

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

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

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

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

OVERFLOW PAGE FOR WRITE-INS

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

	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 December 31 Prior Year Net Admitted Assets
2504. Other Assets	1,747,110		1,747,110	1,369
2597. Summary of remaining write-ins for Line 25 from Page 02	1,747,110	0	1,747,110	1,369

SCHEDULE A – VERIFICATION

Real Estate

NONE

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

SCHEDULE B – VERIFICATION

Mortgage Loans

NONE

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

SCHEDULE BA – VERIFICATION

Other Long-Term Invested Assets

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	82,782	83,260
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		0
2.2 Additional investment made after acquisition		0
3. Capitalized deferred interest and other		0
4. Accrual of discount		0
5. Unrealized valuation increase (decrease)	(478)	(478)
6. Total gain (loss) on disposals		0
7. Deduct amounts received on disposals		0
8. Deduct amortization of premium and depreciation		0
9. Total foreign exchange change in book/adjusted carrying value		0
10. Deduct current year's other-than-temporary impairment recognized		0
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)	82,304	82,782
12. Deduct total nonadmitted amounts	82,304	82,782
13. Statement value at end of current period (Line 11 minus Line 12)	0	0

SCHEDULE D – VERIFICATION

Bonds and Stocks

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	320,613,543	364,583,693
2. Cost of bonds and stocks acquired	66,574,622	135,237,954
3. Accrual of discount	375,969	879,050
4. Unrealized valuation increase (decrease)	28,146	(89,472)
5. Total gain (loss) on disposals	634,229	2,203,449
6. Deduct consideration for bonds and stocks disposed of	83,086,831	179,711,116
7. Deduct amortization of premium	1,097,682	2,492,041
8. Total foreign exchange change in book/adjusted carrying value	0	0
9. Deduct current year's other-than-temporary impairment recognized	(1,216)	(2,025)
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	304,043,211	320,613,543
11. Deduct total nonadmitted amounts	0	0
12. Statement value at end of current period (Line 10 minus Line 11)	304,043,211	320,613,543

SCHEDULE D - PART 1B

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

NAIC Designation	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. NAIC 1 (a)	233,844,328	71,583,064	67,646,586	(286,969)	233,844,328	237,493,836	0	232,549,664
2. NAIC 2 (a)	72,473,458	2,247,744	16,212,527	(67,237)	72,473,458	58,441,438	0	77,952,127
3. NAIC 3 (a)	691,875			45,000	691,875	736,875	0	2,609,774
4. NAIC 4 (a)	0				0	0	0	0
5. NAIC 5 (a)	9,574,300		1,429,453	7,692	9,574,300	8,152,538	0	9,714,936
6. NAIC 6 (a)	1,664,020		98,830	68,214	1,664,020	1,633,404	0	1,701,365
7. Total Bonds	318,247,981	73,830,808	85,387,397	(233,301)	318,247,981	306,458,091	0	324,527,866
PREFERRED STOCK								
8. NAIC 1	0				0	0	0	0
9. NAIC 2	0				0	0	0	0
10. NAIC 3	0				0	0	0	0
11. NAIC 4	0				0	0	0	0
12. NAIC 5	0				0	0	0	0
13. NAIC 6	0				0	0	0	0
14. Total Preferred Stock	0	0	0	0	0	0	0	0
15. Total Bonds & Preferred Stock	318,247,981	73,830,808	85,387,397	(233,301)	318,247,981	306,458,091	0	324,527,866

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

SCHEDULE DA - PART 1

Short-Term Investments

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999	2,414,881	XXX	2,414,881	37	

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	3,914,323	1,631,093
2. Cost of short-term investments acquired	68,385,284	171,186,271
3. Accrual of discount		0
4. Unrealized valuation increase (decrease)		0
5. Total gain (loss) on disposals		0
6. Deduct consideration received on disposals	69,884,727	168,903,041
7. Deduct amortization of premium		0
8. Total foreign exchange change in book/adjusted carrying value		0
9. Deduct current year's other-than-temporary impairment recognized		0
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)	2,414,881	3,914,323
11. Deduct total nonadmitted amounts		0
12. Statement value at end of current period (Line 10 minus Line 11)	2,414,881	3,914,323

Schedule DB - Part A - Verification

NONE

Schedule DB - Part B - Verification

NONE

Schedule DB - Part C - Section 1

NONE

Schedule DB - Part C - Section 2

NONE

Schedule DB - Verification

NONE

Schedule E - Verification

NONE

Schedule A - Part 2

NONE

Schedule A - Part 3

NONE

Schedule B - Part 2

NONE

Schedule B - Part 3

NONE

Schedule BA - Part 2

NONE

Schedule BA - Part 3

NONE

SCHEDULE D - PART 3

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

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
Bonds - U.S. Special Revenue									
11943D-AC-2	BUENA VISTA VA PUB REC FACS AUTH LEASE		04/01/2016	ADJUSTMENT				(566)	6Z
13033W-B4-4	CA INFRA ECON CABS SERIES A		04/21/2016	VARIOUS			110,000		6Z
13033W-C2-7	CA INFRA ECON CABS SERIES A		06/23/2016	VARIOUS			100,000		6*
3128MJ-YH-7	FHLMC GOLD POOL FH G08711		06/29/2016	WELLS FARGO		1,478,914	1,400,000	3,947	1
3132WD-YQ-1	FHLMC GOLD POOL FH Q40718		05/24/2016	WELLS FARGO SECURITIES LLC		9,958,672	9,500,000	24,014	1
453419-CH-4	INDEP CTY AR HYDRO SUB SER B		04/26/2016	VARIOUS			570,000		6Z
546279-RK-8	LA GOV BATON RGE ST HSG-SER A		06/01/2016	VARIOUS			40,000		6*
60535R-AJ-7	MS HOME MS VALLEY ST HSG 8A		04/01/2016	ADJUSTMENT				(1,210)	6*
864768-NC-6	SUFFOLK CTY NY DOWLING COLL		06/06/2016	VARIOUS			100,000		6
864768-ND-4	SUFFOLK CTY NY DOWLING COLL		06/09/2016	VARIOUS			245,000		6Z
3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions						11,437,586	12,065,000	26,185	XXX
Bonds - Industrial and Miscellaneous (Unaffiliated)									
00912X-AS-3	AIR LEASE CORP		04/04/2016	RBC CAPITAL MARKETS		693,413	700,000		2FE
023765-AA-8	AMER AIRLN 16-2 AA PTT		05/02/2016	DEUTSCHE BANK SECURITIES, INC.		1,600,000	1,600,000		1FE
052528-AK-2	AUST & NEW ZEAL BANKING GRP LTD	R	05/12/2016	CITIGROUP GLOBAL MARKETS INC.		3,498,320	3,500,000		1FE
12531Y-AU-2	CFCRE CMT 2016-C4 AM		05/04/2016	CANTOR FITZGERALD & CO		2,059,866	2,000,000	3,486	1FE
12593A-BD-6	COMM MORT TRUST 2015-CR23 B		05/25/2016	CANTOR FITZGERALD & CO		3,023,672	3,000,000	10,458	1FM
12636M-AL-2	CSAIL CMT 2016-C6		05/17/2016	CREDIT SUISSE SECURITIES (USA)		407,906	400,000	1,364	1FE
17324D-AY-0	CITIGROUP CMT 2015-P1 C		05/03/2016	GOLDMAN, SACHS & CO.		1,002,539	1,000,000	623	1FM
25272K-AG-8	DIAMOND 1 FINANCE CORP		05/17/2016	BARCLAYS CAPITAL INC FIXED INC		1,554,331	1,555,000		2FE
33843N-AE-1	FLAGSHIP CREDIT AUTO TR 2016-2		04/25/2016	WELLS FARGO SECURITIES LLC		699,780	700,000		1FE
34531P-AG-6	FORD CREDIT AUTO OWNER TR 2016-A		05/09/2016	DEUTSCHE BANK SECURITIES, INC.		1,007,266	1,000,000	1,643	1FE
36252T-AY-1	GS MORT SEC TRUST 2016-GS2		05/17/2016	GOLDMAN, SACHS & CO.		1,997,897	1,945,000	7,587	1FE
61744C-FP-6	MORGAN STANLEY CAP 2004-NC7		05/13/2016	MORGAN STANLEY		1,506,736	1,637,757	1,354	1FE
61762D-AY-7	MORGAN STANLEY BAML TR 2013-C9		04/15/2016	BANC OF AMERICA SECURITIES LLC		2,884,699	2,775,000	5,062	1FM
61762T-AK-2	MORGAN STANLEY BAML TR 2013-C11		05/18/2016	BANC OF AMERICA SECURITIES LLC		998,789	1,000,000	2,697	1FM
80285C-AH-4	SANTANDER DRIVE AUTO REC TR 2016-2		05/03/2016	CITIGROUP GLOBAL MARKETS INC.		499,889	500,000		1FE
90931M-AA-4	UNITED AIRLN 2016-1 A PTT		06/06/2016	MORGAN STANLEY		1,200,000	1,200,000		1FE
3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated)						24,635,104	24,512,757	34,273	XXX
8399997 - Subtotals - Bonds - Part 3						36,072,690	36,577,757	60,458	XXX
8399999 - Subtotals - Bonds						36,072,690	36,577,757	60,458	XXX
9999999 Totals						36,072,690	XXX	60,458	XXX

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

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identi-fication	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Desig-nation or Market Indicator (a)
Bonds - U.S. Governments																					
36179M-K8-2	GNMA POOL II MA0319		06/20/2016	DIRECT		50,663	50,663	54,407	54,505		(3,842)		(3,842)		50,663			0	837	08/20/2042	1
36179Q-6P-1	GNMA POOL II MA2678		06/20/2016	DIRECT		695,586	695,586	734,495	733,481		(37,895)		(37,895)		695,586		0	0	10,041	03/20/2045	1
36179R-BX-6	GNMA POOL II MA2754		06/20/2016	DIRECT		855,457	855,457	903,443	901,038		(45,581)		(45,581)		855,457		0	0	12,563	04/20/2045	1
36179R-NX-3	GNMA POOL II MA3106		06/20/2016	DIRECT		879,536	879,536	936,019	933,734		(54,199)		(54,199)		879,536			0	14,878	09/20/2045	1
36200A-BE-8	GNMA POOL 595037		06/15/2016	DIRECT		22	22	22	22		0		0		22			0	1	10/15/2032	1
36200A-CW-7	GNMA POOL 595085		06/15/2016	DIRECT		4,258	4,258	4,384	4,367		(109)		(109)		4,258		0	0	88	10/15/2032	1
36200E-TY-7	GNMA POOL 599167		06/15/2016	DIRECT		391	391	402	397		(6)		(6)		391			0	10	12/15/2033	1
36200M-AT-0	GNMA POOL 604018		06/15/2016	DIRECT		40,651	40,651	41,829	41,488		(838)		(838)		40,651		0	0	790	02/15/2033	1
36200M-EN-9	GNMA POOL 604141		06/15/2016	DIRECT		208	208	214	214		(6)		(6)		208			0	5	03/15/2033	1
36200Q-2R-4	GNMA POOL 569684		06/15/2016	DIRECT		1,912	1,912	1,969	1,954		(42)		(42)		1,912			0	44	02/15/2032	1
36200R-LX-8	GNMA POOL 570142		06/15/2016	DIRECT		777	777	800	796		(19)		(19)		777		0	0	21	12/15/2031	1
36200R-XT-4	GNMA POOL 570490		06/15/2016	DIRECT		12	12	12	12		0		0		12			0	0	12/15/2031	1
36200S-US-7	GNMA POOL 571293		06/15/2016	DIRECT		10	10	10	10		0		0		10			0	0	11/15/2031	1
36201A-PF-9	GNMA POOL 577422		06/15/2016	DIRECT		50	50	52	51		(1)		(1)		50			0	1	01/15/2032	1
36201D-AX-0	GNMA POOL 579722		06/15/2016	DIRECT		419	419	431	427		(8)		(8)		419		0	0	10	08/15/2032	1
36201E-AG-5	GNMA POOL 580607		06/15/2016	DIRECT		753	753	775	769		(16)		(16)		753			0	17	02/15/2033	1
36201F-AF-4	GNMA POOL 581506		06/15/2016	DIRECT		13	13	13	13		0		0		13			0	0	04/15/2033	1
36201Y-FD-3	GNMA POOL 606864		06/15/2016	DIRECT		34	34	35	34		(1)		(1)		34			0	1	10/15/2033	1
36207E-ND-2	GNMA POOL 429788		06/15/2016	DIRECT		169	169	174	174		(5)		(5)		169		0	0	4	12/15/2033	1
36210J-HW-1	GNMA POOL 493545		06/15/2016	DIRECT		28	28	29	28		0		0		28			0	1	03/15/2031	1
36213F-U4-3	GNMA POOL 553303		06/15/2016	DIRECT		12	12	13	12		0		0		12			0	0	06/15/2033	1
36213R-2A-4	GNMA POOL 562469		06/15/2016	DIRECT		2,436	2,436	2,449	2,441		(5)		(5)		2,436			0	51	02/15/2034	1
36213R-ZF-7	GNMA POOL 562442		06/15/2016	DIRECT		1,282	1,282	1,317	1,301		(19)		(19)		1,282			0	29	01/15/2034	1
36213T-GW-7	GNMA POOL 563713		06/15/2016	DIRECT		742	742	764	757		(15)		(15)		742			0	19	01/15/2033	1
36213U-EZ-9	GNMA POOL 564552		06/15/2016	DIRECT		19	19	20	20		(1)		(1)		19			0	0	12/15/2031	1
36213V-GN-2	GNMA POOL 565505		06/15/2016	DIRECT		14	14	15	15		0		0		14			0	0	09/15/2032	1
36290X-PM-6	GNMA POOL 620628		06/15/2016	DIRECT		152	152	156	157		(5)		(5)		152			0	4	09/15/2033	1
36290X-PT-1	GNMA POOL 620634		06/15/2016	DIRECT		319	319	328	324		(5)		(5)		319		0	0	8	09/15/2033	1
36290Y-TN-8	GNMA POOL 621657		06/15/2016	DIRECT		14	14	14	14		0		0		14			0	0	12/15/2033	1
36291C-PV-1	GNMA POOL 624236		06/15/2016	DIRECT		1,916	1,916	1,973	1,954		(39)		(39)		1,916			0	39	12/15/2033	1
36291E-AD-3	GNMA POOL 625604		06/15/2016	DIRECT		1,285	1,285	1,324	1,315		(30)		(30)		1,285		0	0	38	12/15/2033	1
36291E-AV-3	GNMA POOL 625620		06/15/2016	DIRECT		260	260	268	266		(6)		(6)		260			0	8	12/15/2033	1
36296X-H8-0	GNMA POOL 704155		06/15/2016	DIRECT		374,788	374,788	386,383	385,866		(11,078)		(11,078)		374,788			0	8,486	01/15/2039	1
38376W-6C-4	GNMA GNR 2010-33 LN		06/20/2016	DIRECT		48,872	48,872	52,171	51,289		(2,417)		(2,417)		48,872		0	0	926	02/20/2038	1
912828-SV-3	US TREASURY N/B		05/01/2016	BANK OF NOVA SCOTIA, NEW YORK		1,906,012	1,870,000	1,915,727	1,900,414		(1,354)		(1,354)		1,899,060		6,952	6,952	13,935	05/15/2022	1
0599999 - Bonds - U.S. Governments						4,869,070	4,833,058	5,042,436	5,019,661	0	(157,543)	0	(157,543)	0	4,862,118	0	6,952	6,952	62,857	XXX	XXX
Bonds - U.S. Political Subdivisions of States, Territories and Possessions																					
661765-AQ-0	NORTH RANGE METRO DISTR 1		06/01/2016	ADJUSTMENT							3,568		3,568					0		12/15/2031	1
2499999 - Bonds - U.S. Political Subdivisions of States, Territories and Possessions						0	0	0	0	0	3,568	0	3,568	0	0	0	0	0	0	XXX	XXX
Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions																					
254839-P8-0	DC REV - FRIENDSHIP ACAD PCS		06/01/2016	ADJUSTMENT									0					0	104	05/01/2017	3FE
30711X-AC-8	CONNECTICUT AVE 2014-C01 M1		06/25/2016	DIRECT		150,714	150,714	150,714	150,714				0		150,714		0	0	1,197	01/25/2024	1
3128MJ-X4-7	FHLMC G08698		06/15/2016	DIRECT		62,002	62,002	64,877			(2,875)		(2,875)		62,002			0	407	03/01/2046	1
3128MJ-XF-2	FHLMC G08677		06/15/2016	DIRECT		207,874	207,874	219,436	219,463		(11,590)		(11,590)		207,874			0	3,564	11/01/2045	1
3132WD-YQ-1	FHLMC Q40718		06/15/2016	DIRECT		33,230	33,230	34,834			(1,604)		(1,604)		33,230			0	97	05/01/2046	1
31359S-2G-4	FNMA WHOLE LOAN NW 2001-W1 AF6		06/27/2016	DIRECT		3,652	3,652	3,792	3,643		10		10		3,652			0	113	07/25/2031	1
31387C-M3-2	FNMA POOL 580078		06/27/2016	DIRECT		107	107	110	109		(2)		(2)		107		0	0	3	09/01/2031	1
3138WD-T4-3	FNMA POOL AS4170		06/27/2016	DIRECT		726,090	726,090	775,924	774,082		(47,992)		(47,992)		726,090		0	0	11,686	12/01/2044	1
3138Y6-MM-3	FNMA POOL AX4863		06/27/2016	DIRECT		659,077	659,077	705,521	702,253		(43,177)		(43,177)		659,077		0	0	10,654	12/01/2044	1
31393W-K4-0	FHLMC 2643 OH		06/15/2016	DIRECT		236,212	236,212	213,034	227,746		8,466		8,466		236,212			0	4,524	07/15/2033	1
31394D-JJ-0	FNMA 2005-29 QE		06/27/2016	DIRECT		230,482	230,482	207,326	221,690		8,792		8,792		230,482			0	4,761	04/25/2035	1
31394Y-KX-1	FHLMC 2791 UG		06/15/2016	DIRECT		142,320	142,320	141,074	141,817		502		502		142,320		0	0	2,894	05/15/2019	1
31395J-W5-1	FHLMC 2888 HG		06/15/2016	DIRECT		175,153	175,153	166,012	172,232		2,921		2,921		175,153			0	3,184	11/15/2034	1
31402D-F7-0	FNMA POOL 725690		06/27/2016	DIRECT		120,349	120,349	124,364	124,221		(3,872)		(3,872)		120,349			0	2,996	08/01/2034	1
31405R-AR-7	FNMA POOL 796616		06/27/2016	DIRECT		164,894	164,894	167,432	167,811		(2,916)		(2,916)		164,894			0	3,092	10/01/2034	1
31407U-EK-9	FNMA POOL 840838		06/27/2016	DIRECT		2,873	2,873	2,836	2,821		53		53		2,873			0	71	11/01/2035	1
31418B-VG-8	FNMA POOL 2414		06/27/2016	DIRECT		164,139	164,139	171,044	170,892		(6,753)		(6,753)		164,139			0	2,333	10/01/2045	1
546279-XE-5	LA GOV NICHOLLS ST UNIV SER A		04/01/2016	REDEMPTION		100,000	100,000	98,663	98,808		22		22		98,830		1,170	1,170	2,425	04/01/2026	6*
57583R-GK-5	MASS ST CURRY COLLEGE		04/20/2016	REDEMPTION		1,500,000	1,500,000	1,467,500	1,469,347		264		264		1,469,610		30,390	30,390	47,708	03/01/2036	2FE

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value 11	12	13	14	15	16	17	18	19	20	21	22
CUSIP Identi-fication	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Desig-nation or Market Indicator (a)
60535R-AJ-7	MS HOME MS VALLEY ST HSG 8A		04/01/2016	ADJUSTMENT									0					0	(1,636)	12/01/2035	6*
717868-CB-7	PHILA PA REDEV BEECH SERIES A		05/25/2016	REDEMPTION		1,500,000	1,500,000	1,424,235	1,428,659		794		794		1,429,453		70,547	70,547	74,250	07/01/2035	5*
3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions						6,179,167	6,179,167	6,138,729	6,076,306	0	(98,957)	0	(98,957)	0	6,077,061	0	102,106	102,106	174,428	XXX	XXX
Bonds - Industrial and Miscellaneous (Unaffiliated)																					
00206R-AW-2	AT&T INC		05/16/2016	MATURITY		2,000,000	2,000,000	1,996,360	1,999,716		284		284		2,000,000			0	29,500	05/15/2016	2FE
004375-BL-4	ACCREDITED MORT LOAN 2004-3		06/27/2016	DIRECT		5,835	5,835	5,817	5,824		10		10		5,835			0	48	10/25/2034	1FM
00912X-AP-9	AIR LEASE CORPORATION		04/04/2016	NATIXIS SECURITIES AMERICAS LLC		788,400	800,000	800,400	800,252		(32)		(32)		800,219		(11,819)	(11,819)	12,372	01/15/2018	2FE
023770-AB-6	AMERICAN AIRLINES 15-1 B PTT		05/02/2016	DIRECT		70,633	70,633	71,141	71,101		(468)		(468)		70,633			0	1,307	11/01/2024	2FE
03063X-AF-2	AMERICREDIT AUTO REC 2012-4		06/08/2016	DIRECT		614,477	614,477	614,189	614,412		65		65		614,477			0	4,886	08/08/2018	1FE
038222-AH-8	APPLIED MATERIALS INC		04/01/2016	ADJUSTMENT							4		4		4		(4)	(4)		10/01/2020	1FE
05565Q-DA-3	BP CAPITAL MARKETS PLC	R	05/12/2016	MILLENNIUM ADVISORS, LLC		1,560,720	1,500,000	1,500,000	1,500,000				0		1,500,000		60,720	60,720	35,060	03/17/2025	1FE
05950E-AH-1	BANC OF AMERICA CMT 2006 2 AJ		06/10/2016	DIRECT		679,150	679,150	705,202	699,003		(19,853)		(19,853)		679,150			0	17,709	05/10/2045	1FM
06050T-JN-3	BANK OF AMERICA NA		06/15/2016	MATURITY		2,500,000	2,500,000	2,019,050	2,449,618		50,382		50,382		2,500,000			0	10,843	06/15/2016	1FE
07384M-7C-0	BEAR STERNS ARM TR 2005-2 A1		06/27/2016	DIRECT		43,717	43,717	43,854	43,872		(155)		(155)		43,717		0	0	406	03/25/2035	1FM
073879-MC-9	BEAR STEARNS ABS 2004-SD4 A1		06/27/2016	DIRECT		170,389	170,389	163,999	165,124		5,266		5,266		170,389		0	0	1,017	08/25/2044	1FM
07387J-AG-1	BEAR STEARNS CMS 2006 PWR12		04/11/2016	DIRECT		500,000	500,000	508,125	505,947		(5,947)		(5,947)		500,000			0	9,812	09/11/2038	1FM
1248MB-AJ-4	C-BASS 2007-CB2 A2C		04/25/2016	VARIOUS		1,159,241	1,609,528	922,501	922,501		5,146		5,146		927,647		231,594	231,594	29,593	02/25/2037	1FM
126671-R4-0	COUNTRYWIDE ABC 2003-5 MF		06/27/2016	DIRECT		6,052	6,052	3,974	3,974		2,078		2,078		6,052		0	0	141	01/25/2034	1FM
126671-UU-8	COUNTRYWIDE ABC 2003-BC1		05/25/2016	DIRECT		49,196	49,196	38,323	42,145		7,053		7,053		49,196		0	0	213	03/25/2033	1FM
17307G-CU-0	CITIGROUP MLT 2003-HE3 A		06/27/2016	DIRECT		61,391	61,391	55,832	58,084		3,308		3,308		61,391		0	0	259	12/25/2033	1FM
21079U-AA-3	CONTINENTAL AIRLINES 2009-2		05/10/2016	DIRECT		28,144	28,144	31,943	30,486		(2,342)		(2,342)		28,144		0	0	1,020	05/10/2021	1FE
24702K-AD-8	DELL EQUIP FINANCE 2014-1 B		06/22/2016	DIRECT		39,305	39,305	39,301	39,304		1		1		39,305			0	267	06/22/2020	1FE
257375-AG-0	DOMINION GAS HOLDINGS LLC		05/13/2016	MILLENNIUM ADVISORS, LLC		610,194	600,000	599,772	599,820		16		16		599,836		10,358	10,358	6,375	12/15/2019	1FE
268317-AN-4	ELECTRICITE DE FRANCE SA	R	05/13/2016	VARIOUS		1,211,017	1,200,000	1,189,860	1,190,279		663		663		1,190,941		20,076	20,076	15,928	10/13/2020	1FE
278062-AC-8	EATON CORPORATION	R	05/18/2016	BARCLAYS CAPITAL INC FIXED INC		2,020,168	2,000,000	1,993,280	1,995,186		245		245		1,995,431		24,737	24,737	30,128	11/02/2022	2FE
320517-AB-1	FIRST HORIZON NATIONAL CORP		05/17/2016	FIRST TENNESSEE SECURITIES COR		1,506,060	1,500,000	1,496,370	1,496,500		288		288		1,496,788		9,272	9,272	29,167	12/15/2020	2FE
345397-WA-7	FORD MOTOR CREDIT CO LLC		06/15/2016	MATURITY		3,000,000	3,000,000	3,000,000	3,000,000				0		3,000,000			0	59,760	06/15/2016	2FE
362341-RX-9	GSR MORT LOAN TR 2005-AR6 2A1		06/27/2016	DIRECT		30,059	30,059	30,152	30,168		(109)		(109)		30,059			0	319	09/25/2035	1FM
40429C-FR-8	HSBC FINANCE CORP	R	06/01/2016	MATURITY		1,000,000	1,000,000	898,700	992,388		7,612		7,612		1,000,000			0	4,856	06/01/2016	1FE
45254N-JG-3	IMPAC CMB TRUST 2004-5 1A1		06/27/2016	DIRECT		28,059	28,059	25,393	26,239		1,820		1,820		28,059		0	0	128	10/25/2034	1FM
49446R-AK-5	KIMCO REALTY CORP		05/25/2016	BAIRD (ROBERT W.) & CO. INC.		1,904,512	1,900,000	1,886,073	1,889,288		516		516		1,889,805		14,707	14,707	28,993	06/01/2023	2FE
53944Y-AB-9	LLOYDS BANKING GROUP PLC	R	05/18/2016	DEUTSCHE BANK SECURITIES, INC.		1,505,910	1,500,000	1,496,550			45		45		1,496,595		9,315	9,315	11,431	03/24/2026	2FE
589929-Y3-6	MERRILL LYNCH MLCC 2003-E A1		06/27/2016	DIRECT		9,287	9,287	8,852	8,867		420		420		9,287			0	39	10/25/2028	1FM
60687U-AG-2	ML CFC CMS TR 2006 2 AM		06/13/2016	DIRECT		2,500,000	2,500,000	2,553,516	2,535,214		(35,214)		(35,214)		2,500,000			0	67,460	06/12/2046	1FM
61747Y-DT-9	MORGAN STANLEY		05/13/2016	VARIOUS		2,989,148	2,900,000	3,167,583	3,017,413		(33,796)		(33,796)		2,983,618		5,531	5,531	87,004	03/22/2017	1FE
61750C-AH-0	MORGAN STANLEY CAP 2006 HQ9		06/14/2016	DIRECT		332,780	332,780	357,635	348,219		(15,439)		(15,439)		332,780			0	9,639	07/12/2044	1FM
61750W-AX-1	MORGAN STANLEY CAP 2006 IQ12		06/15/2016	DIRECT		391,611	391,611	393,737	391,005		606		606		391,611			0	9,927	12/15/2043	1FM
68400X-BH-2	OPT ONE MORT LOAN 003-3 A1		06/27/2016	DIRECT		26,969	26,969	25,452	25,483		1,487		1,487		26,969		0	0	116	06/25/2033	1FM
71085P-BM-4	PEOPLES CHOICE HOME 2005-1 M3		06/27/2016	DIRECT		117,853	117,853	116,085	117,380		473		473		117,853			0	698	02/26/2035	1FM
759950-BG-2	RENAISSANCE HOME EQ 2003-3 M1		06/27/2016	DIRECT		73,266	73,266	51,286	57,171		16,098		16,098		73,266		0	0	348	12/25/2033	1FM

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identi-fication	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Desig-nation or Market Indicator (a)
80283X-AE-7	SANTANDER DRIVE AUTO 2014-3 B		06/15/2016	DIRECT		138,267	138,267	138,240	138,214		53		53		138,267			0	1,002	05/15/2019	1FE
81744Y-AA-4	SEQUOIA MORTGAGE 2013-4 A1		06/27/2016	DIRECT		126,279	126,279	123,832	124,067		2,212		2,212		126,279		0	0	1,213	04/27/2043	1FM
83611M-GS-1	SOUNDVIEW HOME 2005-OPT3 A4		04/25/2016	DIRECT		9,196	9,196	8,749	9,185		10		10		9,196		0	0	22	11/25/2035	1FM
92857W-BC-3	VODAFONE GROUP PLC	R	05/12/2016	MORGAN STANLEY		1,998,480	2,000,000	1,990,740	1,993,119		327		327		1,993,446		5,034	5,034	43,922	02/19/2023	2FE
92978P-AE-9	WACHOVIA BANK CMT 2006 C29 A4		06/17/2016	DIRECT		285,259	285,259	286,670	285,020		240		240		285,259		0	0	6,307	11/15/2048	1FM
94980V-AF-5	WELLS FARGO BANK NA		06/01/2016	MATURITY		2,000,000	2,000,000	1,766,980	1,980,218		19,782		19,782		2,000,000			0	7,063	05/16/2016	1FE
3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated)						34,091,022	34,346,701	33,125,518	32,201,806	0	13,155	0	13,155	0	33,711,503	0	379,519	379,519	576,299	XXX	XXX
8399997 - Subtotals - Bonds - Part 4						45,139,260	45,358,926	44,306,683	43,297,774	0	(239,776)	0	(239,776)	0	44,650,682	0	488,577	488,577	813,583	XXX	XXX
8399999 - Subtotals - Bonds						45,139,260	45,358,926	44,306,683	43,297,774	0	(239,776)	0	(239,776)	0	44,650,682	0	488,577	488,577	813,583	XXX	XXX
9999999 Totals						45,139,260	XXX	44,306,683	43,297,774	0	(239,776)	0	(239,776)	0	44,650,682	0	488,577	488,577	813,583	XXX	XXX

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

Schedule DB - Part A - Section 1

NONE

Schedule DB - Part B - Section 1

NONE

Schedule DB - Part D - Section 1

NONE

Schedule DB - Part D - Section 2

NONE

Schedule DL - Part 1

NONE

Schedule DL - Part 2

NONE

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1	2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
			Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	6	7	8	
Depository	Code	Rate of Interest			First Month	Second Month	Third Month	*
Open Depositories								
US Bank Washington, DC					29,359	4,726	0	XXX
JPMorganChase New York, NY					33,449,065	2,866,867	6,325,560	XXX
0199998 Deposits in ... depositories that do not exceed the allowable limit in any one depository (See Instructions) - Open Depositories	XXX	XXX						XXX
0199999 Total Open Depositories	XXX	XXX	0	0	33,478,424	2,871,593	6,325,560	XXX
0399999 Total Cash on Deposit	XXX	XXX	0	0	33,478,424	2,871,593	6,325,560	XXX
0499999 Cash in Company's Office	XXX	XXX	XXX	XXX	297	297	297	XXX
0599999 Total	XXX	XXX	0	0	33,478,721	2,871,890	6,325,857	XXX

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

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