



PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

# QUARTERLY STATEMENT

AS OF JUNE 30, 2018  
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 , Baltimore, MD, USA 21202  
(Street and Number) (City or Town, State, Country and Zip Code)

Main Administrative Office 555 Theodore Fremd Ave., Suite C-205 Rye, NY, USA 10580 212-375-2000  
(Street and Number) (City or Town, State, Country and Zip Code) (Area Code) (Telephone Number)

Mail Address 555 Theodore Fremd Ave., Suite C-205 Rye, NY, USA 10580  
(Street and Number or P.O. Box) (City or Town, State, Country and Zip Code)

Primary Location of Books and Records 555 Theodore Fremd Ave., Suite C-205 Rye, NY, USA 10580 212-375-2000  
(Street and Number) (City or Town, State, Country and Zip Code) (Area Code) (Telephone Number)

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

Statutory Statement Contact Sean Thomas Leonard 212-375-2021  
(Name) (Area Code) (Telephone Number) (Extension)

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

### OFFICERS

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

### OTHER OFFICERS

\_\_\_\_\_

### DIRECTORS OR TRUSTEES

<u>Steven Joseph Berkowitz</u>	<u>John Raymond Brecker</u>	<u>Richard Joseph Caplan</u>	<u>Roger Dale Cunningham</u>
<u>Bradley Irving Dietz</u>	<u>Thomas Joseph Gandolfo</u>	<u>Michael Joseph Keegan</u>	<u>Sean Thomas Leonard #</u>
<u>Charles Richard Schuler</u>			

State of .....New York.....

County of .....Westchester..... ss

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

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

Subscribed and sworn to before me this 8<sup>th</sup> day of August, 2018

Luis Lozada, Notary Public  
1/14/21

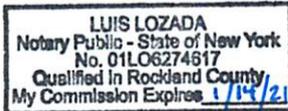
a. Is this an original filing? Yes [X] No [ ]

b. If no:

1. State the amendment number \_\_\_\_\_

2. Date filed \_\_\_\_\_

3. Number of pages attached \_\_\_\_\_



STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds .....	207,874,313		207,874,313	258,994,292
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 (\$ .....2,087,607 ), cash equivalents (\$ .....22,593,001 ) and short-term investments (\$ .....1,670,561 ) .....	26,351,169		26,351,169	3,854,851
6. Contract loans (including \$ ..... premium notes) .....			0	0
7. Derivatives .....	0		0	0
8. Other invested assets .....	81,120	81,120	0	0
9. Receivables for securities .....			0	0
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) .....	234,306,602	81,120	234,225,482	262,849,143
13. Title plants less \$ ..... charged off (for Title insurers only) .....			0	0
14. Investment income due and accrued .....	1,366,295		1,366,295	1,620,412
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 .....	19,884,248	19,884,248	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 (\$ ..... ) .....			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 .....	2,670,612	1,162,430	1,508,182	2,446,482
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) .....	258,227,757	21,127,798	237,099,959	266,916,037
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....			0	0
28. Total (Lines 26 and 27) .....	258,227,757	21,127,798	237,099,959	266,916,037
<b>DETAILS OF WRITE-INS</b>				
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 .....	134,530	134,530	0	0
2503. Security Deposit .....	27,900	27,900	0	0
2598. Summary of remaining write-ins for Line 25 from overflow page .....	1,508,182	0	1,508,182	2,446,482
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above) .....	2,670,612	1,162,430	1,508,182	2,446,482

STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$ 8,941,608 )	51,478,374	74,126,639
2. Reinsurance payable on paid losses and loss adjustment expenses		0
3. Loss adjustment expenses	3,691,148	3,958,792
4. Commissions payable, contingent commissions and other similar charges		0
5. Other expenses (excluding taxes, licenses and fees)	1,847,571	2,882,792
6. Taxes, licenses and fees (excluding federal and foreign income taxes)		0
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)	27,544,342	32,763,523
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	81,120	81,608
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	96,770,086	96,769,265
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	181,412,641	210,582,619
27. Protected cell liabilities		0
28. Total liabilities (Lines 26 and 27)	181,412,641	210,582,619
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)	(323,286,682)	(322,640,582)
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)	55,687,318	56,333,418
38. Totals (Page 2, Line 28, Col. 3)	237,099,959	266,916,037
<b>DETAILS OF WRITE-INS</b>		
2501. Contingency Reserve	95,925,559	95,925,559
2502. Collateral Deposit	842,000	842,000
2503. Other Payables	2,527	1,706
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)	96,770,086	96,769,265
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.		0
3202.		0
3203.		0
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
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct (written \$ 2,891 )	4,916,592	10,042,891	16,897,762
1.2 Assumed (written \$ )	305,480	986,163	1,927,523
1.3 Ceded (written \$ )		0	0
1.4 Net (written \$ 2,891 )	5,222,072	11,029,054	18,825,285
DEDUCTIONS:			
2. Losses incurred (current accident year \$ 9,239,019 ):			
2.1 Direct	5,958,567	(8,123,884)	5,143,854
2.2 Assumed		0	0
2.3 Ceded		0	0
2.4 Net	5,958,567	(8,123,884)	5,143,854
3. Loss adjustment expenses incurred	1,868,972	3,286,324	4,866,770
4. Other underwriting expenses incurred	4,665,668	4,259,960	8,520,828
5. Aggregate write-ins for underwriting deductions	0	0	0
6. Total underwriting deductions (Lines 2 through 5)	12,493,207	(577,600)	18,531,452
7. Net income of protected cells		0	0
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(7,271,135)	11,606,654	293,833
<b>INVESTMENT INCOME</b>			
9. Net investment income earned	4,136,762	5,039,401	10,644,397
10. Net realized capital gains (losses) less capital gains tax of \$	1,966,410	423,436	606,854
11. Net investment gain (loss) (Lines 9 + 10)	6,103,172	5,462,837	11,251,251
<b>OTHER INCOME</b>			
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	500,000	0	2,719,868
15. Total other income (Lines 12 through 14)	500,000	0	2,719,868
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(667,963)	17,069,491	14,264,952
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)	(667,963)	17,069,491	14,264,952
19. Federal and foreign income taxes incurred		0	0
20. Net income (Line 18 minus Line 19)(to Line 22)	(667,963)	17,069,491	14,264,952
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year	56,333,418	42,106,734	42,106,734
22. Net income (from Line 20)	(667,963)	17,069,491	14,264,952
23. Net transfers (to) from Protected Cell accounts		0	0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$	(159,395)	(6,048)	(65,747)
25. Change in net unrealized foreign exchange capital gain (loss)		0	0
26. Change in net deferred income tax	331,102	95,913	(12,338,565)
27. Change in nonadmitted assets	(149,844)	104,443	12,366,044
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	0	0
38. Change in surplus as regards policyholders (Lines 22 through 37)	(646,100)	17,263,799	14,226,684
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	55,687,318	59,370,533	56,333,418
<b>DETAILS OF WRITE-INS</b>			
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. Other income	500,000	0	2,719,868
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)	500,000	0	2,719,868
3701.			
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	0	0

STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

**CASH FLOW**

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
<b>Cash from Operations</b>			
1. Premiums collected net of reinsurance.....	2,891	4,541	11,155
2. Net investment income .....	4,676,333	5,509,444	11,281,980
3. Miscellaneous income .....	500,000	0	2,719,870
4. Total (Lines 1 to 3) .....	5,179,224	5,513,985	14,013,005
5. Benefit and loss related payments .....	28,606,832	11,659,334	42,404,384
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 .....	7,827,135	9,219,607	13,970,442
8. Dividends paid to policyholders .....	0	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ ..... tax on capital gains (losses).....	0	0	0
10. Total (Lines 5 through 9) .....	36,433,967	20,878,941	56,374,826
11. Net cash from operations (Line 4 minus Line 10) .....	(31,254,743)	(15,364,956)	(42,361,821)
<b>Cash from Investments</b>			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds .....	51,959,878	87,805,106	135,481,100
12.2 Stocks .....	2,073,713	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 .....	(3,040)	0	(2,116)
12.7 Miscellaneous proceeds .....	0	0	0
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	54,030,551	87,805,106	135,478,984
13. Cost of investments acquired (long-term only):			
13.1 Bonds .....	1,399,284	69,415,836	92,564,980
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	0
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	1,399,284	69,415,836	92,564,980
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) .....	52,631,267	18,389,270	42,914,004
<b>Cash from Financing and Miscellaneous Sources</b>			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes .....	0	0	0
16.2 Capital and paid in surplus, less treasury stock.....	0	0	0
16.3 Borrowed funds .....	0	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities .....	0	0	0
16.5 Dividends to stockholders .....	0	0	0
16.6 Other cash provided (applied).....	1,119,794	(440,269)	(284,690)
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6).....	1,119,794	(440,269)	(284,690)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17) .....	22,496,318	2,584,045	267,493
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	3,854,851	3,587,358	3,587,358
19.2 End of period (Line 18 plus Line 19.1) .....	26,351,169	6,171,403	3,854,851

## 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.

	SSAP #	F/S Page #	F/S Line #	June 30, 2018	December 31, 2017
<u>Net Income</u>					
(1) The Company's state basis (Page 4, Line 20, Columns 1&2)	xxx	xxx	xxx	\$ (667,963)	\$ 14,264,952
(2) State prescribed practices that increase/(decrease) NAIC statutory accounting principles ("SAP"):				-	-
(3) State permitted practices that increase/(decrease) NAIC SAP:				-	-
(4) NAIC SAP (1-2-3=4)	xxx	xxx	xxx	<u>\$ (667,963)</u>	<u>\$ 14,264,952</u>
<u>Surplus</u>					
(5) The Company's state basis (Page 3, Line 37, Columns 1&2)	xxx	xxx	xxx	\$ 55,687,318	\$ 56,333,418
(6) State prescribed practices that increase/(decrease) NAIC SAP:				-	-
(7) State permitted practices that increase/(decrease) NAIC SAP:				-	-
(8) NAIC SAP (5-6-7=8)	xxx	xxx	xxx	<u>\$ 55,687,318</u>	<u>\$ 56,333,418</u>

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, 2018 and 2017, the Company recorded earned premiums of \$4.0 million and \$9.5 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 adjust book value for 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, 2018.

NAIC Designation 1	\$ 160,183,879
NAIC Designation 2	56,399,355
NAIC Designation 3	1,704,506
NAIC Designation 4	317,483
NAIC Designation 5	11,421,144
NAIC Designation 6	1,417
Total	<u>\$ 230,027,783</u>

## NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017, the Company recorded “other than temporary” adjustments of \$0.1 million and \$0.0 million, respectively.

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, 2018.
- (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 Service L.L.C. derives its earnings from its wholly owned subsidiary, ACA Management, L.L.C. (“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. For the six month periods ended June 30, 2018 and 2017, investment income includes dividends received from ACA Service L.L.C., relating to its share of fees from certain managed CDO’s of \$0.06 million and \$0.7 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 weighted average rate of return on the Company’s admitted assets at the end of the year. 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 credit quality classification 4 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.

## NOTES TO FINANCIAL STATEMENTS

- (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 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.
- (15) For claims related extra-contractual obligations and bad faith contingency losses stemming from lawsuits, the Company recognizes a loss contingency when it determines that an estimated loss is deemed probable to occur and can be reasonably estimated. The Company recognizes a gain contingency when settled.
- (16) The Company discloses restrictions placed upon its assets in Note 5(h). Currently there are three types of restrictions that apply to the Company's transactions, (1) admitted assets, typically bonds and cash equivalents, on deposit with states, (2) a non-admitted receivable relating to a lease security deposit, and (3) cash received from an obligor relating to an insurance obligation for which the Company records an offsetting liability.

### 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, 2018 and December 31, 2017.

#### B. Debt Restructuring

(1) - (4) Not applicable

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 as of June 30, 2018 and December 31, 2017 was \$0 million. 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, 2018, the Company did not recognize any other than temporary impairment charges on loan-backed securities.

(3) Not applicable

(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, 2018 is \$48.8 million and \$3.1 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, 2018 is \$32.0 million and \$0.8 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.

NOTES TO FINANCIAL STATEMENTS

F. Repurchase Agreements Transactions Accounted for as Secured Borrowing

The Company had no repurchase agreement transactions accounted for as secured borrowing.

G. Reverse Repurchase Agreements Transactions Accounted for as Secured Borrowing

The Company had no reverse repurchase agreement transactions accounted for as secured borrowing.

H. Repurchase Agreements Transactions Accounted for as a Sale

The Company had no repurchase agreement transactions accounted for as a sale.

I. Reverse Repurchase Agreements Transactions Accounted for as a Sale

The Company had no reverse repurchase agreement transactions accounted for as a sale.

J. Real Estate

The Company has no real estate investments.

K. Investments in Low-Income Housing Tax Credits

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

L. Restricted Assets

The following table summarizes the Company's restricted assets:

(1) Restricted Assets (including Pledged):

Restricted Asset Category	Gross (Admitted & Non-Admitted) Restricted							Current Year			
	Current Year							Percentage			
	1	2	3	4	5	6	7	8	9	10	11
	Total General Account (G/A)	G/A Supporting Protected Cell Account Activity (a)	Total Protected Cell Account Restricted Assets	Protected Cell Account Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Nonadmitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Nonadmitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)
a. Subject to contractual obligation for which liability is not shown	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.00%
b. Collateral held under security lending agreements	-	-	-	-	-	-	-	-	-	0.00%	0.00%
c. Subject to repurchase agreements	-	-	-	-	-	-	-	-	-	0.00%	0.00%
d. Subject to reverse repurchase agreements	-	-	-	-	-	-	-	-	-	0.00%	0.00%
e. Subject to dollar repurchase agreements	-	-	-	-	-	-	-	-	-	0.00%	0.00%
f. Subject to dollar reverse repurchase agreements	-	-	-	-	-	-	-	-	-	0.00%	0.00%
g. Placed under option contracts	-	-	-	-	-	-	-	-	-	0.00%	0.00%
h. Letter stock or securities restricted as to sale - excluding FHLB capital stock	-	-	-	-	-	-	-	-	-	0.00%	0.00%
i. FHLB capital stock	-	-	-	-	-	-	-	-	-	0.00%	0.00%
j. On deposit with states	4,861,337	-	-	-	4,861,337	4,855,570	5,767	-	4,861,337	1.88%	2.05%
k. On deposit with other regulatory bodies	-	-	-	-	-	-	-	-	-	0.00%	0.00%
l. Pledged as collateral to FHLB (including assets backing funding agreements)	-	-	-	-	-	-	-	-	-	0.00%	0.00%
m. Pledged as collateral not captured in other categories	-	-	-	-	-	-	-	-	-	0.00%	0.00%
n. Other restricted assets	869,900	-	-	-	869,900	869,900	-	27,900	842,000	0.34%	0.36%
<b>o. Total restricted assets</b>	<b>\$ 5,731,237</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,731,237</b>	<b>\$ 5,725,470</b>	<b>\$ 5,767</b>	<b>\$ 27,900</b>	<b>\$ 5,703,337</b>	<b>0.34%</b>	<b>0.36%</b>

(a) Subset of Column 1  
 (b) Subset of Column 3  
 (c) Column 5 divided by Asset Page, Column 1, Line 28  
 (d) Column 3 divided by Asset Page, Column 3, Line 28

(2) Not applicable

(3) Details of Other Restricted Assets:

Description of Assets	Gross (Admitted & Non-Admitted) Restricted							Current Year			
	Current Year							Percentage			
	1	2	3	4	5	6	7	8	9	10	
	Total General Account (G/A)	G/A Supporting Protected Cell Account Activity (a)	Total Protected Cell Account Restricted Assets	Protected Cell Account 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 (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets	
Security Deposit	27,900	-	-	-	27,900	27,900	-	-	0.0%	0.0%	
Collateral Deposit	842,000	-	-	-	842,000	842,000	-	842,000	0.3%	0.4%	
<b>Total</b>	<b>\$ 869,900</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 869,900</b>	<b>\$ 869,900</b>	<b>\$ -</b>	<b>\$ 842,000</b>	<b>0.3%</b>	<b>0.4%</b>	

(a) Subset of Column 1  
 (b) Subset of Column 3  
 (c) Total Line for Column 1 through 7 should equal 5L(1) in Columns 1 through 7 respectively and Total Line for Columns 8 through 10 should equal 5L(1) in Columns 9 through 11 respectively.

Included in Other restricted assets are (1) a non-admitted receivable relating to a lease security deposit in the amount of \$27,900, and (2) cash received in the amount of \$842,000 from an obligor relating to an insurance obligation for which the Company records an offsetting liability.

## NOTES TO FINANCIAL STATEMENTS

## (4) Collateral Received &amp; Reflected as Assets Within the Reporting Entity's Financial Statements:

Collateral Assets	1 Book/Adjusted Carrying Value (BACV)	2 Fair Value	3 % of BACV to Total Assets (Admitted and Nonadmitted *)	4 % of BACV to Total Assets **
a. Cash, Cash Equivalents and Short-Term Investments	\$ 842,000.00	\$ 842,000.00	0.3%	0.4%
b. Schedule D, Part	-	-	0.0%	0.0%
c. Schedule D, Part 2, Section 1	-	-	0.0%	0.0%
d. Schedule D, Part 2, Section 2	-	-	0.0%	0.0%
e. Schedule B	-	-	0.0%	0.0%
f. Schedule A	-	-	0.0%	0.0%
g. Schedule BA, Part 1	-	-	0.0%	0.0%
h. Schedule DL, Part 1	-	-	0.0%	0.0%
i. Other	-	-	0.0%	0.0%
j. Total Collateral Assets (a+b+c+d+e+f+g+h+i)	\$ 842,000.00	\$ 842,000.00	0.3%	0.4%

\* Column 1 divided by Asset Page, Line 26 (Column 1)

\*\* Column 1 divided by Asset Page, Line 26 (Column 3)

	1 Amount	2 % of Liability to Total Liabilities*
k. Recognized Obligation to Return Collateral Asset	\$ 842,000.00	0.4%

\* Column 1 divided by Liability Page, Line 26 (Column 1)

## M. Working Capital Finance Investments

The Company has no working capital investments.

## N. 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.

## O. 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	473,250	476,407	473,250	YES
Total	\$ 473,250	\$ 476,407	\$ 473,250	

## P. NAIC 5\* Self-Designated Securities

The following table summarizes the Company's NAIC 5\* self-designated securities:

Investment	Number of 5* Securities		Aggregate BACV		Aggregate Fair Value	
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Prior Year
(1) Bonds - AC	5	6	\$ 11,421,144	\$ 10,342,306	\$ 11,470,767	\$ 10,396,993
(2) Bonds - FV	-	-	-	-	-	-
(3) LB&SS - AC	-	-	-	-	-	-
(4) LB&SS - FV	-	-	-	-	-	-
(5) Preferred Stock - AC	-	-	-	-	-	-
(6) Preferred Stock - FV	-	-	-	-	-	-
(7) Total (1+2+3+4)	5	6	\$ 11,421,144	\$ 10,342,306	\$ 11,470,767	\$ 10,396,993

## Q. Short Sales

The Company had no short sales.

## R. Prepayment Penalty and Acceleration Fees

The Company received \$24k in premium for an accelerated security during the quarter.

	<u>General Account</u>	<u>Protected Cell</u>
(1) Number of CUSIPs	<u>1</u>	<u>-</u>
(2) Aggregate Amount of Investment Income	<u>23,955</u>	<u>-</u>

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

- A. As of June 30, 2018 and December 31, 2017, the Company held an investment in ACA Service L.L.C. ("ACA Service"). The carrying value of such investment as of June 30, 2018 and December 31, 2017 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, 2018 and December 31, 2017.

- B. Not applicable

## NOTES TO FINANCIAL STATEMENTS

## 7. INVESTMENT INCOME

- A. Policyholders' surplus excludes due and accrued investment income if amounts are over 90 days past due.
- B. At June 30, 2018, the Company had no accrued investment income over 90 days past due.

See Note 1.C. (3) and Note 1.C. (7) 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) DT/DTL Components	2018			2017			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a) Gross deferred tax assets	\$ 69,684,239	\$ 426,196	\$ 70,110,435	\$ 69,191,521	\$ 460,659	\$ 69,652,179	\$ 492,719	\$ (34,463)	\$ 458,255
(b) Statutory valuation allowance adjustment	49,149,892	426,196	49,576,087	49,036,512	460,659	49,497,171	113,379	(34,463)	78,916
(c) Adjusted gross deferred tax assets	20,534,347	-	20,534,347	20,155,008	-	20,155,008	379,339	-	379,339
(d) Adjusted gross deferred tax assets nonadmitted	19,884,248	-	19,884,248	19,553,146	-	19,553,146	331,102	-	331,102
(e) Sub-total admitted adjusted gross deferred tax asset	650,099	-	650,099	601,863	-	601,863	48,237	-	48,237
(f) Gross deferred tax liabilities	193,136	456,963	650,099	144,900	456,963	601,863	48,237	-	48,237
(g) Net admitted deferred tax asset	\$ 456,963	\$ (456,963)	\$ -	\$ 456,963	\$ (456,963)	\$ -	\$ -	\$ -	\$ -
(2) Admission calculation components:									
Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admission calculation under ¶11.a.-¶11.c.									
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from a. above) after application of the threshold limitation. (the lesser of b.i. and b.ii. below.)	-	-	-	-	-	-	-	-	-
(i) Adjusted gross deferred tax assets expected to be realized following the balance sheet date.	-	-	-	-	-	-	-	-	-
(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.	650,099	-	650,099	601,863	-	601,863	48,237	-	48,237
(d) Deferred tax assets admitted as the result of application of SSAP No. 101 total (a. + b. + c.)	\$ 650,099	\$ -	\$ 650,099	\$ 601,863	\$ -	\$ 601,863	\$ 48,237	\$ -	\$ 48,237

(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.)

	2018	2017
(a) Applicable ratio for realization limitation threshold table	15.00%	15.00%

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

Description	2018			2017		
	Ordinary	Capital	Total	Ordinary	Capital	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	2018	2017
(a) Current federal income tax benefit	\$ (364,241)	\$ -
(b) Foreign income tax expense	-	-
(c) Subtotal	(364,241)	-
(d) Tax expense on realized capital gains	-	-
(e) Utilization of capital loss carry forwards	-	-
(f) Other, including prior year underaccrual	-	-
(g) Federal and foreign income taxes incurred	\$ (364,241)	\$ -

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

(2) DTAs Resulting From Book/Tax Differences In	December 31, 2018	December 31, 2017	Change
(a) Ordinary			
(1) Loss Reserve Discounting	\$ 3,245,246	\$ 2,231,750	\$ 1,013,496
(2) Unearned premiums	553,532	688,037	(134,505)
(3) Policy holder reserves	-	-	-
(4) Investments	-	-	-
(5) Deferred acquisition costs	-	-	-
(6) Policy holder dividends accrued	-	-	-
(7) Fixed assets	-	-	-
(8) Compensation and benefit accruals	-	-	-
(9) Pension accruals	-	-	-
(10) Nonadmitted assets	-	-	-
(11) Net operating loss carry forward	45,351,114	45,336,766	14,348
(12) Tax credit carry forward	389,980	779,960	(389,980)
(13) Contingency Reserve	20,144,367	20,144,367	-
(14) Other (separately disclose items >5%)	-	10,641	(10,641)
(99) Subtotal - Gross ordinary DTAs	69,684,239	69,191,521	492,718
(b) Statutory valuation adjustment adjustment - ordinary	49,149,892	49,036,512	113,380
(c) Nonadmitted ordinary DTAs	19,884,248	19,553,146	331,102
(d) Admitted ordinary DTAs	\$ 650,099	\$ 601,863	\$ 48,236

## NOTES TO FINANCIAL STATEMENTS

<b>(e) Capital</b>				
(1)	Investments	\$ 426,196	\$ 404,807	\$ 21,389
(2)	Net capital loss carryforward	-	55,852	(55,852)
(3)	Real estate	-	-	-
(4)	Other (separately disclose items >5%)	-	-	-
(5)	Unrealized capital losses	-	-	-
(99)	Gross capital DTAs	426,196	460,659	(34,463)
(f)	Statutory valuation adjustment - capital	426,196	460,659	(34,463)
(g)	Nonadmitted capital DTAs	-	-	-
(h)	Admitted capital DTAs	\$ -	\$ -	\$ -
(i)	<b>Admitted DTAs</b>	<b>\$ 650,099</b>	<b>\$ 601,863</b>	<b>\$ 48,236</b>
<b>(3) DTLs Resulting From Book/Tax Differences In</b>		<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>Change</b>
<b>(a) Ordinary</b>				
(1)	Investments	\$ -	\$ -	\$ -
(2)	Fixed assets	144,900	144,900	-
(3)	Deferred and uncollected premiums	-	-	-
(4)	Policy holder reserves/salvage and subrogation	-	-	-
(5)	Other (separately disclose items >5%)	48,237	-	48,237
(99)	Ordinary DTLs	\$ 193,136	\$ 144,900	\$ 48,236
<b>(b) Capital</b>				
(1)	Investments	\$ 456,963	\$ 456,963	\$ -
(2)	Real estate	-	-	-
(3)	Other (separately disclose items >5%)	-	-	-
(4)	Unrealized capital gains	-	-	-
(99)	Capital DTLs	\$ 456,963	\$ 456,963	\$ -
(c)	<b>DTLs</b>	<b>\$ 650,099</b>	<b>\$ 601,863</b>	<b>\$ 48,236</b>
(4)	<b>Net deferred tax assets/liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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 S statement):

	December 31, 2018	December 31, 2017	Bal. Sheet Change
Total deferred tax assets	\$ 70,110,435	\$ 69,652,179	\$ 458,255
Total deferred tax liabilities	650,099	601,863	48,237
Net deferred tax assets/liabilities	69,460,335	69,050,317	410,019
Statutory valuation allowance adjustment (*see explanation below)	49,576,087	49,497,171	78,916
Net deferred tax assets/liabilities after SVA	\$ 19,884,248	\$ 19,553,146	331,102
Tax effect of unrealized gains			-
Statutory valuation allowance adjustment allocated to unrealized (+)			-
Change in net deferred income tax charge			\$ 331,102

**\*Statutory valuation allowance**

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

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

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

The significant items causing this difference are as follows:

Description	Statutory Rate		Effective Tax Rate
	Amount	21.00% Tax Effect	
Income Before Taxes (including all realized capital gains / (losses))	\$ (3,728,750)	\$ (783,038)	21.00%
Tax-Exempt Interest	(107,690)	(22,615)	0.61%
Equity in Affiliates	-	-	0.00%
Proration	26,922	5,654	-0.15%
Meals & Entertainment, Lobbying Expenses, Etc.	-	-	0.00%
Statutory Valuation Allowance Adjustment	375,792	78,918	-2.12%
Effect of Sequestration on AMT Credit Refund	-	25,739	-0.69%
Change in Non-Admitted Assets	-	-	0.00%
Change in Contingency Reserve	-	-	0.00%
Prior Year True-up and other	-	(2)	0.00%
Total	\$ (3,433,725)	\$ (695,344)	18.65%
Federal income taxes incurred		(364,241)	9.77%
Change in net deferred income tax charge		(331,102)	8.88%
Total statutory income taxes		\$ (695,343)	18.65%

## NOTES TO FINANCIAL STATEMENTS

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

The Company has net operating loss carryforwards of: \$ 215,957,685 expiring through the calendar year 2038.

The Company had capital loss carryforwards of: -

The Company has an AMT credit carryforward of: \$ 389,980 which does not expire.

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

Available from tax year	Ordinary	Capital	Total
2016	\$ -	\$ -	\$ -
2017	-	-	-
2018	-	-	-
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 Note 21C. This limitation is reflected in the statutory valuation allowance determination. The cumulative remaining Section 382 limitation at June 30, 2018 is approximately \$23 million.

**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, 2018, no material adjustments are expected for tax years for which the statute of limitations remains open.

In December 2017, significant changes were enacted to the federal income tax code. The most significant change impacting the Company is the tax rate change from 35% to 21%. The rate change has been reflected in the Company's deferred tax assets and deferred tax liabilities. Due to the level of the Company's valuation allowance and nonadmitted assets, the change in tax rate had no impact on surplus.

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

- A. & B. There were no transactions with parent, affiliates or other related parties in 2018 or 2017 except for certain brokerage services provided by a company owned by a Board member.
- C. Not applicable.
- D. The Company has \$81 thousand and \$82 thousand net payable to subsidiaries at June 30, 2018 and December 31, 2017, 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 2018 or 2017.
- K. Not applicable.
- 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, 2018 and December 31, 2017, the Company had no capital notes or other debt.
- B. As of June 30, 2018 and December 31, 2017, 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. - D. Not applicable.

**NOTES TO FINANCIAL STATEMENTS**

- E. 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, 2018 and 2017, the Company recognized expense in the amount of \$95.7 thousand and \$95.3 thousand for the defined contribution plan, respectively.
- F. The Company has no Multi-employer Plan.
- G. The Company has no Consolidated/Holding Company Plan.
- H. & I. The Company provides postemployment benefits to its employees. The benefits include severance and temporary continuation of certain 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 2018 or 2017.
- (5) The Company had negative earned surplus at June 30, 2018 and December 31, 2017; therefore, no dividends can be paid in 2018 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 \$320,261.
- (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. ACA has made these annual requests to the MIA. Each year, the Company has been advised by the MIA that its request had been denied.

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

**14. CONTINGENCIES**

**A. Contingency Commitments**

The Company has no contingent commitments.

**B. Assessments**

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

**C. Gain Contingencies**

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

- As a result of contractual rights in one particular ACA insured transaction, ACA could recognize salvage and subrogation recoveries in excess of its expected aggregate claim payments on a present value basis due to a perpetual pledge of revenue and the positive interest rate spread between the insured bonds rate and the current ACA discount rate. If the underlying bonds are refunded at par earlier, a portion of the contingent gain may not be realized.

In 2017, ACA negotiated a confidential settlement agreement with one of its former insurance carriers that was finalized during the first quarter of 2018 and resulted in payments to ACA with respect to claims for coverage for

## NOTES TO FINANCIAL STATEMENTS

certain investigations and lawsuits that are now closed. Such investigations and lawsuits related primarily to ACA's legacy structured finance business.

Pursuant to ACA's accounting policy, any estimated gains must be deferred and recognized only when the actual receipts of such recoveries occur. 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.

- We have from time to time filed for damages, reserved rights and/or delivered notices of potential claims both to private parties and governmental entities, agencies and instrumentalities. We continually seek opportunities to obtain restitution and compensation for losses and related expenses incurred on previously issued financial guaranty insurance policies and on investment losses. The outcome of any such efforts remains uncertain at this time.

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 (specifically, ACA Management, L.L.C.) is one of many defendants in an action pending in New Mexico First Judicial District Court, in Santa Fe, filed in 2008 by Frank Foy on behalf of the State of New Mexico. The complaint alleges that Vanderbilt Capital Advisors (and certain affiliates) engaged in an unlawful "pay to play" scheme with various New Mexico state officials, causing two New Mexico state agencies to purchase certain worthless CDO investments, including some with which the Company was allegedly connected. The complaint seeks compensatory damages in excess of \$90 million, plus interest and civil penalties which the plaintiffs assert raise the claim to several hundred million dollars under certain New Mexico statutes, including the Fraud Against Taxpayers Act ("FATA"). Further, the complaint seeks to impose joint and several liability on all defendants. In April 2010, the then-presiding judge ruled that the retroactive nature of FATA was unconstitutional. The ruling was affirmed by the New Mexico Court of Appeals. However, on June 25, 2015, the Supreme Court of the State of New Mexico reversed and held that FATA is constitutional. The New Mexico Supreme Court also consolidated multiple related cases and reassigned the consolidated proceeding to a new district judge. On June 6, 2017, the district court granted both the New Mexico Attorney General's motion to dismiss and Vanderbilt's motion to confirm its settlement with the New Mexico Attorney General. The order was entered September 8, 2017. On October 8, 2017, Frank Foy appealed the dismissal. On January 19, 2018, the State of New Mexico moved to dismiss the appeal on the grounds that the docketing statement filed by Foy was not timely. 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.

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 subleased office space at 600 Fifth Avenue with a lease termination date of September 29, 2016. 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. The Company's rental expense for the six month periods ended June 30, 2018 and 2017 was \$72.7 thousand and \$62.4 thousand, respectively.

(2) At July 1, 2018, the minimum future lease payments under the leases are as follows:

Year Ending December 31,	Operating Leases
2018	63,068
2019	127,996
2020	130,024
2021	120,886
2022	-
Beyond 5 Years	-
Total	<u>\$ 441,974</u>

B. Lessor Leases

Not applicable.

## NOTES TO FINANCIAL STATEMENTS

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

(1) The table below summarizes the face amount of the Company's financial instruments with off-balance-sheet risk:

	Assets		Liabilities	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
a. Swaps	\$ -	\$ -	\$ -	\$ -
b. Futures	-	-	-	-
c. Options	-	-	-	-
c. Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(1) – (4) 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)). Net par outstanding in the tables below reflect only the outstanding principal balance for capital appreciation bond obligations that the Company has insured. The Company reports its remaining obligation, including any accreted values, as an interest obligation.

The tables below reflect certain information regarding the Company's in-force par exposure at June 30, 2018 and December 31, 2017:

(\$ in millions)	June 30, 2018		December 31, 2017	
	Net Par	% of Net Par	Net Par	% of Net Par
	Outstanding	Outstanding	Outstanding	Outstanding
<b>Tax-exempt obligations:</b>				
Healthcare	\$ 19	2.4%	\$ 32	3.7%
Tax backed	71	9.2%	100	11.5%
Higher education	174	22.6%	178	20.4%
Long-term care	21	2.7%	21	2.4%
General obligations	206	26.8%	206	23.7%
Utilities	36	4.7%	41	4.7%
Transportation	84	11.0%	85	9.8%
Housing	38	5.0%	41	4.7%
Not for Profit	29	3.8%	54	6.2%
Other	90	11.7%	114	13.1%
Total municipal obligations	<u>768</u>	<u>100.0%</u>	<u>871</u>	<u>100.0%</u>
<b>Taxable obligations</b>				
Other	-	0.0%	-	0.0%
<b>Total</b>	<u>\$ 768</u>	<u>100.0%</u>	<u>\$ 871</u>	<u>100.0%</u>

For the six month period ended June 30, 2018, the Company reported a decrease in insured net par outstanding of \$103 million, of which \$86 million was attributable to Refundings, including early retirement due to cancellation (See Note 1.C.(1)).

(\$ in millions)	June 30, 2018		December 31, 2017	
	Net Par	% of Net Par	Net Par	% of Net Par
	Outstanding	Outstanding	Outstanding	Outstanding
<b>PAREXPOSURE BY STATE</b>				
New York	\$ 218	28.4%	\$ 221	25.4%
California	55	7.2%	81	9.3%
Florida	71	9.2%	72	8.3%
Georgia	71	9.2%	74	8.5%
Arizona	52	6.8%	53	6.1%
Other states	301	39.2%	370	42.5%
Total municipal obligations	<u>\$ 768</u>	<u>100.0%</u>	<u>\$ 871</u>	<u>100.0%</u>

## NET PAR OUTSTANDING BY MATURITY

(\$ in millions)	June 30, 2018	
	Net Par	Outstanding
<b>Terms of Maturity</b>		
0 to 5 years	\$ 265	
5 to 10 years	282	
10 to 15 years	118	
15 to 20 years	98	
20 and above	5	
Total	<u>\$ 768</u>	

## 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&amp;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.

## NOTES TO FINANCIAL STATEMENTS

**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:**

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Total
a. Assets at fair value				
Long Term (D-1)				
Special Rev./Assess. Oblig.	\$ -	\$ 9,430,998	\$ -	\$ 9,430,998
Indust. & Misc.	-	2,021,989	-	2,021,989
Total Long Term (D-1)	-	11,452,987	-	11,452,987
Total assets at fair value	\$ -	\$ 11,452,987	\$ -	\$ 11,452,987
b. Liabilities at fair value				
Total Liabilities at fair value	\$ -	\$ -	\$ -	\$ -

\$0.00 was transferred from Level 1 to Level 2 and \$0.00 was transferred from Level 2 to Level 1

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

Not applicable

**(3) The Company's policy is to recognize transfers in and out at the end of the reporting period, consistent with the date of the determination of fair value.****(4) In accordance with SSAP 100, the valuation techniques used in measuring fair values are based on the following:**

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

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

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

**(5) Derivative Fair Value**

Not applicable

**B. Other Fair Value Disclosures**

Not applicable

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

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

June 30, 2018						
Type of Financial Instrument	Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds	\$ 204,812,248	\$ 207,874,314	\$ -	\$ 204,812,248	\$ -	\$ -
Cash, Cash Equivalents & Short-Term Investments	26,349,341	26,351,169	26,349,341	-	-	-
Total	\$ 231,161,588	\$ 234,225,483	\$ 26,349,341	\$ 204,812,248	\$ -	\$ -

December 31, 2017						
Type of Financial Instrument	Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds	\$ 261,632,972	\$ 258,994,291	\$ -	\$ 261,632,972	\$ -	\$ -
Cash, Cash Equivalents & Short-Term Investments	3,854,851	3,854,851	3,854,851	-	-	-
Total	\$ 265,487,823	\$ 262,849,142	\$ 3,854,851	\$ 261,632,972	\$ -	\$ -

**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 2018 and 2017.

**B. Troubled Debt Restructurings: Debtors**

The Company had no troubled debt restructurings during 2018 and 2017. See also Note 5.B.

## NOTES TO FINANCIAL STATEMENTS

### 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 June 30, 2018 and December 31, 2017 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 \$14 million to \$18 million at June 30, 2018, 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, 2018, the Company had insured obligations with outstanding principal totaling \$257.0 million classified in Category 4, which means that it either has paid claims on such exposures or expects to pay claims on such exposures in the future. In addition, as of such date, the Company had insured obligations with outstanding principal totaling \$60.1 million classified in Category 3, which means those credits have materially violated financial and operational covenants and require remedial action to avoid further performance deterioration. As discussed in Note 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 from time to time in a number of legal proceedings, both as plaintiff and defendant, as well as regulatory inquiries and investigations. Management cannot predict the outcomes of any 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 lawsuits and proceedings has caused the Company to incur significant expenses.
- 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.

## NOTES TO FINANCIAL STATEMENTS

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, 2015 and 2016. 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, 2015 and 2016.

### *(2) Restructuring Transaction*

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

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

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

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

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

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

Management is actively seeking to (i) remediate deteriorated insured exposures to minimize claim payments, maximize recoveries and mitigate ultimate 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

## NOTES TO FINANCIAL STATEMENTS

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 principal and interest (in the case of public finance transactions) or the total principal (in the case of structured finance and international 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 and Non-transferable Tax Credits

Not applicable.

## F. Subprime Exposure Related Risk

(1) The only outstanding insured securitization of manufactured housing mortgages was extinguished as of December 31, 2017. 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).

(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, 2018:

	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	\$ 4,887,501	\$ 5,035,228	\$ 5,189,103	\$ -
b. Commercial mortgage backed securities				
c. Collateralized debt obligations				
d. Structured securities	2,688,138	2,688,356	2,693,087	-
e. Equity investment in SCAs				
f. Other assets				
g. Total	\$ 7,575,639	\$ 7,723,584	\$ 7,882,190	\$ -

(4) As stated in F. (1) above, the Company no longer has an applicable outstanding loss reserve related to subprime mortgages.

## G. Insurance-linked Securities

Not applicable.

## 22. EVENTS SUBSEQUENT

The Company reviewed all transactions and other matters that have occurred from July 1, 2018 through August 8, 2018 (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, 2018. 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

(1)

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
a. Affiliates	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
b. All other	1,126,913	0	0	0	1,126,913	0
c. TOTAL	\$ 1,126,913	\$ 0	\$ 0	\$ 0	\$ 1,126,913	\$ 0
d. Direct Unearned Premium Reserve			\$ 26,417,428			

(2) There are no contingent commission or profit sharing arrangements.

(3) Not applicable

## NOTES TO FINANCIAL STATEMENTS

D. Uncollectible Reinsurance

The Company has no uncollectible reinsurance balances.

E. Commutation of Ceded Reinsurance

The Company had no commutations of ceded reinsurance in 2018.

F. Retroactive Reinsurance

The Company has no retroactive reinsurance contracts.

G. Reinsurance Accounted for as a Deposit

The Company did not account for any reinsurance as deposits.

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, 2018, the Company recorded a net provision for losses incurred of \$5.9 million, which consisted of \$4.5 million of net favorable loss development on accident years prior to 2018 ("prior accident year claims"), \$1.2 million of discount accretion and \$9.2 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, 2018, the Company purchased bonds for loss remediation purposes in the amount of \$100.3 thousand. As of June 30, 2018, the Company's liability for unpaid losses was \$51.5 million, which related to twenty-three insured transactions, with a remaining aggregate in-force par outstanding of \$189.1 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of \$189.1 million represents the remaining maximum amount of par exposure subject to loss in regard to these twenty-three 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, 2018 ranged from \$14 million to \$18 million. This range of Off-Balance Sheet Losses related to ten insured transactions classified as Category 4 credits (see Note 36), with a remaining aggregate in-force par outstanding of approximately \$0.3 million, excluding the aforementioned Off-Balance Sheet Losses.

For the six month period ended June 30, 2017, the Company recorded a net provision for losses incurred of \$(8.1) million, which consisted of \$9.6 million of net favorable loss development on accident years prior to 2017 and \$1.5 million of discount accretion. During the six month period ended June 30, 2017, the Company purchased bonds for loss remediation purposes in the amount of \$3.7 million. As of June 30, 2017, the Company's liability for unpaid losses was \$91.6 million, which related to twenty-eight insured transactions, with a remaining aggregate in-force par outstanding of \$206.8 million, excluding the aforementioned case reserves. The aggregate in-force par outstanding of \$206.8 million represents the remaining maximum amount of par exposure subject to loss in regard to these twenty-eight insured transactions.

In 2013, ACA's board of directors approved the economic terms by which BedRok Securities, LLC, a broker-dealer controlled by a board member, was authorized to purchase ACA-insured bonds on behalf of ACA. Such approved compensation earned by BedRok was in the range of spreads paid by ACA since its restructuring to non-affiliated brokers for similar transactions. For the six month period ended June 30, 2018, the Company did not conduct a trade with BedRok. For the six month period ended June 31, 2017, BedRok earned approximately \$34 thousand in connection with eight purchases of ACA insured bonds in the amount of \$6.9 million.

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, 2018 and December 31, 2017.

B. The Company has no risk sharing receivables as of June 30, 2018 and December 31, 2017.

### 29. PARTICIPATING POLICIES

The Company never issued participating policies.

## NOTES TO FINANCIAL STATEMENTS

**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**

A. Not applicable

B.&C. The Company's case reserves for unpaid losses are discounted on a non-tabular basis. The discount rate used at June 30, 2018 and December 31, 2017 was 3.1%. 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, 2018 was \$(13.7) million. Loss adjustment expenses are not discounted.

**33. ASBESTOS/ENVIRONMENTAL RESERVES**

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

**34. SUBSCRIBER SAVINGS ACCOUNTS**

The Company has no subscriber savings accounts.

**35. MULTIPLE PERIL CROP INSURANCE**

The Company has never written this line of business.

**36. FINANCIAL GUARANTY INSURANCE**

A.

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

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

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

(2) a. The amount of premium revenue that has been accelerated during the six month periods ended June 30, 2018 and 2017 was \$4.0 million and \$9.5 million, respectively.

b. Schedule of the future expected earned premium revenue on contracts written on an upfront basis as of June 30, 2018:

1.	3rd Quarter 2018	414,064
	4th Quarter 2018	685,263
	Year 2019	2,274,080
	Year 2020	2,550,596
	Year 2021	2,695,927
	Year 2022	<u>1,885,975</u>
	Subtotal	<u>10,505,906</u>
2.	2023 through 2027	8,692,511
	2028 through 2032	5,035,775
	2033 through 2037	3,198,075
	2038 through 2039	<u>112,075</u>
	Total	<u>\$ 27,544,342</u>

(3) Claim liability:

a. The Company used a rate of 3.1% to discount the claim liability.

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

Reserves for losses at December 31, 2017	\$ 74,126,639
Accretion of the discount	1,234,781
New reserves for defaults of insured contracts	8,941,608 <sup>(1)</sup>
Development on prior accident years reserves	(32,824,654) <sup>(2)</sup>
Change in deficiency reserves	-
Change in incurred but not reported claims	-
Total change in reserves	<u>(22,648,265)</u>
Reserves for losses at June 30, 2018	<u>\$ 51,478,374</u>

<sup>(1)</sup> Represents 2018 accident year loss development of \$9,239,019, less claim payments of \$297,411.

<sup>(2)</sup> Represents favorable loss development of \$4,515,233, and claim payments of \$28,309,421.

## NOTES TO FINANCIAL STATEMENTS

(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.

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. & c. 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. Expenses related to risk management activities are recorded as either loss adjustment expenses or other underwriting expenses in the statement of income and the related liabilities are recorded as loss adjustment expenses or other expenses in the statement of financial position.

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. 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. Net par outstanding in the table below reflects only the outstanding principal balance for capital appreciation bond obligations that the Company has insured. The Company reports its remaining obligation, including any accreted values, as an interest obligation.

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

	Credit Quality Categories				Total
	1	2	3	4	
Number of policies	53	16	6	28	103
Remaining weighted-average contract period (in years)	6	8	7	9	
Insured contractual payments outstanding:					
Principal	\$ 358,837,769	\$ 91,748,868	\$ 60,125,000	\$ 257,034,000	\$ 767,745,638
Interest	141,867,504	90,217,946	23,709,133	184,144,782	439,939,365
Total	<u>\$ 500,705,273</u>	<u>\$ 181,966,814</u>	<u>\$ 83,834,133</u>	<u>\$ 441,178,783</u>	<u>\$ 1,207,685,003</u>
Gross claim and LAE liability	\$ -	\$ 35,000	\$ -	\$ 86,868,033	\$ 86,903,033
Less:					
Gross potential recoveries	-	-	-	45,406,944	45,406,944
Discount, net	-	-	-	(13,673,433)	(13,673,433)
Net claim and LAE liability	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ -</u>	<u>\$ 55,134,522</u>	<u>\$ 55,169,522</u>
Unearned premium revenue	\$ 5,951,369	\$ 3,944,009	\$ 2,311,718	\$ 15,337,247	\$ 27,544,342
Reinsurance recoverables	\$ -	\$ -	\$ -	\$ -	\$ -

The Company purchases ACA insured bonds periodically in the marketplace when available and the price meets internal prescribed limits for Category 4 rated credits. For accounting purposes, the Company reflects the purchase as a loss payment and carries the bond at a zero value. Unless the bond is cancelled with the trustee, the par value remains outstanding. At June 30, 2018, the par value outstanding of Category 4 bonds purchased and not cancelled is \$21.6 million.

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? ..... Yes  No
- 1.2 If yes, has the report been filed with the domiciliary state? ..... Yes  No
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? ..... Yes  No
- 2.2 If yes, date of change: .....
- 3.1 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   
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
- 3.3 If the response to 3.2 is yes, provide a brief description of those changes.  
.....
- 3.4 Is the reporting entity publicly traded or a member of a publicly traded group? ..... Yes  No
- 3.5 If the response to 3.4 is yes, provide the CIK (Central Index Key) code issued by the SEC for the entity/group.....
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes  No
- 4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 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  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
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? ..... Yes  No  NA
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? ..... Yes  No
- 7.2 If yes, give full information:  
.....
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?..... Yes  No
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.  
.....
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms?..... Yes  No
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1 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  No

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

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

9.2 Has the code of ethics for senior managers been amended? ..... Yes  No

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

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

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

**FINANCIAL**

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

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

**INVESTMENT**

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

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

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

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

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

14.2 If yes, please complete the following:

	1	2
	Prior Year-End Book/Adjusted Carrying Value	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

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 Investment management – Identify all investment advisors, investment managers, broker/dealers, including individuals that have the authority to make investment decisions on behalf of the reporting entity. For assets that are managed internally by employees of the reporting entity, note as such. ["...that have access to the investment accounts"; "...handle securities"]

1 Name of Firm or Individual	2 Affiliation
JP MORGAN ASSET MANAGEMENT.....	U.....
STEVEN BERKOWITZ.....	I.....
MARIA CHENG.....	I.....
SEAN LEONARD.....	I.....
CARL MCCARTHY.....	I.....

17.5097 For those firms/individuals listed in the table for Question 17.5, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") manage more than 10% of the reporting entity's assets? ..... Yes [ X ] No [ ]

17.5098 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 17.5, does the total assets under management aggregate to more than 50% of the reporting entity's assets? ..... Yes [ X ] No [ ]

17.6 For those firms or individuals listed in the table for 17.5 with an affiliation code of "A" (affiliated) or "U" (unaffiliated), provide the information for the table below.

1 Central Registration Depository Number	2 Name of Firm or Individual	3 Legal Entity Identifier (LEI)	4 Registered With	5 Investment Management Agreement (IMA) Filed
107038.....	JP MORGAN ASSET MANAGEMENT.....	549300W78QH4XMM6K69.....	SECURITIES AND EXCHANGE COMMISSION.....	DS.....

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:

19. By self-designating 5\*GI securities, the reporting entity is certifying the following elements for each self-designated 5\*GI security:

- a. Documentation necessary to permit a full credit analysis of the security does not exist.
- b. Issuer or obligor is current on all contracted interest and principal payments.
- c. The insurer has an actual expectation of ultimate payment of all contracted interest and principal.

Has the reporting entity self-designated 5\*GI securities?..... Yes [X] No [ ]



**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
<p><b>NONE</b></p>						

STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date – Allocated by States and Territories

States, etc.	1 Active Status (a)	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2 Current Year To Date	3 Prior Year To Date	4 Current Year To Date	5 Prior Year To Date	6 Current Year To Date	7 Prior Year To Date
1. Alabama	AL	L	0	0	0	0	0
2. Alaska	AK	L	0	0	0	0	0
3. Arizona	AZ	L	0	260,000	0	8,084,120	0
4. Arkansas	AR	L	0	1,564,419	2,593,030	11,912,446	12,470,674
5. California	CA	L	0	22,048,093	1,958,778	1,029,266	31,347,491
6. Colorado	CO	L	0	0	0	0	0
7. Connecticut	CT	L	0	0	0	0	0
8. Delaware	DE	L	0	0	0	0	0
9. Dist. Columbia	DC	L	0	0	0	0	0
10. Florida	FL	L	0	106,414	388,870	(8,422,622)	(8,279,049)
11. Georgia	GA	L	0	(36,469)	186,504	11,105,252	7,700,657
12. Hawaii	HI	L	0	0	0	0	0
13. Idaho	ID	L	0	0	0	0	0
14. Illinois	IL	L	0	3,064,313	1,751,956	1,166,318	10,876,121
15. Indiana	IN	L	0	0	0	0	0
16. Iowa	IA	L	0	0	0	0	0
17. Kansas	KS	L	0	0	0	0	0
18. Kentucky	KY	L	0	0	0	0	0
19. Louisiana	LA	L	2,891	4,541	651,425	817,937	8,194,448
20. Maine	ME	L	0	0	0	0	0
21. Maryland	MD	L	0	0	0	0	0
22. Massachusetts	MA	L	0	0	7,969	0	321,593
23. Michigan	MI	L	0	0	0	0	0
24. Minnesota	MN	L	0	(69,385)	0	0	2,405,105
25. Mississippi	MS	L	0	0	160,918	0	7,125,857
26. Missouri	MO	L	0	0	791,370	0	0
27. Montana	MT	L	0	0	0	0	0
28. Nebraska	NE	L	0	0	0	0	0
29. Nevada	NV	L	0	0	0	0	0
30. New Hampshire	NH	L	0	0	0	0	0
31. New Jersey	NJ	L	0	0	0	0	0
32. New Mexico	NM	L	0	0	0	0	0
33. New York	NY	L	0	859,892	2,566,879	3,529,631	2,549,185
34. No. Carolina	NC	L	0	0	0	0	0
35. No. Dakota	ND	L	0	0	0	0	0
36. Ohio	OH	L	0	0	0	0	0
37. Oklahoma	OK	L	0	0	0	0	0
38. Oregon	OR	L	0	0	0	0	0
39. Pennsylvania	PA	L	0	5,392	26,769	3,005,364	3,327,976
40. Rhode Island	RI	L	0	0	0	0	0
41. So. Carolina	SC	L	0	8,413	66,292	535,250	700,581
42. So. Dakota	SD	L	0	0	0	0	0
43. Tennessee	TN	L	0	0	0	0	0
44. Texas	TX	L	0	(11,394)	179,781	5,729,806	5,785,613
45. Utah	UT	L	0	0	0	0	0
46. Vermont	VT	L	0	0	0	0	0
47. Virginia	VA	L	0	155,719	162,281	5,609,095	6,033,021
48. Washington	WA	L	0	0	0	0	0
49. West Virginia	WV	L	0	0	0	0	0
50. Wisconsin	WI	L	0	0	0	0	0
51. Wyoming	WY	L	0	0	0	0	0
52. American Samoa	AS	N	0	0	0	0	0
53. Guam	GU	L	0	0	0	0	0
54. Puerto Rico	PR	L	0	0	0	0	0
55. U.S. Virgin Islands	VI	L	0	0	0	0	0
56. Northern Mariana Islands	MP	N	0	0	0	0	0
57. Canada	CAN	N	0	0	0	0	0
58. Aggregate Other Alien	OT	XXX	0	0	0	0	0
59. Totals	XXX		2,891	4,541	28,606,832	11,659,334	51,478,374
<b>DETAILS OF WRITE-INS</b>							
58001.	XXX						
58002.	XXX						
58003.	XXX						
58998. Summary of remaining write-ins for Line 58 from overflow page.	XXX		0	0	0	0	0
58999. TOTALS (Lines 58001 through 58003 plus 58998) (Line 58 above)	XXX		0	0	0	0	0

(a) Active Status Counts

L – Licensed or Chartered – Licensed insurance carrier or domiciled RRG .....54 R – Registered – Non-domiciled RRGs ..... 0  
 E – Eligible – Reporting entities eligible or approved to write surplus lines in the state (other than their state of domicile – See DSLI) ..... 0 Q – Qualified – Qualified or accredited reinsurer ..... 0  
 D – Domestic Surplus Lines Insurer (DSLII) – Reporting entities authorized to write surplus lines in the state of domicile .....0 N – None of the above – Not allowed to write business in the state .....3

Schedule Y - Part 1

**NONE**

Schedule Y - Part 1A

**NONE**

**PART 1 - LOSS EXPERIENCE**

Line of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire			0.0	0.0
2. Allied lines			0.0	0.0
3. Farmowners multiple peril			0.0	0.0
4. Homeowners multiple peril			0.0	0.0
5. Commercial multiple peril			0.0	0.0
6. Mortgage guaranty			0.0	0.0
8. Ocean marine			0.0	0.0
9. Inland marine			0.0	0.0
10. Financial guaranty	4,916,593	5,958,567	121.2	(80.9)
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	4,916,593	5,958,567	121.2	(80.9)
<b>DETAILS OF WRITE-INS</b>				
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	2	3
	Current Quarter	Current Year to Date	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	1,657	2,891	4,541
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	1,657	2,891	4,541
<b>DETAILS OF WRITE-INS</b>			
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

STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2018 Loss and LAE Payments on Claims Reported as of Prior Year-End	2018 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2018 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols.7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/ Deficiency (Cols. 11 + 12)
1. 2015 + Prior	69,783		69,783	29,020	(4)	29,016	38,284			38,284	(2,480)	(4)	(2,483)
2. 2016	(257)		(257)	1,310	0	1,310	(74)			(74)	1,493	0	1,493
3. Subtotals 2016 + prior	69,526	0	69,526	30,330	(4)	30,326	38,210	0	0	38,210	(987)	(4)	(991)
4. 2017	8,560		8,560	0	5	5	6,456			6,456	(2,103)	5	(2,099)
5. Subtotals 2017 + prior	78,086	0	78,086	30,330	1	30,330	44,666	0	0	44,666	(3,090)	1	(3,090)
6. 2018	XXX	XXX	XXX	XXX	413	413	XXX	10,503		10,503	XXX	XXX	XXX
7. Totals	78,086	0	78,086	30,330	414	30,743	44,666	10,503	0	55,170	(3,090)	1	(3,090)
8. Prior Year-End Surplus As Regards Policyholders	56,333										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. (4.0)	2. 0.0	3. (4.0)
													Col. 13, Line 7 Line 8
													4. (5.5)

## 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.

	<u>Response</u>
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. Business not written
2. Business not written
3. Business not written
4. Business not written

**Bar Code:**

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

**OVERFLOW PAGE FOR WRITE-INS**

PQ002 Additional Aggregate Lines for Page 02 Line 25.

\*ASSETS

	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
2504. Other Assets.....	1,508,182		1,508,182	2,446,482
2505. ....			0	0
2506. ....			0	0
2597. Summary of remaining write-ins for Line 25 from Page 02	1,508,182	0	1,508,182	2,446,482

**SCHEDULE A – VERIFICATION**

**Real Estate**

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

NONE

**SCHEDULE B – VERIFICATION**

**Mortgage Loans**

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

NONE

**SCHEDULE BA – VERIFICATION**

**Other Long-Term Invested Assets**

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year .....	81,608	82,304
2. Cost of acquired:		
2.1 Actual cost at time of acquisition .....	0	0
2.2 Additional investment made after acquisition .....	0	0
3. Capitalized deferred interest and other .....	0	0
4. Accrual of discount .....	0	0
5. Unrealized valuation increase (decrease) .....	(488)	(696)
6. Total gain (loss) on disposals .....	0	0
7. Deduct amounts received on disposals .....	0	0
8. Deduct amortization of premium and depreciation .....	0	0
9. Total foreign exchange change in book/adjusted carrying value .....	0	0
10. Deduct current year's other-than-temporary impairment recognized .....	0	0
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10) .....	81,120	81,608
12. Deduct total nonadmitted amounts .....	81,120	81,608
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 .....	258,994,291	302,032,289
2. Cost of bonds and stocks acquired .....	1,399,284	92,564,980
3. Accrual of discount .....	342,996	569,939
4. Unrealized valuation increase (decrease) .....	(158,907)	(65,051)
5. Total gain (loss) on disposals .....	(286,068)	608,970
6. Deduct consideration for bonds and stocks disposed of .....	51,983,833	135,481,100
7. Deduct amortization of premium .....	355,555	1,235,735
8. Total foreign exchange change in book/adjusted carrying value .....	0	0
9. Deduct current year's other-than-temporary impairment recognized .....	101,850	0
10. Total investment income recognized as a result of prepayment penalties and/or acceleration fees .....	23,955	0
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9+10) .....	207,874,314	258,994,291
12. Deduct total nonadmitted amounts .....	0	0
13. Statement value at end of current period (Line 11 minus Line 12) .....	207,874,314	258,994,291

STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

**SCHEDULE D - PART 1B**

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by 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
<b>BONDS</b>								
1. NAIC 1 (a).....	185,233,621	59,463,191	84,337,943	(174,991)	185,233,621	160,183,879	0	178,543,622
2. NAIC 2 (a).....	58,562,983	0	2,138,872	(24,757)	58,562,983	56,399,354	0	68,029,962
3. NAIC 3 (a).....	1,705,119	0	0	(614)	1,705,119	1,704,505	0	1,709,904
4. NAIC 4 (a).....	366,040	0	42,977	(5,580)	366,040	317,484	0	367,131
5. NAIC 5 (a).....	10,247,251	1,374,531	0	(200,639)	10,247,251	11,421,143	0	10,342,306
6. NAIC 6 (a).....	1,344	0	1	74	1,344	1,417	0	1,367
7. Total Bonds	256,116,358	60,837,722	86,519,792	(406,506)	256,116,358	230,027,782	0	258,994,291
<b>PREFERRED STOCK</b>								
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	256,116,358	60,837,722	86,519,792	(406,506)	256,116,358	230,027,782	0	258,994,291

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of short-term and cash equivalent bonds by NAIC designation: NAIC 1 \$ .....22,153,469 ; NAIC 2 \$ ..... ;  
NAIC 3 \$ ..... ; NAIC 4 \$ ..... ; NAIC 5 \$ ..... ; NAIC 6 \$ .....

S102

## SCHEDULE DA - PART 1

Short-Term Investments

	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
9199999	1,670,561	XXX	1,666,363	10,469	6,181

## SCHEDULE DA - VERIFICATION

Short-Term Investments

	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	1,653,167
2. Cost of short-term investments acquired .....	4,476,797	3,993,028
3. Accrual of discount .....	5,139	709
4. Unrealized valuation increase (decrease).....		0
5. Total gain (loss) on disposals .....	(2,596)	(2,116)
6. Deduct consideration received on disposals .....	2,808,778	5,644,789
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).....	1,670,561	0
11. Deduct total nonadmitted amounts.....		0
12. Statement value at end of current period (Line 10 minus Line 11)	1,670,561	0

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 – PART 2 – VERIFICATION**

(Cash Equivalents)

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	1,227,766	0
2. Cost of cash equivalents acquired .....	221,111,380	132,739,438
3. Accrual of discount .....	59,929	0
4. Unrealized valuation increase (decrease) .....	0	0
5. Total gain (loss) on disposals.....	(444)	0
6. Deduct consideration received on disposals .....	199,805,630	131,511,672
7. Deduct amortization of premium .....	0	0
8. Total foreign exchange change in book/adjusted carrying value .....	0	0
9. Deduct current year's other than temporary impairment recognized .....	0	0
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9) .....	22,593,001	1,227,766
11. Deduct total nonadmitted amounts .....	0	0
12. Statement value at end of current period (Line 10 minus Line 11)	22,593,001	1,227,766

Schedule A - Part 2

**NONE**

Schedule A - Part 3

**NONE**

Schedule B - Part 2

**NONE**

Schedule B - Part 3

**NONE**

Schedule BA - Part 2

**NONE**

Schedule BA - Part 3

**NONE**

STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

**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)
<b>Bonds - U.S. Special Revenue</b>									
453419-CH-4	INDEP CTY AR HYDRO SUB SER A		05/25/2018	VARIOUS	XXX		85,000		6
641345-CR-2	NEVADA MO HOSP REV: NEVADA REG		04/05/2018	HILLTOP SECURITIES INC	XXX	31,281	35,000	34	5
957372-BT-1	WCHSTR CTY NY INDL - LC WHT PLNS		04/18/2018	B RILEY & CO. INC	XXX	1,343,250	1,350,000	1,125	
<b>3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions</b>						1,374,531	1,470,000	1,159	XXX
<b>Bonds - Industrial and Miscellaneous (Unaffiliated)</b>									
22540A-FK-9	INDYMAC MANU HSG 1998-1W		06/06/2018	VARIOUS	XXX		677,042		6FE
<b>3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated)</b>						0	677,042	0	XXX
<b>8399997 - Subtotals - Bonds - Part 3</b>						1,374,531	2,147,042	1,159	XXX
<b>8399999 - Subtotals - Bonds</b>						1,374,531	2,147,042	1,159	XXX
<b>9999999 Totals</b>						1,374,531	XXX	1,159	XXX

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

E04

STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

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 Identification	Description	Fore ign	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	Contractual Maturity Date	NAIC Designation or Market Indicator (a)
<b>Bonds - U.S. Governments</b>																					
361790-6P-1	GNMA POOL 11 MA2678		06/01/2018	PAYDOWN	XXX	258,161	258,161	272,601	275,171		(17,010)		(17,010)		258,161				3,029	03/20/2045	1
36179R-BX-6	GNMA POOL 11 MA2754		06/01/2018	PAYDOWN	XXX	353,406	353,406	373,230	375,966		(22,560)		(22,560)		353,406				4,195	04/20/2045	1
36179S-YT-8	GNMA POOL 11 MA4322		06/01/2018	PAYDOWN	XXX	166,541	166,541	174,217	174,270		(7,730)		(7,730)		166,541				2,254	03/20/2047	1
36200A-BE-8	GNMA POOL 595037		06/01/2018	PAYDOWN	XXX	28	28	29	29		(1)		(1)		28				1	10/15/2032	1
36200A-CW-7	GNMA POOL 595085		06/01/2018	PAYDOWN	XXX	506	506	521	519		(14)		(14)		506				10	10/15/2032	1
36200E-TY-7	GNMA POOL 599167		06/01/2018	PAYDOWN	XXX	442	442	456	451		(9)		(9)		442				9	12/15/2033	1
36200M-AT-0	GNMA POOL 604018		06/01/2018	PAYDOWN	XXX	35,160	35,160	36,179	35,909		(749)		(749)		35,160				638	02/15/2033	1
36200M-EN-9	GNMA POOL 604141		06/01/2018	PAYDOWN	XXX	156	156	161	161		(4)		(4)		156				3	03/15/2033	1
36200Q-2R-4	GNMA POOL 569684		06/01/2018	PAYDOWN	XXX	1,734	1,734	1,785	1,772		(38)		(38)		1,734				33	02/15/2032	1
36200R-LX-8	GNMA POOL 570142		06/01/2018	PAYDOWN	XXX	331	331	341	339		(8)		(8)		331				7	12/15/2031	1
36200R-XT-4	GNMA POOL 570490		06/01/2018	PAYDOWN	XXX	14	14	14	14		0		0		14				0	12/15/2031	1
36200S-US-7	GNMA POOL 571293		06/01/2018	PAYDOWN	XXX	11	11	11	11		0		0		11				0	11/15/2031	1
36201A-PF-9	GNMA POOL 577422		06/01/2018	PAYDOWN	XXX	40	40	42	41		(1)		(1)		40				1	01/15/2032	1
36201D-AX-0	GNMA POOL 579722		06/01/2018	PAYDOWN	XXX	454	454	468	463		(9)		(9)		454				9	08/15/2032	1
36201E-AG-5	GNMA POOL 580607		06/01/2018	PAYDOWN	XXX	332	332	342	339		(7)		(7)		332				5	02/15/2033	1
36201F-AF-4	GNMA POOL 581506		06/01/2018	PAYDOWN	XXX	11	11	12	12		0		0		11				0	04/15/2033	1
36201Y-FD-3	GNMA POOL 606864		06/01/2018	PAYDOWN	XXX	41	41	43	42		(1)		(1)		41				1	10/15/2033	1
36207E-ND-2	GNMA POOL 429788		06/01/2018	PAYDOWN	XXX	124	124	127	128		(4)		(4)		124				2	12/15/2033	1
36210J-HW-1	GNMA POOL 493545		06/01/2018	PAYDOWN	XXX	20	20	20	20		0		0		20				0	03/15/2031	1
36213F-U4-3	GNMA POOL 553303		06/01/2018	PAYDOWN	XXX	14	14	14	14		0		0		14				0	06/15/2033	1
36213R-2A-4	GNMA POOL 562469		06/01/2018	PAYDOWN	XXX	2,057	2,057	2,068	2,061		(4)		(4)		2,057				34	02/15/2034	1
36213R-ZF-7	GNMA POOL 562442		06/01/2018	PAYDOWN	XXX	1,445	1,445	1,484	1,465		(20)		(20)		1,445				27	01/15/2034	1
36213T-GW-7	GNMA POOL 563713		06/01/2018	PAYDOWN	XXX	1,668	1,668	1,718	1,702		(34)		(34)		1,668				34	01/15/2033	1
36213U-EZ-9	GNMA POOL 564552		06/01/2018	PAYDOWN	XXX	22	22	22	22		0		0		22				0	12/15/2031	1
36213V-GN-2	GNMA POOL 565505		06/01/2018	PAYDOWN	XXX	16	16	16	16		0		0		16				0	09/15/2032	1
36290X-PM-6	GNMA POOL 620628		06/01/2018	PAYDOWN	XXX	176	176	181	182		(6)		(6)		176				4	09/15/2033	1
36290X-PT-1	GNMA POOL 620634		06/01/2018	PAYDOWN	XXX	361	361	372	366		(5)		(5)		361				7	09/15/2033	1
36290Y-TN-8	GNMA POOL 621657		06/01/2018	PAYDOWN	XXX	15	15	16	16		0		0		15				0	12/15/2033	1
36291C-PV-1	GNMA POOL 624236		06/01/2018	PAYDOWN	XXX	17	17	17	17		0		0		17				0	12/15/2033	1
36291E-AD-3	GNMA POOL 625604		06/01/2018	PAYDOWN	XXX	365	365	375	374		(9)		(9)		365				9	12/15/2033	1
36291E-AV-3	GNMA POOL 625620		06/01/2018	PAYDOWN	XXX	9	9	9	9		0		0		9				0	12/15/2033	1
36296X-H8-0	GNMA POOL 704155		06/01/2018	PAYDOWN	XXX	177,775	177,775	183,275	183,611		(5,836)		(5,836)		177,775				3,607	01/15/2039	1
38376W-6C-4	GNMA GNR 2010-33 LN		06/01/2018	PAYDOWN	XXX	20,634	20,634	22,027	20,986		(352)		(352)		20,634				296	02/20/2038	1
912828-0Q-6	US TREASURY N/B		05/31/2018	MATURITY @ 100.00	XXX	17,375,000	17,375,000	17,830,977	17,490,127		(115,127)		(115,127)		17,375,000				206,328	05/31/2018	1
<b>0599999 - Bonds - U.S. Governments</b>						18,397,085	18,397,085	18,903,169	18,566,624	0	(169,539)	0	(169,539)	0	18,397,085	0	0	0	220,546	XXX	XXX
<b>Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions</b>																					
30711X-AC-8	CONNECTICUT AVE 2014-C01		06/25/2018	PAYDOWN	XXX	104,974	104,974	104,974	104,974				0		104,974				1,207	01/25/2024	1
3128MJ-2H-2	FHLMC GOLD POOL FG G08775		06/01/2018	PAYDOWN	XXX	70,819	70,819	74,836	74,710		(3,891)		(3,891)		70,819				973	08/01/2047	1
3128MJ-X4-7	FHLMC GOLD POOL FG G08698		06/01/2018	PAYDOWN	XXX	108,615	108,615	113,651	113,757		(5,142)		(5,142)		108,615				1,290	03/01/2046	1
3128MJ-Y7-9	FHLMC GOLD POOL FG G08733		06/01/2018	PAYDOWN	XXX	145,056	145,056	152,784	152,571		(7,515)		(7,515)		145,056				1,689	11/01/2046	1
3128MJ-YH-7	FHLMC GOLD POOL FH G08711		06/01/2018	PAYDOWN	XXX	88,646	88,646	93,704	93,628		(4,983)		(4,983)		88,646				1,056	06/01/2046	1
3128MJ-YY-0	FHLMC GOLD POOL FH G08726		06/01/2018	PAYDOWN	XXX	186,303	186,303	194,308	193,904		(7,601)		(7,601)		186,303				1,888	10/01/2046	1
3132WD-YQ-1	FHLMC GOLD POOL FG 040718		06/01/2018	PAYDOWN	XXX	257,238	257,238	269,658	269,250		(12,012)		(12,012)		257,238				3,141	05/01/2046	1
31359S-2G-4	FNMA WHOLE LOAN NW 2001-		06/01/2018	PAYDOWN	XXX	5,355	5,355	5,560	5,657		(302)		(302)		5,355				117	07/25/2031	1
31387C-W3-2	FNMA POOL 580078		06/01/2018	PAYDOWN	XXX	73	73	75	74		(1)		(1)		73				2	09/01/2031	1
3138WD-T4-3	FNMA POOL AS4170		06/01/2018	PAYDOWN	XXX	131,696	131,696	140,734	142,199		(10,503)		(10,503)		131,696				1,822	12/01/2044	1
3138Y6-MM-3	FNMA POOL AX4863		06/01/2018	PAYDOWN	XXX	284,238	284,238	304,268	304,964		(20,725)		(20,725)		284,238				3,490	12/01/2044	1
31393W-K4-0	FHLMC 2643 OH		06/01/2018	PAYDOWN	XXX	96,600	96,600	87,121	92,990		3,610		3,610		96,600				1,606	07/15/2033	1
31394D-JJ-0	FNMA 2005-29 QE		06/01/2018	PAYDOWN	XXX	117,410	117,410	105,614	112,608		4,802		4,802		117,410				1,999	04/25/2035	1
31394Y-KX-1	FHLMC 2791 UG		06/01/2018	PAYDOWN	XXX	50,000	50,000	49,563	49,861		139		139		50,000				687	05/15/2019	1
31395J-W5-1	FHLMC 2888 HG		06/01/2018	PAYDOWN	XXX	132,557	132,557	125,639	130,155		2,402		2,402		132,557				2,449	11/15/2034	1
31402D-F7-0	FNMA POOL 725690		06/01/2018	PAYDOWN	XXX	68,247	68,247	70,524	70,456		(2,209)		(2,209)		68,247				1,366	08/01/2034	1
31405R-AR-7	FNMA POOL 796616		06/01/2018	PAYDOWN	XXX	72,768	72,768	73,887	74,105		(1,337)		(1,337)		72,768				1,335	10/01/2034	1
31407U-EK-9	FNMA POOL 840838		06/01/2018	PAYDOWN	XXX	1,299	1,299	1,283	1,272		27		27		1,299				24	11/01/2035	1
31418B-VG-8	FNMA POOL 2414		06/01/2018	PAYDOWN	XXX	76,240	76,240	79,447	79,640		(3,400)		(3,400)		76,240				920	10/01/2045	1
<b>3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions</b>						1,998,132	1,998,132	2,047,629	2,066,775	0	(68,642)	0	(68,642)	0	1,998,132	0	0	0	27,059	XXX	XXX
<b>Bonds - Industrial and Miscellaneous (Unaffiliated)</b>																					
004375-BL-4	ACCREDITED MORT LOAN		06/25/2018	P																	

STATEMENT AS OF JUNE 30, 2018 OF THE ACA Financial Guaranty Corporation

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 Identification	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	Contractual Maturity Date	NAIC Designation or Market Indicator (a)		
020002-AV-3	ALLSTATE CORPORATION		05/13/2018	CALL @ 100.00	XXX	500,000	500,000	531,875	500,000				0		500,000			0	8,842	05/15/2067	2FE		
023765-AA-8	AMERICAN AIRLINES 16-2 PTT		06/15/2018	PAYDOWN	XXX	41,600	41,600	41,600	41,600				0		41,600			0		12/15/2029	1FE		
023770-AB-6	AMERICAN AIRLINES 15-1 B PTT		05/01/2018	PAYDOWN	XXX	57,599	57,599	58,013	57,908		(309)		(309)		57,599		0	0		11/01/2024	2FE		
12479R-AD-9	CAPITAL AUTO REIT 2017-1A A1		06/15/2018	PAYDOWN	XXX	2,750	2,750	2,749	2,749		1		1		2,750		0	0	36	04/15/2047	1FE		
126671-R4-0	COUNTRYWIDE ABC 2003-5 WF CAPITAL AUTO REC TR 2015-2 A3		06/01/2018	PAYDOWN	XXX	6,028	6,028	3,958	3,958		2,070		2,070		6,028		0	0	864	01/25/2034	1FM		
139738-AD-0	CITIGROUP MLT 2003-HE3 A		06/20/2018	PAYDOWN	XXX	690,221	690,221	690,207	690,219		2		2		690,221		0	0	5,683	09/20/2019	1FE		
173076-CU-0	CITIGROUP MLT 2003-HE3 A CONTINENTAL AIRLINES		06/25/2018	PAYDOWN	XXX	37,805	37,805	34,382	36,793		1,013		1,013		37,805		0	0	372	12/25/2033	1FM		
21079U-AA-3	2009-2 DRIVE AUTO RECEIVABLES TR		05/10/2018	PAYDOWN	XXX	20,771	20,771	23,575	21,269		(498)		(498)		20,771		0	0		05/10/2021	1FE		
26208C-AJ-7	2017-AA B FIRST FRANKLIN 2004-FFH4		06/15/2018	PAYDOWN	XXX	615,596	615,596	615,571	615,589		7		7		615,596		0	0	5,362	01/15/2021	1FE		
32027N-PG-0	M5 GSR MORT LOAN TR 2005-AR6		06/25/2018	PAYDOWN	XXX	262,278	262,278	261,294	265,557		(3,279)		(3,279)		262,278		0	0	3,792	01/25/2035	1FM		
362341-RX-9	2A1 IMPAC CMB TRUST 2004-5		06/01/2018	PAYDOWN	XXX	40,196	40,196	40,319	40,985		(789)		(789)		40,196		0	0	472	09/25/2035	1FM		
45254N-JG-3	1A1 LB UBS CMS TR 2006 C6 AJ		06/25/2018	PAYDOWN	XXX	74,779	74,779	67,675	70,628		4,152		4,152		74,779		0	0	730	10/25/2034	1FM		
50179M-AH-4	MERRILL LYNCH MLCC 2003-E		06/11/2018	PAYDOWN	XXX	42,977	42,977	45,585	34,145		10,409		8,831		42,977		0	0	1,113	09/15/2039	1FM		
589929-Y3-6	A1 NEW CENTURY HOME 2005-1		06/25/2018	PAYDOWN	XXX	2,804	2,804	2,672	2,736		68		68		2,804		0	0	27	10/25/2028	1FM		
64352V-JY-8	A2C NEW RES MORT LOAN TR		06/25/2018	PAYDOWN	XXX	213,079	213,079	213,345	213,119		(39)		(39)		213,079		0	0	1,997	03/25/2035	1FM		
64828M-AA-5	2017-3A A SANTANDER DR AUTO REC		06/01/2018	PAYDOWN	XXX	82,564	82,564	85,992	87,880		(5,316)		(5,316)		82,564		0	0	1,120	04/25/2057	1FM		
80285E-AE-7	2016-1 B SEQUOIA MORTGAGE 2013-4		06/15/2018	PAYDOWN	XXX	698,640	698,640	698,603	698,632		7		7		698,640		0	0	6,246	12/15/2020	1FE		
81744Y-AA-4	A1 UNITED AIRLINES 2016-2 A		06/01/2018	PAYDOWN	XXX	41,752	41,752	40,943	41,087		665		665		41,752		0	0	358	04/27/2043	1FM		
90932D-AA-3	PTT VENTAS REALTY LP/CAPITAL CORP		04/07/2018	PAYDOWN	XXX	52,862	52,862	52,862	52,862		0		0		52,862		0	0		04/07/2030	1FE		
92276M-AY-1	VARIOUS		04/09/2018	VARIOUS	XXX	1,523,955	1,500,000	1,492,335	1,498,389		319		319		1,498,709		1,291	1,291	50,455	04/30/2019	2FE		
<b>3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated)</b>						5,049,820	5,025,865	5,045,037	5,018,245	10,409	(4,077)	0	6,332	0	5,024,574	0	1,291	1,291	87,820	XXX	XXX		
<b>8399997 - Subtotals - Bonds - Part 4</b>						25,445,037	25,421,082	25,995,836	25,651,644	10,409	(242,258)	0	(231,849)	0	25,419,791	0	1,291	1,291	335,425	XXX	XXX		
<b>8399999 - Subtotals - Bonds</b>						25,445,037	25,421,082	25,995,836	25,651,644	10,409	(242,258)	0	(231,849)	0	25,419,791	0	1,291	1,291	335,425	XXX	XXX		
<b>Preferred Stocks - Industrial and Miscellaneous (Unaffiliated)</b>																							
000808-20-4	CDO - ACA ABS 2004-1 LTD		05/23/2018	VARIOUS	10,000,000.000	2,073,713	16,500,000.00	0	0	0	0	0	0	0	0	0	0	2,073,713	2,073,713	0	XXX	RP6*V	
<b>8499999 - Preferred Stocks - Industrial and Miscellaneous (Unaffiliated)</b>						2,073,713	XXX	0	0	0	0	0	0	0	0	0	0	0	2,073,713	2,073,713	0	XXX	XXX
<b>8999997 - Total - Preferred Stocks - Part 4</b>						2,073,713	XXX	0	0	0	0	0	0	0	0	0	0	0	2,073,713	2,073,713	0	XXX	XXX
<b>8999999 - Subtotals - Preferred Stocks</b>						2,073,713	XXX	0	0	0	0	0	0	0	0	0	0	0	2,073,713	2,073,713	0	XXX	XXX
<b>9899999 - Subtotals - Preferred and Common Stocks</b>						2,073,713	XXX	0	0	0	0	0	0	0	0	0	0	0	2,073,713	2,073,713	0	XXX	XXX
<b>9999999 Totals</b>						27,518,750	XXX	25,995,836	25,651,644	10,409	(242,258)	0	(231,849)	0	25,419,791	0	2,075,004	2,075,004	335,425	XXX	XXX		

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

E05.1

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**



