



ACA Capital Holdings, Inc.
Equity Investor Presentation
Fourth Quarter 2006

Notice to Recipients

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This presentation contains forward-looking statements which reflect our current views with respect to future events and financial performance. These statements include forward-looking statements both with respect to us specifically and the asset management, structured credit and public finance industries in general. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate," "may," "will," "continue," "further," "seek," and similar words or statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. In particular, our statements regarding growth, case studies and our description of our business strategies are forward-looking statements.

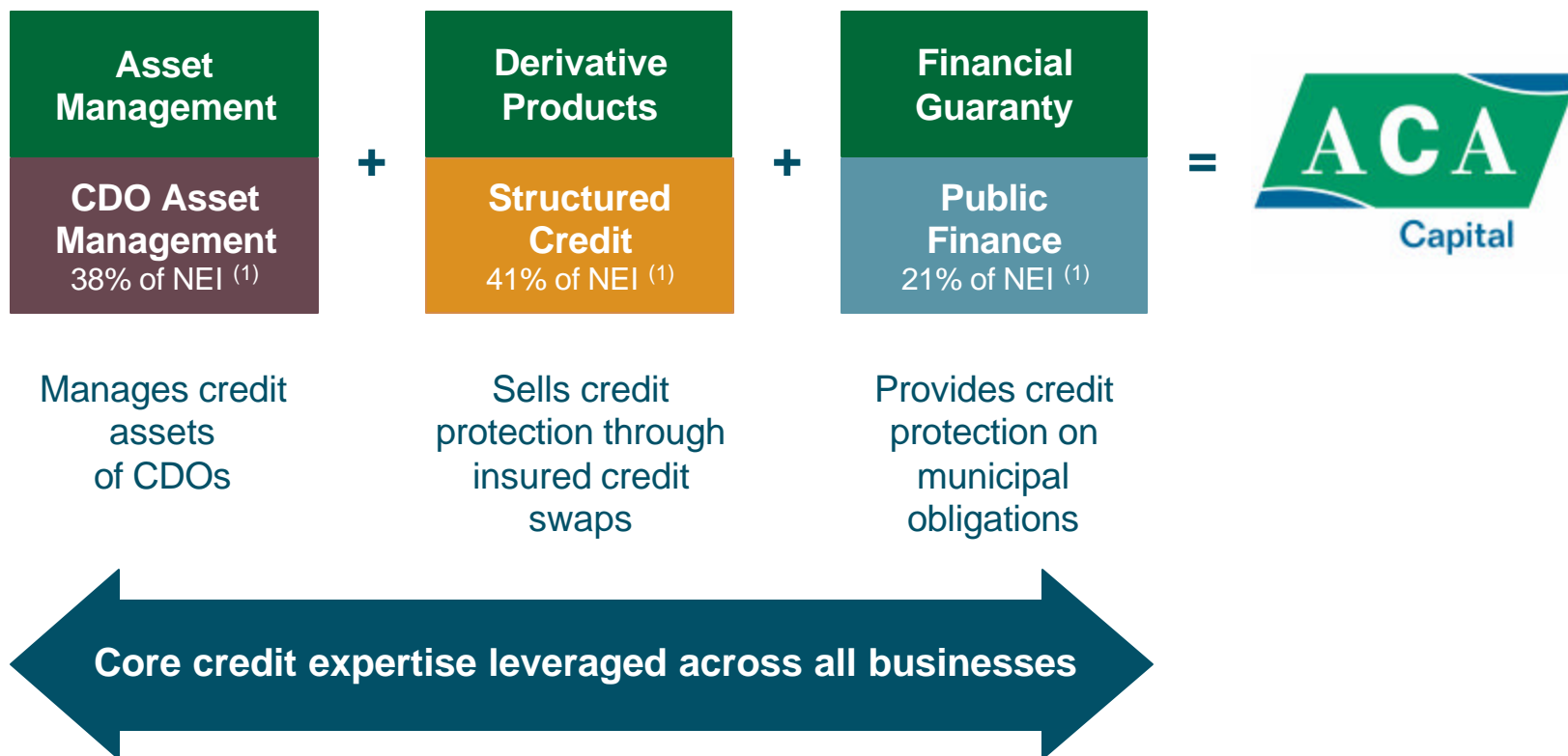
All forward-looking statements address matters that involve risks, uncertainties and assumptions. These risks and related matters are described more fully on page 28 of our Prospectus under the Section "Forward Looking Statements" and in the "Risk Factors" Section on page 10. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. These forward-looking statements speak only as of the date on which the statements were made. ACA and its affiliates undertake no obligations to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

This presentation includes discussion of certain financial measures that are not presented in accordance with generally accepted accounting principles ("non-GAAP measures"). In particular, Net Economic Income ("NEI"), is a non-GAAP measure, and the calculation of NEI in this presentation may differ from the calculation of similarly-titled measures used by other companies. A reconciliation of certain non-GAAP measures used in this presentation to the most comparable GAAP measure is included at the conclusion of the presentation.

The foregoing descriptions of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein or elsewhere.

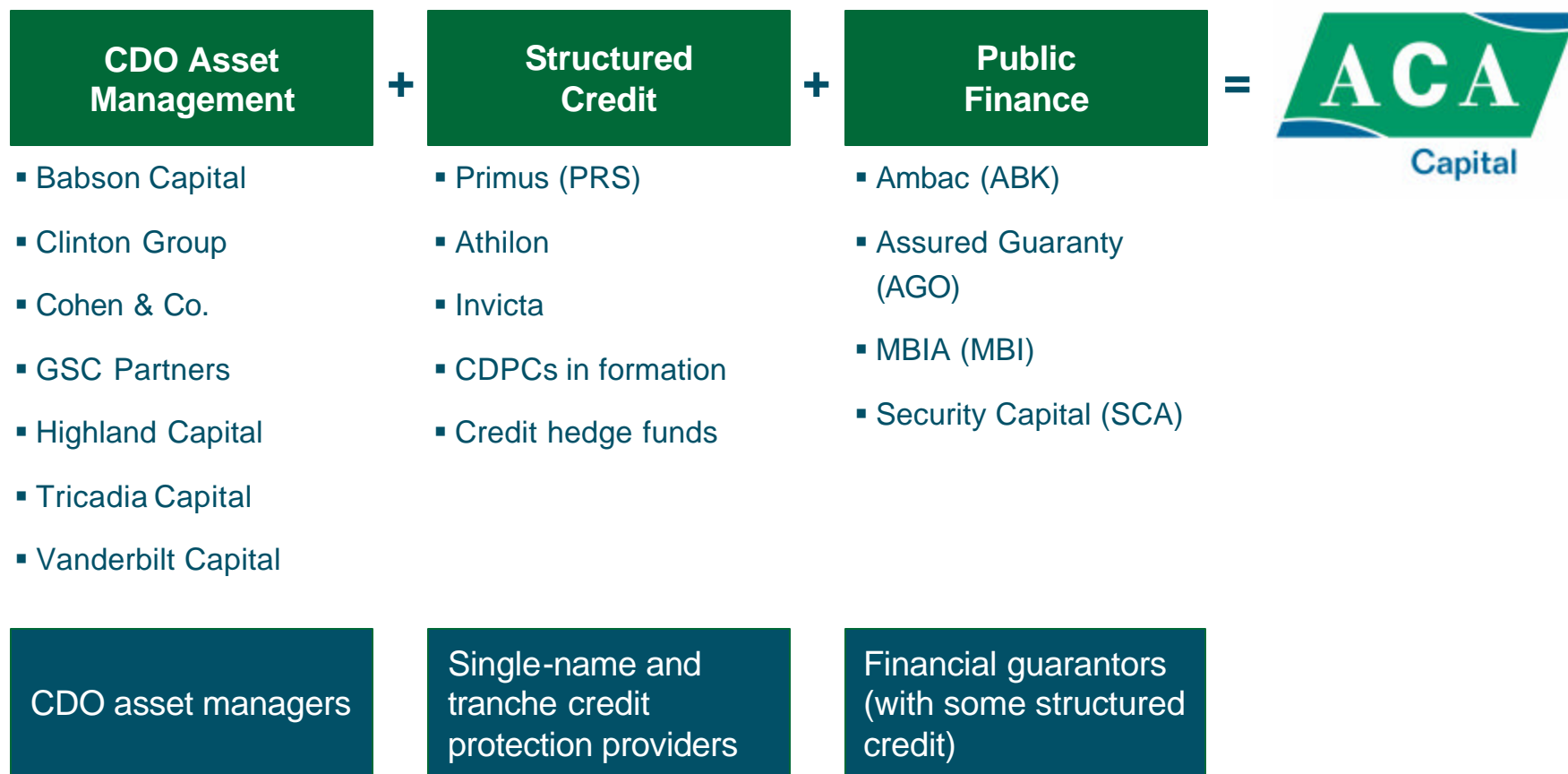
Business Overview

Provider of asset management services and credit protection products



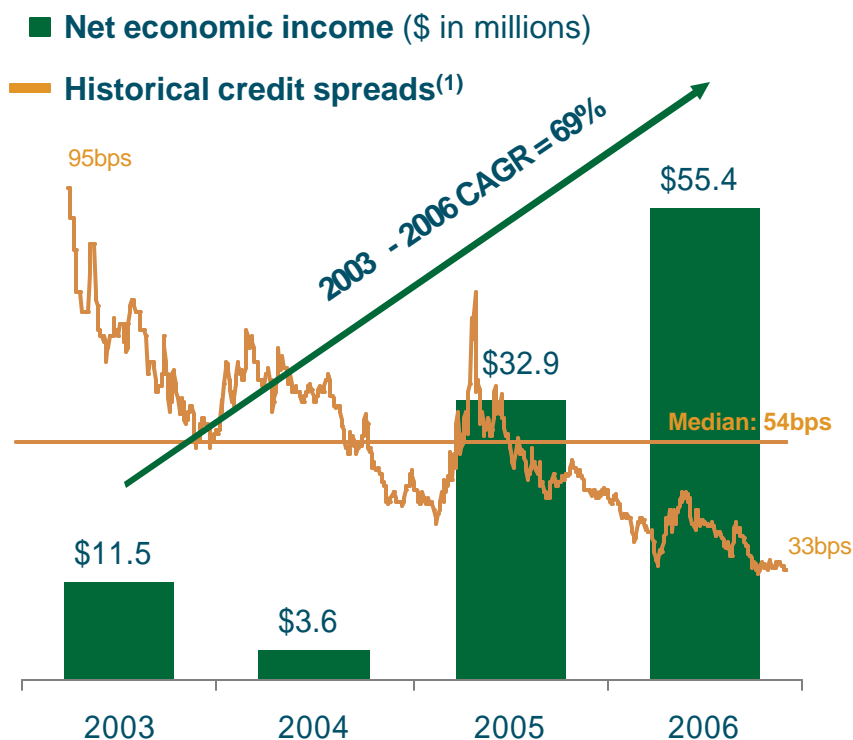
(1) Indicates percentage contributions to net economic income (excluding "Other") for the year ended December 31, 2006.

Who Does ACA Capital Look Like?



Why Invest in ACA?

Strong Growth Despite Tightening Credit Spreads



Poised to Continue Exceptional Growth

Capital efficient business model

+

Flexible, scalable platform

+

Attractive, growing markets

+

Diverse, recurring revenues

=

EPS growth and ROE expansion

(1) Quoted spread indicates Dow Jones CDX.NA.IG, on the run (5Yr). Data available since April 2003. Average for the period of April 2003 to December 2006.

Key Metrics

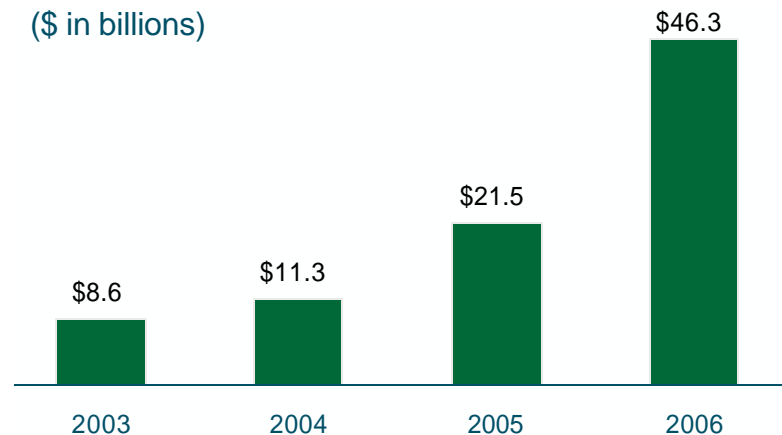
Assets Under Management

(\$ in billions)

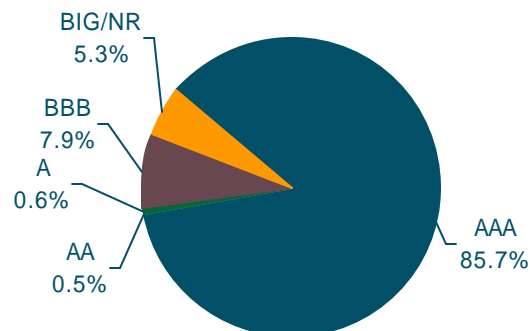


Net Par Exposure

(\$ in billions)



Insured Portfolio Credit Quality



Total = \$46.3 billion

Financial Highlights

- Stockholders' equity = \$513.1 million⁽¹⁾
- Adjusted book value = \$837.5 million
- 2006 net economic income = \$55.4 million
 - 68% increase over 2005
- 2006 base economic income = \$49.5 million
 - 66% increase over 2005
- ACA FG claims paying resources = \$882.5 million

Note: As of December 31, 2006.

(1) Excluding Accumulated Other Comprehensive Income.

CDO Asset Management



CDO Market Overview

Business Line Dynamics

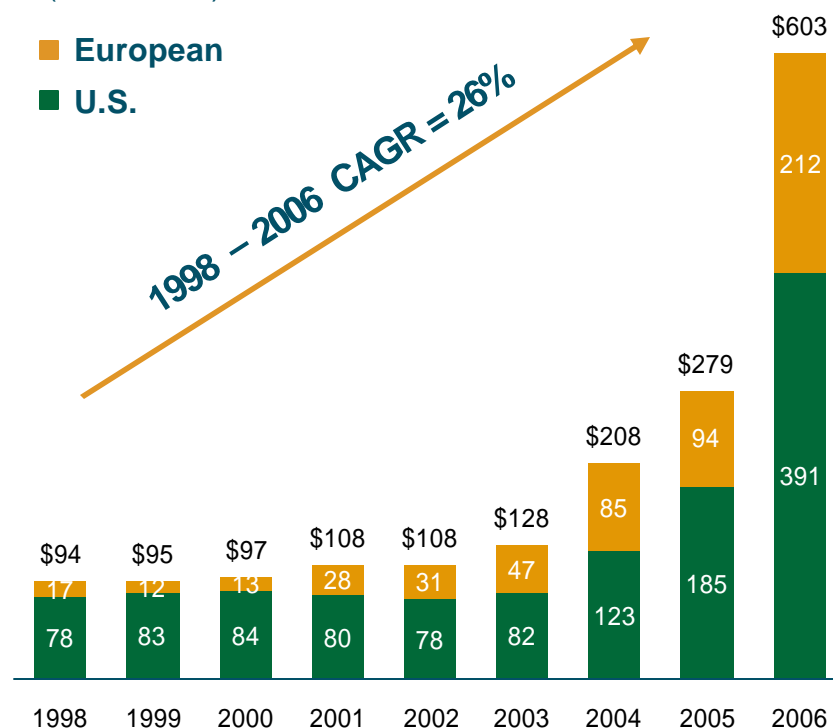
- Collateralized Debt Obligation = securitized pool of fixed income assets
- ACA partners with investment banks to originate CDOs
- ACA selects and purchases the assets (the “warehouse phase”)
- Liabilities are sold to institutional investors
- ACA manages the assets in the structure throughout the term

U.S. and European Funded CDO Issuance

(\$ in billions)

■ European

■ U.S.



Note: Data does not reflect the unfunded portion of the CDO market.
Source: Bear, Stearns & Co. Inc., “CDO Perspectives: January 2007”.

CDO Asset Management

ACA Highlights

- Market advantages are size, scale and track record
- Among the largest U.S. CDO asset managers
- \$15.7 billion in AUM, worldwide investor base
- Reputation for conservative defensive management
- Asset classes include ABS, Corporate and Leveraged Loans

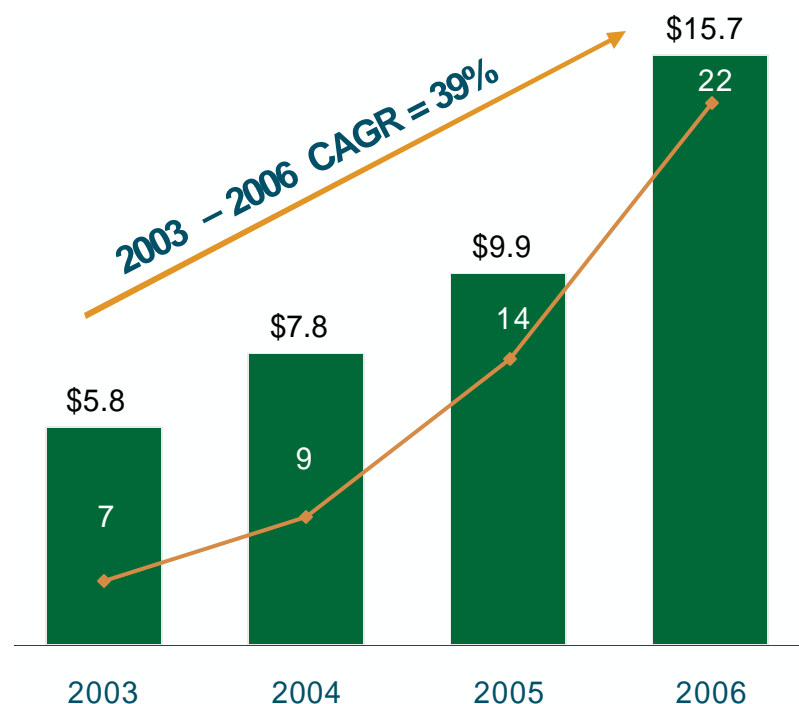
Strategic Rationale

- Highly scaleable, capital efficient model
- Fee income emphasized

Key Financial Metrics

— Cumulative Number of Deals

■ CDO Assets Under Management (\$ in billions)



Asset Management Revenue

Predictable, Recurring Revenues

Upfront revenues

- Warehouse income
- Structuring fees

Recurring revenues

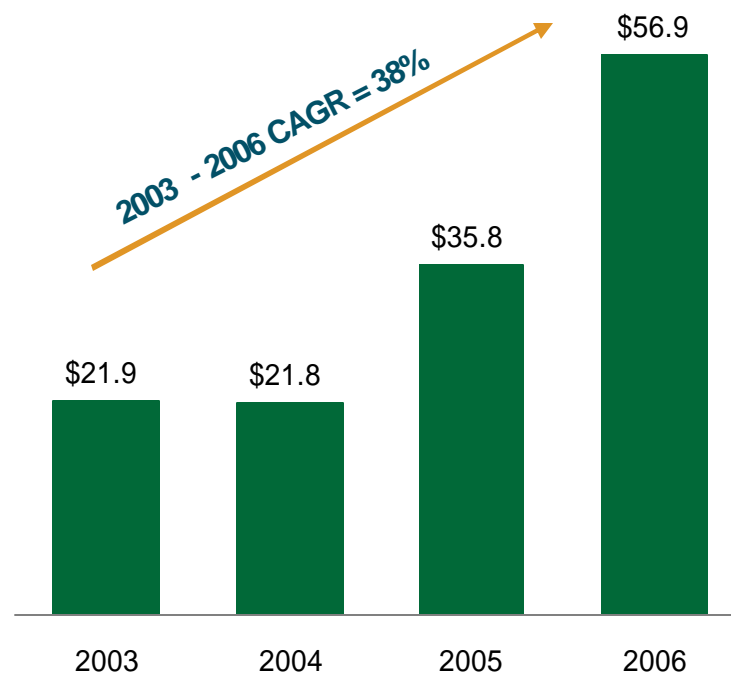
- Asset management fees (average 23bps)
- Average tenor of 5-7 years
- Predictable fees given stability of assets

Equity returns

- Target 10% investment in equity tranche (\$2 – \$5 million per transaction)

Revenue Growth ⁽¹⁾

(\$ in millions)



(1) Presented on an unconsolidated basis; see page 18 in the Company's Fourth Quarter 2006 Operating Supplement.

Structured Credit



Structured Credit Market Overview

Business Line Dynamics

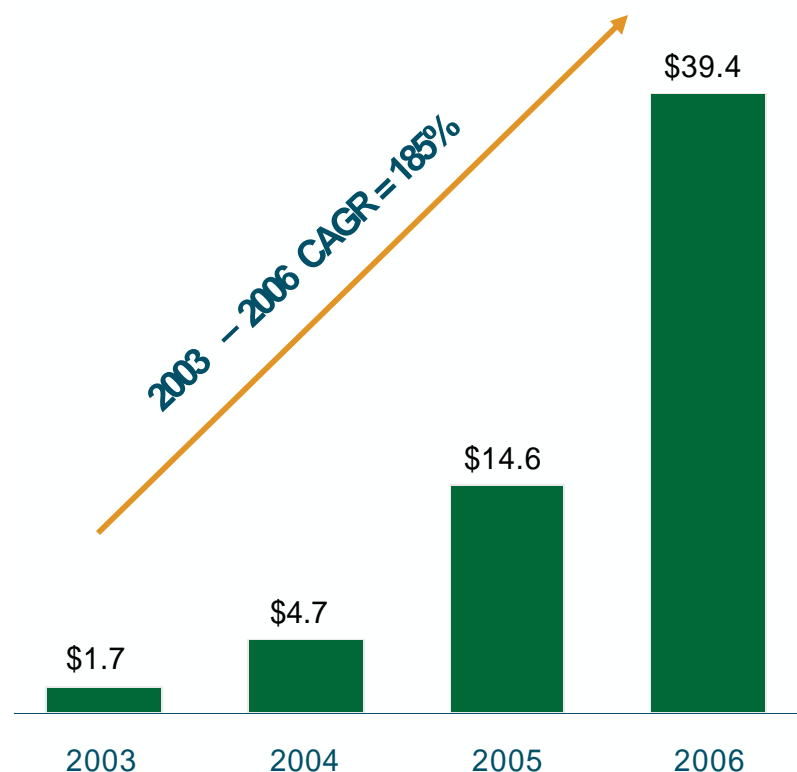
- Credit risk transfer market
- Credit protection on tranches (slices) of portfolios of credit risk (corporate and ABS risk)
- Sold in derivative form
- Used to hedge portfolio risk and take views on portfolio credit
- Broker/dealers intermediate market
- ACA is a seller of protection through insured credit default swaps

Market Participants / Competitors

- Banks
- Derivative product companies
- Hedge funds
- Financial guarantors
- Asset managers

Key Financial Metrics

■ ACA Capital Notional Exposure (\$ in billions)



Structured Credit

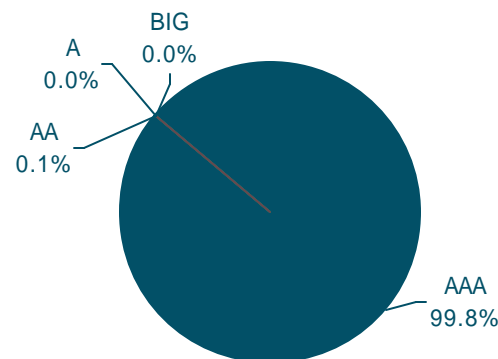
ACA Highlights

- Over 99% of risk is above AAA rated level
- \$39.4 billion of notional exposure
 - 151 transactions / 28 counterparties
 - Average premium rate is 16bps
 - Predictable average life of 5-7 years
 - No paid losses

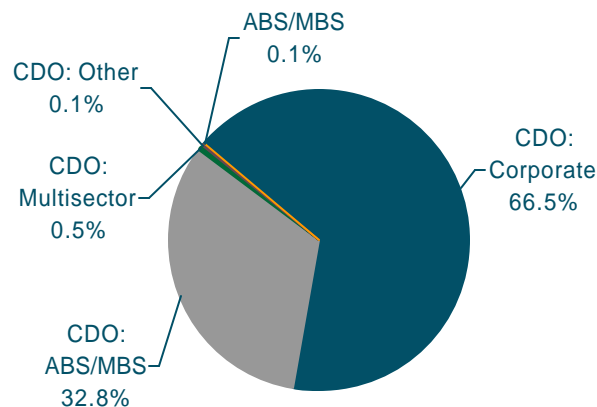
Strategic Rationale

- Build risk portfolio of tranches attaching above “AAA” level
- No mark-to-market payment risk, limited liquidity risk
- Highly scalable, capital efficient

Portfolio Credit Quality



Portfolio by Deal Type



Public Finance



Public Finance Market Overview

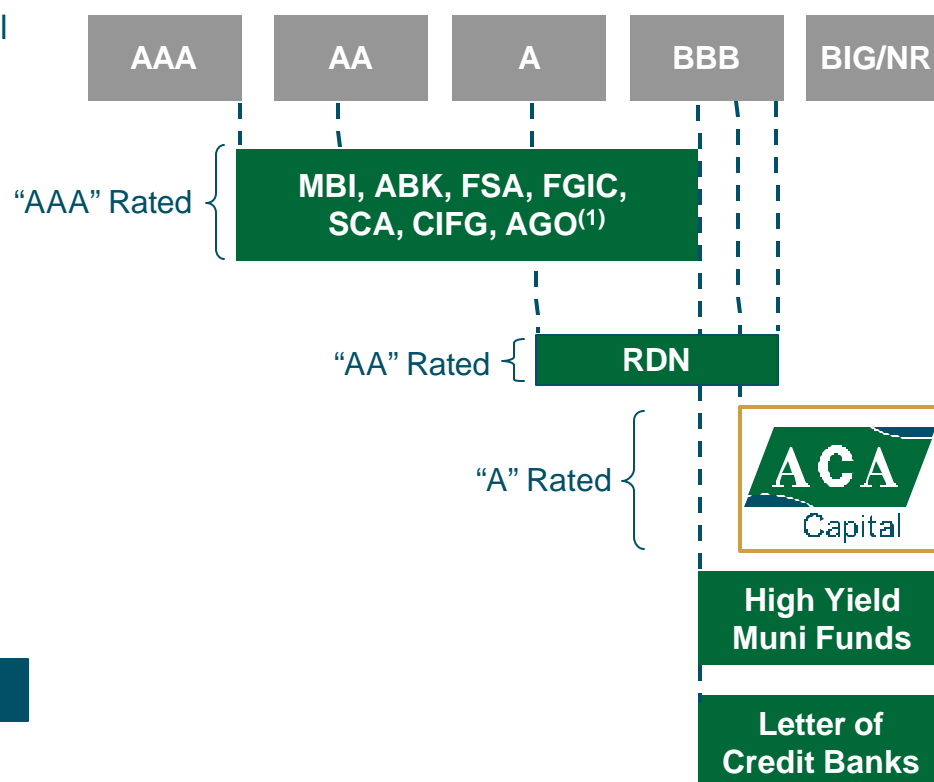
Business Line Dynamics

- Guaranty the principal and interest on municipal bonds
- ACA is the only single “A” rated monoline, financial guarantor
 - Target is low investment grade to non-investment grade (BBB- to BB)
- Premiums charged based on the spread differential between insured and uninsured execution
- ACA does not compete with AAA rated guarantors

Market Participants / Competitors

- High yield municipal bond funds and letter of credit banks

Industry Landscape



(1) AGO's Financial Strength ratings are AAA / stable for S&P and Aa1 / positive for Moody's.

Public Finance

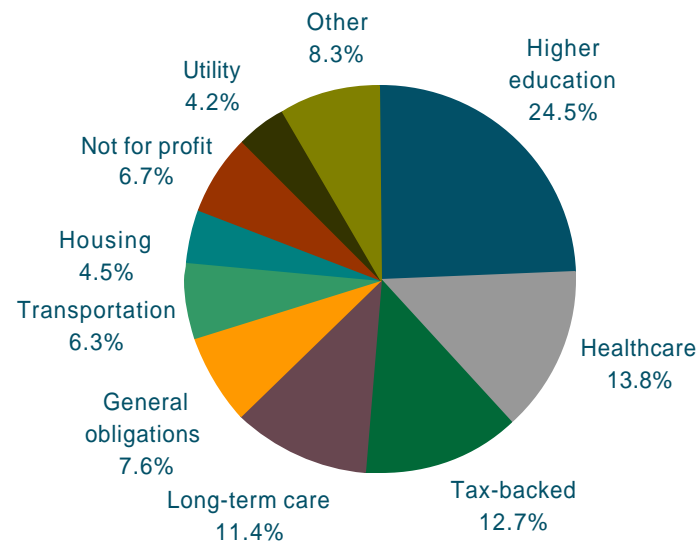
ACA Highlights

- Target low IG and non-IG sectors
- Premiums paid upfront based on debt service insured; ACA UPR \$185 million
- Strong pricing power
- Low paid loss experience
- Manage and structure to minimize severity

Strategic Rationale

- Strong cash flows, predictable earnings
- Principal objective = grow premiums

Net Par by Deal Type



Total = \$6.1 billion

Managing Risk – Performing Throughout Credit Cycles

CDO Asset Management \$196 million of Equity ⁽¹⁾

- Actively manage underlying assets
- Diversified asset class

Structured Credit \$39.4 billion of Notional

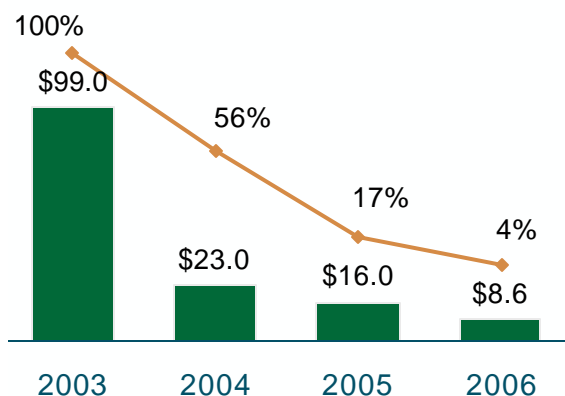
- 99.8% of portfolio is AAA exposure

Municipal Finance \$6.1 billion of Par

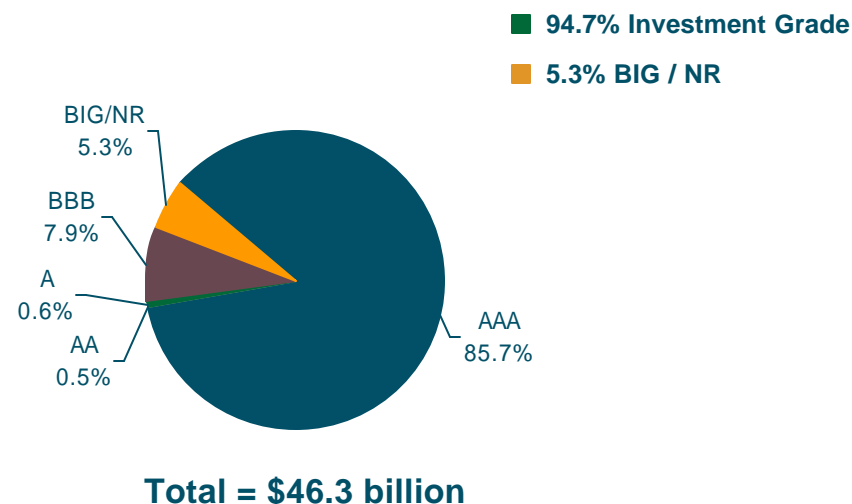
- Low correlation risk
- Generally asset-based collateral
- Rights and remedies

CDO Equity Investment

- Average Retention
- CDO Equity Investment (\$mm)



Insured Portfolio Credit Quality ⁽²⁾



Note: As of December 31, 2006.

(1) Original equity investment less net realized losses, including impairments.

(2) Assumed credit risk is based on notional balance of insured credit swaps and outstanding principal balance of insured obligations; includes CDO Asset Management and Other net par exposure of \$708 million. Ratings assigned are internal credit ratings.

Financial Review



Assessing Our Profitability

CDO Consolidation

Consolidation results in:

- Enlarged balance sheet
- Combined revenues

Mark-to-Market of Derivatives

FAS 133 requires off balance sheet credit swaps and interest rate swaps to be marked to market in financials

Measuring our profitability

CDO Deconsolidation

- Separate fee income and equity returns
- Excludes revenues relating to other investors' economic rights

Net Economic Income

Net income with the following after-tax exclusions:

- Unrealized gains/losses on derivatives included in:
 - Net insured credit swap revenue
 - Net realized and unrealized gains/losses on derivative instruments
 - Other net credit swap revenue
- Realized gains/losses on non-CDO investments
- The portion of interest expense related to the principal payments on borrowings financed with derivatives

Base Economic Income

Net economic income with the following after-tax exclusions:

- Impact of accelerated revenues from:
 - Refunded premiums earned on guaranteed municipal finance obligations
 - Terminations gains related to insured credit swaps

Fourth Quarter Results

(\$ in millions)

	4Q06	4Q05	% Change	FY06	FY05	% Change
Net income	\$16.5	\$4.2	293%	\$58.7	\$28.8	104%
Net economic income	14.6	5.5	165%	55.4	32.9	68%
Base economic income	13.6	4.5	202%	49.5	29.8	66%
Net economic income by business segment:						
CDO asset management	\$4.7	\$1.9	147%	\$20.5	\$12.4	65%
Structured credit	6.9	3.5	97%	22.3	12.7	76%
Public finance	3.0	2.0	50%	11.2	9.3	20%
Other	0.0	(1.9)		1.4	(1.5)	
Net economic income	\$14.6	\$5.5	165%	55.4	32.9	68%

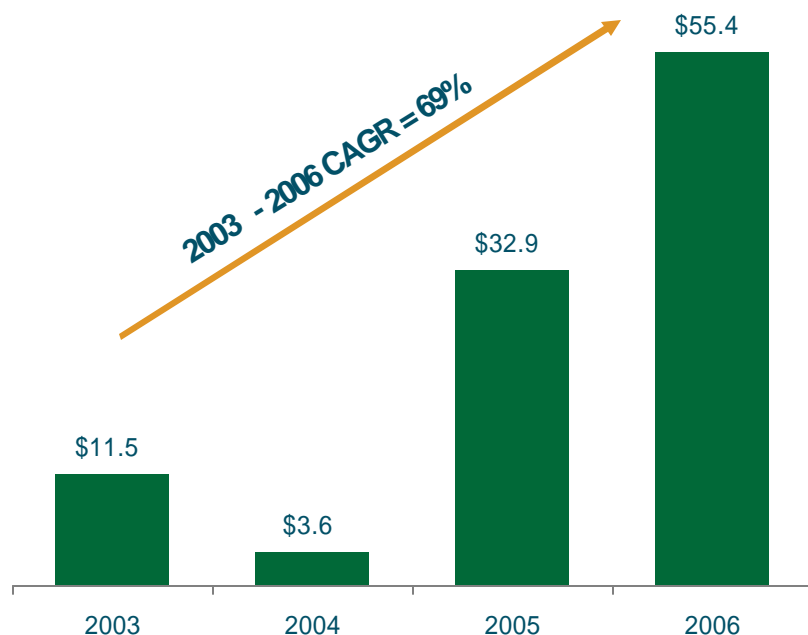
Fourth Quarter Results

	4Q06	4Q05	% Change
Earnings per diluted share	\$0.49	\$0.14	250%
Adjustments to net economic income	(0.06)	0.04	
Net economic income	0.43	0.18	139%
Effect of accelerated earnings	(0.03)	(0.03)	
Base economic income	\$0.40	\$0.15	167%
Average diluted shares outstanding (mm)	33.9	29.9	
	Dec 06	Dec 05	% Change
Book value per share (ex-OCI)	\$14.05	\$12.66	11%
Adjusted book value per share	22.93	19.86	15%

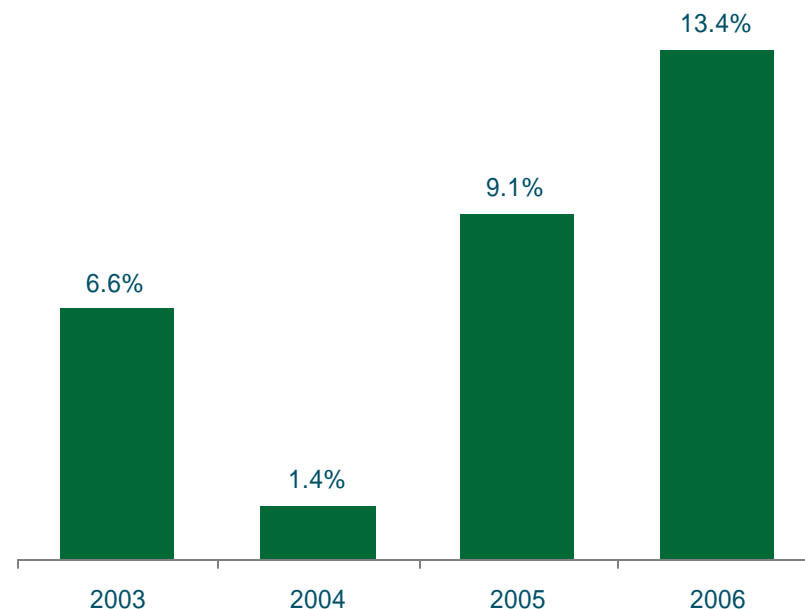
Historical Financial Performance

Net Economic Income ⁽¹⁾

(\$ in millions)



Economic ROAE ⁽²⁾



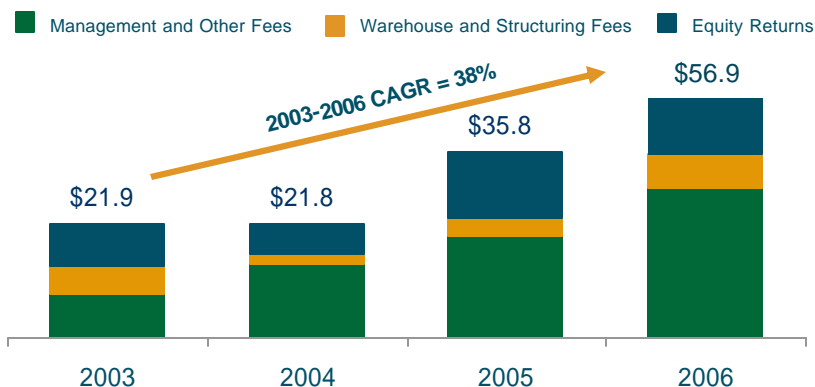
(1) Excludes after-tax realized gains and losses on non-CDO investments, unrealized gains/(losses) on derivatives, non-operating interest expense and results from material non-financial guaranty business in which we no longer participate.

(2) Economic ROAE is calculated by dividing net economic income by weighted average equity, less OCI.

CDO Asset Management

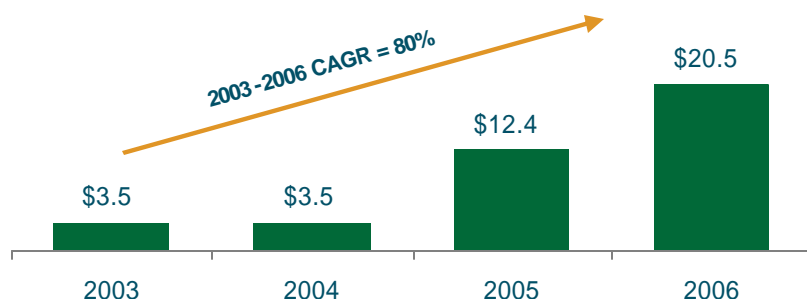
Deconsolidated Revenue Growth ⁽¹⁾

(\$ in millions)



Net Economic Income

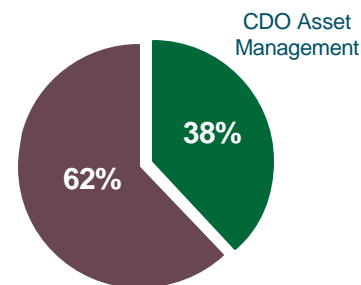
(\$ in millions)



Highlights

- Management and other fees grew at 50% CAGR from 2003 to 2006
- 22 CDOs executed; 5 currently in ramp-up phase
- Expansion into additional asset classes

FY06 Net Economic Income ⁽²⁾



Total = \$55.4 mm

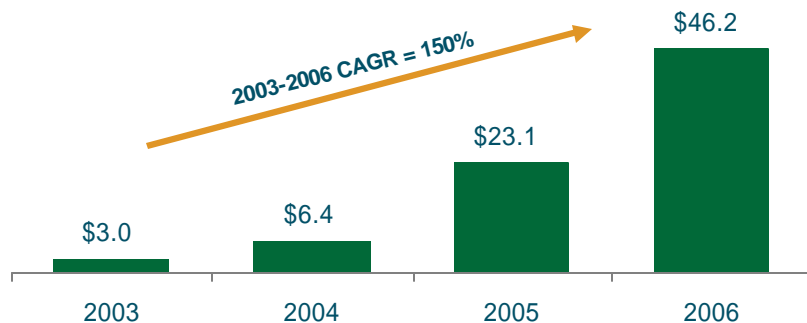
(1) Presented on an unconsolidated basis.

(2) Information excludes Company's "Other" line of business.

Structured Credit

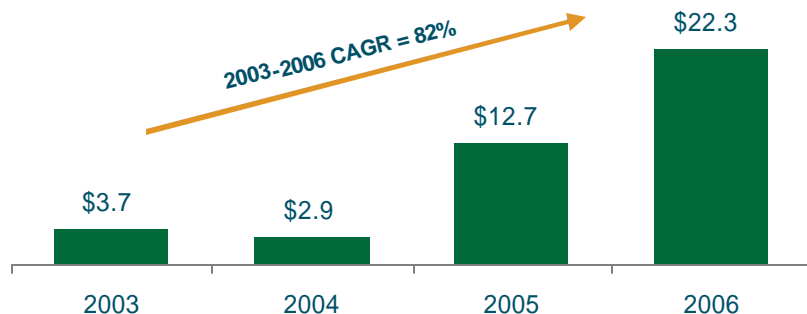
Insured Credit Swap Premiums Earned

(\$ in millions)



Net Economic Income

(\$ in millions)

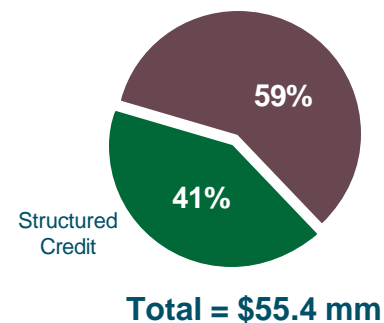


(1) Information excludes Company's "Other" line of business.

Highlights

- Insured credit swap premiums earned grew at 150% CAGR from 2003 to 2006
- 79 transactions in 2006 versus 43 in 2005

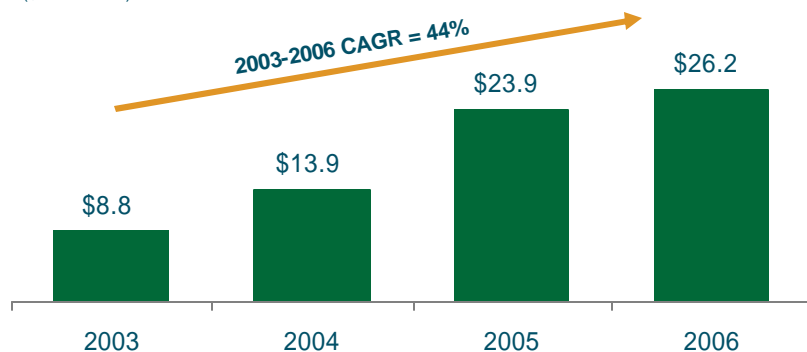
FY06 Net Economic Income ⁽¹⁾



Public Finance

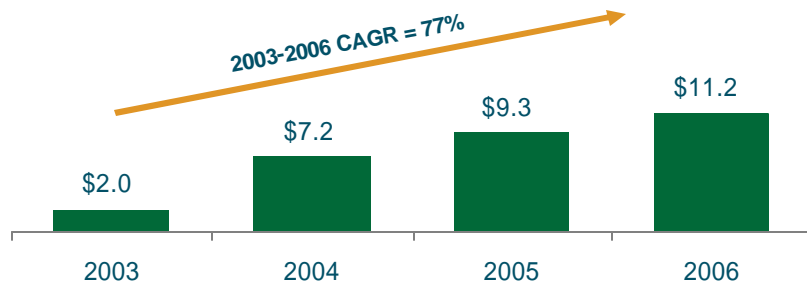
Premiums Earned

(\$ in millions)



Net Economic Income

(\$ in millions)

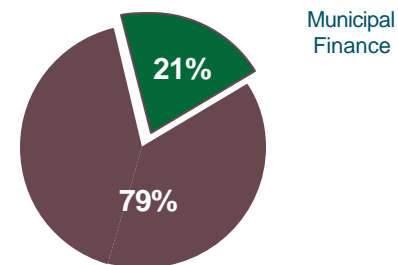


(1) Information excludes Company's "Other" line of business.

Highlights

- Premiums earned grew at 44% CAGR from 2003 to 2006
- Growing unearned premium reserve generates increasing investment income
- Low paid losses historically

FY06 Net Economic Income ⁽¹⁾



Total = \$55.4 mm

Adjusted Capitalization

(\$ in millions)	Dec 06 - Actual	Dec 06 - Adjusted ⁽¹⁾
Debt		
Corporate debt	\$79.9	\$79.9
CDO debt – operating	112.0	112.0
CDO debt – non-recourse	4,711.8	—
Total debt	\$4,903.7	\$191.9
Total stockholders' equity (ex-OCI)	\$513.1	\$513.1
Total capitalization	\$5,416.8	\$705.0
Book value per share	\$14.05	\$14.05

(1) Adjusted for CDO debt—non-recourse, which consists of debt issued by ACA's CDOs and is solely the obligation of the entities which issue the CDOs' debt.

Well-capitalized insurance subsidiary
Strong capital position supports future growth

Why Invest in ACA?

Capital efficient business model

Fee-based and less capital intensive business focus

+

Flexible, scalable platform

Credit expertise leveraged across new businesses

+

Attractive, growing markets

Higher growth and underserved target markets

+

Diverse, recurring revenues

Highly recurring and multi-year revenue sources

=

Strong EPS growth and ROE expansion