MBIA INC
Form 10-Q
August 06, 2009
Table of Contents

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarter ended June 30, 2009

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1185706**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
113 King Street, Armonk, New York	**10504**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (914) 273-4545

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the Registrant is shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of July 31, 2009, 207,994,886 shares of Common Stock, par value $1 per share, were outstanding.

Table of Contents

INDEX

		PAGE
PART I FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited) MBIA Inc. and Subsidiaries	
	Consolidated Balance Sheets June 30, 2009 and December 31, 2008	1
	Consolidated Statements of Operations Three and six months ended June 30, 2009 and 2008	2
	Consolidated Statement of Changes in Shareholders Equity Six months ended June 30, 2009	3
	Consolidated Statements of Cash Flows Six months ended June 30, 2009 and 2008	4
	Notes to Consolidated Financial Statements	5-76
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	77-150
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	151
Item 4.	Controls and Procedures	151
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	152-154
Item 1A.	Risk Factors	155
Item 1B.	Unresolved Staff Comments	155
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	155
Item 3.	Defaults Upon Senior Securities	155
Item 4.	Submission of Matters to a Vote of Security Holders	155
Item 5.	Other Information	155
Item 6.	Exhibits	156
SIGNATURES		

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands except per share amounts)

	June 30, 2009	December 31, 2008
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $11,907,958 and $13,245,574) (includes hybrid financial instruments at fair value $29,428 and $25,498)	$ 9,797,192	$ 11,223,716
Investments held-to-maturity, at amortized cost (fair value $2,295,828 and $3,109,248)	2,843,238	3,156,969
Investments pledged as collateral, at fair value (amortized cost $848,303 and $1,101,929)	736,615	845,887
Short-term investments held as available for sale, at fair value (amortized cost $3,403,448 and $4,728,090)	3,365,229	4,693,283
Short-term investments held-to-maturity, at amortized cost (fair value $1,113,431 and $485,857)	1,114,288	498,865
Other investments	417,248	220,412
Total investments	18,273,810	20,639,132
Cash and cash equivalents	899,599	2,279,783
Accrued investment income	119,982	201,688
Premiums receivable	2,130,976	7,744
Deferred acquisition costs	514,194	560,632
Prepaid reinsurance premiums	450,667	216,609
Receivable for insurance loss recoveries	1,745,144	458,512
Reinsurance recoverable on paid and unpaid losses	52,100	173,548
Goodwill	76,938	76,938
Property and equipment, at cost (less accumulated depreciation of $146,275 and $141,295)	103,942	105,364
Receivable for investments sold	304,118	77,464
Derivative assets	754,890	911,188
Current income taxes	64,194	240,871
Deferred income taxes, net	1,274,821	2,374,164
Other assets	531,092	706,812
Total assets	$ 27,296,467	$ 29,030,449
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 5,336,856	$ 3,424,402
Loss and loss adjustment expense reserves	1,260,652	1,557,884
Reinsurance premiums payable	297,153	8,672
Investment agreements	3,026,784	4,666,944
Medium-term notes (includes financial instruments carried at fair value $122,006 and $176,261)	4,135,921	6,339,527
Variable interest entity notes	2,637,031	1,791,597
Securities sold under agreements to repurchase	690,661	802,938
Long-term debt	2,516,725	2,396,059
Deferred fee revenue	86,523	44,989
Payable for investments purchased	36,671	239

Derivative liabilities	4,189,241	6,470,874
Other liabilities	300,311	504,306
Total liabilities	24,514,529	28,008,431
Commitments and contingencies (See Note 16)		
Equity:		
Preferred stock, par value $1 per share; authorized shares 10,000,000; issued and outstanding none		
Common stock, par value $1 per share; authorized shares 400,000,000; issued shares 274,855,122 and 273,199,801	274,885	273,200
Additional paid-in capital	3,054,045	3,050,506
Retained earnings	3,361,494	1,629,187
Accumulated other comprehensive loss, net of deferred income tax of $779,363 and $946,759	(1,741,199)	(1,775,954)
Treasury stock, at cost 66,900,302 and 65,278,904 shares	(2,184,065)	(2,182,519)
Total shareholders equity of MBIA Inc.	2,765,160	994,420
Preferred stock of subsidiary	16,778	27,598
Total equity	2,781,938	1,022,018
Total liabilities and equity	$ 27,296,467	$ 29,030,449

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Scheduled premiums earned	$ 153,126	$ 145,636	$ 348,101	$ 293,156
Refunding premiums earned	24,822	87,757	58,516	95,552
Premiums earned (net of ceded premiums of $12,718, $36,811, $48,619 and $62,233)	177,948	233,393	406,617	388,708
Net investment income	179,288	417,346	368,190	932,410
Fees and reimbursements	21,806	12,556	41,026	19,848
Realized gains and other settlements on insured derivatives	32,036	34,304	63,818	68,062
Unrealized gains (losses) on insured derivatives	423,786	3,324,313	2,032,950	(252,790)
Net change in fair value of insured derivatives	455,822	3,358,617	2,096,768	(184,728)
Net gains (losses) on financial instruments at fair value and foreign exchange	124,379	86,785	161,758	163,347
Net realized gains (losses)	30,222	(383,297)	64,411	(326,691)
Investment losses other than temporary impairments	(357,418)	(436,164)	(587,407)	(659,779)
Non-credit related losses on investments not expected to be sold (recognized in accumulated other comprehensive loss)	243,752		243,752	
Net investment losses other than temporary impairments	(113,666)	(436,164)	(343,655)	(659,779)
Net gains on extinguishment of debt	116,303	65,676	126,401	79,217
Total revenues	992,102	3,354,912	2,921,516	412,332
Expenses:				
Losses and loss adjustment	(729,311)	22,344	(35,586)	309,952
Amortization of deferred acquisition costs	26,067	22,977	46,767	38,529
Operating	79,951	66,322	172,490	129,779
Interest	112,474	307,915	249,753	698,556
Total expenses	(510,819)	419,558	433,424	1,176,816
Income (loss) before income taxes	1,502,921	2,935,354	2,488,092	(764,484)
Provision (benefit) for income taxes	604,907	1,234,994	889,430	(58,111)
Net income (loss)	898,014	1,700,360	1,598,662	(706,373)
Preferred stock dividends of subsidiary	3,271		7,213	
Net income (loss) available to common shareholders	$ 894,743	$ 1,700,360	$ 1,591,449	$ (706,373)
Net income (loss) per common share:				
Basic	$ 4.30	$ 7.14	$ 7.64	$ (3.33)
Diluted	$ 4.30	$ 7.14	$ 7.64	$ (3.33)
Weighted-average number of common shares outstanding:				

Basic	208,097,729	238,152,768	208,287,929	212,242,994
Diluted	208,097,729	238,152,768	208,287,929	212,242,994

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For the Six Months Ended June 30, 2009

(In thousands except per share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders Equity of MBIA Inc.	Preferred Stock of Subsidiary	
	Shares	Amount				Shares	Amount		Shares	Amount
Balance, January 1, 2009	273,200	$ 273,200	$ 3,050,506	$ 1,629,187	$ (1,775,954)	(65,279)	$ (2,182,519)	$ 994,420	2,759	$ 27,598
SFAS 163 transition adjustment net of deferred income taxes of $27,170				55,346				55,346		
FSP FAS 115-2 transition adjustment net of deferred income taxes of $29,930				85,512	(55,582)			29,930		
Comprehensive income:										
Net income				1,598,662				1,598,662		
Other comprehensive loss:										
Change in unrealized depreciation of investments net of deferred income taxes of $188,810					260,748			260,748		
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of deferred income taxes of $55,435					(188,317)			(188,317)		
Change in fair value of derivative instruments net of deferred income taxes of $29,593					54,959			54,959		
Change in foreign currency translation net of deferred income taxes of $34,357					(37,053)			(37,053)		
Other comprehensive loss								90,337		
Total comprehensive income								1,688,999		
Treasury shares acquired under share repurchase program						(1,690)	(4,196)	(4,196)		
Share-based compensation net of income taxes of $1,733	1,685	1,685	3,539			69	2,650	7,874		
Preferred stock of subsidiary acquired									(1,082)	(10,820)
Preferred stock dividends of subsidiary				(7,213)				(7,213)		
Balance, June 30, 2009	274,885	$ 274,885	$ 3,054,045	$ 3,361,494	$ (1,741,199)	(66,900)	$ (2,184,065)	$ 2,765,160	1,677	$ 16,778

2009

Disclosure of reclassification amount:		
Change in unrealized depreciation of investments arising during the period, net of taxes	$	456,540
Reclassification adjustment, net of taxes		(384,109)
Change in net unrealized depreciation, net of taxes	$	72,431

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Six Months Ended June 30, 2009	2008
Cash flows from operating activities:		
Net income (loss)	$ 1,598,662	$ (706,373)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Amortization of bond discounts (premiums), net	(43,102)	(22,889)
Decrease in accrued investment income	81,177	107,525
Decrease (increase) in premiums receivable	244,927	(3,789)
Decrease in deferred acquisition costs	54,809	63,547
Decrease in unearned premium revenue	(413,251)	(203,452)
Decrease in prepaid reinsurance premiums	79,602	23,677
Decrease in reinsurance premiums payable	(35,781)	(22,346)
Decrease in loss and loss adjustment expense reserves	(123,012)	(15,470)
Decrease in reinsurance recoverable on paid and unpaid losses	126,011	9,485
Increase in receivable for insurance loss recoveries	(1,286,632)	(114,965)
(Decrease) increase in payable to reinsurers on recoveries	15,608	960
Depreciation	4,242	4,875
Decrease in accrued interest payable	(99,419)	(104,473)
Decrease in accounts receivable	22,399	5,664
Decrease in accrued expenses	(99,631)	(6,426)
Increase in deferred fee revenue	41,534	1,602
Amortization of medium-term notes and commercial paper (premiums) discounts, net	(6,988)	(8,444)
Net realized (gains) losses on sale of investments	(64,411)	326,691
Investment losses on other than temporarily impaired investments	343,655	659,779
Unrealized (gains) losses on insured derivatives	(2,032,950)	252,790
Net gains on financial instruments at fair value and foreign exchange	(161,758)	(163,347)
Current income tax provision	176,677	204,604
Deferred income tax (benefit) provision	931,657	(43,372)
Gains on extinguishment of debt	(126,401)	(79,515)
Share-based compensation	3,215	(33,358)
Other, operating	(36,111)	308,413
Total adjustments to net income (loss)	(2,403,934)	1,147,766
Net cash provided (used) by operating activities	(805,272)	441,393
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(4,585,015)	(10,108,272)
Increase in payable for investments purchased	36,428	766,494
Sale and redemption of fixed-maturity securities	6,185,517	15,416,977
Increase in receivable for investments sold	(226,878)	(1,905,362)
Purchase of held-to-maturity investments	(200,027)	(868,472)
Redemptions of held-to-maturity investments	557,716	2,168,891
(Purchase) sale of short-term investments, net	1,398,037	(2,989,219)
Sale (purchase) of other investments, net	(248,421)	51,779
Capital expenditures	(3,320)	(2,652)
Disposals of capital assets	508	

Net cash provided by investing activities	2,914,545	2,530,164
Cash flows from financing activities:		
Proceeds from issuance of investment agreements	296,157	1,845,817
Payments for drawdowns of investment agreements	(1,899,933)	(2,536,634)
Decrease in commercial paper		(518,453)
Issuance of medium-term notes	169,211	2,109,430
Principal paydown of medium-term notes	(2,031,992)	(5,259,019)
Principal paydown of variable interest entity floating rate notes	(50,972)	(28,778)
Securities sold under agreements to repurchase, net	(112,277)	(156,333)
Dividends paid	(6,511)	(42,640)
Gross proceeds from issuance of common stock		1,628,405
Capital issuance costs		(75,157)
Net proceeds from issuance of warrants		21,467
Net proceeds from issuance of long-term debt	131,612	981,153
Repayment for retirement of short-term debt		(6,225)
Proceeds (payments) from derivative settlements	48,873	(57,479)
Purchase of treasury stock	(4,196)	
Purchase of subsidiary preferred stock	(10,820)	
Restricted stock awards settlements	1,521	967
Excess tax benefit on share-based payment	(1,733)	(14,993)
Collateral from reverse repurchase agreement counterparties	25,000	
Collateral (to) from swap counterparty	(43,397)	188,060
Other, financing		812
Net cash used by financing activities	(3,489,457)	(1,919,600)
Net increase (decrease) in cash and cash equivalents	(1,380,184)	1,051,957
Cash and cash equivalents beginning of period	2,279,783	263,732
Cash and cash equivalents end of period	$ 899,599	$ 1,315,689
Supplemental cash flow disclosures:		
Income taxes (refunded) paid	$ (210,617)	$ (209,269)
Interest paid:		
Investment agreements	$ 78,382	$ 365,123
Commercial paper		13,674
Medium-term notes	75,353	243,641
Variable interest entity floating rate notes	41,871	27,834
Securities sold under agreements to repurchase	41,644	21,347
Liquidity loans	2,754	
Other borrowings and deposits		1,697
Long-term debt	79,635	39,080
Non cash items:		
Share-based compensation	$ 3,215	$ (33,358)
Dividends declared but not paid	702	

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business and Organization

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates the largest financial guarantee insurance business in the industry and is a provider of asset management advisory services. The Company also manages asset/liability products and conduit programs, which are in wind-down. Beginning in 2009, the Company s business activities are managed through three principal operations: United States (U.S.) public finance insurance, structured finance and international insurance, and investment management services. Corporate operations include revenues and expenses that arise from general corporate activities.

MBIA s financial guarantee business is currently operated through two subsidiaries, National Public Finance Guarantee Corporation (National) and MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). In February 2009, after receiving the required regulatory approvals, MBIA established and capitalized National as a U.S. public finance-only financial guarantor. In connection with the establishment of National, MBIA Insurance Corporation paid dividends and returned capital to MBIA Inc. and entered into a reinsurance agreement and an assignment agreement with National, the latter of which was with respect to financial guarantee insurance policies that had been reinsured from Financial Guaranty Insurance Company (FGIC). As a result, the Company established its U.S. public finance insurance business as a separate operating segment.

Refer to MBIA Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for further information about these changes to the Company s operating and legal entity structure.

MBIA s insurance and certain investment management services programs have historically relied upon triple-A credit ratings. The loss of those ratings in the second quarter of 2008 resulted in a dramatic reduction in the Company s business activities. As of June 30, 2009, National was rated A with a developing outlook by Standard & Poor s Corporation (S&P) and Baa1 with a developing outlook by Moody s Investors Service, Inc. (Moody s). As of June 30, 2009, MBIA Insurance Corporation was rated BBB with a negative outlook by S&P and B3 with a negative outlook by Moody s.

U.S. Public Finance Insurance Operations

As described above, since February 2009, MBIA s U.S. public finance insurance business has been conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has the right at its discretion to accelerate insured obligations upon default or otherwise, upon National s acceleration. National s guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

National s insurance portfolio principally comprises exposure assumed by National under the previously disclosed quota share reinsurance agreement it entered into with MBIA Insurance Corporation effective January 1, 2009 pursuant to which MBIA Insurance Corporation ceded all of its U.S. public finance exposure to National and under the assignment by MBIA Insurance Corporation of its rights and obligations with respect to the U.S. public finance business that MBIA Insurance Corporation assumed from FGIC.

Structured Finance and International Insurance Operations

MBIA s structured finance and international insurance operations have been conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due, or in the event MBIA Corp. has the right at its discretion to accelerate insured obligations upon default or otherwise, upon MBIA Corp. s acceleration. Certain investment agreement contracts written by MBIA Inc. are insured by MBIA Corp. and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. Additionally, insurance policies include payments due under credit and other derivatives, including termination payments that may become due upon certain events including the insolvency or payment default of MBIA Corp.

MBIA Corp. s guarantees insure structured finance and asset-backed obligations, privately issued bonds used for the financing of public purpose projects, which are primarily located outside of the U.S. and that include toll roads, bridges, airports, public transportation facilities and other types of infrastructure projects serving a substantial public purpose, and obligations of sovereign and sub-sovereign issuers. Structured finance and asset-backed securities (ABSs) typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, leases for equipment, aircraft and real property, and infrastructure projects.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Company is no longer insuring new credit derivative contracts except in transactions related to the reduction of existing derivative exposure. Currently, the global structured finance market is generating very little new business, and it is uncertain how or when the Company may re-engage this market.

Investment Management Services Operations

MBIA s investment management services operations consist of an asset management advisory business, which provides cash management, discretionary asset management and structured products to the public, not-for-profit, corporate and financial sectors. The Company also has an asset/liability products business, in which it has issued debt and investment agreements, which are insured by MBIA Corp., to capital markets and municipal investors and then initially purchased assets that largely matched the duration of those liabilities, and a conduit business in which the Company has funded MBIA-insured transactions by issuing debt, which is insured by MBIA Corp. The ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, have caused the Company to begin winding down its asset/liability products and conduit businesses.

Liquidity

As a financial services company, MBIA is materially affected by conditions in global financial markets. Current conditions and events in these markets have created substantial liquidity risk for the Company.

The Company has instituted a liquidity risk management framework to evaluate its enterprise-wide liquidity position. The primary objective of this risk management system is to monitor potential liquidity constraints and guide the proactive management of liquidity resources to ensure adequate protection against liquidity risk. MBIA s liquidity risk management framework monitors the Company s cash and liquid asset resources using stress-scenario testing. Members of MBIA s senior management meet frequently to review liquidity metrics, discuss contingency plans and establish target liquidity cushions on an enterprise-wide basis.

As part of MBIA s liquidity risk management framework, the Company also evaluates and manages liquidity on both a legal entity basis and a segment basis. Segment liquidity is an important consideration for the Company as it conducts the operations of its corporate segment and certain activities within the asset/liability products segment of the Company s investment management services operations from MBIA Inc. Dislocation in the global financial markets, the overall economic downturn in the U.S., and the loss of MBIA Corp. s triple-A insurance financial strength ratings in 2008 have significantly increased the liquidity needs and decreased the financial flexibility in the Company s segments. However, MBIA continued to satisfy all of its payment obligations and the Company believes that it has adequate resources to meet its ongoing liquidity needs in both the short-term and the long-term. However, if the current market dislocation and economic conditions persist or worsen, the Company s liquidity resources will experience further stress.

U.S. Public Finance Insurance Liquidity

Liquidity risk arises in the Company s U.S. public finance insurance segment when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

The Company s U.S. public finance insurance business s financial guarantee contracts cannot be accelerated, thereby mitigating liquidity risk. However, defaults, credit impairments and adverse capital markets conditions such as the Company is currently experiencing, can create payment requirements as the Company has made irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, the Company s U.S. public finance insurance segment requires cash for the payment of operating expenses. Finally, National also provides liquid assets to the Company s asset/liability products segment through matched repurchase and reverse repurchase agreements to support its business operations and liquidity position, as described below.

Structured Finance and International Insurance Liquidity

Liquidity risk arises in the Company s structured finance and international insurance segment when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In general, the Company s structured finance and international business s financial guarantee contracts and credit default swap (CDS) contracts cannot be accelerated, thereby mitigating liquidity risk. (Under the terms of the Company s insured CDS contract, the insured counterparty may have a right to terminate the CDS contract upon an insolvency or payment default of MBIA Corp.) However, defaults, credit impairments and adverse capital markets conditions such as the Company is currently experiencing, can create payment requirements as the Company has made irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, the Company s structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes and preferred stock issuance. MBIA Corp. also provides guarantees to the holders of our asset/liability products debt obligations. If the Company s asset/liability products segment were to be unable to service the principal and interest payments on its debt and investment agreements, the holders of the insured liabilities would make a claim under the MBIA Corp. insurance policies. MBIA Corp. has lent $2.0 billion to the asset/liability products segment on a secured basis for the purpose of minimizing the risk that such claim would be made. The loan matures in the fourth quarter of 2011. The timing of the repayment may be affected by the performance of assets in the asset/liability product s investment portfolio.

Since the fourth quarter of 2007, MBIA Corp. made $3.7 billion of cash payments, before reinsurance, associated with insured second-lien RMBS securitizations, as well as settlement payments relating to CDS contracts referencing CDO-squared and multi-sector CDOs. Among MBIA Corp. s outstanding insured portfolio, these types of insured exposures have exhibited the highest degree of payment volatility and continue to pose material liquidity risk to the Company s structured finance and international insurance segment. As a result of the current economic stress, MBIA could incur additional payment obligations beyond these mortgage-related exposures, which may be substantial, increasing the stress on MBIA Corp. s liquidity.

In order to monitor liquidity risk and maintain appropriate liquidity resources for payments associated with our residential mortgage related exposures, MBIA employs a stress scenario-based liquidity model using the same Roll Rate Default Methodology as it uses in its loss reserving. Using this methodology, the Company estimates the level of payments that would be required to be made under low probability stress-level default assumptions of the underlying collateral taking into account MBIA s obligation to cover such defaults under our insurance policies. These estimated payments, together with all other significant operating, financing and investing cash flows are forecasted over the next 24-month period on a monthly basis and then annually thereafter to the final maturity of the longest dated outstanding insured obligation. The stress-loss scenarios and cash flow forecasts are frequently updated to account for changes in risk factors and to reconcile differences between forecasted and actual payments.

In addition to MBIA s residential mortgage stress scenario, it also monitors liquidity risk using a Monte Carlo estimation of potential stress-level claims for all insured principal and interest payments due in the next 12-month period. These probabilistically determined payments are then compared to the Company s invested assets. This theoretic liquidity model supplements the scenario-based liquidity model described above providing the Company with a robust set of liquidity metrics with which to monitor its risk position.

The Company manages the investment portfolios of its insurance segments in a conservative manner to maintain cash and liquid securities in an amount in excess of all stress scenario payment requirements. To the extent the Company s liquidity resources fall short of its target liquidity cushions under the stress-loss scenario testing, the Company will seek to increase its cash holdings position, primarily through the sale of high-quality bonds held in its investment portfolio.

Investment Management Services Liquidity

Within MBIA s investment management services operations, the asset/liability products segment has material liquidity risk. In addition to the payment of operating expenses, cash needs in the asset/liability products segment are primarily for the payment of principal and interest on investment agreements and medium-term notes, and for posting collateral under repurchase agreements, derivatives and investment agreements. The primary sources of cash within the asset/liability products segment used to meet its liquidity needs include scheduled principal and interest on assets held in the segment s investment portfolio and dedicated capital held within the investment management services operations. If needed, assets held within the segment can be sold or used in secured repurchase agreement borrowings to raise cash. However, the Company s ability to sell assets or borrow against non-U.S. government securities in the fixed-income markets decreased dramatically and the cost of such transactions increased dramatically over the last year due to the impact of the credit crisis on the willingness of investors to purchase or lend against even very high-quality assets. In addition, negative net interest spread between asset and liability positions resulted from the need to hold cash as collateral against terminable investment agreement contracts and reduced the cash flow historically provided by net investment income.

The asset/liability products segment, through MBIA Inc., maintained simultaneous repurchase and reverse repurchase agreements with National for the purpose of borrowing government securities to pledge under collateralized investment agreements and repurchase agreements. As a result of increased liquidity needs within the asset/liability products segment, the asset/liability products segment, through MBIA Inc., maintained a repurchase agreement with MBIA Insurance Corporation under which MBIA Inc. may transfer securities in its portfolio in exchange for up to $2.0 billion in cash. Additionally, $600 million was transferred to the asset/liability products segment from the Company s corporate segment in the fourth quarter of 2008.

In order to monitor liquidity risk and maintain appropriate liquidity resources for near-term cash and collateral requirements within MBIA s asset/liability products segment, the Company calculates monthly forecasts of asset and liability maturities, as well as collateral posting requirements. Cash availability at the low point of the Company s 12-month forecasted cash flows is measured against liquidity needs using stress-scenario testing of each of the potential liquidity needs described above. To the extent there is a shortfall in MBIA s liquidity coverage, the Company proactively manages its cash position and liquidity resources to maintain an adequate cushion to the stress scenario. These resources include the sale of unpledged assets, the use of free cash at the holding company, and potentially increased securities borrowings from National.

Corporate Liquidity

Liquidity needs in MBIA s corporate segment are highly predictable and comprise principal and interest payments on corporate debt, operating expenses and dividends to MBIA Inc. shareholders. Liquidity risk is associated primarily with the dividend capacity of National and MBIA Corp., the distributable earnings of the investment management services operations conducted by MBIA Inc., dividends from asset management subsidiaries, investment income and the Company s ability to issue equity and debt. Additionally, the corporate segment maintains excess cash and investments to ensure it is able to meet its ongoing cash requirements over a multi-year period in the event that cash becomes unavailable from one or more sources.

In addition to MBIA Inc. s corporate liquidity needs described above, it issued investment agreements reported within the Company s asset/liability products segment, all of which are currently collateralized by high-quality liquid investments. The Company s corporate debt and investment agreements can be accelerated by the holders of such instruments upon the occurrence of certain events, including a breach of covenant or representation, a bankruptcy of MBIA Inc. and the filing of an insolvency proceeding in respect of MBIA Corp. In the event of any such acceleration, the Company may not have sufficient liquid resources to pay amounts due with respect to its corporate debt obligations.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The following significant accounting policies provide an update to those included under the same captions in the Company s Annual Report on Form 10-K.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (United States), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company s financial position and results of operations.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results. Actual results could differ from those estimates.

The results of operations for the three and six months ended June 30, 2009 may not be indicative of the results that may be expected for the year ending December 31, 2009. The December 31, 2008 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. The consolidated financial statements include the accounts of MBIA Inc., its wholly owned subsidiaries and all other entities in which the Company has a controlling financial interest. All material intercompany revenues and expenses have been eliminated. Certain amounts have been reclassified in prior years financial statements to conform to the current presentation.

In addition, the Company evaluated all events subsequent to June 30, 2009 through August 5, 2009 for inclusion in the Company s consolidated financial statements and/or accompanying notes.

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

The Company records financial guarantee insurance premiums in accordance with the guidance provided in Statement of Financial Accounting Standards No. (SFAS) 163, Accounting for Financial Guarantee Insurance Contracts. SFAS 163 requires the Company to recognize a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due. For most financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For certain other financial guarantee contracts, the Company receives premiums in installments over the term of the contract. Unearned premium revenue and a receivable for future premiums is recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate as required by SFAS 163. SFAS 163 only allows the expected period to be used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. The Company has determined that substantially all of its installment contracts meet the conditions required by SFAS 163 to be treated as expected period contracts. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in Note 4: Insurance Premiums. The Company assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable

for uncollectible amounts and recognizes any write-off as operating expense and discloses the amount recognized in Note 4: Insurance Premiums. As premium revenue is recognized, the unearned premium revenue liability is reduced.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Premium Revenue Recognition

SFAS 163 requires financial guarantee insurance and reinsurance contracts issued by insurance enterprises to recognize and measure premium revenue based on the amount of insurance protection provided to the period in which the insurance protection is provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. A constant rate for each respective financial guarantee insurance contract is determined as the ratio of (a) the present value of premium received or expected to be received over the period of the contract to (b) the sum of all insured principal amounts outstanding during each period over the term of the contract. As premium revenue is recognized, unearned premium revenue liability is reduced.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through legal defeasance in satisfaction of the obligation according to its indenture, which results in the Company s obligation being extinguished under the financial guarantee contract. The Company recognizes any remaining unearned premium revenue on the insured obligation as premium revenue in the period the contract is extinguished to the extent the unearned premium revenue has been collected.

Non-refundable commitment fees are considered insurance premiums and are initially recorded under unearned premium revenue in the consolidated balance sheets when received. Once the related financial guarantee insurance policy is issued, the commitment fees are recognized as premium written and earned using the constant rate method. If the commitment agreement expires before the related financial guarantee is issued, the non-refundable commitment fee is immediately recognized as premium written and earned at that time.

Loss and Loss Adjustment Expenses

SFAS 163 requires a claim liability (loss reserve) to be recognized on a contract-by-contract basis when the present value of expected net cash outflows to be paid under the contract using a risk-free rate as of the measurement date exceeds the unearned premium revenue. A claim liability is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of claim liability are recognized as claim expense in the period of change. Measurement and recognition of claim liability is reported gross of any reinsurance. The Company estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. Accretion of the discount on a claim liability is included in claim expense. The Company s claim liability and accruals for loss adjustment expenses incurred are disclosed in Note 10: Loss and Loss Adjustment Expense Reserves.

Other-Than-Temporary Impairments on Investment Securities

The Company s consolidated statement of operations reflects the full impairment (the difference between a security s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it is more likely than not will not be required to be sold prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of cash flows not expected to be received over the remaining term of the security as projected using the Company s discounted cash flow projections.

Fee and Reimbursement Revenue Recognition

The Company collects insurance related fees for services performed in connection with certain transactions. In addition, the Company may be entitled to reimbursement of third-party insurance expenses that it incurs in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is either earned when it is received or deferred and earned over the life of the related transaction. Work, waiver and consent, termination, administrative and management fees are earned when the related services are completed and the fee is received. Structuring fees are earned on a straight-line basis over the life of the related insurance policy. Expense reimbursements are recognized when received.

Fees related to investment management services are recognized in earnings over the period that the related services are provided. Asset management fees are typically based on the net asset values of assets under management.

Cash and Other Collateral

Under certain non-insurance derivative contracts entered into by the Company, collateral postings are required by either MBIA or the counterparty when the aggregate market value of derivative contracts entered into with the same counterparty exceeds a predefined threshold. Cash or securities may be posted as collateral at the option of the party posting the collateral. Refer to "Note 8: Derivative Instruments" for further information on these collateral arrangements.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Company has entered into reverse repurchase agreements that require MBIA to post collateral at a predetermined multiple of the contract amount. Cash or securities may be posted by MBIA under these agreements. As of June 30, 2009, the Company had cash collateral of $6 million posted to counterparties under these term reverse repurchase agreements.

The Company reports cash received or posted in its Consolidated Statements of Cash Flows as either operating, investing or financing consistent with the classification of the asset or liability that created the posting requirement.

Offsetting of Fair Value Amounts Related to Derivative Instruments

In the second quarter of 2009, the Company re-evaluated its election regarding offsetting the fair value amounts recognized for derivative contracts executed with the same counterparty under a master netting agreement under FIN 39. As a result, the Company decided to begin netting the fair value amounts recognized for derivative contracts executed with the same counterparty. The implementation of the counterparty netting resulted in a decrease in the Company s derivative assets and derivative liabilities of $225 million and $509 million as of June 30, 2009 and December 31, 2008, respectively. Additionally, counterparty netting resulted in a decrease in accrued investment income and other liabilities of $33 million and $52 million as of June 30, 2009 and December 31, 2008, respectively.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In May 2009, the Financial Accounting Standards Board (FASB) issued SFAS 165, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. SFAS 165 is effective for the Company in the interim and annual periods ending after June 15, 2009 and should be applied prospectively. The Company adopted this standard as of the second quarter of 2009.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, which supersedes SFAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, to provide additional guidance to highlight and expand on the factors that should be considered when there has been a significant decrease in market activity for a financial asset or financial liability being measured. The FSP also provides additional factors that entities should consider to determine whether events or circumstances indicate that a transaction is or is not orderly (i.e., distressed). FSP FAS 157-4 is effective for the Company in the interim and annual periods ending after June 15, 2009. The Company adopted this standard as of the second quarter of 2009. The adoption of this standard did not have a material effect on the Company s consolidated balance sheets, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, which amends SFAS 115 and SFAS 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, to amend the recognition criteria for other-than-temporary impairment guidance and to improve the presentation of other-than-temporary impairments in the financial statements. This FSP replaces the existing requirement that the entity s management assert it has both the ability and intent to hold an impaired security until recovery with a requirement that management assert (a) it does not have the intent to sell the security and (b) it is more likely than not it would not have to sell the security before recovery of its cost basis. When these two criteria are met, the entity will recognize only the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The Company adopted this standard as of the second quarter of 2009. Upon adoption and implementation of the standard, the Company recorded a cumulative-effect adjustment to reclassify the non-credit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive income. The cumulative-effect adjustment resulted in an increase in retained earnings of $86 million and an increase in accumulated other comprehensive loss of $56 million, net of deferred taxes of $30 million. Refer to Note 7: Investment Income and Gains and Losses for further information on the Company s investment securities and other-than-temporary impairments.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which amends SFAS 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments within the scope of SFAS 107 in interim and annual financial statements, and the method(s) and significant assumptions used to estimate the fair value of

those financial instruments. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. The Company adopted the FSP in the second quarter of 2009. As the standard requires only additional disclosures, the adoption of FSP FAS 107-1 and APB 28-1 did not have an impact on the Company s consolidated balance sheets, results of operations or cash flows. Refer to Note 5: Fair Value of Financial Instruments for further information.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In May 2008, the FASB issued SFAS 163, effective prospectively as of January 1, 2009. SFAS 163 amends SFAS 60, Accounting and Reporting by Insurance Enterprises to clarify that financial guarantee insurance contracts issued by insurance enterprises are included within the scope of SFAS 60 as amended by SFAS 163. SFAS 163 amends the recognition and measurement of premium revenue, and claim liabilities on financial guarantee insurance and reinsurance contracts, and expands disclosure requirements. Recognition and measurement of unearned premium revenue and receivable for future premiums are also amended by SFAS 163. SFAS 163 does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS 163 nullifies the guidance for financial guarantee insurance contracts included in Emerging Issues Task Force Issue No. (EITF) 85-20, Recognition of Fees for Guaranteeing a Loan. Refer to Note 4: Insurance Premiums for disclosures related to premiums and Note 10: Loss and Loss Adjustment Expense Reserves for disclosures related to loss reserves.

Upon the adoption and implementation of SFAS 163, the Company recorded a cumulative transition adjustment of $55 million net of tax, $83 million pre-tax, as an increase to its beginning retained earnings balance as of January 1, 2009. The cumulative transition adjustment represents the recognized changes in assets and liabilities resulting from the adoption of SFAS 163. The following table summarizes the adjustments made to the Company s consolidated assets and liabilities as of January 1, 2009 on a pre-tax basis:

In thousands	**Increase/ (Decrease)**
Assets:	
Deferred acquisition costs	$ 8,731
Prepaid reinsurance premiums	313,660
Reinsurance recoverable on paid and unpaid losses	4,563
Premiums receivable	2,287,451
Deferred income taxes, net	(27,170)
Liabilities:	
Unearned premium revenue	$ 2,381,487
Loss and LAE reserves	(174,220)
Reinsurance premiums payable	324,262

In December 2008, the FASB issued FSP FAS 140-4 and FASB Interpretation No. (FIN) 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities, which requires enhanced disclosures about transfers of financial assets and involvement with variable interest entities (VIEs). The Company adopted FSP FAS 140-4 and FIN 46(R)-8 for financial statements prepared as of December 31, 2008 and is effective for interim reporting periods until the adoption of SFAS 167, Amendments to FASB Interpretation No. 46(R). Refer to Recent Accounting Developments for discussion of SFAS 167. Since FSP FAS 140-4 and FIN 46(R)-8 only requires additional disclosures concerning transfers of financial assets and interests in VIEs, adoption of FSP FAS 140-4 and FIN 46(R)-8 did not affect the Company s consolidated balance sheets, results of operations or cash flows. Refer to Note 9: Variable Interest Entities for disclosures required by FSP FAS 140-4 and FIN 46(R)-8.

In June 2008, the FASB issued FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, effective January 1, 2009 with retrospective application. The FSP requires companies to consider unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents as participating securities, which shall be included in the calculation of basic and diluted earnings per share. The Company s restricted and deferred share awards meet the definition of participating securities. The Company adopted the FSP on January 1, 2009, which resulted in an $0.04 reduction in its previously reported loss per common share for the six months ended June 30, 2008. The previously reported amounts for basic earnings per share for the three and six months ended June 30, 2008 were income of $7.25 and a loss of $3.37, respectively. The previously reported amounts for diluted earnings per share for the three and six months ended June 30, 2008 were income of $7.14 and a loss of $3.37, respectively.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS 161 expands the disclosure requirements about an entity s derivative instruments and hedging activities. The disclosure provisions of SFAS 161 apply to all entities with derivative instruments subject to SFAS 133 and its related interpretations. The provisions also apply to related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. The

Company adopted the disclosure provisions of SFAS 161 on January 1, 2009. Since SFAS 161 requires only additional disclosures concerning derivatives and hedging activities, adoption of SFAS 161 did not affect the Company s consolidated balance sheets, results of operations or cash flows. Refer to Note 8: Derivative Instruments for disclosures required by SFAS 161.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS 157, Fair Value Measurements, to fiscal years beginning after November 15, 2008, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of FSP FAS 157-2 on January 1, 2009 did not have a material impact on the Company s consolidated balance sheets, results of operations or cash flows.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB 51. SFAS 160 requires reporting entities to present noncontrolling (minority) interest as equity (as opposed to liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. The presentation and disclosure requirements are to be applied retrospectively. The Company adopted SFAS 160 on January 1, 2009 and resulted in preferred stock issued by a subsidiary to be reclassified from minority interest to a separate component of equity. The adoption of SFAS 160 did not have a material impact on the Company s consolidated balance sheets, results of operations or cash flows.

Recent Accounting Developments

In June 2009, the FASB issued SFAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. The FASB Accounting Standards Codification (Codification) will become the single source of authoritative GAAP to be applied by nongovernmental entities. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. SFAS 168 will be effective for the Company for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will adopt this standard as of the third quarter of 2009. The Codification is not intended to change GAAP but rather reorganize divergent accounting literature into an accessible and user-friendly system which will materially impact cited references of GAAP in the Company s Notes to Consolidated Financial Statements.

In June 2009, the FASB issued SFAS 167 which amends FIN 46(R) to include qualifying special purpose entities (QSPEs) in its scope and to require the holder of a variable interest or variable interests in a VIE to determine whether it holds a controlling financial interest in a VIE. A holder of a variable interest (or combination of variable interests) that provides a controlling financial interest in a VIE is considered the primary beneficiary and is required to consolidate the VIE. SFAS 167 amends FIN 46(R) to deem controlling financial interest as both a) the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and b) the obligation to absorb losses or the rights to receive benefits of the VIE that could potentially be significant to the VIE. SFAS 167 amends FIN 46(R) to eliminate the quantitative approach for determining the primary beneficiary of a VIE. SFAS 167 requires an ongoing reassessment of whether a holder of a variable interest is the primary beneficiary of a VIE, which amends the guidance in FIN 46(R) that requires reconsideration of whether a holder of a variable interest is the primary beneficiary only when specific events occurred. SFAS 167 nullifies FSP FAS 140-4 and FIN 46(R)-8 and amends FIN 46(R) to require enhanced disclosures for a holder of a variable interest in a VIE that are generally consistent with the disclosures required by FSP FAS 140-4 and FIN 46(R)-8. SFAS 167 is effective for the Company as of January 1, 2010 and earlier application is prohibited. The Company is currently evaluating the potential impact of adopting this standard.

In June 2009, the FASB issued SFAS 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140, to remove the concept of a QSPE. It also clarifies whether a transferor has surrendered control over transferred financial assets and meets the conditions to derecognize transferred financial assets or a portion of an entire financial asset that meets the definition of a participating interest. SFAS 166 amends SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to require enhanced disclosures about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. SFAS 166 is effective for the Company as of January 1, 2010 and earlier application is prohibited. The Company is currently evaluating the potential impact of adopting this standard.

Note 4: Insurance Premiums

The Company recognizes and measures premiums related to financial guarantee (non-derivative) insurance and reinsurance contracts in accordance with SFAS 163. Refer to Note 2: Significant Accounting Policies and Note 3: Recent Accounting Pronouncements for a description of the Company s accounting policy for insurance premiums and the impact of the adoption of SFAS 163 on the Company s financial statements.

As of June 30, 2009, the Company reported premiums receivable of $2.1 billion primarily related to installment policies for which premiums will be collected over the estimated term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of remeasurement date. The weighted average risk-free rate used to discount future installment premiums was 2.92% and the weighted average expected collection term of the premiums receivable was 9.16 years. For the

three and six months ended June 30, 2009, the accretion of the premiums receivable was $15 million and $28 million, respectively, and is reported in Scheduled premiums earned on the Company s Consolidated Statements of Operations.

As of June 30, 2009, the Company reported reinsurance premiums payable of $297 million, which represents the portion of the Company s premiums receivable that is due to reinsurers. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA are accreted and collected.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The following table presents a roll forward of the Company s premiums receivable for the six months ended June 30, 2009:

In millions	Six Months Ended June 30, 2009							
				Adjustments				
Premiums Receivable as of December 31, 2008	SFAS 163 Transition Adjustment	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other	Premiums Receivable as of June 30, 2009	Reinsurance Premiums Payable as of June 30, 2009
$ 8	$ 2,288	$ (167)	$ -	$ (20)	$ 28	$ (6)	$ 2,131	$ 297

The following table presents the undiscounted future amount of premiums expected to be collected and the period in which those collections are expected to occur:

In millions	Expected Collection of Premiums
Three months ended:	
September 30, 2009	$ 76
December 31, 2009	80
Twelve months ended:	
December 31, 2010	279
December 31, 2011	248
December 31, 2012	218
December 31, 2013	176
Five years ended:	
December 31, 2018	640
December 31, 2023	408
December 31, 2028 and thereafter	618
Total	$ 2,743

For the three and six months ended June 30, 2009, the Company reported premiums earned of $178 million and $407 million, respectively, which includes $153 million and $348 million of scheduled premiums earned and $25 million and $59 million of refunding premiums earned, respectively. Refunding premiums earned represent premiums earned on policies for which the underlying insured obligations have been refunded, called, or terminated and for which MBIA s obligation has been extinguished.

The following table presents the expected unearned premium revenue balance and the future expected premiums earned revenue as of and for the periods presented:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	Unearned Premium Revenue	Future Expected Premium Earnings Upfront	Installments	Accretion	Total Future Expected Premium Earnings
Three months ended:					
June 30, 2009	$ 5,337				
September 30, 2009	5,186	$ 78	$ 73	$ 15	$ 166
December 31, 2009	5,039	77	70	14	161
Twelve months ended:					
December 31, 2010	4,488	293	258	54	605
December 31, 2011	3,992	269	227	50	546
December 31, 2012	3,555	248	189	46	483
December 31, 2013	3,176	230	149	42	421
Five years ended:					
December 31, 2018	1,756	892	528	162	1,582
December 31, 2023	892	543	321	103	967
December 31, 2028 and thereafter	-	511	381	126	1,018
Total		$ 3,141	$ 2,196	$ 612	$ 5,949

Note 5: Fair Value of Financial Instruments

Financial Instruments

The following table presents the carrying value and fair value of financial instruments reported on the Company s consolidated balance sheets as of June 30, 2009 and December 31, 2008:

In millions	June 30, 2009 Carrying Value	Estimated Fair Value	December 31, 2008 Carrying Value	Estimated Fair Value
Assets:				
Fixed-maturity securities and short-term investments, held as available-for-sale, at fair value	$ 13,899	$ 13,899	$ 16,763	$ 16,763
Investments held-to-maturity, at amortized cost	3,958	3,408	3,656	3,595
Other investments	417	417	220	220
Cash and cash equivalents	900	900	2,280	2,280
Receivable for investments sold	304	304	77	77
Derivative assets	755	755	911	911
Note Receivable	470	470	423	423
Liabilities:				
Investment agreements	3,027	2,972	4,667	5,182
Medium-term notes	4,136	2,037	6,340	4,773
Variable interest entity notes	2,637	2,419	1,792	1,792
Securities sold under agreements to repurchase	691	657	803	758

Long-term debt	2,517	1,276	2,396	1,367
Payable for investments purchased	37	37	-	-
Derivative liabilities	4,189	4,189	6,471	6,471
Warrants	29	29	22	22
Financial Guarantees:				
Gross	6,598	6,592	4,982	6,078
Ceded	503	432	390	407

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Valuation Techniques

The valuation techniques for fair valuing financial instruments included in the preceding table are described below. The Company s assets and liabilities recorded at fair value have been categorized according to the fair value hierarchy prescribed by SFAS 157 within the following Fair Value Measurements section.

Fixed-Maturity Securities Held As Available-for-Sale

U.S. Treasury and government agency U.S. Treasury securities are liquid and have quoted market prices. Fair value of U.S. Treasuries is based on live trading feeds. U.S. Treasury securities are categorized in Level 1 of the fair value hierarchy. Government agency securities include debentures and other agency mortgage pass-through certificates as well as to-be-announced (TBA) securities. TBA securities are liquid and have quoted market prices based on live data feeds. Fair value of mortgage pass-through certificates is obtained via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. Government agency securities use market-based and observable inputs. As such, these securities are classified as Level 2 of the fair value hierarchy.

Foreign governments The fair value of foreign government obligations is generally based on observable inputs in active markets. When quoted prices are not available, fair value is determined based on a valuation model that has as inputs interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the bond in terms of issuer, maturity and seniority. These bonds are generally categorized in Level 2 of the fair value hierarchy. Bonds that contain significant inputs that are not observable are categorized as Level 3 while bonds that have quoted prices in an active market are classified as Level 1.

Corporate obligations The fair value of corporate bonds is obtained using recently executed transactions or market price quotations where observable. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name CDS spreads and diversity scores as key inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy. Corporate obligations may be classified as Level 1 if quoted prices in an active market are available.

Mortgage-backed securities and asset-backed securities Mortgage-backed securities (MBSs) and ABSs are valued based on recently executed prices. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. In the absence of market prices, MBSs and ABSs are valued as a function of cash flow models with observable market-based inputs (e.g. yield curves, spreads, prepayments and volatilities). MBSs and ABSs are categorized in Level 3 if significant inputs are unobservable, otherwise they are categorized in Level 2 of the fair value hierarchy.

The Company records under the fair value provisions of SFAS 155 certain structured investments, which are included in available-for-sale securities. Fair value is derived using quoted market prices or cash flow models. As these securities are not actively traded, certain significant inputs are unobservable. These investments are categorized as Level 3 of the fair value hierarchy.

State and municipal bonds The fair value of state and municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or CDS spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3.

Investments Held-To-Maturity

The fair value of investments held-to-maturity is obtained using recently executed transactions or market price quotations where observable. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. When observable price quotations are not available, fair value is determined based on internal cash flow models with yield curves and bond spreads of comparable entities as key inputs.

Other Investments

Other investments include the Company s interest in equity securities (including exchange-traded closed-end funds), money market mutual funds and perpetual securities. Fair value of other investments is determined by using quoted prices, live trades, or valuation models that use market-based and observable inputs. Other investments are categorized in Level 1, Level 2 or Level 3 of the fair value hierarchy.

Other investments also include premium tax credit investments that are carried at amortized cost. The carrying value of these investments approximates fair value.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Cash and Cash Equivalents, Receivable for Investments Sold and Payable for Investments Purchased

The carrying amounts of cash and cash equivalents, receivable for investments sold and payable for investments purchased approximate their fair values as they are short-term in nature.

Note Receivable

The note receivable represents a non-recourse loan secured by collateral pledged by the counterparty to the note receivable. The fair value of the note receivable is calculated as the most recent appraised value of the underlying collateral pledged against the note receivable. The appraisal was performed by an independent third party during the current year.

Investment Agreements

The fair values of investment agreements are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar agreements with maturities consistent with those remaining for the investment agreements being valued. These agreements contain collateralization and termination agreements that sufficiently mitigate the nonperformance risk of the Company.

Medium-Term Notes

The fair values of medium-term notes recorded at amortized cost are estimated using discounted cash flow calculations based upon interest rates currently being offered for similar notes with maturities consistent with those remaining for the medium-term notes being valued. Nonperformance risk of the Company is incorporated into the valuation by using the Company s own credit spreads.

The Company has elected to record at fair value under the provisions of SFAS 155 four medium-term notes. Fair value of such notes is derived using quoted market prices or an internal cash flow model. Significant inputs into the valuation include yield curves and spreads to the swap curve. As these notes are not actively traded, certain significant inputs (e.g. spreads to the swap curve) are unobservable. These notes are categorized as Level 3 of the fair value hierarchy.

Variable Interest Entity Notes

The fair value of variable interest entity notes is obtained using recently executed transactions or market price quotations where observable. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. When observable price quotations are not available, fair value is determined based on internal cash flow models of the underlying collateral with yield curves and bond spreads of comparable entities as key inputs.

Securities Sold Under Agreements to Repurchase

The fair value is estimated using discounted cash flow calculations based upon interest rates currently being offered for similar agreements. Securities sold under agreements to repurchase include term reverse repurchase agreements that contain credit enhancement provisions via over-collateralization agreements to sufficiently mitigate the nonperformance risk of the Company.

Long-term Debt

Long-term debt consists of long-term notes, debentures, surplus notes and floating rate liquidity loans. The fair value of long-term notes, debentures and surplus notes are estimated based on quoted market prices for the same or similar securities. For floating rate liquidity loans in Triple-A One Funding Corporation (Triple-A One), as these loans are non-recourse and fully backed by a pool of underlying assets, the fair values are estimated using discounted cash flow calculations based upon the underlying collateral pledged to the specific loans.

Derivatives Investment Management Services

The investment management services operations have entered into derivative transactions primarily consisting of interest rate, cross currency, credit default and total return swaps and principal protection guarantees. These over-the-counter derivatives are valued using industry standard models developed by vendors. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized as Level 2 within the fair value hierarchy except with respect to certain complex derivatives where observable pricing inputs were not able to be obtained, which have been categorized as Level 3.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In compliance with requirements of SFAS 157, the Company considers its own credit risk and that of counterparties when valuing derivative assets and liabilities. The Company has policies and procedures in place regarding counterparties, including review and approval of the counterparty and the Company s exposure limit, collateral posting requirements, collateral monitoring and margin calls on collateral. The Company manages counterparty credit risk on an individual counterparty basis through master netting arrangements covering derivative transactions in the Investment Management Services and Corporate operations. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either the Company or the counterparty is downgraded below a specified credit rating. The netting agreements minimize the potential for losses related to credit exposure and thus serve to mitigate the Company s nonperformance risk under these derivatives.

In certain cases, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of derivative contracts exceeds an exposure threshold. Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure the derivative. The delivery of high-quality collateral can minimize credit exposure and mitigate the potential for nonperformance risk impacting the fair value of the derivatives.

Derivatives Insurance

The derivative contracts that the Company insures cannot be legally traded and generally do not have observable market prices. In the cases with no active price quote, the Company uses a combination of internal and third-party models to estimate the fair value of these contracts. Most insured CDSs are valued using an enhanced Binomial Expansion Technique (BET) model (originally developed by Moody s). Significant inputs include collateral spreads, diversity scores and recovery rates. For a limited number of other insured derivatives, the Company uses industry standard models as well as proprietary models such as Black-Scholes option models and dual-default models, depending on the type and structure of the contract. The valuation of these derivatives includes the impact of its own credit standing and the credit standing of its reinsurers. All of these derivatives are categorized as Level 3 of the fair value hierarchy as a significant percentage of their value is derived from unobservable inputs. For insured swaps (other than CDSs), the Company uses internally and vendor developed models with market-based inputs (e.g. interest rate, foreign exchange rate, spreads), and are classified as Level 2 within the fair value hierarchy.

Insured Derivatives

The majority of the Company s derivative exposure is in the form of credit derivative instruments insured by MBIA Corp. Prior to 2008, MBIA Corp. insured CDSs entered into by LaCrosse Financial Products LLC (LaCrosse), an entity that is consolidated into MBIA s financial statements under the FIN 46(R) criteria. In February 2008, the Company ceased insuring such derivative instruments except in transactions reducing its existing insured derivative exposure.

In most cases, the Company s insured credit derivatives are measured at fair value as they do not qualify for the financial guarantee scope exception under SFAS 133. Because the Company s insured derivatives are highly customized and there is generally no observable market for these derivatives, the Company estimates their value in a hypothetical market based on internal and third-party models simulating what a bond insurer would charge to guarantee the transaction at the measurement date. This pricing would be based on expected loss of the exposure calculated using the value of the underlying collateral within the transaction structure.

Description of MBIA s Insured Credit Derivatives

The majority of MBIA s insured credit derivatives reference structured pools of cash securities and CDSs. The Company generally insured the most senior liabilities of such transactions, and at transaction closing the Company s exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies (referred to as Super Triple-A exposure). The gross notional amount of such transactions totaled $133.6 billion as of June 30, 2009. The collateral backing the Company s insured derivatives was cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, commercial real estate (CRE) loans, and collateralized debt obligation (CDO) securities.

Most of MBIA s insured CDS contracts require that MBIA make payments for losses of the principal outstanding under the contracts when losses on the underlying referenced collateral exceed a predetermined deductible. The total notional amount and MBIA s maximum payment obligation under these contracts as of June 30, 2009 was $79.1 billion. The underlying referenced collateral for contracts executed in this manner largely consist of investment grade corporate debt, structured commercial mortgage-backed securities (CMBS) pools and, to a lesser extent, corporate and multi-sector CDOs (in CDO-squared transactions).

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Company also has guarantees under principal protection fund programs, which are also accounted for as derivatives. Under these programs the Company guaranteed the return of principal to investors and is protected by a daily portfolio rebalancing obligation that is designed to minimize the risk of loss to MBIA. As of June 30, 2009, the maximum amount of future payments that the Company would be required to make under these guarantees was $49 million, but the Company has not made any payments to date relating to these guarantees. The unrealized gains (losses) on these derivatives for the years ended 2007 and 2008 and the six months ended June 30, 2009 were $0, reflecting the extremely remote likelihood that MBIA will incur a loss.

Changes in fair value of the insured derivatives are recorded in Net change in fair value of insured derivatives. The net change in the fair value of the Company s insured derivatives has two primary components; (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. Realized gains (losses) and other settlements on insured derivatives include (i) net premiums received and receivable on written CDS contracts, (ii) net premiums paid and payable to reinsurers in respect of CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or commutation agreement and (vi) fees relating to CDS contracts. The Unrealized gains (losses) on insured derivatives include all other changes in fair value of the derivative contracts.

Considerations Regarding an Observable Market for MBIA s Insured Derivatives

In determining fair value, the Company s valuation approach uses observable market prices if available and reliable. Market prices are generally available for traded securities and market standard CDSs but are less available or accurate for highly customized CDSs. Most of the derivative contracts the Company insures are the latter as they are non-traded structured credit derivative transactions. In contrast, typical market CDSs are standardized, liquid instruments that reference tradable securities such as corporate bonds that themselves have observable prices. These market standard CDSs also involve collateral posting, and upon a default of the underlying reference obligation, can be settled in cash.

MBIA s insured CDS contracts do not contain typical CDS market standard features as they have been designed to replicate the Company s financial guarantee insurance policies. At inception of the transactions, the Company s insured CDS instruments provided protection on pools of securities or CDSs with either a stated deductible or subordination beneath the MBIA-insured tranche. The Company is not required to post collateral in any circumstances. Payment by MBIA under an insured CDS is due after the aggregate amount of defaults of the underlying reference obligations, based on fair value determination with respect to each defaulted reference obligation, exceed the deductible or subordination in the transaction. Once such defaults exceed the deductible or the subordination MBIA is obligated to pay the fair value, as determined under the ISDA contract, of any subsequent reference obligations that default. Some contracts also provide for further deferrals of payment at the Company s option. In the event of MBIA Corp s failure to pay a claim under the insured CDS or the insolvency of MBIA, the insured CDS contract provides that the counterparty can terminate the CDS and make a claim for the amount due, which would be based on the fair value of the insured CDS at such time. An additional difference between the Company s CDS and typical market standard contracts is that the Company s contract, like its financial guarantee contracts, cannot be accelerated by the counterparty in the ordinary course of business. Similar to the Company s financial guarantee insurance, all insured CDS policies are unconditional and irrevocable and the Company s obligations thereunder cannot be transferred unless the transferees are also licensed to write financial guarantee insurance policies. Note that since insured CDS contracts are accounted for as derivatives under SFAS 133, the Company did not defer the charges associated with underwriting the CDS policies and they were expensed at origination.

The Company s payment obligations are structured to prevent large one-time claims upon an event of default of underlying reference obligations and to allow for payments over time (i.e. pay-as-you-go basis) or at final maturity. However, the size of payments will ultimately depend on the timing and magnitude of losses. There are three types of payment provisions:

(i) timely interest and ultimate principal;

(ii) ultimate principal only at final maturity; and

(iii) payments upon settlement of individual referenced collateral losses in excess of policy-specific deductibles and subordination. The deductible or loss threshold is the amount of losses experienced with respect to the underlying or referenced collateral that would be required to occur before a claim against an MBIA insurance policy can be made.

MBIA had transferred some of the risk of loss on these contracts using reinsurance to other financial guarantee insurance and reinsurance companies. The fair value of the transfer under the reinsurance contract with the reinsurers is accounted for as a derivative asset. These derivative assets are valued consistently with the Company s SFAS 157 valuation policies.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Valuation Modeling of MBIA-Insured Derivatives

As a result of the significant differences between market standard CDS contracts and the CDS contracts insured by MBIA, the Company believes there are no relevant third-party exit value market observations for its insured structured credit derivative contracts and, therefore, no principal market as described in SFAS 157. In the absence of a principal market, the Company values these insured credit derivatives in a hypothetical market where market participants are assumed to be other comparably-rated primary financial guarantors. Since there are no observable transactions in the financial guarantee market that could be used to value the Company s transactions, the Company generally uses internal and third-party models, depending on the type and structure of the contract, to estimate the fair value of its insured derivatives.

The Company s primary model for insured CDSs simulates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination. This approach assumes that bond insurers would be willing to accept these contracts from the Company at a price equal to what they could issue them for in the current market. While the premium charged by financial guarantors is not a direct input into the Company s model, the model estimates such premium and this premium increases as the probability of loss increases, driven by various factors including rising credit spreads, negative credit migration, lower recovery rates, lower diversity score and erosion of deductible or subordination.

1. Valuation Model Overview

Approximately 99.3% of the balance sheet fair value of insured credit derivatives as of June 30, 2009 is valued using the BET model, which is a probabilistic approach to calculating expected loss on the Company s exposure based on market variables for underlying referenced collateral. The BET was originally developed by Moody s to estimate a probability distribution of losses on a diverse pool of assets. The Company has made modifications to this technique in an effort to incorporate more market information and provide more flexibility in handling pools of dissimilar assets: a) the Company uses market credit spreads to determine default probability instead of using historical loss experience, and b) for collateral pools where the spread distribution is characterized by extremes, the Company models each segment of the pool individually instead of using an overall pool average.

There are three steps within BET modeling to arrive at fair value for a structured transaction: pool loss estimation, loss allocation to separate tranches of the capital structure and calculation of the change in value.

The pool loss estimation is calculated by reference to the following (described in further detail under Model Inputs below):

credit spreads of the underlying collateral. This is based on actual spreads or spreads on similar collateral with similar ratings, or in some cases is benchmarked,

diversity score of the collateral pool as an indication of correlation of collateral defaults, and

recovery rate for all defaulted collateral.

Losses are allocated to specific tranches of the transaction according to their subordination level within the capital structure.

For example, if the expected total collateral pool loss is 4% and the transaction has an equity tranche and three progressively more senior C, B, and A tranches with corresponding underlying subordination levels of 0%, 3%, 5% and 10%, then the 4% loss will have the greatest impact on the equity tranche. It will have a lower, but significant impact on the C tranche and a lesser impact on the B tranche. MBIA usually insures the Super Triple-A tranche with lowest exposure to collateral losses due to the underlying subordination provided by all junior tranches.

At any point in time, the unrealized gain or loss on a transaction is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the model worth noting are listed below:

Default probability is determined by three factors: credit spread, recovery rate after default and the time period under risk.

Defaults are modeled spaced out evenly over time.

Collateral is generally considered on an average basis rather than being modeled separately.

Correlation is modeled using a diversity score, which is calculated based on rules regarding industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Company reviews the model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads are observable for similar transactions, those spreads are an integral part of the analysis. For example, new insured transactions that resemble existing (previously insured) transactions would be considered, as would negotiated settlements of existing transactions. However, this data has been scarce or non-existent in recent periods. As a result, the Company s recent reviews have focused more on internal consistency and relativity, as well as the reasonableness of modeled results given current market conditions.

2. Model Strengths and Weaknesses

The primary strengths of this CDS valuation model are:

1) The model takes account of transaction structure and key drivers of market value. The transaction structure includes par insured, weighted average life, level of deductible or subordination and composition of collateral.

2) The model is a well-documented, consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented both by Moody s and by MBIA s internal controls, creating a strong controls process in execution of the model. The Company has also developed a hierarchy for usage of various market-based spread inputs that reduces the level of subjectivity, especially during periods of high illiquidity.

3) The model uses market inputs with the most relevant being credit spreads for underlying referenced collateral, assumed recovery rates specific to the type and rating of referenced collateral, and the diversity score of the entire collateral pool. These are key parameters affecting the fair value of the transaction and all inputs are market-based whenever available and reliable.

The primary weaknesses of this CDS valuation model are:

1) There is no longer a market in which to test and verify the fair values generated by the Company s model, and at June 30, 2009, the model inputs were also either unobservable or highly illiquid, adversely impacting their reliability.

2) There are diverse approaches to estimating fair value of such transactions among other financial guarantee insurance companies.

3) Results may be affected by averaging of spreads and use of a single diversity factor, rather than using specific spreads for each piece of underlying collateral and collateral-specific correlation assumptions. While more specific data could improve the reliability of the results, it is not currently available and neither is a model that could produce more reliable results in the absence of that data.

3. Model Inputs

Specific detail regarding these model inputs are listed below:

a. Credit spreads

The average spread of collateral is a key input as the Company assumes credit spreads reflect the market s assessment of default probability for each piece of collateral. Spreads are obtained from market data sources published by third parties (e.g. dealer spread tables for assets most

closely resembling collateral within the Company s transactions) as well as collateral-specific spreads on the underlying reference obligations provided by trustees or market sources. Also, when these sources are not available, the Company benchmarks spreads for collateral against market spreads, including in some cases, assumed relationships between the two spreads. This data is reviewed on an ongoing basis for reasonableness and applicability to the Company s derivative portfolio. The Company also calculates spreads based on quoted prices and on internal assumptions about expected life, when pricing information is available and spread information is not.

The actual calculation of pool average spread varies depending on whether the Company is able to use collateral-specific credit spreads or generic spreads as an input.

If collateral-specific spreads are available, the spread for each individual piece of collateral is identified and a weighted average is calculated by weighting each spread by the corresponding par exposure.

If collateral-specific credit spreads are not available, the Company uses generic spread tables based on asset class and average rating of the collateral pool. Average credit rating for the collateral is calculated from the weighted average rating factor (WARF) for the collateral portfolio and then mapped to an appropriate spread. WARF is based on a 10,000 point scale designed by Moody s where lower numbers indicate better credit quality. Ratings are not spaced equally on this scale because the marginal difference in default probability at higher rating quality is much less than at lower rating levels. The Company obtains WARF from the most recent trustee s report or the Company calculates it based on the collateral credit ratings. For a WARF calculation, the Company identifies the credit ratings of all collateral (using, in order of preference as available, Moody s, S&P or Fitch ratings), then converts those credit ratings into a rating factor on the WARF scale, averages those factors (weighted by par) to create a portfolio WARF, and then maps the portfolio WARF back into an average credit rating for the pool. The Company then applies this pool rating to a market spread table or index

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

appropriate for the collateral type to determine the generic spread for the pool, which becomes the market-implied default input into the BET model.

If there is a high dispersion of ratings within a collateral pool, the collateral is segmented into different rating buckets and each bucket is used in calculating the overall average.

When spreads are not available on either a collateral-specific basis or ratings-based generic basis, MBIA uses its hierarchy of spread sources (see below) to identify the most appropriate spread for that asset class to be used in the model.

The Company uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative. Cash spreads reflect trading activity in funded fixed-income instruments while CDS spreads reflect trading levels for non-funded derivative instruments. While both markets are driven partly by an assessment of the credit quality of the referenced security, there are factors which create significant differences, such as CDS spreads can be driven by speculative activity since the CDS market facilitates both long and short positions without ownership of the underlying security, allowing for significant leverage.

Spread Hierarchy:

1) Actual collateral-specific credit spreads. If up-to-date and reliable market-based spreads are available, they are used.

2) Sector-specific spreads (JP Morgan and Banc of America Securities-Merrill Lynch (BAS-ML) spread tables by asset class and rating).

3) Corporate spreads (Bloomberg and Risk Metrics spread tables based on rating).

4) Benchmark from most relevant spread source (for example, if no specific spreads are available and corporate spreads are not directly relevant, an assumed relationship is used between corporate spreads or sector-specific spreads and collateral spreads). Benchmarking can also be based on a combination of market spread data and fundamental credit assumptions.

For example, if current market-based spreads are not available then the Company applies either sector-specific spreads from spread tables provided by dealers or corporate cash spread tables. The sector-specific spread applied depends on the nature of the underlying collateral. Transactions with corporate collateral use the corporate spread table. Transactions with asset-backed collateral use one or more of the dealer asset-backed tables. If there are no observable market spreads for the specific collateral, and sector-specific and corporate spread tables are not appropriate to estimate the spread for a specific type of collateral, the Company uses the fourth alternative in its hierarchy. An example is tranched corporate collateral, where the Company applies corporate spreads as an input with an adjustment for its tranched exposure.

As of June 30, 2009, actual collateral credit spreads were used in one transaction. Sector-specific spreads were used in 19% of the transactions. Corporate spreads were used in 29% of the transactions and spreads benchmarked from the most relevant spread source (number 4 above) were used for 52% of the transactions. When determining the percentages above, there were some transactions where MBIA incorporated multiple levels within the hierarchy. For example, for some transactions MBIA used actual collateral-specific credit spreads (number 1 above) in combination with a calculated spread based on an assumed relationship (number 4 above). In those cases, MBIA classified the transaction as being benchmarked from the most relevant spread source (number 4 above) even though the majority of the average spread was from actual collateral-specific spreads. The spread source can also be identified by whether or not it is based on collateral WARF. No Level 1 spreads are based on WARF, all Level 2 and 3 spreads are based on WARF and some Level 4 spreads are based on WARF. WARF-sourced and/or

ratings-sourced credit spread was used for 94% of the transactions.

In the second quarter of 2009, a reliable source of current credit spreads for residential mortgage-backed securities (RMBS) and ABS CDO collateral was not identified as the previous sources stopped publishing this information. These spreads are primarily used as inputs for valuing the Company s insured multi-sector CDO transactions. As a result, the Company used the spreads reported at the end of the first quarter of 2009 to calculate the estimated fair value of these transactions. The Company believes this is a reasonable estimate because credit trends and market conditions did not change significantly during the second quarter and the BET model is not very sensitive to changes in credit spreads for these transactions when spreads are at extreme levels. The Company is exploring alternative valuation models for these transactions that do not require a credit spread input, which may be used in future periods.

Over time the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always the Company s objective to move to higher levels on the hierarchy, but the Company sometimes moves to lower priority inputs because of discontinued data sources or because the Company considers higher priority inputs no longer representative of market spreads. This occurs when transaction volume changes such that a previously used spread index is no longer viewed to reflect current market levels, as was the case for CMBS collateral in insured CDSs beginning in 2008. Refer to section Input Adjustments for Insured CMBS Derivatives in the Current Market below.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

b. Diversity Scores

The diversity score is a measure to estimate the diversification in a portfolio. The diversity score estimates the number of uncorrelated assets that are assumed to have the same loss distribution as the actual portfolio of correlated assets. For example, if a portfolio of 100 assets had a diversity score of 50, this means that the 100 correlated assets are assumed to have the same loss distribution as 50 uncorrelated assets. A lower diversity score represents higher assumed correlation, increasing the chances of a large number of defaults, and thereby increasing the risk of loss in the senior tranche. A lower diversity score will generally have a negative impact on the valuation for the Company s senior tranche. The calculation methodology for a diversity score includes the extent to which a portfolio is diversified by industry or asset class, which is either calculated internally or reported by the trustee on a regular basis. Diversity scores are calculated at transaction origination, and adjusted as the collateral pool changes over time. MBIA s internal modeling of the diversity score is based on Moody s methodology but uses MBIA s internal assumptions on default correlation, including variables such as collateral rating and amount, asset type and remaining life.

c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA-insured transactions. The Company may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data. In the first six months of 2009, the Company lowered recovery rates for CMBS collateral and certain RMBS collateral.

d. Input Adjustments for Insured CMBS Derivatives in the Current Market

Approximately $46.7 billion gross par of MBIA s insured derivative transactions as of June 30, 2009 include substantial amounts of CMBS and commercial mortgage collateral. Prior to 2008 the Company had used spreads drawn from CMBX indices and CMBS spread tables as pricing input on the underlying referenced collateral in these transactions. In 2008, as the financial markets became illiquid, the Company saw a significant disconnect between cumulative loss expectations of market analysts on underlying commercial mortgages, which were based on the continuation of low default and loss rates, and loss expectations implied by the CMBX indices and CMBS spread tables. CMBS collateral in MBIA s insured credit derivatives has performed in line with the market.

In addition, due to financial market uncertainty since last year, transaction volume in CMBS and trading activity in the CMBX were both dramatically lower than in prior periods. The Company also considered that the implied loss rates within the CMBX index were much higher than that forecast by fundamental researchers and MBIA s internal analysis. As a result of these issues, the Company concluded that the CMBX indices and the CMBS spread tables were unreliable model inputs for the purpose of estimating fair value in the Company s hypothetical market among monoline insurers.

In the first quarter of 2008, the Company modified the spread used for these transactions to reflect a combination of market spread pricing and third-party fundamental analysis of CMBS credit. The Company s revised spread input is a CMBX index analog that combines expectations for CMBS credit performance (as forecasted by the average of three investment banks research departments) together with the illiquidity premium implied by the CMBX indices. The illiquidity premium the Company uses is the senior triple-A tranche spread of the CMBX index that matches the origination vintage of collateral in each transaction. For example, collateral originated in the second half of 2006 uses the triple-A tranche spread of the CMBX series 1 as the illiquidity premium. The sum of the illiquidity premium plus the derived credit spread based on the average cumulative net loss estimates of three investment bank s research department is used as a CMBX analog index.

e. Nonperformance Risk

In compliance with the requirements of SFAS 157, the Company s valuation methodology for insured credit derivative liabilities incorporates the Company s own nonperformance risk and the nonperformance risk of its reinsurers. The Company calculates the fair value by discounting the market value loss estimated through the BET model at discount rates which include MBIA Corp. s and the reinsurers CDS spreads at June 30, 2009. Prior to the second quarter of 2009, MBIA used the 5-year CDS spread on MBIA Corp. to calculate nonperformance risk. This assumption was compatible with the average life of the CDS portfolio, which was approximately 5 years. In the second quarter, the Company has refined

this approach to include a full term structure for CDS spreads. Under the refined approach, the CDS spreads assigned to each deal is based on the weighted average life of the deal. This resulted in an increase of $333 million in the derivative liability compared to the amount that would have resulted if the Company had continued to use MBIA s 5-year CDS spread for all transactions.

In light of recent developments in the CDS and recovery derivative markets for MBIA, in the first six months of 2009, the Company limited the effective spread on CDS on MBIA so that the derivative liability, after giving effect to nonperformance risk, could not be lower than MBIA s recovery derivative price multiplied by the unadjusted derivative liability. In the second quarter of 2009, the

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

limitation caused by use of MBIA s recovery rate increased the derivative liability by $1.0 billion, compared to the amount that would have resulted if no limitation had been applied for recovery rate.

In aggregate, the nonperformance calculation results in a pre-tax derivative liability which is $14.0 billion lower than the liability that would have been estimated if the discount rate were equal to the Libor swap rate. Nonperformance risk is a fair value concept and does not contradict the Company s internal view, based on fundamental credit analysis of the Company s economic condition, that the Company will be able to pay all claims when due.

The Company believes that it is important to consistently apply its valuation techniques. However, the Company may consider making changes in the valuation technique if the change results in a measurement that is equally or more representative of fair value under current circumstances.

Warrants

Stock warrants issued by the Company are recorded at fair value based on a modified Black-Scholes model. Inputs into the warrant valuation include interest rates, stock volatilities and dividends data. As all significant inputs are market-based and observable, warrants are categorized in Level 2 of the fair value hierarchy.

Financial Guarantees

Gross Financial Guarantees The Company estimates the fair value of its gross financial guarantee liability using a discounted cash flow model with significant inputs that include (i) an assumption of expected loss on financial guarantee policies for which case basis reserves have not been established, (ii) the amount of loss expected on financial guarantee policies for which case basis reserves have been established, (iii) the cost of capital reserves required to support the financial guarantee liability, and (iv) the discount rate. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp, while the Assured Guaranty Corp. CDS spread and recovery rate are used as the discount rate for National. The discount rates incorporate the nonperformance risk of the Company. As the Company s gross financial guarantee liability represents its obligation to pay claims under its insurance policies, the Company s calculation of fair value does not consider future installment premium receipts or returns on invested upfront premiums as inputs.

The carrying value of the Company s gross financial guarantee liability consists of deferred premium revenue and loss and LAE reserves as reported on the Company s consolidated balance sheets.

Ceded Financial Guarantees The Company estimates the fair value of its ceded financial guarantee liability by calculating the portion of the gross financial guarantee liability that has been ceded to reinsurers. The carrying value of ceded financial guarantee liability consists of prepaid reinsurance premiums and reinsurance recoverable on unpaid losses as reported on the Company s consolidated balance sheets.

Fair Value Measurements

The following fair value hierarchy tables present information about the Company s assets (including short-term investments) and liabilities measured at fair value on a recurring basis as of June 30, 2009 and December 31, 2008:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting [1]	Balance as of June 30, 2009
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 708	$ 117	$ 6	$ -	$ 831
Foreign governments	289	228	70	-	587
Corporate obligations	-	2,801	371	-	3,172
Mortgage-backed securities					
Residential mortgage-backed agency	-	1,271	98	-	1,369
Residential mortgage-backed non-agency	-	605	252	-	857
Commercial mortgage-backed	-	2	37	-	39
Asset-backed securities					
Collateralized debt obligations	-	-	585	-	585
Other asset-backed	-	479	389	-	868
Total	997	5,503	1,808	-	8,308
State and municipal bonds					
Tax exempt bonds	-	2,675	74	-	2,749
Taxable bonds	-	439	44	-	483
Total state and municipal bonds	-	3,114	118	-	3,232
Total fixed-maturity investments	997	8,617	1,926	-	11,540
Other investments:					
Perpetual preferred securities	-	274	44	-	318
Other investments	5	141	25	-	171
Money market securities	2,282	2	-	-	2,284
Total other investments	2,287	417	69	-	2,773
Derivative assets	-	234	746	(225)	755
Total assets	$ 3,284	$ 9,268	$ 2,741	$ (225)	$ 15,068
Liabilities:					
Medium-term notes	$ -	$ -	$ 122	$ -	$ 122
Derivative liabilities	-	413	4,137	(360)	4,190
Other liabilities:					
Warrants	-	29	-	-	29
Total liabilities	$ -	$ 442	$ 4,259	$ (360)	$ 4,341

(1) -

The net effect of cash and counterparty collateral netting is included in the column entitled Counterparty and Cash Collateral Netting. As of June 30, 2009, $135 million of cash collateral, which was previously recorded in Other Assets, was included in the derivative liability balance.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting [1]	Balance as of December 31, 2008
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 1,042	$ 194	$ 32	$ -	$ 1,268
Foreign governments	369	336	130	-	835
Corporate obligations	-	2,776	587	-	3,363
Mortgage-backed securities					
Residential mortgage-backed agency	-	1,218	156	-	1,374
Residential mortgage-backed non-agency	-	627	397	-	1,024
Commercial mortgage-backed	-	16	37	-	53
Asset-backed securities					
Collateralized debt obligations	-	-	918	-	918
Other asset-backed	-	444	540	-	984
Total	1,411	5,611	2,797	-	9,819
State and municipal bonds					
Tax exempt bonds	-	3,011	49	-	3,060
Taxable bonds	-	379	46	-	425
Total state and municipal bonds	-	3,390	95	-	3,485
Total fixed-maturity investments	1,411	9,001	2,892	-	13,304
Other investments:					
Perpetual preferred securities	-	275	45	-	320
Other investments	23	40	58	-	121
Money market securities	3,235	-	-	-	3,235
Total other investments	3,258	315	103	-	3,676
Derivative assets	-	613	807	(509)	911
Total assets	$ 4,669	$ 9,929	$ 3,802	$ (509)	$ 17,891
Liabilities:					
Medium-term notes	$ -	$ -	$ 176	$ -	$ 176
Derivative liabilities	-	741	6,305	(575)	6,471
Other liabilities:					
Warrants	-	22	-	-	22
Total liabilities	$ -	$ 763	$ 6,481	$ (575)	$ 6,669

(1) - The net effect of cash and counterparty collateral netting is included in the column entitled Counterparty and Cash Collateral Netting. As of December 31, 2008, $66 million of cash collateral, which was previously reported in Other Assets , was included in the derivative liability balance.

Level 3 Analysis

Level 3 assets were $2.7 billion and $3.8 billion as of June 30, 2009 and December 31, 2008, respectively, and represented approximately 18% and 21% of total assets measured at fair value, respectively. Level 3 liabilities were $4.3 billion and $6.5 billion as of June 30, 2009 and December 31, 2008, respectively, and represented approximately 98% and 97% of total liabilities measured at fair value, respectively. The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended June 30, 2009 and 2008:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	Balance, Beginning of Interim Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at June 30, 2009
Assets:									
U.S. Treasury and government agency	$ 6	$ -	$ -	$ -	$ -	$ -	$ -	$ 6	$ -
Foreign governments	51	-	-	(3)	2	1	19	70	-
Corporate obligations	432	-	-	(2)	1	(19)	(41)	371	-
Residential mortgage-backed agency	154	-	-	2	-	(8)	(50)	98	-
Residential mortgage-backed non-agency	374	-	-	(58)	1	(12)	(53)	252	-
Commercial mortgage-backed	33	-	-	6	1	(3)	-	37	-
Collateralized debt obligations	775	(64)	-	(103)	1	(24)	-	585	-
Other asset-backed	389	-	-	38	-	(25)	(13)	389	-
State and municipal tax exempt bonds	78	-	-	-	-	(4)	-	74	-
State and municipal taxable bonds	46	-	-	(2)	-	-	-	44	-
Perpetual preferred securities	35	-	-	9	-	-	-	44	-
Other investments	39	-	-	-	-	(14)	-	25	-
Total assets	$ 2,412	$ (64)	$ -	$ (113)	$ 6	$ (108)	$ (138)	$ 1,995	$ -

In millions	Balance, Beginning of Interim Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net(1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at June 30, 2009
Liabilities:									
Medium-term notes	$ 106	-	-	$ 9	$ 7	-	-	$ 122	-
Derivative contracts, net	3,848	(61)	(400)	-	8	(2)	(2)	3,391	(140)
Total liabilities	$ 3,954	$ (61)	$ (400)	$ 9	$ 15	$ (2)	$ (2)	$ 3,513	$ (140)

(1) - Transferred in and out at the end of the period.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	Balance, Beginning of Interim Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at June 30, 2008
Assets:									
U.S. Treasury and government agency	$ 117	$ -	$ -	$ (3)	$ -	$ 42	$ 1	$ 157	$ -
Foreign governments	91	-	-	(4)	-	13	-	100	-
Corporate obligations	1,554	(15)	-	5	(1)	(566)	(21)	956	-
Residential mortgage-backed agency	209	-	-	1	-	(19)	-	191	-
Residential mortgage-backed non-agency	481	(6)	-	(29)	(4)	(136)	(5)	301	-
Commercial mortgage-backed	284	(6)	-	3	(1)	(112)	(76)	92	-
Collateralized debt obligations	2,098	(329)	-	193	(51)	(395)	(93)	1,423	-
Other asset-backed	1,377	(14)	-	(50)	(3)	(217)	(28)	1,065	-
State and municipal taxable bonds	48	-	-	(1)	-	-	-	47	-
Perpetual preferred securities	85	-	-	(2)	-	-	-	83	-
Total assets	$ 6,344	$ (370)	$ -	$ 113	$ (60)	$ (1,390)	$ (222)	$ 4,415	$ -

In millions	Balance, Beginning of Interim Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net(1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at June 30, 2008
Liabilities:									
Medium-term notes	$ 354	$ (6)	$ (13)	$ -	$ (2)	$ (19)	$ -	$ 314	$ -
Derivative contracts, net	6,921	(147)	(3,150)	-	(2)	33	-	3,655	(3,150)

Total liabilities	$ 7,275	$ (153)	$ (3,163)	$ -	$ (4)	$ 14	$ -	$ 3,969	$ (3,150)

(1) - Transferred in and out at the end of the period.

Transfers into and out of Level 3 were $43 million and $179 million for the three months ended June 30, 2009, respectively. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became unobservable or observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Residential mortgage-backed securities comprised the majority of the transferred instruments. For the three months ended June 30, 2009, the net unrealized gains related to the transfers into Level 3 was $0.1 million and the net unrealized gains related to the transfers out of Level 3 as of June 30, 2009 was $17 million.

Transfers into and out of Level 3 were $211 million and $433 million for the three months ended June 30, 2008, respectively. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became unobservable or observable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Commercial mortgage-backed securities, CDOs and other asset-backed securities comprised the majority of the transferred instruments. For the three months ended June 30, 2008, the net unrealized losses related to the transfers into Level 3 was $2 million and the net unrealized losses related to the transfers out of Level 3 was $10 million.

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2009 and 2008:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at June 30, 2009
Assets:									
U.S. Treasury and government agency	$ 32	$ 1	$ -	$ (1)	$ -	$ (26)	$ -	$ 6	$ -
Foreign governments	129	-	-	(4)	(2)	(16)	(37)	70	-
Corporate obligations	586	-	-	(42)	(3)	(47)	(123)	371	-
Residential mortgage-backed agency	156	-	-	11	-	(19)	(50)	98	-
Residential mortgage-backed non-agency	397	(27)	-	(26)	-	(24)	(68)	252	-
Commercial mortgage-backed	37	(1)	-	5	-	(4)	-	37	-
Collateralized debt obligations	921	(125)	-	(144)	-	(67)	-	585	-
Other asset-backed	540	(9)	-	(46)	-	(88)	(8)	389	-
State and municipal tax exempt bonds	49	-	-	(1)	-	26	-	74	-
State and municipal taxable bonds	46	-	-	(2)	-	-	-	44	-
Perpetual preferred securities	45	-	-	-	-	(1)	-	44	-
Other investments	58	-	-	-	-	(33)	-	25	-
Total assets	$ 2,996	$ (161)	$ -	$ (250)	$ (5)	$ (299)	$ (286)	$ 1,995	$ -

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net[1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at June 30, 2009
Liabilities:									
Medium-term notes	$ 176	$ -	$ -	$ (52)	$ (2)	$ -	$ -	$ 122	$ -
Derivative contracts, net	5,498	(90)	(2,018)	2	(8)	27	(20)	3,391	(1,786)

Total liabilities	$ 5,674	$ (90)	$ (2,018)	$ (50)	$ (10)	$ 27	$ (20)	$ 3,513	$ (1,786)

(1) - Transferred in and out at the end of the period.

28

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at June 30, 2008
Assets:									
U.S. Treasury and government agency	$ 124	$ 3	$ -	$ (2)	$ -	$ 8	$ 24	$ 157	$ -
Foreign governments	64	-	-	(1)	1	18	18	100	-
Corporate obligations	1,400	(22)	-	(27)	14	(601)	192	956	-
Residential mortgage-backed agency	239	-	-	(5)	-	(43)	-	191	-
Residential mortgage-backed non-agency	726	(6)	-	(141)	1	(174)	(105)	301	-
Commercial mortgage-backed	273	(6)	-	(5)	8	(39)	(139)	92	-
Collateralized debt obligations	2,458	(463)	-	57	(45)	(445)	(139)	1,423	-
Other asset-backed	1,430	(22)	-	(108)	17	(313)	61	1,065	-
State and municipal tax exempt bonds	-	-	-	-	-	-	-	-	-
State and municipal taxable bonds	49	-	-	(2)	-	-	-	47	-
Perpetual preferred securities	104	-	-	(21)	-	-	-	83	-
Other investments	-	-	-	-	-	-	-	-	-
Total assets	$ 6,867	$ (516)	$ -	$ (255)	$ (4)	$ (1,589)	$ (88)	$ 4,415	$ -

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange	Purchases, Issuances and Settlements, net	Transfers in (out) of Level 3, net(1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held at June 30, 2008
Liabilities:									
Medium-term notes	$ 399	$ (6)	$ (13)	$ (20)	$ 22	$ (68)	$ -	$ 314	$ -
Derivative contracts, net	3,405	(185)	379	-	(10)	66	-	3,655	379

Total liabilities	$ 3,804	$ (191)	$ 366	$ (20)	$ 12	$ (2)	$ -	$ 3,969	$ 379

(1) - Transferred in and out at the end of the period.

Transfers into and out of Level 3 were $57 million and $323 million for the six months ended June 30, 2009, respectively. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, yield curves observable at commonly quoted intervals, and market corroborated inputs. Foreign governments and corporate obligations comprised the majority of the transferred instruments. For the six months ended June 30, 2009, the net unrealized gains related to the transfers into Level 3 was $15 million and the net unrealized gains related to the transfers out of Level 3 was $31 million.

Transfers into and out of Level 3 were $769 million and $857 million for the six months ended June 30, 2008, respectively. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Corporate obligations, commercial mortgage-backed securities and CDOs comprised the majority of the transferred instruments. For the six months ended June 30, 2008, the net unrealized losses related to the transfers into Level 3 was $35 million and the net unrealized losses related to the transfers out of Level 3 was $43 million.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the three months ended June 30, 2009 and 2008 are reported on the consolidated statements of operations as follows:

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ 424	$ (3)	$ (11)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at June 30, 2009	$ 164	$ -	$ (32)

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ 3,327	$ (215)	$ (221)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at June 30, 2008	$ 3,327	$ -	$ -

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the six months ended June 30, 2009 and 2008 are reported on the consolidated statements of operations as follows:

In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ 2,052	$ (251)	$ (21)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at June 30, 2009	$ 1,793	$ -	$ (6)

In millions

	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ (250)	$ (323)	$ (112)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held at June 30, 2008	$ (250)	$ -	$ -

Fair Value Option

The Company elected, under SFAS 155, Accounting for Certain Hybrid Financial Instruments to record at fair value certain financial assets and liabilities that contain embedded derivatives. Changes in fair value of these hybrid financial instruments are reflected in Net gains (losses) on financial instruments at fair value and foreign exchange on the Company s consolidated statement of operations.

For the three and six months ended June 30, 2009, the fair value of hybrid financial assets increased $2 million and $4 million on a pre-tax basis and $1 million and $3 million on an after-tax basis. For the three months ended June 30, 2009, the fair value of hybrid financial liabilities, which related to four medium-term notes, increased $16 million on a pre-tax basis and $11 million on an after-tax basis. For the six months ended June 30, 2009, the fair value of hybrid financial liabilities, decreased $54 million on a pre-tax basis and $35 million on an after-tax basis.

For the three and six months ended June 30, 2008, the fair value of hybrid financial assets decreased $2 million and $4 million on a pre-tax basis and $2 million and $3 million on an after-tax basis and the fair value of hybrid financial liabilities, which related to five medium-term notes, decreased $15 million and $11 million on a pre-tax basis and $10 million and $7 million on an after-tax basis, respectively. Contractual interest coupon payments related to these medium-term notes are recorded within Interest expense on the Company s consolidated statements of operations.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Investments

The Company s fixed-maturity portfolio consists of high-quality (average rating single-A) taxable and tax-exempt investments of diversified maturities. Other investments primarily comprise equity investments, including those accounted for under the equity method in accordance with APB 18 and highly rated perpetual securities that bear interest and are callable by the issuer. The following tables present the amortized cost and fair value of available-for-sale fixed-maturity and other investments included in the consolidated investment portfolio of the Company as of June 30, 2009 and December 31, 2008:

	June 30, 2009				
In millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Other-Than-Temporary Impairments in OCI**
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 822	$ 13	$ (4)	$ 831	$ -
Foreign governments	569	26	(8)	587	-
Corporate obligations	3,663	37	(528)	3,172	-
Mortgage-backed securities					
Residential mortgage-backed agency	1,334	41	(6)	1,369	-
Residential mortgage-backed non-agency	1,502	13	(658)	857	(216)
Commercial mortgage-backed	56	-	(17)	39	(1)
Asset-backed securities					
Collateralized debt obligations	1,280	-	(695)	585	(112)
Other asset-backed	1,187	11	(330)	868	(0)
Total	10,413	141	(2,246)	8,308	(329)
State and municipal bonds					
Tax exempt bonds	2,841	19	(111)	2,749	-
Taxable bonds	533	7	(57)	483	-
Total state and municipal bonds	3,374	26	(168)	3,232	-
Total fixed-maturity investments	13,787	167	(2,414)	11,540	(329)
Other investments:					
Perpetual preferred securities	486	4	(172)	318	-
Other investments	169	2	-	171	-
Money market securities	2,284	-	-	2,284	-
Total other investments	2,939	6	(172)	2,773	-
Total available-for-sale investments	$ 16,726	$ 173	$ (2,586)	$ 14,313	$ (329)

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	December 31, 2008			
In millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed-maturity investments:				
Taxable bonds:				
U.S. Treasury and government agency	$ 1,194	$ 74	$ -	$ 1,268
Foreign governments	818	39	(22)	835
Corporate obligations	3,861	43	(541)	3,363
Mortgage-backed securities				
Residential mortgage-backed agency	1,359	27	(12)	1,374
Residential mortgage-backed non-agency	1,664	9	(649)	1,024
Commercial mortgage-backed	72	-	(19)	53
Asset-backed securities				
Collateralized debt obligations	1,467	3	(552)	918
Other asset-backed	1,298	4	(318)	984
Total	11,733	199	(2,113)	9,819
State and municipal bonds				
Tax exempt bonds	3,273	20	(233)	3,060
Taxable bonds	473	13	(61)	425
Total state and municipal bonds	3,746	33	(294)	3,485
Total fixed-maturity investments	15,479	232	(2,407)	13,304
Other investments:				
Perpetual preferred securities	635	-	(315)	320
Other investments	126	-	(5)	121
Money market securities	3,235	-	-	3,235
Total other investments	3,996	-	(320)	3,676
Total available-for-sale investments	$ 19,475	$ 232	$ (2,727)	$ 16,980

Fixed-maturity investments carried at fair value of $13 million and $14 million as of June 30, 2009 and December 31, 2008, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

A portion of the obligations under investment agreements require the Company to pledge securities as collateral. As of June 30, 2009 and December 31, 2008, the fair value of securities pledged as collateral with respect to these obligations approximated $2.7 billion. Additionally, the Company has pledged cash in the amount of $600 million.

The following table presents the distribution by contractual maturity of available-for-sale fixed-maturity investments at amortized cost and fair value as of June 30, 2009. Contractual maturity may differ from expected maturity because borrowers may have the right to call or prepay obligations.

In millions	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 1,141	$ 1,133

Due after one year through five years		1,989		1,948
Due after five years through ten years		1,283		1,154
Due after ten years through fifteen years		610		556
Due after fifteen years		3,405		3,031
Mortgage-backed		2,892		2,265
Asset-backed		2,467		1,453
Total fixed-maturity investments	$	13,787	$	11,540

32

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Investments that are held-to-maturity are reported on the Company s balance sheet at amortized cost. These investments, which relate to the Company s conduit segment and consolidated VIEs, primarily consist of ABS and loans issued by major national and international corporations and other structured finance clients. As of June 30, 2009, the amortized cost and fair value of held-to-maturity investments totaled $4.0 billion and $3.4 billion, respectively. Unrecognized gross gains were $5 million and unrecognized gross losses were $554 million. As of December 31, 2008, the amortized cost and fair value of held-to-maturity investments totaled $3.7 billion and $3.6 billion, respectively. Unrecognized gross gains were $1 million and unrecognized gross losses were $62 million. The following table presents the distribution of held-to-maturity investments by contractual maturity at amortized cost and fair value as of June 30, 2009:

In millions	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	1	1
Due after five years through ten years	1	1
Due after ten years through fifteen years	-	-
Due after fifteen years	1,100	949
Mortgage-backed	102	102
Asset-backed	2,756	2,358
Total held-to-maturity investments	$ 3,960	$ 3,411

Included in the preceding tables are investments that have been insured by MBIA Corp. and National (MBIA-Insured Investments). As of June 30, 2009, MBIA-Insured Investments at fair value represented $2.7 billion or 15% of the consolidated investment portfolio. Conduit segment investments represented $1.5 billion or 8% of the consolidated investment portfolio and were all insured by MBIA Corp. Without giving effect to the MBIA guarantee of the MBIA-Insured Investments, the underlying ratings (those given to an investment without the benefit of MBIA s guarantee) of the MBIA-Insured Investments as of June 30, 2009 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of MBIA Corp. s and National s guarantee. The ratings in the following table are based on ratings from Moody s. Alternate rating sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody s. When an external underlying rating is not available, the underlying rating is based on the Company s best estimate of the rating of such investment.

In millions

Underlying Ratings Scale	U.S. Public Finance Insurance Available-for-Sale	Structured Finance and International Insurance Available-for-Sale	Investment Management Services Available-for-Sale	Investments Held-to- Maturity	Total
Aaa	$ -	$ 6	$ -	$ 142	$ 148
Aa	64	-	58	62	184
A	219	22	188	102	531
Baa	71	62	281	1,078	1,492
Below investment grade	2	196	70	74	342
Total	$ 356	$ 286	$ 597	$ 1,458	$ 2,697

It is MBIA s policy to obtain an underlying rating from both Moody s and S&P for each new transaction funded through the Company s conduit segment prior to the execution of such transactions. All transactions currently funded in the conduit segment had an underlying rating of investment grade by Moody s and S&P prior to funding. The weighted average underlying rating for transactions currently funded in the

Company s conduits was A- by S&P and A2 by Moody s at the time such transactions were funded. MBIA estimates that the weighted average underlying rating of all outstanding conduit segment transactions was BBB by S&P and Baa1 by Moody s as of June 30, 2009.

The following tables present the gross unrealized losses included in accumulated other comprehensive income (loss) as of June 30, 2009 and December 31, 2008 related to available-for-sale fixed-maturity and other investments. The tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	June 30, 2009					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 193	$ (4)	$ -	$ -	$ 193	$ (4)
Foreign governments	29	(1)	50	(7)	79	(8)
Corporate obligations	646	(83)	1,545	(445)	2,191	(528)
Mortgage-backed securities						
Residential mortgage-backed agency	107	(2)	90	(4)	197	(6)
Residential mortgage-backed non-agency	245	(127)	512	(531)	757	(658)
Commercial mortgage-backed	2	(1)	36	(16)	38	(17)
Asset-backed securities						
Collateralized debt obligations	332	(351)	256	(339)	588	(690)
Other asset-backed	62	(22)	556	(308)	618	(330)
Total	1,616	(591)	3,045	(1,650)	4,661	(2,241)
State and municipal bonds						
Tax exempt bonds	498	(7)	1,597	(104)	2,095	(111)
Taxable bonds	112	(15)	204	(42)	316	(57)
Total state and municipal bonds	610	(22)	1,801	(146)	2,411	(168)
Total fixed-maturity investments	2,226	(613)	4,846	(1,796)	7,072	(2,409)
Other investments:						
Perpetual preferred securities	80	(21)	220	(151)	300	(172)
Other investments	-	-	5	-	5	-
Total other investments	80	(21)	225	(151)	305	(172)
Total	$ 2,306	$ (634)	$ 5,071	$ (1,947)	$ 7,377	$ (2,581)

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	December 31, 2008					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 5	$ -	$ 24	$ -	$ 29	$ -
Foreign governments	107	(10)	24	(12)	131	(22)
Corporate obligations	1,144	(123)	1,243	(418)	2,387	(541)
Mortgage-backed securities						
Residential mortgage-backed agency	98	(5)	206	(7)	304	(12)
Residential mortgage-backed non-agency	82	(45)	645	(604)	727	(649)
Commercial mortgage-backed	9	(1)	40	(18)	49	(19)
Asset-backed securities						
Collateralized debt obligations	165	(190)	285	(351)	450	(541)
Other asset-backed	419	(96)	430	(222)	849	(318)
Total	2,029	(470)	2,897	(1,632)	4,926	(2,102)
State and municipal bonds						
Tax exempt bonds	2,034	(225)	171	(8)	2,205	(233)
Taxable bonds	188	(35)	107	(26)	295	(61)
Total state and municipal bonds	2,222	(260)	278	(34)	2,500	(294)
Total fixed-maturity investments	4,251	(730)	3,175	(1,666)	7,426	(2,396)
Other investments:						
Perpetual preferred securities	99	(78)	219	(237)	318	(315)
Other investments	94	(5)	-	-	94	(5)
Total other investments	193	(83)	219	(237)	412	(320)
Total	$ 4,444	$ (813)	$ 3,394	$ (1,903)	$ 7,838	$ (2,716)

The following tables present the gross unrealized losses of held-to-maturity investments as of June 30, 2009 and December 31, 2008. Held-to-maturity investments are reported at amortized cost on the Company s balance sheet. The tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	June 30, 2009					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage and other asset-backed securities	$ 2,151	$ (526)	$ 72	$ (28)	$ 2,223	$ (554)

	December 31, 2008					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage and other asset-backed securities	$ 334	$ (28)	$ 75	$ (34)	$ 409	$ (62)

As of June 30, 2009 and December 31, 2008, the Company s available-for-sale fixed-maturity, equity and held-to-maturity investment portfolios gross unrealized losses totaled $3.1 billion and $2.8 billion, respectively. The weighted average contractual maturity of securities in an unrealized loss position as of June 30, 2009 and December 31, 2008 was 18 years and 16 years, respectively. As of June 30, 2009, there were 912 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $2.0 billion. Within the 912 securities, the book value of 714 securities exceeded market value by more than 5% as presented in the following table:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Percentage Book Value Exceeded Market Value	Number of Securities	Fair Value (in millions)
5% to 15%	230	$ 1,366
16% to 25%	165	831
26% to 50%	183	1,099
Greater than 50%	136	434
Total	714	$ 3,730

As of December 31, 2008, there were 570 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $1.9 billion. Within the 570 securities, the book value of 486 securities exceeded market value by more than 5%.

MBIA has evaluated whether the unrealized losses in its investment portfolios were other than temporary considering the circumstances that gave rise to the unrealized losses, and whether MBIA has the intent to sell the securities or more likely than not will be required to sell the securities before its anticipated recovery. Based on its evaluation, the Company realized other-than-temporary impairments of $114 million primarily related to residential mortgage-backed and CDO securities for the three months ended June 30, 2009. The gross unrealized losses related to other-than-temporary impairments were adversely impacted by the decision to include FGIC wrapped securities in the analysis due to the downgrade of FGIC in the second quarter of 2009. For the six months ended June 30, 2009, the Company realized other-than-temporary impairments of $240 million primarily related to residential mortgage-backed and CDO securities and $104 million related to perpetual securities. MBIA determined that the unrealized losses on the remaining securities were temporary in nature because its impairment analysis, including projected future cash flows, indicated that the Company would be able to recover the amortized cost of impaired assets. The Company also concluded that it does not have the intent to sell these securities and it is more likely than not that it will not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources availability to its business other than sales of securities. It also considered the existence of any risk management or other plans as of June 30, 2009 that would require the sale of impaired securities. On a quarterly basis, MBIA will reevaluate the unrealized losses in its investment portfolios and determine whether an impairment loss should be realized in current earnings. Refer to Note 7: Investment Income and Gains and Losses for information on realized losses due to other-than-temporary impairments. Additionally, refer to Note 2: Significant Accounting Policies for a description of the process used by the Company to determine other-than-temporary impairments.

Note 7: Investment Income and Gains and Losses

The following table includes total investment income from all operations:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Fixed-maturity	$ 141	$ 337	$ 287	$ 748
Held-to-maturity	26	34	52	91
Short-term investments	(15)	38	(28)	76
Other investments	30	14	62	29
Gross investment income	182	423	373	944
Investment expenses	3	6	5	12
Net investment income	179	417	368	932
Fixed-maturity				
Gains	32	79	93	178
Losses	(121)	(849)	(328)	(1,111)
Net	(89)	(770)	(235)	(933)
Other investments				
Gains	0	1	2	2
Losses	(2)	(1)	(110)	(1)
Net	(2)	-	(108)	1
Other				
Gains	21	2	79	4
Losses	(13)	(51)	(15)	(58)
Net	8	(49)	64	(54)
Total net realized gains (losses)(1)	(83)	(819)	(279)	(986)
Total investment income	$ 96	$ (402)	$ 89	$ (54)

(1) - Includes losses from other-than-temporary impairments.

For the three months ended June 30, 2009, net realized losses from fixed-maturity investments of $89 million included other-than-temporary impairments of $114 million primarily related to residential mortgage-backed and CDO securities and realized losses on security sales. For the first six months of 2009, net realized losses from fixed-maturity investments of $235 million included other-than-temporary impairments of $240 million primarily related to residential mortgage-backed and CDO securities and losses on security sales.

For the three months ended June 30, 2008, net realized losses from fixed-maturity investments of $770 million included other-than-temporary impairments of $436 million primarily related to ABS and corporate securities and realized losses on security sales. For the first six months of 2008, net realized losses from fixed-maturity investments of $933 million included other-than-temporary impairments of $660 million primarily related to ABS and corporate securities and realized losses on security sales.

For the first six months of 2009, net realized losses in other investments of $108 million included other-than temporarily impairments of $104 million related to perpetual equity securities.

As discussed in Note 2: Significant Accounting Policies, a portion of certain other-than-temporary impairment losses on fixed-maturity securities are recognized in accumulated other comprehensive income (loss). The following table sets forth the amount of credit loss impairments on fixed maturity securities held by MBIA Inc. as of the dates indicated, for which a portion of the other-than-temporary impairment losses were recognized in accumulated other comprehensive income (loss), and the corresponding changes in such amounts.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Credit losses recognized in earnings on fixed maturity securities held by MBIA Inc. for which a portion of the other-than-temporary impairment loss was recognized in accumulated other comprehensive income (loss)	**(in millions)**
Balance, December 31, 2008	$ -
Credit losses remaining in retained earnings related to adoption of FSP FAS 115-2 and FAS 124-2	226
Credit loss impairments previously recognized on securities which matured, paid down, prepared or were sold during the period	-
Credit loss impairments previously recognized on securities impaired to fair value during the period[1]	-
Credit loss impairment recognized in the current period on securities not previously impaired	114
Additional credit loss impairments recognized in the current period on securities previously impaired	-
Increase due to the passage of time on previously recorded credit losses	-
Accretion of credit loss impairments previously recognized due to an increase in cash flow expected to be collected	-
Balance, June 30, 2009	$ 340

(1) - Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security s amortized cost.

For ABSs (e.g., RMBSs and CDOs), the Company estimated expected future cash flows of the security by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordination interests owned by third parties, to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which considers current delinquencies and nonperforming assets, future expected default rates and collateral value by vintage and geographic region) and prepayments. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. The following table presents a summary of the significant inputs considered in determining the measurement of the credit loss component recognized in earnings for each significant class of asset-backed securities as of June 30, 2009.

	Asset-backed Securities
Expected remaining life of loan losses[1]:	
Range[2]	0.99% to 85.22%
Weighted average[3]	26.70%
Current subordination levels[4]:	
Range[2]	0.00% to 52.16%
Weighted average[3]	10.24%
Prepayment speed (annual CPR)[5]:	
Range[2]	1.16% to 34.00%
Weighted average[3]	9.70%

(1) - Represents future expected credit losses on impaired assets expressed as a percentage of total current outstanding balance.

(2) - Represents the range of inputs/assumptions based upon the individual securities within each category.

(3) - Calculated by weighting the relevant input/assumption for each individual security by current outstanding amortized cost basis of the security.

(4) - Represents current level of credit protection (subordination) for the securities, expressed as a percentage of total current underlying loan balance.

(5) - Values represent high and low points of lifetime vectors of constant prepayment rates.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Net unrealized gains (losses), including related deferred income taxes, reported in accumulated other comprehensive income (loss) within shareholders equity consisted of:

In millions	June 30, 2009	December 31, 2008
Fixed-maturity:		
Gains	$ 167	$ 231
Losses	(2,414)	(2,406)
Foreign exchange	(62)	(102)
Net	(2,309)	(2,277)
Other investments:		
Gains	4	0
Losses	(172)	(320)
Net	(168)	(320)
Total	(2,477)	(2,597)
Deferred income taxes provision (benefit)	(764)	(867)
Unrealized gains (losses), net	$ (1,713)	$ (1,730)

The change in net unrealized gains (losses) consisted of:

In millions	June 30, 2009	December 31, 2008
Fixed-maturity	$ (32)	$ (2)
Other investments	152	0
Total	120	(2)
Deferred income tax charged (credited)	103	(1)
Change in unrealized gains (losses), net	$ 17	$ (1)

Note 8: Derivative Instruments

Overview

MBIA has entered into derivative transactions as an additional form of financial guarantee and for purposes of hedging risks associated with existing assets and liabilities and forecasted transactions. CDSs are also entered into in the investment management services operations to replicate investments in cash assets consistent with the Company s risk objectives and credit guidelines for its investment management business. The Company accounts for derivative transactions in accordance with SFAS 133, as amended, which requires that all such transactions be recorded on the Company s balance sheet at fair value. Fair value of derivative instruments is defined as the price that would be received to sell a derivative asset or paid to transfer a derivative liability (an exit price) in an orderly transaction between market participants at the measurement

date.

Changes in the fair value of derivatives, excluding insured derivatives, are recorded each period in current earnings within Net gains (losses) on financial instruments at fair value and foreign exchange or in shareholders equity within Accumulated other comprehensive income (loss), depending on whether the derivative is designated as a hedge, and if so designated, the type of hedge. Changes in the fair value of insured derivatives are recorded in Net change in fair value of insured derivatives. The net change in the fair value of the Company s insured derivatives has two primary components; (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. Realized gains (losses) and other settlements on insured derivatives include (i) net premiums received and receivable on written CDS contracts, (ii) net premiums paid and payable to reinsurers in respect of CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. The Unrealized gains (losses) on insured derivatives include all other changes in fair value of the derivative contracts.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

U.S. Public Finance Insurance

The Company s derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate and inflation-linked swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope exception under SFAS 133 and, therefore, must be recorded at fair value on the Company s balance sheet with the changes in fair value recorded in unrealized gains (losses) on insured derivatives.

Structured Finance and International Insurance

The Company entered into derivative transactions that it viewed as an extension of its core financial guarantee business but which do not qualify for the financial guarantee scope exception under SFAS 133 and, therefore, must be recorded at fair value on the Company s balance sheet. The Company s structured finance and international insurance operations, which insured the majority of the Company s notional derivative exposure, have insured derivatives primarily consisting of structured pools of CDSs that the Company intends to hold for the entire term of the contract absent a negotiated settlement with the counterparty. The Company s structured finance and international insurance operations have also provided guarantees on the value of certain structured closed-end funds, which meet the definition of a derivative under SFAS 133. The Company reduces risks embedded in its insured portfolio through the use of reinsurance and by entering into derivative transactions. This includes cessions of insured derivatives under reinsurance agreements and capital markets transactions in which the Company economically hedges a portion of the credit and market risk associated with its insured credit derivative portfolio. Such arrangements are also accounted for as derivatives under SFAS 133 and recorded in the Company s financial statements at fair value.

Investment Management Services

The investment management services operations have entered into derivative transactions primarily consisting of interest rate, cross currency, principal protection guarantees and CDSs. Interest rate swaps are entered into to hedge the risks associated with fluctuations in interest rates or fair values of certain contracts. Cross currency swaps are entered into to hedge the variability in cash flows resulting from fluctuations in foreign currency rates. The Company has also provided loss protection on certain MBIA Municipal Investor Service Corporation (MBIA-MISC) managed municipal pools that invest in highly rated short-term fixed-income securities. Such protection is accounted for as a derivative under SFAS 133 and is included as part of the Company s principal protection guarantees. CDSs are entered into to hedge credit risk or to replicate investments in cash assets consistent with the Company s risk objectives and credit guidelines for its investment management business.

Certain interest rate and cross currency swaps qualify as cash flow hedges and fair value hedges under SFAS 133. The cash flow hedges mitigate or offset fluctuations in cash flows arising from variable rate assets or liabilities. The unrealized gains and losses relating to the cash flow hedges are reported in accumulated other comprehensive income (loss) and will be reclassified into earnings as interest revenue and expense are recognized on the hedged assets and liabilities. The fair value hedges are used to protect against changes in the market value of the hedged assets or liabilities. The gains and losses relating to the fair value hedges are recorded directly in earnings. Cash flow and fair value hedges are hedging existing assets, liabilities or forecasted transactions.

Corporate

The corporate operations have entered into a cross currency swap to hedge foreign exchange risks related to the issuance of certain MBIA long-term debt in accordance with the Company s risk management policies. The cross currency swap has been designated as a cash flow hedge and hedges the variability arising from currency exchange rate movements on the foreign denominated fixed rate debt. Changes in the fair value of the cross currency swap are recorded in accumulated other comprehensive income (loss). As the debt is revalued at the spot exchange rate in accordance with SFAS 52, Foreign Currency Translation, an amount that will offset the related transaction gain or loss arising from the revaluation will migrate each period from accumulated other comprehensive income (loss) into earnings. This cash flow hedge was 100% effective during the first six months of 2009.

Credit Derivatives Sold

The following table presents information about credit derivatives sold (insured) by the Company s insurance operations that were outstanding as of June 30, 2009. Credit ratings represent the lower of underlying ratings currently assigned by Moody s, S&P or MBIA.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions		Notional Value						
Credit Derivatives Sold	**Weighted Average Remaining Expected Maturity**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Total Notional**	**Fair Value (Asset) Liability**
Credit default swaps	5.7 Years	$ 47,321	$ 23,395	$ 35,067	$ 6,026	$ 21,614	$ 133,423	$ (4,083)
Insured swaps	17.1 Years	-	770	6,546	5,612	1,489	14,417	(4)
Credit linked notes	29.1 Years	1	-	-	-	-	1	-
All others	9.7 Years	-	159	216	-	36	411	(17)
Total notional		$ 47,322	$ 24,324	$ 41,829	$ 11,638	$ 23,139	$ 148,252	
Total fair value		$ (432)	$ (504)	$ (890)	$ (285)	$ (1,993)		$ (4,104)

The following table presents information about credit derivatives sold (insured) by the Company s insurance operations that were outstanding as of December 31, 2008. Credit ratings represent the lower of underlying ratings currently assigned by Moody s, S&P or MBIA.

In millions		Notional Value						
Credit Derivatives Sold	**Weighted Average Remaining Expected Maturity**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Total Notional**	**Fair Value (Asset) Liability**
Credit default swaps	5.8 Years	$ 122,213	$ 5,176	$ 120	$ 1,447	$ 16,077	$ 145,033	$ (6,175)
Insured swaps	16.1 Years	-	1,605	5,720	8,419	1,435	17,179	(5)
Total return swaps	1.7 Years	-	-	200	-	104	304	-
Credit linked notes	30.3 Years	-	-	1	-	-	1	-
All others	9.4 Years	195	-	288	-	-	483	(14)
Total notional		$ 122,408	$ 6,781	$ 6,329	$ 9,866	$ 17,616	$ 163,000	
Total fair value		$ (3,450)	$ (481)	$ -	$ (37)	$ (2,226)		$ (6,194)

Referenced credit ratings assigned by MBIA to insured credit derivatives are derived by the Company s surveillance group in conjunction with representatives from its new business and risk divisions. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDSs are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDSs. Refer to Note 13: Net Insurance in Force for further information about the Company s sold credit derivatives, including the maximum potential undiscounted payments, recourse provisions and collateral arrangements. The maximum potential amount of future payments (undiscounted) on insured swaps, total return swaps and credit linked notes sold are estimated as the notional value of such contracts.

The following table presents information about credit derivatives sold by the Company s investment management services operations that were outstanding as of June 30, 2009. Credit ratings represent the lower of ratings currently assigned by Moody s, S&P or external counterparties.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions		Notional Value						
Credit Derivatives Sold	**Weighted Average Remaining Expected Maturity**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Total Notional**	**Fair Value (Asset) Liability**
Credit default swaps	3.8 Years	$ 20	$ 295	$ 115	$ -	$ -	$ 430	$ (29)
Principal protection guarantees	0.1 Years	7,356	-	-	-	-	7,356	-
Credit linked notes	1.5 Years	15	100	-	-	11	126	(41)
Total notional		$ 7,391	$ 395	$ 115	$ -	$ 11	$ 7,912	
Total fair value		$ (2)	$ (54)	$ (3)	$ -	$ (11)		$ (70)

The following table presents information about credit derivatives sold by the Company s investment management services operations that were outstanding as of December 31, 2008. Credit ratings represent the lower of ratings currently assigned by Moody s, S&P or external counterparties.

In millions		Notional Value						
Credit Derivatives Sold	**Weighted Average Remaining Expected Maturity**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Total Notional**	**Fair Value (Asset) Liability**
Credit default swaps	3.2 Years	$ 180	$ 155	$ 397	$ -	$ -	$ 732	$ (55)
Principal protection guarantees	0.1 Years	4,469	-	-	-	-	4,469	-
Total return swaps	6.8 Years	-	-	37	-	-	37	(3)
Credit linked notes	2.5 Years	15	100	-	25	6	146	(60)
Total notional		$ 4,664	$ 255	$ 434	$ 25	$ 6	$ 5,384	
Total fair value		$ (28)	$ (44)	$ (22)	$ (19)	$ (5)		$ (118)

The maximum potential amount of future payments (undiscounted) on derivatives presented in the preceding table are estimated as the notional value of such contracts.

Financial Statement Impact

In the second quarter of 2009, the Company re-evaluated its election regarding offsetting the fair value amounts recognized for derivative contracts executed with the same counterparty under a master netting agreement under FIN 39. As a result, the Company has decided to begin netting the fair value amounts recognized for derivative contracts executed with the same counterparty.

As of June 30, 2009 and December 31, 2008, the Company reported derivative assets of $755 million and $911 million, respectively, and derivative liabilities of $4.2 billion and $6.5 billion, respectively, after counterparty netting, which are shown separately on the Company s consolidated balance sheets. In accordance with SFAS 161 the following table presents the amount of the derivative assets and liabilities by

instrument, before counterparty netting, as of June 30, 2009.

In millions

Derivatives Designated as Hedging Instruments under SFAS 133	**Notional Amount Outstanding**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate swaps	$ 1,020	Derivative assets	$ 73	Derivative liabilities	$ (52)
Currency swaps	95	Derivative assets	27	Derivative liabilities	(3)
Total hedges	$ 1,115		$ 100		$ (55)

42

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions

Derivatives Not Designated as Hedging Instruments under SFAS 133	**Notional Amount Outstanding**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Credit default swaps - insured derivatives	$ 154,933	Derivative assets	$ 690	Derivative liabilities	$ (4,106)
Insured swaps	14,585	Derivative assets	1	Derivative liabilities	(10)
Credit default swaps - investment management	513	Derivative assets	9	Derivative liabilities	(30)
Interest rate swaps	5,581	Derivative assets	124	Derivative liabilities	(281)
Interest rate swaps - embedded	536	Medium-term notes	12	Medium-term notes	(17)
Interest rate swaps - embedded	693	Other assets	(10)	Other liabilities	-
Credit linked notes	101	Derivative assets	-	Derivative liabilities	(28)
Credit linked notes	47	Fixed-maturity securities held at fair value	-	Fixed-maturity securities held at fair value	(13)
Currency swaps	689	Derivative assets	56	Derivative liabilities	(18)
All other	7,703	Derivative assets	-	Derivative liabilities	(21)
Total non-hedges	$ 185,381		$ 882		$ (4,524)
Total derivatives	$ 186,496		$ 982		$ (4,579)

The following tables show the effect of derivative instruments on the consolidated statement of operations for the three months ended June 30, 2009:

In millions

Derivatives in SFAS 133 Fair Value Hedging Relationships	**Location of Gain (Loss) Recognized in Income on Derivative**	**Gain (Loss) Recognized in Income on Derivative**	**Gain (Loss) Recognized in Income on Hedged Item**	**Net Gain (Loss) Recognized in Income**
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	$ 1	$ (3)	$ 2
Interest rate swaps	Net realized gains (losses)	-	-	2
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	1	(1)	-
Currency swaps	Net realized gains (losses)	-	-	12
Total		$ 2	$ (4)	$ 16

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions

Derivatives Not Designated as Hedging Instruments under SFAS 133	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Credit default swaps - insured derivatives	Unrealized gains (losses) on insured derivatives	$ 419
Insured swaps	Unrealized gains (losses) on insured derivatives	1
Insured swaps	Realized gains (losses) and other settlements on insured derivatives	32
Credit default swaps - investment management	Net gains (losses) on financial instruments at fair value and foreign exchange	23
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	79
Total return swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	7
Credit linked notes	Net gains (losses) on financial instruments at fair value and foreign exchange	12
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(6)
Total		$ 567

The following tables show the effect of derivative instruments on the consolidated statement of operations for the six months ended June 30, 2009:

In millions

Derivatives in SFAS 133 Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Hedged Item	Net Gain (Loss) Recognized in Income
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	$ 114	$ (106)	$ (8)
Interest rate swaps	Net realized gains (losses)	-	-	59
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(4)	4	-
Currency swaps	Net realized gains (losses)	-	-	13
Total		$ 110	$ (102)	$ 64

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions

Derivatives Not Designated as Hedging Instruments under SFAS 133	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income	
Credit default swaps - insured derivatives	Unrealized gains (losses) on insured derivatives	$	2,035
Insured swaps	Unrealized gains (losses) on insured derivatives		1
Insured swaps	Realized gains (losses) and other settlements on insured derivatives		64
Credit default swaps - investment management	Net gains (losses) on financial instruments at fair value and foreign exchange		2
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange		58
Total return swaps	Net gains (losses) on financial instruments at fair value and foreign exchange		6
Credit linked notes	Net gains (losses) on financial instruments at fair value and foreign exchange		20
All other	Unrealized gains (losses) on insured derivatives		(7)
Total		$	2,179

The amount of gains (losses) recognized in other comprehensive income (loss) on derivatives designated as cash flow hedges was a $85 thousand loss on interest rate swaps and a $1 million loss on cross currency swaps. The amount of gains reclassified from other comprehensive income (loss) into net gains (losses) on financial instruments at fair value and foreign exchange was $43 thousand for the interest rate swaps and $221 thousand for the cross currency swaps.

Counterparty Credit Risk

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative transactions in the investment management services and corporate operations. These agreements allow the Company to contractually net

amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either MBIA or the counterparty is downgraded below a specified credit rating.

In certain non-insurance derivative contracts, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of certain derivative contracts exceeds an exposure threshold. Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure counterparties exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of June 30, 2009, the Company did not hold cash collateral from derivative counterparties but posted cash collateral to derivative counterparties of $135 million. This amount is in derivative liability. As of June 30, 2009, the Company had securities with a fair value of $120 million posted to derivative counterparties.

If the Company had not elected to net the fair value amounts recognized for derivative contracts executed with the same counterparty under FIN 39 and were to settle all transactions covered under master netting agreements as of June 30, 2009, the amount required to be paid to counterparties would have increased by $225 million as a result of its inability to offset amounts due from such counterparties.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2009, the fair value was positive on one Credit Support Annexes (CSAs) which govern collateral posting requirements between MBIA and its derivative counterparties. The aggregate positive fair value for this CSAs was $2 million for which the Company did not receive collateral because the Company s credit rating was below the CSAs minimum credit ratings level for holding counterparty collateral. The rating of this one counterparty is AA- by S&P and Aa3 by Moody s.

Note 9: Variable Interest Entities

Insurance

Through MBIA s structured finance and international insurance operations, the Company provides credit enhancement services to issuers of obligations that may involve issuer-sponsored special purpose entities (SPEs). An SPE may be considered a VIE as defined by FIN 46(R), Consolidation of Variable Interest Entities an interpretation of ARB No. 51, to the extent the SPE s total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or if its equity investors lack any one of the characteristics of a controlling financial interest including (i) the ability to make significant decisions through voting rights, (ii) the right to receive the expected residual returns of the entity, or (iii) the obligation to absorb the expected losses of the entity. The holder of a variable interest that will absorb the majority of the expected losses of the VIE, receive the majority of the expected returns of the VIE, or both, is required to consolidate the VIE. The variable interest holder required to consolidate a VIE is considered to be the primary beneficiary under FIN 46(R). A variable interest holder determines whether it is the primary beneficiary of the VIE at initial recognition of its variable interest in the VIE and reconsiders its determination if certain events occur in a subsequent reporting period.

The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, at inception and when reconsideration events occur, MBIA evaluates whether its guarantee to provide credit protection on obligations issued by VIEs will absorb the majority of the expected losses of the VIE.

The Company generally makes this determination based on a qualitative assessment of the design and purpose of the VIE, the capital structure and other variable interests that will absorb expected losses. If the Company cannot make the determination based on a qualitative analysis, a quantitative analysis is used. The Company generally provided credit protection on the most senior obligations issued by VIEs, and at inception of the contract, its exposure generally had more subordination than necessary to achieve triple-A credit ratings from credit rating agencies. MBIA generally does not absorb the majority of the expected losses and is not the primary beneficiary as the result of its guarantees of insured obligations issued by VIEs. The Company generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance by a nonconsolidated VIE, to be a significant variable interest.

Consolidated VIEs

As of June 30, 2009, consolidated VIE assets and liabilities were $3.0 billion and $6.7 billion, respectively, based on the consolidation of eight VIEs. As of December 31, 2008, consolidated VIE assets and liabilities were $2.3 billion and $8.0 billion, respectively, based on the consolidation of six VIEs. Included in consolidated VIEs as of June 30, 2009 and December 31, 2008 is an entity sponsored and formed by the Company, LaCrosse Financial Products, LLC (LaCrosse), designed to provide credit protection to counterparties in the form of credit derivative instruments. The Company provides credit support and issues financial guarantee insurance policies that insure all LaCrosse credit protection obligations. LaCrosse lacks sufficient equity to finance its activities and is deemed a VIE. As primary beneficiary, the Company consolidates LaCrosse. In the second quarter of 2009, the Company formed MBIA Capital Management Institutional Investor Trust to invest in fixed income securities and financial instruments for income and capital appreciation, and has invested in the equity of this entity. The entity s equity at risk does not meet all the conditions of a controlling financial interest and is deemed a VIE. The Company holds the majority of the equity of the VIE and is considered the primary beneficiary. In the second quarter of 2009, the Company initially consolidated a VIE as primary beneficiary resulting from a financial guarantee insurance policy that provides credit protection on insured obligations issued by the entity. The maturity dates of the investments held and insured obligations issued by this VIE are in May 2010. In the six months ended June 30, 2009, the Company acquired additional variable interests in one consolidated VIE which has outstanding obligations insured by MBIA.

The Company determined that it is the primary beneficiary of the consolidated VIEs based on its assessment of potential exposure to expected losses from insured obligations issued by the VIEs and from holding any additional variable interests issued by the VIEs. Creditors of

issuer-sponsored VIEs do not have recourse to the general assets of MBIA. In the event of nonpayment of an insured obligation issued by a consolidated VIE, the Company is obligated to pay principal and interest, when due, on the respective insured obligation only. The Company s exposure to consolidated VIEs is limited to the credit protection provided on insured obligations and the additional variable interests acquired.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a significant variable interest as of June 30, 2009 and December 31, 2008. The tables also present the Company s maximum exposure to loss in comparison to the carrying value of liabilities resulting from financial guarantees and insured CDSs and loss and loss adjustment expense reserves as of June 30, 2009 and December 31, 2008. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. Refer to Note 8: Derivative Instruments for information about the Company s valuation of insured derivatives. Additionally, as the majority of the Company s loss and loss adjustment expense (LAE) reserves relate to guarantees of VIEs, refer to Note 10: Loss and Loss Adjustment Expense Reserves for information about the Company s loss and LAE activity.

	June 30, 2009				
			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Unearned Premium Revenue	Derivative Liabilities	Loss and Loss Adjustment Expense Reserves
Insurance:					
Global structured finance:					
Collateralized debt obligations	$ 61,706	$ 55,983	$ 110	$ 1,941	$ 40
Mortgage-backed residential	82,966	29,589	147	3	973
Mortgage-backed commercial	1,886	1,543	8	-	-
Consumer asset-backed	18,968	11,238	49	-	22
Corporate asset-backed	59,052	32,763	525	9	-
Total global structured finance	$ 224,578	$ 131,116	$ 839	$ 1,953	$ 1,035
Global public finance	28,722	10,993	161	-	-
Total insurance	$ 253,300	$ 142,109	$ 1,000	$ 1,953	$ 1,035

	December 31, 2008				
			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Unearned Premium Revenue	Derivative Liabilities	Loss and Loss Adjustment Expense Reserves
Insurance:					
Global structured finance:					
Collateralized debt obligations	$ 70,778	$ 51,198	$ 11	$ 2,567	$ 25
Mortgage-backed residential	94,574	29,677	4	1	1,068
Mortgage-backed commercial	2,196	1,660	-	-	-
Consumer asset-backed	21,449	12,832	1	-	22
Corporate asset-backed	68,101	38,498	43	4	-
Total global structured finance	$ 257,098	$ 133,865	$ 59	$ 2,572	$ 1,115
Global public finance	25,561	9,621	85	-	-
Total insurance	$ 282,659	$ 143,486	$ 144	$ 2,572	$ 1,115

The maximum exposure to losses as a result of the Company s variable interest in the VIE is represented by net insurance in force. Net insurance in force is the maximum future payments of principal and interest, net of cessions to reinsurers, which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs, assuming a full credit event occurs. The maximum exposure to losses presented in the preceding table is included in and not incremental to the net insurance in force presented in Note 13: Net Insurance in Force.

The Company adopted SFAS 163, effective and applied prospectively beginning January 1, 2009, which requires unearned premium revenue to be recognized and measured based on the present value, using the risk-free discount rate, of premiums due or expected to be collected in installments. Therefore, Unearned Premium Revenue presented under Carrying Value of Liabilities in the preceding nonconsolidated VIEs tables as of June 30, 2009 and December 31, 2008, are based on different accounting estimates due to the change in accounting principle required by SFAS 163.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Investment Management Services

In its investment management services operations, the Company invests in obligations issued by issuer-sponsored SPEs which are included in fixed-maturity securities held as available-for-sale and investments held-to-maturity. The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment will absorb the majority of the expected losses of the VIE, receive the majority of the expected returns of the VIE, or both, as of the date of initial purchase and as of any subsequent date of additional acquisitions of interests in the VIE. MBIA is not the primary beneficiary of any VIEs and does not hold any significant variable interests in issuers considered VIEs based on its assessment of the investment portfolio.

In the advisory segment of its investment management services operations, the Company provides collateral management services to eight VIEs. Additional variable interests are held in certain of these VIEs in the form of either credit protection provided on VIE obligations or investment in a VIE obligation. The Company evaluates each VIE to determine whether it s combined variable interests in each respective VIE will absorb the majority of the expected losses of the VIE, receive the majority of the expected returns of the VIE, or both. The Company is not the primary beneficiary of the aforementioned VIEs. Significant variable interests resulting from credit protection provided on obligations issued by four of the VIEs are presented in the table above. The Company does not hold a significant variable interest in any of the remaining three VIEs.

As of June 30, 2009 and December 31, 2008, a Company sponsored nonconsolidated funding conduit held no material assets and had no obligations outstanding. The Company has no liquidity obligation to fund nonconsolidated funding conduits.

Consolidated VIEs

In the conduit segment of its investment management services operations, the Company manages and administers two multi-seller conduit SPEs, Triple-A One and Meridian Funding Company, LLC (collectively, the Conduits). The Conduits invest in various types of financial instruments, such as debt securities, loans, lease receivables, trade receivables, and obligations issued by SPEs, and fund the investments through the issuance of commercial paper and/or medium-term notes. The assets and liabilities of the Conduits are supported by credit enhancement provided through MBIA Corp. The Conduits are designed to provide issuers an efficient source of funding for issued obligations, and to provide an opportunity for MBIA Corp. to issue financial guarantee insurance policies.

The Conduits are VIEs and are consolidated by the Company as the primary beneficiary. MBIA has included on its balance sheet the assets and liabilities of each Conduit, which consist primarily of various types of investments funded by medium-term notes and liquidity loans, and has included in its statement of operations the operating revenues and expenses of the Conduits. Certain of MBIA s consolidated subsidiaries have invested in Conduit debt obligations or have received compensation for services provided to the Conduits. As such, MBIA has eliminated intercompany transactions with the Conduits from its balance sheet and statement of operations. After the elimination of such intercompany assets and liabilities, total assets and liabilities of the Conduits were $2.1 billion and $2.0 billion, respectively, as of June 30, 2009 and $2.5 billion and $2.5 billion, respectively, as of December 31, 2008. Creditors of the Conduits do not have recourse to the general assets of MBIA outside of financial guarantee policies provided on obligations issued by the Conduits.

Balance Sheet Impact of Consolidated VIEs

The following table presents the carrying amounts and classification of assets and liabilities of consolidated VIEs as of June 30, 2009 and December 31, 2008:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	June 30, 2009	December 31, 2008
Assets:		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $581 and $632)	$ 338	$ 632
Investments held-to-maturity, at amortized cost	2,843	3,157
Short-term investments held-to-maturity, at amortized cost	1,114	499
Other investments	117	-
Cash and cash equivalents[1]	257	91
Accrued investment income	5	12
Deferred income taxes, net	16	18
Other assets	476	423
Total assets	$ 5,166	$ 4,832
Liabilities:		
Medium-term notes	$ 1,640	$ 2,133
Variable interest entity notes	2,637	1,792
Long-term debt	389	345
Derivative liabilities	4,111	6,202
Other liabilities	2	2
Current income taxes payable	5	-
Total liabilities	$ 8,784	$ 10,474

(1) - Cash and cash equivalents held by certain consolidated VIEs and pledged as security for the benefit of each respective VIEs noteholders.

Note 10: Loss and Loss Adjustment Expense Reserves

A summary of the Company s case basis reserve activity is presented in the following table:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions	2Q 2009	1Q 2009
Gross loss and LAE reserve beginning balance	$ 1,626	$ 1,558
Less: reinsurance recoverable	68	57
Less: SFAS 163 transition adjustment	-	179
Net beginning balance	1,558	1,322
Incurred related to:		
Current year	34	60
Prior years	(763)	634
Total incurred	(729)	694
Net paid related to:		
Current year	(99)	(4)
Prior years	(621)	(612)
Total net paid	(720)	(616)
Expected recoveries on paid losses	1,117	158
Net ending balance	1,226	1,558
Plus: reinsurance recoverable on unpaid losses	35	68
Gross loss and LAE reserve ending balance	$ 1,261	$ 1,626

During the first six months of 2009, the Company recognized a $36 million benefit of losses and loss adjustment expenses due to the impact of recording $1.3 billion of estimated recoveries principally in connection with ineligible mortgages in certain insured second-lien RMBS securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans. These estimated recoveries were mostly offset by additional losses of $1.2 billion largely related to our second-lien RMBS exposure. Additionally, the Company incurred $63 million of losses in the first six months of 2009 primarily related to a U.S. public finance affordable housing transaction.

Total net paid activity for the six months ended June 30, 2009 of $1.3 billion primarily related to $1.2 billion in payments for insured obligations in the Company s RMBS sector. Total expected recoveries on paid losses for the six months ended June 30, 2009 of $1.3 billion primarily related to an increase in receivable for insurance loss recoveries of $1.2 billion within the Company s RMBS sector. The Company had receivables for insurance loss recoveries of $1.7 billion as of June 30, 2009 and $459 million as of December 31, 2008. Amounts due to reinsurers related to estimated recoveries totaled $32 million as of June 30, 2009 and $13 million as of December 31, 2008, and are included in Other liabilities on the Company s consolidated balance sheet.

In the second quarter of 2009, the Company revised expected net cash inflows in its loss reserve calculations based on an increasing likelihood of potential recoveries related to ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans. The Company s updated recovery outlook was principally based on the following factors:

1. The strength of MBIA s existing contract claims related to ineligible loan substitution/repurchase obligations;

2. the favorable outcome for MBIA on Defendants motion to dismiss in the action captioned, MBIA v. Countrywide Home Loans, Inc., et al, Index No. 08-602825 (N.Y. Sup. Ct.) where the court allowed MBIA s fraud claims against the Countrywide defendants to proceed;

3. the improvement in the financial strength of issuers due to mergers and acquisitions and/or government assistance, which will facilitate their ability to comply with required loan repurchase/substitution obligations. The Company is not aware of any provisions that explicitly preclude or limit the successors obligations to honor the obligations of the original sponsor. As a result, the Company did not make any significant adjustments to its estimated recoveries with respect to the credit risk of these sponsors (or their successors); and

4. evidence of loan repurchase/substitution compliance by issuers for put-back requests made by other harmed parties consistent with MBIA s assertions.

Beginning in the first quarter of 2008, MBIA engaged loan level forensic review consultants to re-underwrite/review a sample of the mortgage loan files underlying MBIA s HELOC and CES insured transactions. Certain HELOC and CES transactions that exhibited exceptionally poor performance were chosen for a re-underwriting review. Factors MBIA believes to be indicative of this poor performance include (i) a material increase in early and late stage delinquencies; (ii) material increases in charged-off loans; (iii) significant decreases in credit enhancement; and (iv) policy payments. MBIA s forensic loan review determined that there were significant breaches of mortgage loan representations and material deviations from underwriting guidelines. Accordingly, the Company has determined that thousands of loans were in fact contractually ineligible for inclusion in the securitized trusts insured by MBIA. In turn, MBIA has submitted thousands of ineligible loans for repurchase/substitution to the sponsors or sellers/servicers. The unsatisfactory resolution of these contractual matters in addition to the fraudulent underwriting practices prevalent within certain issuers has led to MBIA engaging in litigation with these issuers seeking the sellers/servicers to repurchase or replace ineligible mortgage loans and specifically perform under its contractual obligation and damages for both breaches of contractual obligations and fraud. MBIA s forensic examination of loan repurchase/substitution requirements for various issuers remains ongoing.

In the second quarter of 2009, MBIA recognized estimated recoveries of $1.1 billion related to reviewed transactions. Additionally, the estimated recoveries are transaction specific and based upon contractual breaches for loans which have been deemed ineligible and either put back to the originators or sellers/servicers or where analysis has been completed and put-back notices are pending. These estimated recoveries rely upon identified breaches of representations and warranties in specific transactions that MBIA has already discovered as a result of actual loan file examinations for 23,765 defaulted mortgage loans, which represent approximately 27% of the total number of delinquent or defaulted mortgage loans out of a total aggregate 496,917 loans in 24 insured second-lien mortgage loan securitizations. The aggregate loan population includes current, delinquent and charged-off loans. Estimated recoveries for these 24 transactions of $1.1 billion is based on only those loans that were examined which had substantiated breaches, and does not include any extrapolation of results from the actual loan file examinations to the remaining mortgages in the loan pool. Expected cash inflows from potential recoveries are forecasted to be recovered in 2012 for all transactions and discounted using the aforementioned risk-free rate of 1.625%. The Company considered all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented as facts and circumstances change and relevant information is available, including additional information on the mortgage loan pools. The Company has utilized the results of the above described loan file examinations to make demands for loan repurchases from originators and services or their successors and, in certain instances, as a part of the basis for litigation filings.

The Company will continue to assess the level of expected recoveries as it completes additional forensic reviews on additional loans and progress through the litigation proceedings that are ongoing at this time. As a result of additional loan reviews and the progression of litigation proceedings, the Company s estimate of recoveries could change materially in the future. However, the amount of such additional recoveries cannot be estimated at this time.

The Company s Insured Portfolio Management Division (IPM) monitors MBIA s outstanding insured obligations with the objective of minimizing losses. IPM meets this objective by identifying issuers that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by MBIA. In such cases, IPM works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. Once an obligation is insured, MBIA typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset related information, including audited financial statements, to IPM for review. IPM also monitors publicly available information related to insured obligations. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations and trustee or servicer problems or other events that could have an adverse impact on the insured obligation, could result in an immediate surveillance review and an evaluation of possible remedial actions. IPM also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, as well as state and municipal finances and budget developments.

Insured obligations are monitored periodically. The frequency and extent of such monitoring is based on the criteria and categories described below. Insured obligations that are judged to merit more frequent and extensive monitoring or remediation activities due to a deterioration in the underlying credit quality of the insured obligation or the occurrence of adverse events related to the underlying credit of the issuer are assigned to a surveillance category (Caution List Low, Caution List Medium, Caution List High, or Classified List) depending on the extent of credit deterioration or the nature of the adverse events. IPM monitors insured obligations assigned to a surveillance category more frequently and, if needed, develops a remediation plan to address any credit deterioration.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Company does not establish any case basis reserves for insured obligations that are assigned to Caution List Low, Caution List Medium, or Caution List High. In the event MBIA expects to pay a claim in excess of the unearned premium revenue with respect to an insured transaction, it places the insured transaction on its Classified List and establishes a case basis reserve. The following provides a description of each surveillance category:

Caution List Low Includes issuers where debt service protection is adequate under current and anticipated circumstances. However, debt service protection and other measures of credit support and stability may have declined since the transaction was underwritten and the issuer is less able to withstand further adverse events. Transactions in this category generally require more frequent monitoring than transactions that do not appear within a surveillance category. IPM subjects issuers in this category to heightened scrutiny.

Caution List Medium Includes issuers where debt service protection is adequate under current and anticipated circumstances, although adverse trends have developed and are more pronounced than for Caution List Low. Issuers in this category may have breached one or more covenants or triggers. These issuers are more closely monitored by IPM but generally take remedial action on their own.

Caution List High Includes issuers where more proactive remedial action is needed but where no defaults on debt service payments are expected. Issuers in this category exhibit more significant weaknesses, such as low debt service coverage, reduced or insufficient collateral protection or inadequate liquidity, which could lead to debt service defaults in the future. Issuers in this category have breached one or more covenants or triggers, have not taken conclusive remedial action, and IPM adopts a remediation plan and takes more proactive remedial actions.

Classified List Includes all insured obligations where MBIA has paid a claim or where a claim payment is expected to exceed its unearned premium revenue. Generally, IPM is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of June 30, 2009:

	Surveillance Categories				
$ in millions	**Caution List- Low**	**Caution List - Medium**	**Caution List - High**	**Classified List**	**Total**
Number of policies	230	46	15	117	408
Number of issues[1]	35	25	12	88	160
Remaining weighted average contract period (in years)	12.5	11.7	7.1	5.8	8.1
Gross insured contractual payments outstanding:					
Principal	$ 6,740	$ 2,222	$ 997	$ 15,316	$ 25,275
Interest	5,675	2,301	466	4,795	13,237
Total	$ 12,415	$ 4,523	$ 1,463	$ 20,111	$ 38,512
Gross claim liability	$ -	$ -	$ -	$ 2,710	$ 2,710
Less:					
Gross potential recoveries	-	-	-	3,218	3,218
Discount, net	-	-	-	(218)	(218)
Net claim liability	$ -	$ -	$ -	$ (290)	$ (290)
Unearned premium revenue	$ 165	$ 27	$ 7	$ 97	$ 296
Claim liability reported in the consolidated balance sheet[2]	$ -	$ -	$ -	$ 1,229	$ 1,229

Reinsurance recoverable on claim liability(3)	$	-	$	-	$	-	$	34	$	34
Receivable for insurance loss recoveries(4)	$	-	$	-	$	-	$	1,713	$	1,713

(1) - An issue represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

(2) - Reported within Loss and loss adjustment expense reserves on MBIA Inc s consolidated balance sheets.

(3) - Reported within Reinsurance recoverable on paid and unpaid losses on MBIA Inc. s consolidated balance sheets.

(4) - Reported within Receivable for insurance loss recoveries on MBIA Inc. s consolidated balance sheets.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The gross claim liability reported in the preceding table primarily relates to expected future claim payments on insured RMBS transactions. The gross potential recoveries reported in the preceding table primarily relate to estimated recoveries resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans in addition to expected future claim payments on RMBS transactions resulting from expected excess spread generated by performing loans in such transactions.

The following table presents changes in the Company s loss and LAE reserve for the six months ended June 30, 2009. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserve, changes in discount rates, and changes in the timing and amounts of estimated payments and recoveries are recorded in Losses and loss adjustment expenses in the Company s statement of operations. LAE reserves are expected to be settled within a one year period and are not discounted. As of June 30, 2009, the weighted average risk-free rate used to discount the claim liability was 2.546%.

In millions	Six Months Ended June 30, 2009									
Net Loss and LAE Reserve as of December 31, 2008	SFAS 163 Transition Adjustment	Net Loss Payments for Cases with Reserves	Net Accretion of Claim Liability Discount	Net Changes in Discount Rates	Net Changes in Timing of Payments	Changes in Amount of Net Payments	Net Changes in Assumptions	Changes in Unearned Premium Revenue	Net Change in LAE Reserves	Net Loss and LAE Reserve as of June 30, 2009
$ 1,501	$ (179)	$ (1,139)	$ 10	$ (27)	$ (137)	$ 282	$ 930	$ (38)	$ 23	$ 1,226

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation s risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an MBIA-insured obligation may, with the consent of MBIA, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA insuring the restructured obligation.

Costs associated with remediating insured obligations assigned to the Company s Caution List Low, Caution-List Medium, Caution List High a Classified List are recorded as LAE. LAE is recorded as part of the Company s provision for its loss reserves and included in Losses and loss adjustment on the Company s consolidated statement of operations. The following table provides information about the expenses and reserves net of recoveries (gross and net of reinsurance) related to remedial actions for insured obligations included in the Company s surveillance categories:

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands	2009	2008	2009	2008
Loss adjustment expense incurred, gross	$ 61,657	$ 1,652	$ 87,069	$ 6,108
Loss adjustment expense incurred, net	$ 59,094	$ 1,578	$ 83,618	$ 5,781
Loss adjustment expense reserve, gross	$ (732)	$ 3,252	$ (732)	$ 3,252
Reinsurance recoverable (payable) related to loss adjustment expense reserve	$ (532)	$ 224	$ (532)	$ 224

Note 11: Income Taxes

The Company s income taxes and the related effective tax rates for the three and six months ended June 30, 2009 and 2008 are as follows:

	Three Months Ended June 30,			
In millions	**2009**		**2008**	
Pre-tax income (loss)	$ 1,503		$ 2,935	
Provision (benefit) for income taxes	$ 605	40.3%	$ 1,235	42.1%

	Six Months Ended June 30,			
In millions	**2009**		**2008**	
Pre-tax income (loss)	$ 2,488		$ (765)	
Provision (benefit) for income taxes	$ 890	35.8%	$ (58)	7.6%

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Company s effective tax rate for the six months ended June 30, 2009 was primarily a result of an unrealized net gain recorded on the Company s derivatives portfolio, the tax-exempt interest from investments, and the change in the valuation allowance. For the six months ended June 30, 2009, the Company has recorded mark-to-market net gains, which are treated as discrete items for purposes of calculating its full year effective tax rate. The Company s effective tax rate for the six months ended June 30, 2008 is primarily driven by the establishment of a valuation allowance.

Embedded in the current effective tax rates for the three and six months ended June 30, 2009 are the tax effects of the Company s expected operating activities such as scheduled premium earnings, fees, and net investment income and operating expenses. However, the discrete treatment of the pre-tax amount of the unrealized net gains which is taxed at a 35% rate and the increase in the valuation allowance relative to the Company s expected operating activities have contributed to the Company s current effective tax rates for the quarter and year-to-date to be higher. Absent these non-recurring and discrete items, the Company would expect to have effective tax rates for the quarter and six months below the 35% statutory tax rate.

The Company has calculated its year-to-date effective tax rate by treating the unrealized net gains on its insured derivative portfolio as a discrete item. As such, these net gains, calculated at the statutory rate of 35%, are an adjustment to the annual effective tax rate that the Company has estimated for all other pre-tax income. Given the inability to estimate this item for the full year of 2009, which directly affects the Company s ability to estimate its pre-tax gain or loss and the related effective tax rate for the full year of 2009, the Company believes that it is appropriate to treat these unrealized net gains as a discrete item for purposes of calculating the effective tax rate for the quarter. Further changes in the fair value of the Company s derivative portfolio during 2009 will impact the Company s annual effective tax rate.

Deferred Tax Asset, Net of Valuation Allowance

The Company is required to establish a valuation allowance against its deferred tax asset when it is more likely than not that all or a portion of the deferred tax asset will not be realized. All evidence, both positive and negative, needs to be identified and considered in making the determination. Future realization of the existing deferred tax asset ultimately depends on the existence of sufficient taxable income of appropriate character (for example, ordinary income versus capital gains) within the carryforward period available under the tax law.

As of June 30, 2009, the Company reported a net deferred tax asset of $1.3 billion primarily related to unrealized losses recorded on the Company s derivative and investment portfolios. Included in the net deferred tax asset of $1.3 billion is the valuation allowance of $412 million. The change in the valuation allowance for the six months ended June 30, 2009 includes a reduction in the valuation allowance of $30 million as part of the adoption of FSP FAS 115-2, Recognition and Presentation of Other-Than-Temporary Impairments. Refer to Note 3: Recent Accounting Pronouncements for further discussion about the adoption of FSP FAS 115-2. As of June 30, 2008, the Company established a valuation allowance of $199 million.

Unrealized Losses on Credit Derivative Contracts

Approximately $928 million of the net deferred tax asset was a result of the cumulative unrealized losses of $2.7 billion, which excludes credit impairments, primarily related to insured credit derivatives. The Company believes that it is more likely than not that its total $928 million in deferred tax assets associated with the unrealized losses of $2.7 billion will be realized as the Company expects the unrealized losses to substantially reverse over time, at which point the related deferred tax asset will reverse. As such, no valuation allowance with respect to this item was established. In its conclusion, the Company considered the following evidence (both positive and negative):

Due to the long-tail nature of the financial guarantee business, it is important to note that MBIA Inc s insurance subsidiaries, even without regard to any new business, will have a steady stream of scheduled premium earnings with respect to the existing insured portfolio. MBIA Corp. s announcement in February 2008 of a temporary suspension in writing new structured finance transactions and a permanent cessation with respect to insuring new CDS contracts, except in transactions related to the reduction of existing derivative exposure, would not have an impact on the expected earnings related to the existing insured portfolio. Although MBIA Corp. expects the majority of the unrealized losses to reverse at maturity, MBIA Corp. performed a taxable income projection over a

15-year period to determine whether it will have sufficient income to offset its deferred tax assets that will generate future ordinary deductions. In this analysis, MBIA Corp. concluded that premium earnings, even without regard to any new business, combined with investment income, less deductible expenses, will be sufficient to recover the net deferred tax asset of $1.3 billion.

The Company s taxable income projections used to assess the recoverability of its deferred tax asset include an estimate of future loss and loss adjustment expenses equal to the present value discount of loss reserves already recognized on the Company s balance sheet and an estimate of loss adjustment expense which is generally insignificant. The Company does not assume additional losses, with the exception of the accretion of its existing present value loss reserves, because the Company establishes case basis reserves on a present value basis based on an estimate of probable losses on specifically identified credits that have defaulted or are expected to default.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

While the ratings downgrades by the rating agencies have limited the Company s ability to write new business, the downgrades did not have a material impact on earnings from the existing insured portfolio, which the Company believes will be sufficient to absorb losses in the event that the cumulative unrealized losses become fully impaired.

With respect to installment policies, the Company generally does not have an automatic cancellation provision solely in connection with ratings downgrades. For purposes of projecting future taxable income, the Company has applied a haircut to adjust for the possible cancellation of future installment premiums based on recent data. With regards to upfront policies, to the extent that the issuer chooses to terminate a policy, any unearned premium reserve with respect to that policy will be accelerated and earned (i.e. refundings).

The Company treats the CDS contracts as insurance contracts for U.S. tax purposes. The Company provides an insurance policy guaranteeing CDS contracts written by LaCrosse. While LaCrosse s financial information is consolidated into MBIA s GAAP financial statements based on the FIN 46(R) criteria, MBIA does not hold any equity interest with respect to LaCrosse. MBIA s income derived from CDS contracts is treated as premium income for statutory income purposes. In the event that there is a default in which MBIA is required to pay claims on such CDS contracts, the Company believes that the losses should be characterized as an ordinary loss for tax purposes and, as such, the event or impairment will be recorded as case reserves for statutory accounting purposes in recognition of the potential claim payment. For tax purposes, MBIA follows the statutory accounting principle as the basis for computing its taxable income. Because the federal income tax treatment of CDS contracts is an unsettled area of tax law, in the event that the Internal Revenue Service (IRS) has a different view in which the losses are considered capital losses, the Company would be required to establish a valuation allowance against substantially all of the deferred tax asset related to these losses, until such time as it had sufficient capital gains to offset the losses. The establishment of this valuation allowance would have a material adverse effect on MBIA s financial condition at the time of its establishment.

Capital Losses

The Company realized capital losses of approximately $281 million in the first six months of 2009. The Company established an additional valuation allowance of $24 million during the second quarter of 2009 for a total valuation allowance of $91 million for the year, which primarily related to other-than-temporary impairments and capital losses in excess of capital gains.

Unrealized Losses on FAS 115 Securities

As of June 30, 2009, the Company had approximately $763 million in deferred tax assets related to unrealized losses on investments. The Company intends to hold these investments until maturity or until such time as the value recovers. As such, the Company expects the recovery of the value of these securities to par and the related deferred tax assets will reverse over the life of the securities.

After reviewing all of the evidence available, both positive and negative, MBIA believes that it has appropriately valued the recoverability of its deferred tax assets, net of the valuation allowance, as of June 30, 2009. The Company continues to assess the need for additional valuation allowances as additional evidence becomes available.

Ownership Change under Section 382 of the Internal Revenue Code

Section 382 of the Internal Revenue Code of 1986, as amended, imposes annual limitations on the utilization of net operating loss (NOL) carryforwards, other tax carryforwards, and certain built-in losses, as defined under that Section, upon an ownership change. In general terms, an ownership change may result from transactions that increase the aggregate ownership of certain stockholders in the Company s stock by more than 50 percentage points over a testing period (generally three years).

As of June 30, 2009, the Company has not experienced an ownership change under Section 382. However, had one occurred as of June 30, 2009, the ownership change, in itself, would not have had a material impact on the Company s financial position or results of operations. The Company

has already established a full valuation allowance against its capital loss carryforwards and the Company has the intent to hold securities with unrealized losses as of June 30, 2009 to maturity or until such time as the value recovers as not to trigger realized losses subject to limitation under Section 382. Additionally, the Company expects to have sufficient income to utilize its alternative minimum tax credit, which may be carried forward indefinitely. The Company has no net operating loss carryforwards from 2008.

FIN 48, Accounting for Uncertainty in Income Taxes

The change in the unrecognized tax benefit at June 30, 2009 is as follows:

54

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In thousands	
Unrecognized tax positions as of December 31, 2008	$ 19,313
The gross amount of the increase/(decrease) in UTB as a result of tax positions taken:	
During prior year	-
During current year	152
The amounts of decreases in the UTB related to settlements with taxing authorities	(11,826)
The reduction to UTB as a result of the applicable statute of limitation	-
Unrecognized tax positions as of June 30, 2009	$ 7,639

As of June 30, 2009, the total amount accrued with respect to uncertain tax positions is approximately $8 million. Due to the French tax settlement, as discussed below, MBIA received an abatement of interest and penalties of $2.8 million. In addition, MBIA accrued $0.2 million of interest and penalties during the second quarter. As result of this activity, the related interest and penalties accrued were reduced $2.6 million to approximately $0.2 million.

MBIA s major tax jurisdictions include the U.S., the United Kingdom (U.K.) and France. MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return and it has been examined through 2005 by the IRS. Currently, the Company s U.S. consolidated federal income tax return is under an examination for the 2007 tax year. Also during the first six months of 2009, the IRS completed the partnership audit in relation to an adjustment that had to be accounted for by MBIA Inc. during tax years 2004 through 2006. No material adjustment was made.

The U.K. tax authorities are currently auditing tax years 2005 through 2006, which should be resolved by the end of 2009. The French tax matters have been concluded through 2006. The Company settled, in February 2009, an unrecognized tax benefit that was established in prior years relating to the timing for recognizing earned premium.

It is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months due to the possibility of the conclusion of all the tax examinations. The range of this possible change in the amount of uncertain tax benefits cannot be estimated at this time.

Note 12: Business Segments

In February 2009, after receiving the required regulatory approvals, the Company established and capitalized National. In connection with this establishment, MBIA Insurance Corporation paid dividends and returned capital to MBIA Inc. and entered into a reinsurance agreement and an assignment agreement with National. As a result, the Company established its U.S. public finance insurance business as a separate operating segment. Refer to MBIA Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for further information about these changes to the Company s operating and legal entity structure. Consequently, MBIA now manages its activities primarily through three principal business operations: U.S. public finance insurance, structured finance and international insurance (collectively insurance operations for prior periods), and investment management services.

As defined by SFAS 131, Disclosures about Segments of an Enterprise and Related Information, an operating segment is a component of a company (i) that engages in business activities from which it earns revenue and incurs expenses, (ii) whose operating results are regularly reviewed by the Chief Operating Decision Maker (CODM) to assess the performance of the segment and to make decisions about the allocation of resources to the segment and, (iii) for which discrete financial information is available. As a result of the aforementioned separation of the Company s U.S. public finance insurance business from its structured finance and international insurance business, as well as other factors such as the availability of discrete financial information, the use of identifiable resources, and the use of separate performance assessments with respect to the Company s U.S. public finance insurance business, the Company determined that its U.S. public finance insurance business represented a discrete operating segment in accordance with SFAS 131.

Following is a description of each of the Company s reportable operating segments:

The Company s U.S. public finance insurance business has been conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. MBIA issues financial guarantees for municipal bonds and bonds backed by publicly or privately funded public-purpose projects. This segment includes all activities related to credit enhancement services provided principally by National.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The Company s structured finance and international insurance operations have been principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, global structured finance and non-U.S. public finance insured obligations when due, or in the event. MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon MBIA Corp s acceleration. Certain guaranteed investment contracts written by MBIA Inc. are insured by MBIA Corp., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA issues financial guarantees for municipal bonds, ABSs and MBSs, investor-owned utility bonds, bonds backed by publicly or privately funded public-purpose projects, bonds issued by sovereign and sub-sovereign entities, and bonds backed by other revenue sources such as corporate franchise revenues. Insured asset-backed securities include collateral consisting of a variety of consumer loans, corporate loans and bonds, trade and export receivables, aircraft, equipment and real property leases and insured MBS include collateral consisting of residential and commercial mortgages. In previous years, MBIA had insured CDSs on structured pools of corporate obligations, RMBS, and commercial real estate backed securities and loans.

The Company is no longer insuring new credit derivative contracts except for transactions related to the reduction of existing derivative exposure. Currently, the global structured finance market is generating very few new business opportunities, and it is uncertain how or when the Company may re-engage this market. This segment includes all activities related to credit enhancement services provided principally by MBIA Corp.

The Company s investment management services operations consist of an asset management advisory business, which provides cash management, discretionary asset management and structured products to the public, not-for-profit, corporate and financial sectors. The Company also has an asset/liability management business, in which it has issued debt and investment agreements, which are insured by MBIA Corp., to capital markets and municipal investors, and then initially purchased assets that largely matched the duration of those liabilities, and a conduit business in which the Company has funded MBIA-insured transactions by issuing debt, which is insured by MBIA Corp. The ratings downgrades of MBIA Corp. have resulted in a substantial reduction of funding activities and the termination and collateralization of certain investment agreements, as well as winding down of existing asset/liability products and conduit obligations. The investment management services operations reportable segments consist of: asset/liability products, which include investment agreements and medium-term notes not related to the conduit segment; advisory services, which consist of third-party and related-party fee-based asset management; and conduits.

The asset/liability products segment principally consists of the activities of MBIA Investment Management Corp. (IMC), GFL and Euro Asset Acquisition Limited (EAAL). IMC, along with MBIA Inc., provides customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. It also provides customized products for funds that are invested as part of asset-backed or structured product transactions. GFL raises funds through the issuance of medium-term notes with varying maturities, which are, in turn, guaranteed by MBIA Corp. GFL lends the proceeds of these medium-term note issuances to MBIA Inc. (GFL Loans). MBIA Inc. invests the proceeds of investment agreements and GFL Loans in eligible investments, which consist of investment grade securities at the time of purchase with a minimum average double-A credit quality rating. MBIA Inc. primarily purchases domestic securities, which are pledged to MBIA Corp. as security for its guarantees on investment agreements and medium-term notes. Additionally, MBIA Inc. loans a portion of the proceeds from investment agreements and medium-term notes to EAAL. EAAL primarily purchases foreign assets as permitted under the Company s investment guidelines.

The advisory services segment primarily consists of the operations of MBIA-MISC, MBIA Capital Management Corp. (CMC) and MBIA Asset Management UK (AM-UK). MBIA-MISC provides investment management programs, including pooled investments products and customized asset management services. In addition, MBIA-MISC provides portfolio accounting and reporting for state and local governments, including school districts. MBIA-MISC is a Securities and Exchange Commission (SEC)-registered investment adviser. CMC provides fee-based asset management services to the Company, its affiliates and third-party institutional clients. CMC is an SEC-registered investment advisor and Financial Industry Regulatory Authority member firm. AM-UK provides fee-based asset management services to the Company s foreign insurance affiliates and EAAL, and to third-party institutional clients and investment structures. AM-UK is registered with the Financial Services Authority in the U.K.

The Company s conduit segment administers two multi-seller conduit financing vehicles through MBIA Asset Finance, LLC. Assets financed by these conduits are currently funded by medium-term notes and liquidity loans.

The Company s corporate operations are a reportable segment and include revenues and expenses that arise from general corporate activities, such as net investment income, net gains and losses, interest expense on MBIA Inc. debt and general corporate expenses.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The following tables summarize the Company s operations for the three and six months ended June 30, 2009 and 2008. As discussed above, the Company separated its insurance operations into U.S. public finance insurance and structured finance and international insurance, thereby creating two discrete segments. The Company has determined that it is impracticable to restate prior period results to conform to the current period presentation since, based on the way management has historically assessed the performance and resource requirements of its segments, prior period discrete financial information is not available. However, in order to provide comparable information to the prior period, the Company has combined its U.S. public finance insurance segment results and its structured finance and international insurance segment results for the current period under the heading Combined Insurance Operations.

	Three Months Ended June 30, 2009							
In millions	U.S. Public Finance Insurance (National)	Structured Finance and International Insurance	Eliminations	Combined Insurance Operations	Investment Management Services	Corporate	Eliminations	Consolidated
Revenues[1]	$ 155	$ 164	$ -	$ 319	$ 60	$ -	$ -	$ 379
Realized gains and other settlements on insured derivatives	-	32	-	32	-	-	-	32
Unrealized gains (losses) on insured derivatives	1	423	-	424	-	-	-	424
Net gains (losses) on financial instruments at fair value and foreign exchange	-	12	-	12	115	(2)	-	125
Net realized gains (losses)	7	1	-	8	18	4	-	30
Net investment losses - other than temporary impairments	-	(7)	-	(7)	(107)	-	-	(114)
Net gains on extinguishment of debt	-	-	-	-	115	1	-	116
Inter-segment revenues[2]	38	51	(68)	21	4	4	(29)	-
Total revenues	201	676	(68)	809	205	7	(29)	992
Interest expense	-	53	-	53	42	18	-	113
Loss and LAE incurred	5	(735)	-	(730)	-	-	-	(730)
Operating expenses	14	66	-	80	19	7	-	106

Inter-segment expense[(2)]	35	33	(68)	-	29	-	(29)	-
Total expenses	54	(583)	(68)	(597)	90	25	(29)	(511)
Income (loss) before taxes	$ 147	$ 1,259	$ -	$ 1,406	$ 115	$ (18)	$ -	$ 1,503
Identifiable assets	$ 8,198	$ 17,728	$ -	$ 25,926	$ 9,094	$ 1,138	$ (8,862)[(3)]	$ 27,296

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees, and insurance recoveries.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses and intercompany interest income and expense pertaining to intercompany receivable and payables.

(3) - Consists of intercompany repurchase agreements and loans.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	Three Months Ended June 30, 2008				
In millions	**Insurance**	**Investment Management Services**	**Corporate**	**Eliminations**	**Consolidated**
Revenues[1]	$ 391	$ 264	$ 8	$ -	$ 663
Realized gains and other settlements on insured derivatives	34	-	-	-	34
Unrealized gains (losses) on insured derivatives	3,324	-	-	-	3,324
Net gains (losses) on financial instruments at fair value and foreign exchange	102	(69)	54	-	87
Net realized losses	23	(409)	3	-	(383)
Net investment losses - other than temporary impairments	-	(436)	-	-	(436)
Net gains on extinguishment of debt	-	66	-	-	66
Inter-segment revenues[2]	1	3	(1)	(3)	-
Total revenues	3,875	(581)	64	(3)	3,355
Interest expense	46	243	19	-	308
Loss and LAE incurred	22	-	-	-	22
Operating expenses	64	17	8	-	89
Inter-segment expense[2]	-	5	(2)	(3)	-
Total expenses	132	265	25	(3)	419
Income (loss) before taxes	$ 3,743	$ (846)	$ 39	$ -	$ 2,936
Identifiable assets	$ 16,532	$ 27,020	$ 1,788	$ -	$ 45,340

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees, and insurance recoveries.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses and intercompany interest income and expense pertaining to intercompany receivable and payables.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	Six Months Ended June 30, 2009							
In millions	U.S. Public Finance Insurance (National)	Structured Finance and International Insurance	Eliminations	Combined Insurance Operations	Investment Management Services	Corporate	Eliminations	Consolidated
Revenues[1]	$ 294	$ 384	$ -	$ 678	$ 137	$ 1	$ -	$ 816
Realized gains and other settlements on insured derivatives	-	64	-	64	-	-	-	64
Unrealized gains (losses) on insured derivatives	-	2,033	-	2,033	-	-	-	2,033
Net gains (losses) on financial instruments at fair value and foreign exchange	-	12	-	12	161	(11)	-	162
Net realized gains (losses)	7	9	-	16	45	3	-	64
Net investment losses - other than temporary impairments	-	(41)	-	(41)	(303)	-	-	(344)
Net gains on extinguishment of debt	-	-	-	-	119	2	5	126
Inter-segment revenues[2]	80	100	(137)	43	9	10	(62)	-
Total revenues	381	2,561	(137)	2,805	168	5	(57)	2,921
Interest expense	-	108	-	108	106	36	-	250
Loss and LAE incurred	63	(99)	-	(36)	-	-	-	(36)
Operating expenses	18	152	-	170	34	15	-	219
Inter-segment expense[2]	67	70	(137)	-	62	-	(62)	-
Total expenses	148	231	(137)	242	202	51	(62)	433
Income (loss) before taxes	$ 233	$ 2,330	$ -	$ 2,563	$ (34)	$ (46)	$ 5	$ 2,488
Identifiable assets	$ 8,198	$ 17,728	$ -	$ 25,926	$ 9,094	$ 1,138	$ (8,862)[3]	$ 27,296

(1)- Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees, and insurance recoveries.
(2)- Represents intercompany premium income and expense, intercompany asset management fees and expenses and intercompany interest income and expense pertaining to intercompany receivable and payables.
(3)- Consists of intercompany repurchase agreements and loans.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	Six Months Ended June 30, 2008				
In millions	**Insurance**	**Investment Management Services**	**Corporate**	**Eliminations**	**Consolidated**
Revenues[1]	$ 706	$ 619	$ 16	$ -	$ 1,341
Realized gains and other settlements on insured derivatives	68	-	-	-	68
Unrealized gains (losses) on insured derivatives	(253)	-	-	-	(253)
Net gains (losses) on financial instruments at fair value and foreign exchange	162	(10)	11	-	163
Net realized losses	42	(369)	1	-	(326)
Net investment losses - other than temporary impairments	-	(660)	-	-	(660)
Net gains on extinguishment of debt	-	79	-	-	79
Inter-segment revenues[2]	2	9	(1)	(10)	-
Total revenues	727	(332)	27	(10)	412
Interest expense	92	567	39	-	698
Loss and LAE incurred	310	-	-	-	310
Operating expenses	126	28	14	-	168
Inter-segment expense[2]	-	11	(1)	(10)	-
Total expenses	528	606	52	(10)	1,176
Income (loss) before taxes	$ 199	$ (938)	$ (25)	$ -	$ (764)
Identifiable assets	$ 16,532	$ 27,020	$ 1,788	$ -	$ 45,340

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees, and insurance recoveries.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses and intercompany interest income and expense pertaining to intercompany receivable and payables.

While it is impractical for the Company to restate all revenues and expenses comprising its insurance results for prior periods, the Company is able to restate certain revenues and expenses included within the preceding tables for the three and six months ended June 30, 2008. The following table presents those revenues and expenses that the Company is able to restate, along with comparable amounts for the three months ended June 30, 2009:

	U.S. Public Finance Insurance		Structured Finance and International Insurance	
In millions	**2009**	**2008**	**2009**	**2008**
Net premiums earned[1]	$ 133	$ 144	$ 45	$ 89
Realized gains and other settlements on insured derivatives	$ -	$ -	$ -	$ 34
Unrealized gains (losses) on insured derivatives	$ -	$ (2)	$ -	$ 3,326
Interest expense	$ -	$ -	$ -	$ 47

(1) - Included in insurance revenues in the preceding tables.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The following table presents those revenues and expenses that the Company is able to restate, along with comparable amounts for the six months ended June 30, 2009:

In millions	U.S. Public Finance Insurance 2009	2008	Structured Finance and International Insurance 2009	2008
Net premiums earned[1]	$ 283	$ 212	$ 124	$ 177
Realized gains and other settlements on insured derivatives	$ -	$ -	$ -	$ 68
Unrealized gains (losses) on insured derivatives	$ -	$ (2)	$ -	$ (251)
Interest expense	$ -	$ -	$ -	$ 93

(1) - Included in insurance revenues in the preceding tables.

The following tables summarize the segments within the investment management services operations for the three months ended June 30, 2009 and 2008:

	Three Months Ended June 30, 2009				
In millions	Asset / Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues[1]	$ 49	$ 9	$ 2	$ -	$ 60
Net gains (losses) on financial instruments at fair value and foreign exchange	116	(1)	-	-	115
Net realized losses	18	-	-	-	18
Net investment losses - other than temporary impairment	(107)	-	-		(107)
Net gains on extinguishment of debt	95	-	20	-	115
Inter-segment revenues[2]	-	5	1	(2)	4
Total revenues	171	13	23	(2)	205
Interest expense	38	-	4	-	42
Operating expenses	8	11	-	-	19
Inter-segment expense[2]	29	1	1	(2)	29
Total expenses	75	12	5	(2)	90
Income (loss) before taxes	$ 96	$ 1	$ 18	$ -	$ 115
Identifiable assets	$ 6,919	$ 46	$ 2,086	$ 43	$ 9,094

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	Three Months Ended June 30, 2008				
In millions	Asset / Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues[1]	$ 231	$ 8	$ 25	$ -	$ 264
Net gains (losses) on financial instruments at fair value and foreign exchange	(73)	-	4	-	(69)
Net realized losses	(409)	-	-	-	(409)
Net investment losses - other than temporary impairment	(436)	-	-		(436)
Net gains on extinguishment of debt	66	-	-	-	66
Inter-segment revenues[2]	(2)	10	2	(7)	3
Total revenues	(623)	18	31	(7)	(581)
Interest expense	222	-	21	-	243
Operating expenses	5	10	2	-	17
Inter-segment expense[2]	8	2	2	(7)	5
Total expenses	235	12	25	(7)	265
Income (loss) before taxes	$ (858)	$ 6	$ 6	$ -	$ (846)
Identifiable assets	$ 23,895	$ 39	$ 3,085	$ 1	$ 27,020

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

The following tables summarize the segments within the investment management services operations for the six months ended June 30, 2009 and 2008:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

	Six Months Ended June 30, 2009				
In millions	**Asset / Liability Products**	**Advisory Services**	**Conduits**	**Eliminations**	**Total Investment Management Services**
Revenues[1]	$ 109	$ 18	$ 10	$ -	$ 137
Net gains (losses) on financial instruments at fair value and foreign exchange	171	(1)	(9)	-	161
Net realized losses	45	-	-	-	45
Net investment losses - other than temporary impairment	(303)	-	-	-	(303)
Net gains on extinguishment of debt	98	-	21	-	119
Inter-segment revenues[2]	1	10	2	(4)	9
Total revenues	121	27	24	(4)	168
Interest expense	97	-	9	-	106
Operating expenses	13	20	1	-	34
Inter-segment expense[2]	62	2	2	(4)	62
Total expenses	172	22	12	(4)	202
Income (loss) before taxes	$ (51)	$ 5	$ 12	$ -	$ (34)
Identifiable assets	$ 6,919	$ 46	$ 2,086	$ 43	$ 9,094

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

	Six Months Ended June 30, 2008				
In millions	**Asset / Liability Products**	**Advisory Services**	**Conduits**	**Eliminations**	**Total Investment Management Services**
Revenues[1]	$ 535	$ 16	$ 68	$ -	$ 619
Net gains (losses) on financial	(9)	-	(1)	-	(10)

instruments at fair value and foreign exchange					
Net realized losses	(369)	-	-	-	(369)
Net investment losses - other than temporary impairment	(660)	-	-	-	(660)
Net gains on extinguishment of debt	79	-	-	-	79
Inter-segment revenues[2]	-	19	4	(14)	9
Total revenues	(424)	35	71	(14)	(332)
Interest expense	506	-	61	-	567
Operating expenses	10	16	2	-	28
Inter-segment expense[2]	17	4	4	(14)	11
Total expenses	533	20	67	(14)	606
Income (loss) before taxes	$ (957)	$ 15	$ 4	$ -	$ (938)
Identifiable assets	$ 23,895	$ 39	$ 3,085	$ 1	$ 27,020

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Premiums on financial guarantees and insured derivatives reported within the Company s insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the three and six months ended June 30, 2009 and 2008:

In millions	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Total premiums earned:				
United States	$ 154	$ 212	$ 331	$ 349
United Kingdom	1	11	10	22
Europe (excluding United Kingdom)	10	8	14	18
Internationally diversified	19	17	76	35
Central and South America	11	15	20	26
Asia	5	8	9	15
Other	5	5	9	8
Total	$ 205	$ 276	$ 469	$ 473

Note 13: Net Insurance in Force

MBIA guarantees the payment of principal of, and interest or other amounts owing on, municipal, asset-backed, mortgage-backed and other non-municipal securities. Additionally, MBIA Corp. has insured CDSs primarily on pools of collateral, which it previously considered part of its core financial guarantee business. The pools of collateral are made up of corporate obligations, but also include commercial and residential mortgage-backed securities-related assets. MBIA s net insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on insured obligations, net of cessions to reinsurers. MBIA s ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the net insurance in force in the tables that follow.

The financial guarantees issued by MBIA provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. Certain guaranteed investment contracts written by MBIA Inc. and guaranteed by MBIA Corp. are terminable upon ratings downgrades, and if MBIA Inc. were to have insufficient assets to pay the termination payments, MBIA Corp. would make such payments. These amounts have been excluded in the tables that follow.

The creditworthiness of each insured obligation is evaluated prior to the issuance of insurance, and each insured obligation must comply with National or MBIA Corp. s underwriting guidelines. Further, the payments to be made by the issuer on the bonds or notes may be backed by a pledge of revenues, reserve funds, letters of credit, investment contracts or collateral in the form of mortgages or other assets. The right to such funds or collateral would typically become National or MBIA Corp. s upon the payment of a claim by either National or MBIA Corp.

National and MBIA Corp. maintain underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance. For global public finance transactions these include economic and social trends, debt and financial management, adequacy of anticipated cash flow, satisfactory legal structure and other security provisions, viable tax and economic bases, adequacy of loss coverage and project feasibility. For global structured finance transactions, MBIA Corp. s underwriting guidelines, analysis and due diligence focus on counterparty credit and operational quality. MBIA Corp. also analyzes the quality of asset pools, as well as their historical and projected performance. The strength of a structure, including legal segregation of the assets, cash flow analysis, the size and source of first loss protection, asset performance triggers and financial covenants are also reviewed. Such guidelines are subject to periodic review by a senior risk committee, which is responsible for establishing the criteria for the Company s underwriting standards as well as maintaining the standards in its insurance operations.

As of June 30, 2009, net insurance in force, which represents principal and interest or other amounts owing on insured obligations, net of cessions to reinsurers, had an expected maturity range of 1-48 years. The distribution of net insurance in force by geographic location, excluding $5.3 billion and $8.5 billion relating to transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies as of June 30, 2009 and December 31, 2008, respectively, is presented in the following table:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In billions	June 30, 2009		December 31, 2008	
Geographic Location	Net Insurance in Force	% of Net Insurance in Force	Net Insurance in Force	% of Net Insurance in Force
California	$ 158.1	13.7%	$ 163.6	13.7%
New York	83.5	7.2%	86.3	7.2%
Florida	66.1	5.7%	68.0	5.7%
Texas	53.8	4.6%	56.4	4.7%
Illinois	50.3	4.3%	51.8	4.3%
New Jersey	39.2	3.4%	40.5	3.4%
Pennsylvania	31.3	2.7%	32.9	2.7%
Washington	29.7	2.6%	30.5	2.5%
Michigan	26.1	2.2%	27.0	2.3%
Massachusetts	22.6	2.0%	24.0	2.0%
Subtotal	560.7	48.4%	581.0	48.5%
Nationally diversified	178.5	15.4%	178.5	14.9%
Other states	307.5	26.6%	319.8	26.7%
Total United States	1,046.7	90.4%	1,079.3	90.1%
Internationally diversified	39.3	3.4%	43.9	3.6%
Country specific	72.4	6.2%	75.1	6.3%
Total non-United States	111.7	9.6%	119.0	9.9%
Total	$ 1,158.4	100.0%	$ 1,198.3	100.0%

The net insurance in force by type of bond, excluding transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies, is presented in the following table:

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In billions	June 30, 2009		December 31, 2008	
Bond Type	**Net Insurance in Force**	**% of Net Insurance in Force**	**Net Insurance in Force**	**% of Net Insurance in Force**
Global public finance - United States:				
General obligation	$ 311.6	26.9%	$ 322.2	26.8%
General obligation - lease	66.8	5.8%	69.1	5.8%
Municipal utilities	156.5	13.5%	162.8	13.6%
Tax-backed	109.2	9.4%	111.9	9.3%
Transportation	90.5	7.8%	93.0	7.8%
Higher education	48.5	4.2%	50.5	4.2%
Health care	30.7	2.6%	34.6	2.9%
Military housing	21.5	1.9%	21.7	1.8%
Investor-owned utilities[1]	15.3	1.3%	15.8	1.3%
Municipal housing	13.3	1.1%	15.0	1.3%
Student loans	6.4	0.6%	7.0	0.6%
Other[2]	3.9	0.3%	4.4	0.4%
Total United States	874.2	75.4%	908.0	75.8%
Global public finance - non-United States:				
International utilities	20.4	1.8%	18.6	1.6%
Sovereign and sub-sovereign [3]	18.4	1.6%	17.3	1.4%
Transportation	13.6	1.2%	14.1	1.2%
Local governments[4]	0.4	0.0%	0.9	0.1%
Municipal housing	0.2	0.0%	0.2	0.0%
Health care	0.1	0.0%	0.1	0.0%
Higher education	0.1	0.0%	0.1	0.0%
Total non-United States	53.2	4.6%	51.3	4.3%
Total global public finance	927.4	80.0%	959.3	80.1%
Global structured finance - United States:				
Collateralized debt obligations[5]	104.4	9.0%	98.3	8.2%
Mortgage-backed residential	28.6	2.5%	28.6	2.4%
Mortgage-backed commercial	0.6	0.0%	0.7	0.1%
Consumer asset-backed:				
Auto loans	5.4	0.5%	6.8	0.6%
Student loans	2.7	0.2%	2.8	0.2%
Manufactured housing	2.6	0.2%	2.7	0.2%
Other consumer asset-backed	0.7	0.1%	0.9	0.1%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	3.0	0.3%	3.2	0.3%
Rental car fleets	2.7	0.2%	3.1	0.3%
Secured airline equipment securitization (EETC)	2.9	0.3%	3.1	0.3%
Other operating assets	1.1	0.1%	1.6	0.1%
Structured insurance securitizations	8.7	0.8%	10.0	0.8%
Franchise assets	1.4	0.1%	1.5	0.1%
Intellectual property	4.0	0.3%	4.1	0.3%

Other corporate asset-backed	3.6	0.3%	3.9	0.3%
Total United States	172.4	14.9%	171.3	14.3%

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Global structured finance-non-United States:				
Collateralized debt obligations[5]	38.2	3.3%	40.2	3.3%
Mortgage-backed residential	3.0	0.3%	8.5	0.7%
Mortgage-backed commercial	5.4	0.5%	6.2	0.5%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	1.9	0.2%	2.1	0.2%
Secured airline equipment securitization (EETC)	0.4	0.0%	0.4	0.0%
Structured insurance securitizations	0.1	0.0%	0.1	0.0%
Franchise assets	1.4	0.1%	1.2	0.1%
Intellectual property	-	0.0%	0.8	0.1%
Future flow	2.1	0.2%	2.9	0.2%
Other corporate asset-backed	6.1	0.5%	5.3	0.5%
Total non-United States	58.6	5.1%	67.7	5.6%
Total global structured finance	231.0	20.0%	239.0	19.9%
Total	$ 1,158.4	100.0%	$ 1,198.3	100.0%

(1) - Includes investor owned utilities, industrial development and pollution control revenue bonds.
(2) - Includes certain non-profit enterprises and stadium related financing.
(3) - Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign state, region or department.
(4) - Includes municipal owned entities backed by sponsoring local government.
(5) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical collateralized debt obligation (CDO) structuring characteristics, such as tranched credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

The insurance operations have entered into certain guarantees of derivative contracts, included in the preceding tables, which do not qualify for the financial guarantee scope exception under SFAS 133. MBIA generally guarantees the timely payment of principal and interest related to these derivatives upon the occurrence of a credit event with respect to a referenced obligation. The maximum amount of future payments that MBIA may be required to make under these guarantees is $134.4 billion. This amount is net of $24.1 billion of insured derivatives ceded under reinsurance agreements and capital market transactions in which MBIA economically hedges a portion of the credit and market risk associated with its insured derivatives. MBIA s guarantees of derivative contracts have a legal maximum maturity range of 1-87 years. A small number of insured credit derivative contracts have long-dated maturities, which comprise the longest maturity dates of the underlying collateral. However, the expected maturities of such contracts are much shorter due to amortizations and prepayments in the underlying collateral pools. In accordance with SFAS 133, the fair values of these guarantees as of June 30, 2009 are recorded on the balance sheet as assets and liabilities, representing gross gains and losses, of $696 million and $4.1 billion, respectively. These derivative contracts are discussed further in Note 8: Derivative Instruments.

MBIA may hold recourse provisions with third parties in derivative transactions through both reinsurance and subrogation rights. MBIA s reinsurance arrangements provide that should MBIA pay a claim under a guarantee of a derivative contract, then MBIA could collect amounts from any reinsurers that have reinsured the guarantee on either a proportional or non-proportional basis, depending upon the underlying reinsurance agreement. MBIA may also have recourse through subrogation rights whereby if MBIA makes a claim payment, it is entitled to any rights of the insured counterparty, including the right to any assets held as collateral.

MBIA Corp. has also issued guarantees of certain obligations issued by its investment management affiliates that are not included in the previous tables. These guarantees take the form of insurance policies issued by MBIA Corp. on behalf of the investment management services affiliates. Should one of these affiliates default on its insured obligations, MBIA Corp. will be required to pay all scheduled principal and

interest amounts outstanding. As of June 30, 2009, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees is $5.3 billion. These guarantees, which have a maximum maturity range of 1-38 years, were entered into on an arm s length basis and are fully collateralized by marketable securities. MBIA Corp. has both direct recourse provisions and subrogation rights in these transactions. If MBIA Corp. is required to make a payment under any of these affiliate guarantees, it would have the right to seek reimbursement from such affiliate and to liquidate any collateral to recover amounts paid under the guarantee.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14: Reinsurance

Ceded Exposure

Reinsurance enables the Company to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. MBIA reinsures exposure to other insurance companies under various treaty and facultative reinsurance contracts, both on a proportional and non-proportional basis. In the event that any or all of the reinsurers are unable to meet their obligations, MBIA would be liable for such defaulted amounts. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced.

The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer s rating downgrade below specified thresholds. MBIA will continue to evaluate its use of reinsurance during 2009, which may result in future portfolio commutations from reinsurers.

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of June 30, 2009, the total amount available under these letters of credit and trust arrangements was $698 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

The aggregate amount of insurance in force ceded by MBIA to reinsurers under reinsurance agreements was $70.2 billion and $76.2 billion as of June 30, 2009 and December 31, 2008, respectively. The distribution of ceded insurance in force by geographic location is presented in the following table:

In billions	June 30, 2009		December 31, 2008	
Geographic Location	Ceded Insurance in Force	% of Ceded Insurance in Force	Ceded Insurance in Force	% of Ceded Insurance in Force
California	$ 5.2	7.4%	$ 5.9	7.7%
New York	2.7	3.9%	3.1	4.1%
Massachusetts	1.9	2.7%	2.1	2.8%
Colorado	1.8	2.5%	1.8	2.4%
Puerto Rico	1.6	2.2%	1.7	2.2%
New Jersey	1.5	2.1%	1.6	2.1%
Texas	1.4	2.0%	1.7	2.2%
Illinois	1.3	1.9%	1.5	2.0%
Florida	1.3	1.9%	1.4	1.8%
Washington	0.7	1.0%	0.8	1.0%
Subtotal	19.4	27.6%	21.6	28.3%
Nationally diversified	19.9	28.4%	20.4	26.8%
Other states	8.0	11.4%	9.3	12.2%
Total United States	47.3	67.4%	51.3	67.3%
Internationally diversified	11.0	15.7%	12.1	15.9%
Country specific	11.9	16.9%	12.8	16.8%

Total non-United States	22.9	32.6%	24.9	32.7%
Total	$ 70.2	100.0%	$ 76.2	100.0%

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The distribution of ceded insurance in force by type of bond is presented in the following table:

In billions	June 30, 2009		December 31, 2008	
Bond Type	Ceded Insurance in Force	% of Ceded Insurance in Force	Ceded Insurance in Force	% of Ceded Insurance in Force
Global public finance - United States:				
General obligation	$ 5.8	8.3%	$ 6.7	8.8%
General obligation lease	1.9	2.7%	2.1	2.8%
Municipal utilities	4.5	6.4%	5.3	7.0%
Tax-backed	3.1	4.4%	3.5	4.6%
Transportation	6.2	8.8%	6.6	8.7%
Health care	2.8	4.0%	3.3	4.3%
Higher education	0.9	1.3%	1.1	1.4%
Municipal housing	0.4	0.6%	0.5	0.7%
Military housing	0.5	0.7%	0.5	0.7%
Investor-owned utilities(1)	0.8	1.1%	0.8	1.0%
Student loans	0.2	0.3%	0.3	0.4%
Other(2)	0.2	0.3%	0.2	0.2%
Total United States	27.3	38.9%	30.9	40.6%
Global public finance - non-United States:				
Sovereign and sub-sovereign(3)	3.4	4.8%	3.2	4.2%
Transportation	2.8	4.0%	3.2	4.2%
International utilities	3.0	4.3%	2.9	3.8%
Local governments(4)	0.4	0.6%	0.6	0.8%
Municipal housing	0.0	0.0%	0.0	0.0%
Health care	0.1	0.1%	0.1	0.1%
Higher education	0.0	0.0%	0.0	0.0%
Total non-United States	9.7	13.8%	10.0	13.1%
Total global public finance	37.0	52.7%	40.9	53.7%
Global structured finance - United States:				
Collateralized debt obligations(5)	15.3	21.8%	14.4	18.9%
Mortgage-backed residential	0.9	1.3%	1.2	1.6%
Mortgage-backed commercial	0.0	0.0%	0.0	0.0%
Consumer asset-backed:				
Auto loans	0.2	0.3%	0.4	0.5%
Student loans	0.2	0.3%	0.2	0.3%
Manufactured housing	0.1	0.1%	0.1	0.1%
Other consumer asset-backed	0.1	0.1%	0.1	0.1%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	0.4	0.6%	0.5	0.7%
Rental car fleets	0.4	0.6%	0.7	0.9%

Secured airline equipment securitization (EETC)	0.8	1.2%	0.9	1.2%
Other operating assets	0.1	0.1%	0.1	0.1%
Structured insurance securitizations	1.2	1.8%	1.5	2.0%
Franchise assets	0.1	0.1%	0.1	0.1%
Intellectual property	0.1	0.1%	0.1	0.1%
Other corporate asset-backed	0.1	0.1%	0.2	0.3%
Total United States	20.0	28.5%	20.5	26.9%

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Global structured finance - non-United States:				
Collateralized debt obligations[5]	9.6	13.7%	10.2	13.4%
Mortgage-backed residential	0.1	0.1%	0.4	0.5%
Mortgage-backed commercial	0.8	1.1%	0.9	1.2%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	0.4	0.6%	0.4	0.6%
Secured airline equipment securitization (EETC)	0.0	0.0%	0.0	0.0%
Structured insurance securitizations	0.0	0.0%	0.0	0.0%
Franchise assets	0.1	0.1%	0.1	0.1%
Intellectual property	0.0	0.0%	0.1	0.1%
Future flow	0.6	0.9%	1.0	1.3%
Other corporate asset-backed	1.6	2.3%	1.7	2.2%
Total non-United States	13.2	18.8%	14.8	19.4%
Total global structured finance	33.2	47.3%	35.3	46.3%
Total	$ 70.2	100.0%	$ 76.2	100.0%

(1) - Includes investor owned utilities, industrial development and pollution control revenue bonds.
(2) - Includes certain non-profit enterprises and stadium related financing.
(3) - Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign state, region or department.
(4) - Includes municipal owned entities backed by sponsoring local government.
(5) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical collateralized debt obligation (CDO) structuring characteristics, such as tranched credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

As of June 30, 2009, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $50.3 billion. The following table presents the credit ratings and ratings status, percentage of outstanding par ceded, the reinsurance recoverable, derivative asset, and estimated credit impairments by reinsurer as of June 30, 2009 for the Company s combined insurance operations. Estimated credit impairments represent the reinsurers portion of amounts the Company expects to pay on insured derivative contracts.

70

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

In millions

Reinsurers	Standard & Poor s Rating (Status)	Moody s Rating (Status)	Percentage of Total Par Ceded	Reinsurance Recoverable	Derivative Asset	Estimated Credit Impairments on Insured Derivatives
Channel Reinsurance Ltd.	N/R[2]	RWR[3]	70.57%	$ 21	$ 636	$ 320
Assured Guaranty Corp.	AAA (Stable)	Aa2(RUR)[4]	12.41%	10	0	-
Mitsui Sumitomo Insurance Company LTD.	AA (Negative Outlook)	Aa3 (Stable)	7.27%	15	48	4
Ambac Assurance Corporation	BBB (Negative Watch)	Ba3 (Developing)	5.95%	2	-	-
Assured Guaranty Re Ltd.	AA (Stable)	Aa3(RUR)[4]	1.46%	2	1	-
Syncora Guarantee Re Ltd.	R[5]	Ca (Developing)	0.75%	1	-	-
Overseas Private Investment Corporation	AAA (Stable)	Aaa (Stable)	0.59%	-	-	-
Old Republic Insurance Company	A+ (Negative Outlook)	Aa3 (Stable)	0.42%	1	-	-
Export Development Corporation	AAA (Stable)	Aaa (Stable)	0.41%	-	-	-
Other[1]	CC or above	Ca or above	0.12%	0	-	-
Not currently rated			0.05%	0	-	-
Total			100.00%	$ 52	$ 685	$ 324

(1) - Several reinsurers within this category are not rated by Moody s.

(2) - Not rated.

(3) - Rating withdrawn.

(4) - Rating under review.

(5) - Regulatory supervision.

MBIA owns a 17.4% equity interest in Channel Re. In March 2009, Moody s downgraded Channel Re to B3 with a negative outlook and the rating was subsequently withdrawn. In March 2009, S&P downgraded Channel Re to BB+ and the rating was subsequently withdrawn. As of June 30, 2009, the Company expects Channel Re to continue to report negative shareholders equity on a GAAP basis primarily due to unrealized losses on its insured credit derivatives based on fair value accounting. As of June 30, 2009, the fair value of the derivative assets related to credit derivatives ceded to Channel Re was $636 million and the reinsurance recoverable from Channel Re was $21 million. After considering the credit risk of Channel Re in fair valuing its derivative assets, the Company believes Channel Re has sufficient liquidity supporting its business to fund amounts due to MBIA. In performing its assessment, MBIA determined that cash and investments, inclusive of approximately $501 million that Channel Re had on deposit in trust accounts for the benefit of MBIA as of June 30, 2009, and borrowing facilities available to Channel Re were in excess of MBIA s exposure to Channel Re. Although the trust accounts limit the potential for Channel Re to default on its obligations to MBIA, there can be no assurance that Channel Re will not default on its obligations to MBIA that exceed the amounts already held in the trust accounts.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Since December 2007, several of the Company s other financial guarantee reinsurers, including Ambac Assurance Corporation, Assured Guaranty Corp., Assured Guaranty Re Ltd., Old Republic Insurance Co., Syncora Guarantee Re Ltd. and Syncora Guarantee Inc. (formerly known as XL Financial Assurance and XL Capital Assurance, respectively), have had their credit ratings either downgraded or put on negative watch by one or more of the major rating agencies. On July 28, 2009 Ambac Assurance Corporation was downgraded by Standard & Poor s from BBB (Negative Watch) to CC (Negative Outlook). Although there was no material impact on the Company for any of these rating agency actions relating to these reinsurers, a further downgrade of one or more of these reinsurers could require the establishment of reserves against any receivables due from the reinsurers.

Premium Summary

The components of financial guarantee net premiums written and earned, including premiums assumed from and ceded to other companies, are presented in the following table:

	Three Months Ended June 30,			
	2009		2008	
In millions	Written	Earned	Written	Earned
Direct	$ (31)	$ 165	$ 135	$ 276
Assumed	7	137	3	3
Gross	(24)	302	138	279
Ceded	39	(88)	(21)	(38)
Net before elimination	15	214	117	241
Elimination[1]	(3)	(36)	(8)	(8)
Net	$ 12	$ 178	$ 109	$ 233

(1) - Represents eliminations of intercompany premiums.

	Six Months Ended June 30,			
	2009		2008	
In millions	Written	Earned	Written	Earned
Direct	$ (60)	$ 405	$ 257	$ 464
Assumed	(2)	290	6	6
Gross	(62)	695	263	470
Ceded	38	(211)	(40)	(64)
Net before elimination	(24)	484	223	406
Elimination[1]	(8)	(77)	(17)	(17)
Net	$ (32)	$ 407	$ 206	$ 389

(1) - Represents eliminations of intercompany premiums.

For the three months ended June 30, 2009 and 2008, recoveries received under reinsurance contracts totaled $28 million and $38 million, respectively. For the six months ended June 30, 2009 recoveries received under reinsurance contracts totaled $54 million and $46 million, respectively. Ceding commissions received from reinsurers, before deferrals and net of return ceding commissions were $0.5 million and $7 million for the three months ended June 30, 2009 and 2008, respectively. Ceding commissions received from reinsurers, before deferrals and net of return ceding commissions were $4 million and $13 million for the six months ended June 30, 2009 and 2008, respectively.

Note 15: Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options and other items outstanding during the period that could potentially result in the issuance of common stock. For the three months ended June 30, 2009 and 2008, there were 7,689,693 and 6,898,517, respectively, of stock options outstanding that were not included in the diluted earnings per share calculation because they were antidilutive. For the six months ended June 30, 2009 and 2008, there were 7,270,999 and 6,662,929, respectively, of stock options outstanding that were not included in the diluted earnings per share calculation because they were antidilutive.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The following table presents the computation of basic and diluted earnings per share for the three and six months ended June 30, 2009 and 2008:

$ in millions except per share amounts	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net income (loss)	$ 898	$ 1,700	$ 1,599	$ (706)
Net income (loss) available to common shareholders	$ 895	$ 1,700	$ 1,591	$ (706)
Basic weighted average shares[(1)]	208,097,729	238,152,768	208,287,929	212,242,994
Effect of common stock equivalents:				
Stock options	-	-	-	-
Restricted stock and units	-	-	-	-
Diluted weighted average shares	208,097,729	238,152,768	208,287,929	212,242,994
Basic EPS:				
Net income (loss)	$ 4.30	$ 7.14	$ 7.64	$ (3.33)
Diluted EPS:				
Net income (loss)	$ 4.30	$ 7.14	$ 7.64	$ (3.33)

(1) - Includes 5,430,414 and 3,514,582 for the quarters ended June 30, 2009 and 2008, respectively, of unvested restricted stock and units that receive nonforfeitable dividends or dividend equivalents. Includes 5,040,144 and 2,569,421 for the six months ended June 30, 2009 and 2008, respectively, of unvested restricted stock and units that receive nonforfeitable dividends or dividend equivalents.

Note 16: Commitments and Contingencies

In the normal course of operating its businesses, the Company may be involved in various legal proceedings.

The Company was named as a defendant, along with certain of its current and former officers, in private securities actions that were consolidated in the United States District Court for the Southern District of New York as In re MBIA Inc. Securities Litigation; (Case No. 05 CV 03514(LLS); S.D.N.Y.) (filed October 3, 2005). The plaintiffs asserted claims under Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. The lead plaintiffs purport to be acting as representatives for a class consisting of purchasers of the Company s stock during the period from August 5, 2003 to March 30, 2005 (the Class Period). The lawsuit asserts, among other things, violations of the federal securities laws arising out of the Company s allegedly false and misleading statements about its financial condition and the nature of the arrangements entered into by MBIA Corp. in connection with the AHERF loss. The plaintiffs allege that, as a result of these misleading statements or omissions, the Company s stock traded at artificially inflated prices throughout the Class Period.

The defendants, including the Company, filed motions to dismiss this lawsuit on various grounds. On February 13, 2007, the Court granted those motions, and dismissed the lawsuit in its entirety, on the grounds that plaintiffs claims are barred by the applicable statute of limitations. The Court did not reach the other grounds for dismissal argued by the Company and the other defendants. On November 12, 2008, the United States Court of Appeals for the Second Circuit affirmed the Court s dismissal on statute of limitations grounds, but remanded the case to allow the plaintiffs to file an amended complaint. The Second Consolidated Amended Class Action Complaint was filed on February 18, 2009. The defendants filed their renewed motion to dismiss on April 17, 2009, and plaintiffs filed their response on June 30, 2009.

On October 17, 2008, a consolidated amended class action complaint in a separate shareholder class action lawsuit against the Company and certain of its officers, In re MBIA Inc. Securities Litigation, No. 08-CV-264, (KMK) (the Consolidated Class Action) was filed in the United States District Court for the Southern District of New York, alleging violations of the federal securities laws. Lead plaintiff the Teachers Retirement System of Oklahoma seeks to represent a class of shareholders who purchased MBIA stock between July 2, 2007 and January 9, 2008. The amended complaint alleges that defendants MBIA Inc., Gary C. Dunton and C. Edward Chaplin violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Among other things, the complaint alleges that defendants issued false and misleading statements with respect to the Company s exposure to CDOs containing RMBS, specifically its exposure to so-called CDO-squared securities, which allegedly caused the Company s stock to trade at inflated prices. Defendants motion to dismiss is fully briefed. No oral argument has been scheduled to date.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

On February 13, 2008, a shareholder derivative lawsuit against certain of the Company s present and former officers and directors, and against the Company, as nominal defendant, Trustees of the Police and Fire Retirement System of the City of Detroit v. Clapp et al., No. 08-CV-1515, (the Detroit Complaint), was filed in the United States District Court for the Southern District of New York. The gravamen of the Detroit Complaint is similar to the aforementioned Consolidated Class Action, except that the legal claims are against the directors for breach of fiduciary duty and related claims. The Detroit Complaint purports to relate to a so-called Relevant Time Period from February 9, 2006, through the time of filing of the complaint. A Special Litigation Committee of two independent directors of MBIA Inc. (the SLC) has determined after a good faith and thorough investigation that pursuit of the allegations set out in the Detroit Complaint is not in the best interests of MBIA and its shareholders. On January 23, 2009, the SLC served a motion to dismiss the Detroit Complaint.

On August 11, 2008, shareholder derivative lawsuit Crescente v. Brown et al., No. 08-17595 (the Crescente Complaint) was filed in the Supreme Court of the State of New York, County of Westchester against certain of the Company s present and former officers and directors, and against the Company, as nominal defendant. The gravamen of this complaint is similar to the Detroit Complaint except that the time period assertedly covered is from January, 2007, through the time of filing of this complaint. The derivative plaintiff has agreed to stay the action pending the outcome of the SLC s motion to dismiss the Detroit Complaint.

The Company has received subpoenas or informal inquiries from a variety of regulators, including the SEC, the Securities Division of the Secretary of the Commonwealth of Massachusetts, the Attorney General of the State of California, and other states regulatory authorities, regarding a variety of subjects, including disclosures made by the Company to underwriters and issuers of certain bonds, disclosures regarding the Company s structured finance exposure, the Company s communications with rating agencies, and the methodologies used by rating agencies for determining the credit rating of municipal debt. The Company is cooperating fully with each of these regulators and is in the process of satisfying all such requests. The Company may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On July 23, 2008, the City of Los Angeles filed two complaints in the Superior Court of the State of California for the County of Los Angeles against the Company and others. The first, against the Company, AMBAC Financial Group, Inc., XL Capital Assurance Inc., ACA Financial Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., alleged (i) participation in a conspiracy in violation of California s antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance and (ii) participation in risky financial transactions in other lines of business that damaged each bond insurer s financial condition (thereby undermining the value of each of their guaranties), and a failure adequately to disclose the impact of those transactions on their financial condition. These latter allegations form the predicate for five separate causes of action against each of the Insurers: breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligence, and negligent misrepresentation. Complaints making the same allegations against the Company and nearly all of the same co-defendants were filed in Superior Court, San Francisco County, by the City of Stockton on July 23, 2008, by the City of Oakland on August 28, 2008, by the City of San Francisco on October 8, 2008, by the County of San Mateo on October 23, 2008, by the County of Alameda on October 30, 2008, by the City of Los Angeles Department of Water and Power on December 31, 2008, by the Sacramento Municipal Utility District on December 31, 2008, and by the City of Sacramento on January 6, 2009. These cases are now coordinated as Ambac Bond Insurance Cases in San Francisco Superior Court (Judicial Council Coordination Proceeding No. 4555). On April 8, 2009, The Olympic Club filed a complaint against the Company in the Superior Court of the State of California, County of San Francisco, making similar allegations of participation in risky financial transactions in other lines of business that allegedly damaged the Company s financial condition, and of a failure adequately to disclose the impact of those transactions on the Company s financial condition. These allegations form the predicate for the same five common law causes of action as those in the Ambac Bond Insurance Cases, as well as a California unfair competition cause of action. The Olympic Club did not include an antitrust cause of action. The Olympic Club case is being coordinated with the Ambac Bond Insurance Cases.

The City of Los Angeles s second complaint named as defendants certain other financial institutions as well as bond insurers, including the Company, AMBAC Financial Group, Inc., Financial Security Assurance, Inc., Financial Guaranty Insurance Company and Security Capital Assurance Inc., and alleged fraud and violations of California s antitrust laws through bid-rigging in the sale of municipal derivatives to municipal bond issuers. Complaints making the same allegations against the Company and nearly all of the same co-defendants were filed in Superior Court, Los Angeles County, by the County of San Diego on August 28, 2008, and in Superior Court, San Francisco County, by the City of Stockton on July 23, 2008, by the County of San Mateo on October 7, 2008, and by the County of Contra Costa on October 8, 2008. The City of Los Angeles and City of Stockton actions were removed to federal court and transferred by order dated November 26, 2008, to the Southern District of New York for inclusion in the multidistrict litigation In re Municipal Derivatives Antitrust Litigation, M.D.L. No. 1950; the San

Diego County, San Mateo County, and Contra Costa County actions were removed to federal court and transferred to the Southern District of New York for inclusion in that proceeding by order dated February 4, 2009.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

On September 30, 2008, MBIA Corp. commenced an action in the New York State Supreme Court against Countrywide Home Loans, Inc., Countrywide Securities Corp. and Countrywide Financial Corp. (collectively, Countrywide). The complaint alleges that Countrywide fraudulently induced MBIA to provide financial guaranty insurance on securitizations of home equity lines of credit and closed end second liens by misrepresenting the true risk profile of the underlying collateral and Countrywide s adherence to its strict underwriting standards and guidelines. The complaint also alleges that Countrywide breached its representations and warranties and its contractual obligations, including its obligation to cure or repurchase ineligible loans as well as its obligation to service the loans in accordance with industry standards. In an order dated July 8, 2009, the New York State Supreme Court denied Countrywide s motion to dismiss in part, allowing the fraud cause of action to proceed against all three Countrywide defendants and the contract causes of action to proceed against Countrywide Home Loans, Inc. Defendants filed their answer to the Complaint on August 3, 2009. On July 10, 2009, MBIA Insurance Corporation commenced an action in Los Angeles Superior Court against Bank of America Corporation, Countrywide Financial Corporation, Countrywide Home Loans, Inc, Countrywide Securities Corporation, Angelo Mozilo, David Sambol, Eric Sieracki, Ranjit Kripalani, Jennifer Sandefur, Stanford Kurland, Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., UBS Securities, LLC, and various Countrywide-affiliated Trusts. The complaint alleges that Countrywide made numerous misrepresentations and omissions of material fact in connection with its sale of certain residential mortgage-backed securities, including that the underlying collateral consisting of mortgage loans, had been originated in strict compliance with its underwriting standards and guidelines. MBIA commenced this action as subrogee of the purchasers of the residential mortgage-backed securities, who incurred severe losses that have been passed on to MBIA as the insurer of the income streams on these securities.

On October 15, 2008, MBIA Corp. commenced an action in the United States District Court for the Southern District of New York against Residential Funding Company, LLC (RFC). On December 5, 2008, a notice of voluntary dismissal without prejudice was filed in the Southern District of New York and the complaint was re-filed in the Supreme Court of the State of New York, New York County. The complaint alleges that RFC fraudulently induced MBIA Corp. to provide financial guarantee policies with respect to five RFC closed-end home equity second-lien and HELOC securitizations, and that RFC breached its contractual representations and warranties, as well as its obligation to repurchase ineligible loans, among other things.

On April 30, 2009, MBIA Corp. and LaCrosse Financial Products (for purposes of this paragraph, collectively, MBIA) commenced an action in the Supreme Court of the State of New York against Merrill Lynch, Pierce, Fenner and Smith, Inc. and Merrill Lynch International (collectively, Merrill). The complaint (amended on May 15, 2009) seeks damages in an as yet indeterminate amount believed to be in excess of several hundred million dollars arising from alleged misrepresentations and breaches of contract in connection with eleven CDS contracts pursuant to which MBIA wrote protection in favor of Merrill and other parties on a total of $5.7 billion in collateralized debt obligations arranged and marketed by Merrill. The complaint also seeks rescission of the CDS contracts.

In its determination of expected ultimate insurance losses on financial guarantee contracts, the Company has considered the probability of potential recoveries arising out of the contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans in certain second-lien mortgage securitizations, which include potential recoveries that may be affected by the legal actions against Countrywide and RFC. However, there can be no assurance that the Company will prevail in either the Countrywide or RFC actions, or the Merrill Lynch action.

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against the Company and its subsidiaries, MBIA Corp. and National, entitled Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al., 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P., purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Corp., before February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries (the Transactions), which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance polices issued by MBIA Insurance Corporation up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys fees in connection with the action. Defendants motion to dismiss is fully briefed. No oral arguments have been scheduled to date.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware against two subsidiaries of the Company, MBIA Corp. and National, entitled Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois, CA 4486-UCL. Plaintiffs allege that they are holders of approximately $400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the Notes) in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with unreasonably small capital (Count II), insolvent (Count III), and were made with an actual intent to defraud (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. Defendants motion to dismiss is fully briefed. Oral argument is scheduled for August 31, 2009.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

On May 13, 2009, a complaint was filed in the New York State Supreme Court against the Company and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. The plaintiffs, a group of 19 domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. Defendants motion to dismiss is fully briefed and the court heard oral arguments on July 27, 2009.

On June 15, 2009, the same group of 19 domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York s Civil Practice Law & Rules in New York State Supreme Court against the New York Insurance Department, Eric Dinallo in his capacity as Superintendent for the Department, and the Company and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York Insurance Department, the New York State Insurance Department, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, the Company argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent and the Department. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs direct claims against MBIA Inc. and its subsidiaries in the plenary action described above.

The Company intends to vigorously defend against the aforementioned actions in which it is a defendant and against other potential actions, and the Company does not expect the outcome of these matters to have a materially adverse effect on its business, results of operations or financial condition. The Company cannot provide assurance, however, that the ultimate outcome of these actions will not cause a loss nor have a material adverse effect on its business, results of operations or financial condition.

There are no other material lawsuits pending or, to the knowledge of the Company, threatened, to which the Company or any of its subsidiaries is a party.

Note 17: Subsequent Events

Refer to Note 16, Commitments and Contingencies for information about legal proceedings that commenced after June 30, 2009.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report of MBIA Inc. (MBIA , the Company or we) includes statements that are not historical or current facts and are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believe, anticipate, project, plan, expect, intend, will likely result, looking forward or will continue, and similar expressions iden forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. MBIA cautions readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. The Company undertakes no obligation to publicly correct or update any forward-looking statement if it later becomes aware that such result is not likely to be achieved.

The following are some of the factors that could affect financial performance or could cause actual results to differ materially from estimates contained in or underlying the Company s forward-looking statements:

- the possibility that the Company will experience severe losses or liquidity needs due to increased deterioration in its insurance portfolios and in particular, due to the performance of residential mortgage-backed securities (RMBS) and collateralized debt obligations (CDOs);
- significant fluctuations in liquidity and asset values within the global credit markets;
- our ability to fully implement our Strategic Plan, including our ability to achieve our ratings targets for our ratings-sensitive businesses;
- further changes in the Company s credit ratings;
- further deterioration in the economic environment and financial markets in the United States or abroad, particularly with regard to credit spreads, interest rates and foreign currency levels;
- competitive conditions for bond insurance, including potential entry into the public finance market of a national insurer of municipal bonds;
- legislative, regulatory or political developments;
- technological developments;
- changes in tax laws;
- the effects of mergers, acquisitions and divestitures; and
- uncertainties that have not been identified at this time.

The above factors and other factors that could affect our financial performance and business are discussed under Risk Factors in Part I, Item 1A of MBIA Inc. s Annual Report on Form 10-K for the year ended December 31, 2008.

EXECUTIVE OVERVIEW

Business Description

MBIA operates the largest financial guarantee insurance business in the industry and is a provider of asset management advisory services. We also manage an asset/liability products program and a conduit program, which are in wind-down. Beginning in 2009, our business activities are managed through three principal operations: United States (U.S.) public finance insurance, structured finance and international insurance, and investment management services. Corporate operations include revenues and expenses that arise from general corporate activities.

MBIA s financial guarantee business is currently operated through two subsidiaries, National Public Finance Guarantee Corporation (National) and MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). In February 2009, after receiving the required regulatory approvals, MBIA established and capitalized National as a U.S. public finance-only financial guarantor. In connection with the establishment of National, MBIA Insurance Corporation paid dividends and returned capital to MBIA Inc. and entered into a reinsurance agreement and an assignment agreement with National, the latter of which was with respect to financial guarantee insurance policies that had been reinsured from Financial Guaranty Insurance Company (FGIC).

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The establishment of