

MBIA Insurance Corp.

Rationale

The 'AAA' financial strength and financial enhancement ratings on MBIA Insurance Corp. (MBIA) reflect a strong capital position, diverse underwriting in a number of global markets, and sound investment-grade underwriting and risk-management standards. As of Dec. 31, 2006, the company's margin of safety was in the 1.3x-1.4x range, which is above Standard & Poor's Ratings Services' minimum 'AAA' requirement of 1.25x. Through the years, the company's capital position has been effectively managed with a balance between maintaining a strong capital position to support business growth and providing acceptable returns to shareholders. Evidence of this balanced approach lies in the fact that the announced \$1 billion share repurchase program that relies on MBIA to upstream extraordinary dividends to its holding company, MBIA Inc. (AA/Stable), will not weaken MBIA's capital position to a point that would raise concerns. From a business generation perspective, because the company has long been active in a number of global markets, management is able to deploy capital in those markets that offer the best growth opportunities.

Outlook

The stable outlook reflects MBIA's strong capital and claims-paying resources relative to risk exposure, investment-grade underwriting standards, and solid risk management strategy. The outlook also reflects Standard & Poor's expectation that the firm's financial standing will not be impaired once the review being conducted by an Independent Consultant (IC), under terms of its recent settlement with the SEC and New York State attorney general's office, is completed.

Management And Corporate Strategy

In an underwriting environment of heightened competition and tight credit spreads, MBIA has seen its business production decline in recent years. From a capital adequacy perspective, less

Financial Strength Rating

Local Currency
AAA/Stable/—

Primary Credit Analysts:

David Veno
New York
(1) 212-438-2108
david_veno@
standardandpoors.com

Secondary Credit Analysts:

Dick P Smith
New York
(1) 212-438-2095
dick_smith@
standardandpoors.com

RatingsDirect
Publication Date
June 14, 2007

business underwritten is less of a strain on capital. However, management is faced with the challenge of producing acceptable returns for shareholders while not sacrificing underwriting credit quality. Compounding the problem of improving shareholders returns was the fact that, during the recent regulatory investigation, management placed a moratorium on share repurchases. In doing so, MBIA's retention of capital combined with positive business developments and the moderate growth in insured net debt service contributed to a margin of safety that was well in excess of what is required by Standard & Poor's for an 'AAA' rated company. Following the regulatory settlement in January 2007, management announced a \$1 billion share repurchase program, and views this plan as an efficient way to return capital to the shareholders and maximize long-term shareholder return. Going forward, by prudently underwriting business that produces acceptable risk-return pricing, controlling expenses, and managing its capital resources, management believes it can improve shareholder returns. In terms of underwriting, management continues to be committed to investment-grade underwriting and risk-management guidelines that have produced an insured portfolio in which more than 80% of the obligors are rated 'A' or better as of Dec. 31, 2006.

Management's financial guarantee business plan is focused on strengthening its global franchise. This is an attempt to capitalize on international growth opportunities that might be greater than opportunities in the U.S. based on growing international markets and increased acceptance of the financial guarantee product by international investors. Notwithstanding the increase in competition in the international markets from within the industry, as well as competition from banks, management remains optimistic about future international business prospects. The ongoing development of global capital markets is expected to facilitate expansion for public infrastructure financings and ABS. In many of these markets, MBIA has conducted business for a number of years and has the staff in these regions to capitalize on any potential business opportunities.

There are no major new initiatives planned in the U.S. public finance or U.S. structured finance market. That is not to say that the company is sitting idle. Rather, management is evaluating its commitment or lack of commitment to some sectors and reviewing diversification in terms of underlying ratings to improve overall premiums and returns. U.S. public finance is viewed as a mature market with modest growth opportunities, although providing steady business volume. Management's outlook on the U.S. structured finance market is muted due to narrower credit spreads, increasing investor appetite for uninsured bonds, and increased competition. Competition is sector-specific, as less-seasoned financial guarantors, or mature insurers with expanded underwriting initiatives, target specific sectors. Because of this, MBIA undertook the evaluation mentioned above and has also begun to look more closely at one-off transactions as a source of business volume.

Operationally, senior management is led by Gary C. Dunton, chairman, CEO, and president of MBIA Inc. and C. Edward Chaplin, CFO. Christopher Weeks, managing director, is head of international business, William Fallon, managing director, is head of structured finance, and Tom McLoughlin, managing director, heads public finance. Ruth M. Whaley is the chief risk officer, and Mitchell I. Sonkin is head of insured portfolio management.

As previously reported, in November 2004 MBIA received subpoenas relating to nontraditional reinsurance arrangements, including the Allegheny Health, Education, and Research Foundation, Pa. (AHERF) reinsurance transactions. On March 30, 2005, MBIA announced that it received additional requests for information that supplemented the subpoenas previously received. The information request covered the company's methodology for determining loss reserves and case reserves; its accounting

treatment of advisory fees; instances of purchase of credit default protection on itself; and documents relating to Channel Reinsurance Ltd., of which MBIA is part-owner. In November 2005 MBIA announced a restatement of its financial results, made in connection with potential settlements of investigations by the SEC, the New York State attorney general's office, and the New York State Insurance Department relating to the accounting treatment of reinsurance agreements MBIA entered into in 1998 with Muenchener Rueckversicherungs-Gesellschaft and AXA Re Finance S.A.

In January 2007, the settlement of investigations was finalized, and MBIA Inc. paid \$75 million, for which the company had already established a reserve. As part of the terms of the settlement, the company hired an independent consultant. The independent consultant was actually retained in the summer of 2006 to review certain accounting procedures as well as an evaluation initiated by the board of directors of MBIA's controls, policies, and procedures. The independent consultant's review is expected to be complete by August 2007. From a governance perspective, MBIA Inc. exhibits significant governance strength with respect to its board of directors: the board complies with most, if not all, best-practice recommendations with regard to board organization. The board and its committees maintain a high level of engagement aided by a director Web site that facilitates good communication among the board's members.

Business Review

MBIA reported a 6% decline in adjusted gross premiums written for 2006 and a 4% decline in gross par written. The international public finance business line was the only business to record an increase in adjusted gross premiums written, and the U.S. structured finance and international public finance business lines were the only business lines that had an increase in par written. Lower volume of issuance and demand for insurance that were not offset by secondary transactions in the U.S. public finance market, combined with tight credit spreads that exacerbated intense competition, led to the overall decline in total business production. Also contributing to the decline in business is management's willingness to walk away from transactions that do not meet desired pricing and credit terms.

A 31% increase in U.S. structured finance gross par written was due to a more than doubling of CDO business written. The company did experience meaningful growth in the MBS and auto sectors of 16% and 22%, respectively. Offsetting these positives was a 64% decrease in pooled corporate credit transactions, mainly operating asset securitizations. Although consumer MBS represents the majority of non-CDO par written, management concerns relating to seller/servicer risk and pricing have led to a cautious approach to this sector. Adjusted gross premiums written for U. S. structured finance did not match the rise in par written, falling 5%, owing to a 33% decrease in the weighted average premium rate for the period to 15 basis points from 22 basis points in 2005. This decline in premium rates was due to a greater amount of high-quality, but low-premium, CDO business written. The growth in the CDO business led to a 37% decline in the weighted average capital charge for business written in 2006. It is worth noting that the amount of CDO business written in 2006 did push the weighted average capital charge down from year over year. The quality of business written in 2006 was generally better than 2005, but one transaction insured in 2005 played a significant role in the perception of the improvement in underwriting quality for 2006. In 2005, the lowering of a large rental car securitization rating to speculative grade immediately after closing in 2005 led to a weighted average capital charge of 3.34% for business written in 2005, the highest it has been in the last 10 years. For 2006, with the

greater decline in the per-period weighted average capital charge compared with the lesser decline in the weighted average premium rate, MBIA's U.S. structured finance risk-adjusted pricing index rose 6% to 7.07%.

Within the U.S. public finance business line, adjusted gross premiums written fell 34% and gross par written fell by 26%. With the exception of higher education, MBIA reported declines in par written for all broad sectors of U.S. public finance. Par written volume was weighted toward the lower risk GO and tax-backed sectors, whereas in 2005 business written was weighted more toward utilities, transportation, and higher education. Management attributes the decline in insured volume to a reduction in overall domestic volume, tight credit spreads, and aggressive pricing by competitors. The trends in the U.S. public finance market support management's claims. There was a modest 5% increase in new issuance volume combined with a 12.5% decline in insured penetration.

An examination of the components of MBIA's public finance risk-adjusted pricing index illustrates the economic impact of the current financial guarantee market. For 2006, the company reported a 12.0% decrease in the U.S. public finance implied premium rate to 40 basis points and relatively little change in the period weighted average capital charge. As a result, the risk-adjusted pricing index for this business line declined by 11%, to 4.51%. In theory, movements in capital charges and premium rates should move in tandem in a world of rational pricing; however, competition and narrowing credit spreads greatly influence pricing, as they did in 2006.

Total international gross par written rose by just 4%. The heavy weighting of international par toward structured finance business, principally CDOs, dwarfed the public finance business despite the \$3 billion rise in public finance par written compared with the \$2 billion decline in structured finance par written. The U.K. and Germany represented the lion's share of international direct business written; however, a notable amount of par representing Australian and Turkish risk added to the diversity of MBIA's international business. Approximately \$16 billion of par written was internationally diversified exposure, principally CDOs and international infrastructure projects.

For the international business lines, the risk-adjusted pricing index results diverged. Within the structured finance business line, the weighted average premium rate was unchanged, but the weighted average capital charge declined by 17%, leading to a 15% rise in the index. In the public finance line of business, the implied premium rate rose by 22% but the weighted average capital charge rose by 46%, leading to a 16% decline in the index. Notwithstanding the negative movement in the international public finance business line, this index, at 13.93%, was approximately three times higher than the U.S. public finance profitability index. The 14.06% risk-adjusted pricing index for the international structured finance business line was two times that of the U.S. structured finance business line. Through the years, the international business lines have proven to be more profitable for the company than the equivalent U.S. business lines. However, due to pressure by the expanded underwriting initiatives at other bond insurers in Europe and banking activity in PPP and PFI transactions, the success of MBIA's international underwriting activity might depend on the company's ability to target other less-competitive global markets.

As of March 31, 2007, MBIA had \$5.3 billion of public finance speculative-grade net par exposure and \$6.5 billion of structured finance speculative-grade net par exposure. It is important to note that at the time MBIA insured these transactions they were investment grade, but have migrated to speculative grade over time. The total amount of speculative-grade exposure represents modest 1.9% of MBIA's insured net par. In determining the capital adequacy of a bond insurer, the adequacy of the claims-

paying resources relative to the risk of the insured portfolio is the principal factor in evaluating the financial strength of a financial guarantor. Based on Standard & Poor's capital adequacy test, MBIA's total claims-paying resources are sufficient to meet its insured financial obligations. Through remediation efforts, there were a number of successes during the year that reduced the speculative exposure, and the approximately \$1.5 billion speculative exposure to Eurotunnel will fall to zero since the Eurotunnel shareholders have now accepted the Safeguard Plan. FLF 2 will be repaid in full at the next payment date, and FLF 1 will be economically defeased until the bonds can be paid at first call option in 2009. MBIA is under no obligation to provide financial guarantees on any debt that is part of the Safeguard Plan.

At Dec. 31, 2006, MBIA had direct subprime mortgage exposure of \$5.8 billion and indirect exposure of \$16.6 billion as a result of guaranteeing CDOs that include subprime assets. Subprime collateral represented 12.4% of the \$16.6 billion of CDO collateral. The direct subprime exposure has an underlying rating of 'AA', and approximately 7% represented 2006 vintage business. Subprime mortgage production in the first quarter of 2007 was a modest \$59 million of par in the secondary market and was rated 'AAA' prior to MBIA's insurance.

In terms of the impact of Hurricane Katrina on issuers insured by MBIA, the company did make modest debt service payments in instances where the issuer could not make these payments due to business interruption in the devastated region, and has been reimbursed for these payments. As for the long-term effect on MBIA, the underlying ratings on some bond issues have been lowered and capital charges increased. At Dec. 31, 2006, total net exposure to affect Hurricane Katrina related issuers was \$702.9 million.

For the first quarter of 2007, the company reported a 134% increase in adjusted gross premiums to \$272.9 million and a 185% increase in gross par insured to \$39.6 billion, on a quarter-over-quarter basis. Adjusted gross premiums written for the U.S. structured finance business line were the dominant component of total adjusted gross premiums written, at 45%, and had the strongest rate of growth, rising eight times over the amount reported in the first quarter of 2005. The growth was driven by CDOs that totaled \$15.7 billion of par, compared with none insured in the first quarter of 2006, and \$6.7 billion of MBS par, up from \$447,000 in 2006. For the company's other business lines, adjusted gross premiums written for U.S. public finance rose 31% to \$62.7 million, international public finance totaled \$62.0 million compared with none written 2006, and international structured finance fell 50% to \$26.2 million.

Table 1

MBIA Insurance Corp. Business Statistics					
	—Year ended Dec. 31—				
(Mil \$)	2006	2005	2004	2003	2002
Net par exposure	617,807.7	585,003.0	585,575.0	541,026.0	497,343.0
Adjusted Gross Premiums Written*					
U.S. public finance	320.1	487.6	457.4	627.0	451.5
U.S. asset-backed and other	296.6	311.2	285.0	341.8	389.3
U.S. total	616.7	798.8	742.4	968.8	840.8
International public finance	258.8	97.8	258.2	435.9	207.6
International asset-backed and other	161.8	211.3	142.6	258.0	161.9

Table 1

MBIA Insurance Corp. Business Statistics (cont.'d)

	— Year ended Dec. 31—				
<i>(Mil \$)</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
International total	420.6	309.1	400.8	693.9	369.5
Total adjusted gross premiums written	1,037.3	1,107.9	1,143.2	1,662.7	1,210.3
Net premiums written	798.0	857.8	958.1	1,050.0	753.4
Gross Par Written					
U.S. public finance	46,627.0	63,337.0	57,285.0	63,927.0	55,085.0
U.S. asset-backed and other	46,191.0	35,227.0	32,758.0	26,462.0	56,259.0
U.S. total	92,818.0	98,564.0	90,043.0	90,389.0	111,344.0
International public finance	7,162.0	4,034.0	3,942.0	10,810.0	5,671.0
International asset-backed and other	21,956.0	24,051.0	18,326.0	21,110.0	22,714.0
International total	29,118.0	28,085.0	22,268.0	31,920.0	28,385.0
Total gross par written	121,936.0	126,649.0	112,311.0	122,309.0	139,729.0
Net par written	112,215.0	110,858.0	107,570.0	108,800.0	112,636.0

*Adjusted gross premiums written include up-front and present value of installment premiums.

Table 2

MBIA Insurance Corp. Portfolio Statistics

	— Year ended Dec. 31—					
<i>(Mil \$)</i>	<i>2006 industry average % par</i>	<i>2006 % of par</i>	<i>2006 par</i>	<i>2005 par</i>	<i>2004 par</i>	<i>2003 par</i>
Public Finance						
GO	20.8	26.7	165,067.9	157,225.2	146,751.3	126,264.0
Utility	9.2	11.4	70,152.9	68,431.4	63,905.7	57,681.0
Tax-backed	8.8	6.4	39,537.1	35,948.4	33,716.3	28,573.0
Health care	4.3	4.5	27,615.3	30,775.3	33,351.6	34,038.0
Transportation	5.0	5.1	31,255.8	32,122.8	29,945.9	27,740.0
Colleges and universities	3.1	3.6	22,528.5	21,745.7	19,257.2	17,897.0
Investor-owned utilities	1.5	0.6	3,998.0	4,951.1	5,474.3	6,875.0
Housing	1.7	2.5	15,481.3	15,012.4	15,413.0	15,542.0
Special revenue	0.6	1.1	7,043.0	6,509.5	6,183.8	16,273.0
Other	2.5	0.6	3,728.9	4,425.7	13,234.5	6,230.0
Total	57.4	62.5	386,408.6	377,147.5	367,233.6	337,113.0
Leases contained in above	4.2	5.3	32,760.0	33,413.0	34,111.0	33,382.1
Domestic Asset-Backed and Corporate Finance						
MBS	4.1	1.3	7,918.1	8,906.0	10,557.5	13,018.9
Home equity loan	2.4	3.3	20,108.2	17,205.4	16,284.1	13,500.4
Auto loan	1.7	1.5	9,454.1	9,261.6	10,792.2	13,970.5
Other consumer asset-backed	1.7	1.7	10,593.3	4,397.4	7,935.0	9,678.0
Commercial asset-backed	8.3	11.0	68,181.1	45,819.6	60,654.6	54,672.7
Bank/financial institutions	0.2	0.3	1,568.5	1,277.3	1,371.9	1,917.2

Table 2

MBIA Insurance Corp. Portfolio Statistics (cont.'d)

— Year ended Dec. 31—						
<i>(Mil \$)</i>	<i>2006 industry average % par</i>	<i>2006 % of par</i>	<i>2006 par</i>	<i>2005 par</i>	<i>2004 par</i>	<i>2003 par</i>
Other	9.2	0.6	3,893.8	26,952.2	5,809.2	6,166.3
Total	27.6	19.7	121,717.1	113,819.4	113,404.4	112,924.0
<i>International</i>						
Public finance	5.1	5.4	33,568.6	26,190.4	27,625.4	22,812.0
Asset-backed	9.4	12.3	76,113.5	67,845.7	77,311.1	68,177.0
Other	0.5	0.0	0.0	0.0	0.0	0.0
Total	15.0	17.8	109,682.1	94,036.1	104,936.5	90,989.0
Total net par outstanding	100.0	100.0	617,807.7	585,003.0	585,574.5	541,026.0

Affiliates

MBIA's affiliate financial services business lines include money management services, investment agreements, and customized and pooled investment products offered through:

- MBIA Municipal Investors Service Corp. (MBIA-MISC): an SEC-registered investment advisor that provides investment management programs for state and local governments, with total assets under management of \$14.7 billion as of Dec. 31, 2006;
- MBIA Investment Management Corp. (IMC): a provider of customized investments for bond proceeds, other public funds, and funds related to asset-backed or structured product issuance, with \$11.1 billion outstanding in investment agreements as of Dec. 31, 2006; and
- MBIA Capital Management Corp.: an SEC-registered investment advisor and NASD member firm specializing in fixed-income management for institutional funds, with total third-party assets outstanding of \$36.6 billion as of Dec. 31, 2006.

While these businesses benefit from solid management and conservative risk-management systems and procedures, they nonetheless produce higher capital charges than MBIA's traditional financial guarantee business. This occurs because the principal risk of worst-case market value declines is more severe relative to worst-case credit default scenarios for investment-grade credits in MBIA's insured portfolio. Some of the funds managed by MBIA-MISC are rated 'AAAm' on a stand-alone basis and are not assessed a capital charge. While the financial services businesses are not the company's primary source of revenue, the profits generated by this business are accretive to MBIA Inc.'s ROE.

MBIA Inc. has a number of special-purpose entities (SPE) that are set up to provide an alternate source of funding for its clients. These vehicles purchase transactions with funds provided by the issuance of medium-term notes or CP. MBIA insures the transactions that are purchased by the vehicles, and may insure securities issued by the vehicles to fund the transactions. Standard & Poor's reviews each transaction that goes into the SPE and assesses a capital charge to MBIA for capital adequacy testing purposes.

Finances

In 2006, statutory premiums earned were little changed from the prior year at \$739.0 million, but premiums earned from refundings rose 15% to \$162 million due to several international transactions

that had significant unearned premium at the time of the refunding. Adjusting earned premiums in 2005 and 2006 for refundings, earned premiums would have declined by 3%. Premiums relating to the large U.S. public finance insured book of business represented 47% of earned premiums, followed by the U.S. structured finance book of business at 26%. The lack of growth in earned premiums can be linked to the lack of growth in structured finance premiums written. Because premiums are generally written on an installment basis for this line of business and earned in the year in which they are written, changes, or lack thereof, in the amount of premiums written on new business could have a great effect on earned premiums in any one year. The U.S. public finance business, on the other hand, adds a degree of stability to earned premiums. For this business, premiums are written on an up-front basis with a portion being earned in the year it was written and the balance booked as unearned premiums. As of year-end 2006, MBIA's statutory unearned premium reserve totaled \$3.5 billion and will be earned over the life of the underlying transactions, thus creating an annuity-like stream of revenue.

For 2006, the company reported a 17% increase in statutory underwriting income to \$427.8 million. The principal factor that led to the rise in underwriting income was a 60% decrease in incurred losses. The impact of remediation successes enabled the company to release case reserves taken in prior years. Somewhat offsetting the effect of the reserve release on operating income was a 20% increase in underwriting expenses and \$12.1 million of loss-adjustment expenses (LAE). The greater amount of underwriting expenses, coupled with the decline in new premiums written, led to a 46% rise in the statutory expense ratio to 28.6%. As for the \$12.1 million in LAE, its impact had more to do with adjustment last year than expenses incurred this year. What appears to be an LAE recovery of \$15 million on the statutory income statement in 2005 was actually a change in methodology required by a New York State Insurance Department audit recommendation. Prior to the most recent insurance department examination, MBIA did not segregate loss reserves and LAE reserves on the statutory balance sheet. Following the insurance department recommendation, MBIA segregated the LAE reserve and reported it separately in 2005. This produced a benefit in loss expenses incurred for the year because the change in LAE reserves in 2005 reflected a net reduction due to salvage reserves that exceeded LAEs paid during the year.

MBIA's stream of net investment income remains secure as the high-quality, \$10.7 billion investment portfolio is conservatively invested in fixed-income assets. The company has continued to benefit from the strategy it implemented in 2003 of shortening the duration of the investment portfolio. This was done to protect the company's capital from unrealized losses in a rising interest-rate environment. Because the investment portfolio has remained relatively liquid over the past few years, the company is well poised to benefit from the higher interest rates. For 2006, investment income, excluding capital gains, rose 9.0% on a very slight decrease in invested assets. As of Dec. 31, 2006, the investment portfolio had an average duration of 5.67 years and a yield of 5.13%, compared with 5.28 years and 5.02%, respectively, as of year-end 2005. The investment portfolio included \$912.3 million of investments for which MBIA is the financial guarantor. For 2006, MBIA reported statutory net income of \$673.0 million, up 68%.

MBIA Inc. reported GAAP financial guarantee pretax income of \$1.1 billion for 2006, unchanged from 2005. The financial guarantee business continues to be the primary source of pretax income from continuing operations. With regard to the investment services component of MBIA Inc.'s pretax income, the company reported investment services pretax operating income of \$101.2 million, up 17%

from \$86.6 million in 2005. The municipal services business unit was sold in 2006 and income generated by this business of \$6.1 million is now part of discontinued operations.

MBIA Inc. reported GAAP earnings of \$819.2 million in 2006, 15% higher than what was reported for 2005. This level of earnings produced an 11.9% ROE, up from 10.8% in 2005. The \$75 million accrual in 2005 for what the company anticipated it would pay in connection with the settlements of the regulatory investigations had the greatest effect on the ROE calculation in 2005. Adjusting earnings for the accrual of \$75 million, the ROE would be approximately 12%. For the three months ended March 31, 2007, although MBIA Inc. reported a 135% increase in adjusted gross premiums written, financial guarantee operating income was up only 5% at \$265.8 million. This dynamic illustrates the annuity-like stream of revenue generated by the in-force book of business. Net income of \$199 million for the first three months of 2007 produced an annualized ROE of approximately 11%. The announced share repurchase program should be accretive to MBIA's financial results and lead to a boost in ROE.

Table 3

MBIA Insurance Corp. Financial Statistics					
—Year ended Dec. 31—					
<i>(Mil \$)</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Insurance Company*					
Total assets	10,993.8	11,037.0	10,342.3	9,985.0	9,211.6
Cash + invested assets	10,733.4	10,786.5	10,091.5	9,799.1	9,018.1
Unearned premiums	3,664.5	3,508.1	3,390.8	3,066.6	2,774.1
Statutory capital	6,558.7	6,569.4	5,985.4	6,083.2	5,434.8
Net premiums earned	739.0	735.3	746.0	677.5	548.5
Losses and LAE	94.2	188.8	126.6	63.3	51.6
Underwriting expense	217.0	180.4	161.4	124.7	119.8
Investment income including gains	504.8	474.4	536.8	445.0	448.3
Net income	668.6	632.9	768.5	661.5	622.4
Loss ratio (%)	12.7	25.7	17.0	9.2	9.4
Holding Company (MBIA Inc.)¶					
Total assets	39,763.0	34,561.4	33,036.3	30,324.3	18,835.4
Stockholders' equity	7,204.3	6,591.6	6,558.8	6,202.2	5,434.2
Net income	819.3	711.0	843.0	815.9	579.1
Debt/capitalization (%)§	14.4	15.5	16.8	14.1	16.0
Hybrid security tolerance ratio (%)**	0.0	0.0	0.0	0.0	0.0
Total hybrid tolerance security ratio (%)¶¶	4.5	4.9	4.8	5.3	5.9
Return on average equity unadjusted (%)	11.9	10.8	13.2	14.0	11.4

*Pro forma U.S. statutory basis of accounting. ¶U.S. GAAP basis of accounting, XL Capital Ltd prior to 2005. §(Holding company debt + hybrid securities not qualifying as equity)/(holding company debt + shareholders equity + hybrid securities). **Hybrid securities/(capital [debt plus shareholders equity] + hybrid securities). ¶¶(Hybrid securities + contingent capital)/(capital + hybrid securities + contingent capital).

Accounting

Standard & Poor's views MBIA's accounting policies to be generally consistent with industry standards and neutral to the rating. Within the past two years, MBIA restated its financial statement in

connection with the commutation of a reinsurance contract with Converium Reinsurance (North America) Inc. and to recategorize reinsurance contracts entered into with Muenchener Rueckversicherungs-Gesellschaft and AXA Re Finance S.A., all of which were related to the default of AHERF. The recategorized contracts did not meet risk transfer requirements under the accounting standards and were recharacterized as deposits. The take-back of ceded risk and the recategorization of others had no effect on the assessment of MBIA's capital adequacy, as Standard & Poor's previously adjusted for these reinsurance contracts in our analysis.

In 2006, the company discontinued its municipal service operations. MBIA MuniServices Co. was sold to an investor group led by MuniServices management and all of the Capital Asset operating entities were sold to a third party. Both businesses are included in discontinued operations and are immaterial to the financial results.

In terms of reserving, on a GAAP basis, the company records a general reserve as a fixed percent of the net earned premium even though an actual default has not occurred. We view MBIA's GAAP reserves as being adequate. Methodologies for determining losses in this industry are highly subjective given that losses have been extremely limited due to investment-grade underwriting standards. Standard & Poor's evaluates the financial strength of the financial guarantors using the financial statements prepared under SAP. Under this accounting method, reserves are booked when a loss is incurred. In addition, in determining the capital adequacy of a bond insurer, theoretical losses in a severe economic environment, which may be greater than current losses, are projected to evaluate the adequacy of the claims-paying resources of the bond insurer. That being said, a new FASB exposure draft, currently out to the market for comment, could standardize reserving across the industry.

Revenue recognition may also change if the FASB exposure draft premium recognition proposal is adopted. Currently, MBIA's up-front premiums are earned in proportion to the expiration of related principal balance of the insured obligation. Installment premiums are earned on a straight-line basis over each installment period. Under the proposed change, earned premium recognition could be slower. This change, if adopted, would not have a ratings impact since the fundamental economics of a transaction or bond insurance business model have not changed.

With regard to MBIA's SPEs, Standard & Poor's does not view consolidation as indicative of different or incremental risk relative to the industry's nonconsolidated insurance exposure. These financial intermediaries are spread businesses rather than funding vehicles to provide liquidity or capital resources to the bond insurer and its holding company. The bond insurer guarantees the assets going into the SPE or debt issued by the SPE. From a risk perspective, the guaranteed SPE assets are capital charged by Standard & Poor's for capital adequacy modeling purposes. These entities practice active and extensive asset/liability management, closely match-fund the assets and liabilities, and operate under tight risk-management tolerances. Operating under these strict rules and guidelines, the SPE's liquidity risk, financial market risk, and credit risk are all reduced to insignificant levels. Because of this, combined with the fact the credit risk is captured in the capital charge, the debt associated with SPEs is not included in any leverage calculations or fixed-charge converge ratios.

An issue that adds a degree of volatility to MBIA's earnings is the CDS mark-to-market accounting under FASB No. 133, which requires derivatives to be mark-to-market at each reporting date. In our opinion, this concept, insofar as it relates to the financial guarantee insurance industry, has introduced an element of earnings volatility that has little bearing on either the likelihood of a potential claim or the intrinsic earnings power of a bond insurer. Unlike other financial sectors for which FASB No. 133

may be more relevant, bond insurers' contracts are not traded, and there is no business intention to realize gains. Therefore, recording a mark-to-market loss because of changing spreads in the marketplace seems inappropriate. Since almost all CDSs will expire without a claim, corresponding mark-to-market positions will be zeroed out at maturity. Standard & Poor's believes that the insurers' loss reserves are the more appropriate indicators of potential claims, and Standard & Poor's capital charge evaluations are the more appropriate indicators of changes to the credit profile for any of the bond insurers' insured sectors.

Capitalization

As of Dec. 31, 2006, through the use of Standard & Poor's capital adequacy test, MBIA's margin of safety was in the 1.3x-1.4x range. The margin of safety expresses the relationship between theoretical losses generated by the capital adequacy model and capital remaining at the end of a theoretical economic depression. MBIA's margin of safety satisfactorily exceeds Standard & Poor's 1.25x minimum requirement for an 'AAA' rated company. The company was also in compliance with the alternative margin of safety test. From a worst-case sensitivity analysis perspective, should the single largest soft capital provider fail to perform (in MBIA's case, Channel Reinsurance Ltd.) an 'AAA' bond insurer must achieve an alternative margin of safety of at least 1.20x.

The greatest effect on MBIA's margin of safety for 2006 was the assumption of \$1.8 billion in total dividends during the seven years of the model compared with \$971.1 million when modeled in 2005. The total dividends assumed in the 2006 model include dividends projected to support the share repurchase program. Also affecting the margin of safety was the assumption of greater business production during the growth years of the capital adequacy test than in the 2005 capital adequacy test. The model results illustrate management's efforts to strike a balance between maintaining a strong capital position to support business growth and improving shareholders' returns. Management intends to closely monitor the company's capital position, business opportunities, and share price to effectively implement its share repurchase program.

Standard & Poor's reviews a bond insurer's cash position and its ability to raise additional cash against conservatively defined theoretical payments associated with a company's various product lines. The approach to this analysis is that there might be unexpected liquidity demands on an insurer in periods of economic tranquility as well as stress. Liquidity resources and potential liquidity demands are examined for the current year and several subsequent years. MBIA's conservative investment and liquidity strategies and single-risk management standards produce a 1.91x liquidity analysis ratio, well in excess of the 1.0x thought to be prudent. Available adjusted liquid resources totaled \$2.5 billion as of year-end 2006. Against these resources, MBIA has theoretical payments totaling \$1.2 billion.

Table 4

MBIA Insurance Corp. Capital Statistics					
	—Year ended Dec. 31—				
<i>(Mil \$)</i>	2006	2005	2004	2003	2002
Portfolio Risk					
Municipal insurance weighted average capital charge (% of average annual debt service)	11.6	12.3	12.6	12.9	12.8
Asset-backed capital charge (% of par)	1.9	2.0	1.8	2.2	2.2

Table 4

MBIA Insurance Corp. Capital Statistics (cont.'d)					
	—Year ended Dec. 31—				
<i>(Mil \$)</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Claims-Paying Resources					
Statutory capital	6,558.7	6,569.4	5,985.4	6,083.2	5,434.8
Contingent capital	400.0	400.0	400.0	400.0	200.0
Letters/lines of credit	450.0	450.0	700.0	700.0	700.0
Owner capital commitment	0.0	0.0	0.0	0.0	0.0
Stop-loss treaty	0.0	0.0	0.0	35.7	210.7
Unearned premiums	3,664.5	3,508.1	3,390.8	3,066.6	2,774.1
Present value of annual premiums	2,309.4	2,171.0	2,103.0	2,052.9	1,300.1
Other	0.0	0.0	0.0	100.0	150.0
Total	13,382.6	13,098.5	12,579.2	12,438.4	10,769.7
Capital Adequacy					
Capital remaining at end of depression test	2,750- 2,800	3,550- 3,600	3,100- 3,150	4,100- 4,150	2,350- 2,400
Margin of safety (x)	1.3-1.4	1.4-1.5	1.4-1.5	1.5-1.6	1.3-1.4
Reliance on soft capital (%)	11.4	11.1	19.2	17.2	15.3

Table 5

MBIA Liquidity Analysis		
	<i>Haircut (%)</i>	<i>Amount (mil\$)</i>
Assets/Resources as of Dec. 31, 2006		
Cash and short-term investments	0.0	580.0
Treasury and government agency fixed-income securities	10.0	212.4
Corporate and ABS/MBS bonds	50.0	1,457.5
Bank lines of credit	0.0	0.0
Other (non-U.S. government securities)	10.0	0.0
Total		2,250.0
Municipal bonds (informational only)		5,250.0
Potential Uses (Occurring in the Full Year 2007)		
Largest net total payments in 2006 associated with a municipal obligor default		290.7
Largest net bullet maturity default		145.8
Largest debt service reserve draw		151.9
90 days of payments associated with the largest servicer default		178.5
Largest unscheduled draw on a municipal investment contract		166.2
Largest individual "single name" credit default swap		0.0
Holding company debt and dividend servicing needs		243.3
Total		1,176.4
Liquidity ratio (x)		1.9

Ratings Detail (As Of 14-Jun-2007)*

MBIA Insurance Corp.

Financial Strength Rating	
<i>Local Currency</i>	AAA/Stable/—
Counterparty Credit Rating	
<i>Local Currency</i>	AAA/Stable/—
Financial Enhancement Rating	
<i>Local Currency</i>	AAA/—/—
Senior Secured	
<i>Foreign Currency</i>	AAA
Senior Unsecured	
<i>Foreign Currency</i>	AAA
Holding Company	MBIA Inc.
Domicile	New York

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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